



Crowe Horwath®

# Preventing Supply Disruption: Mitigate the Risk of Supplier Failure

## The risk of supplier failure is a top concern for OEMs, key integrators, and other manufacturers.

Although ever-present, this concern is even more acute today as economic conditions are financially straining suppliers, putting your supply chain continuity and effectiveness at risk. The failure of a critical supplier can cause significant disruption to a manufacturer's production — and in many instances could threaten the manufacturer's own viability and growth plans. Because of the potentially grave consequences, management has a responsibility to the organization's stakeholders to evaluate and address supplier risk. By monitoring key supplier information and trends — and by working proactively with suppliers to enhance their survivability — the Crowe® Supplier Viability solution can greatly reduce the risk of revenue and operational disruption due to supplier failure.

## What's at Stake for Your Business?

Beyond the broad industry risks associated with supply chain uncertainty, supplier weakness presents a very specific risk to individual businesses. A vulnerable supplier can cause a manufacturer to encounter a number of undesirable outcomes, including:

- Lost revenue due to the inability to fulfill customer orders;
- Adverse impact on your customer service;
- Failure to satisfy customer contract terms resulting in fines or penalties;
- Production line disruptions resulting in unproductive time and assets, weakening your own company's performance;
- Competitive and price weakness against competitors with more stable suppliers;
- Cost overruns caused by re-sourcing new suppliers or certifying changes to component parts;
- Loss of key knowledge personnel; and
- Increased litigation costs.

This chain of events makes supplier vulnerability a key risk that must be identified, measured, and mitigated. The consequences of supplier failure can be devastating – both to the enterprise itself and to the individual managers who are responsible for minimizing such risks to protect various stakeholders' interests.



*"If one of our suppliers fails ... I do not want to be in a position to explain to our owners why I didn't do anything or why I didn't know."*

Crowe client  
Vice president/supply chain of a billion-dollar  
defense and truck manufacturer

# Traditional Supply Chain Management Overlooks the Current Risk

Virtually all manufacturers devote considerable time and resources to supply chain management and optimization. As essential as these internally driven programs are, however, traditional supply chain management techniques are inadequate for addressing the current risk of supplier failure.

Not only is the size and scope of the problem unprecedented, traditional supply chain management is simply not designed to address the type of challenge and change that manufacturers now face.

- Supplier monitoring initiatives can be inherently reactive, addressing performance issues as they emerge, rather than identifying potential risks in advance and addressing them before they disrupt the supply chain.
- Traditional supplier techniques can manifest in contentious and sometimes litigious supplier relationships, rather than a cooperative approach that recognizes, “We’re all in this together.”
- Supply chain management efforts often focus on supplier performance — in particular, key metrics such as quality, cost, and timeliness — rather than assessing the underlying financial, strategic, and operational viability factors of suppliers.
- Traditional supply chain management techniques do not appropriately identify and incorporate the business and financial health of a supplier.



*“The failure of just one supplier could disrupt parts shipments, crimping auto production and forcing plant closures.”*

The Wall Street Journal  
July 15, 2009<sup>1</sup>



# The Crowe Advantage: A Comprehensive and Collaborative Approach

The Crowe Supplier Viability solution leverages our best practices with your unique needs to create a highly collaborative approach to client success. All solutions are custom-configured and refined to reflect each client’s unique supply chain and risk profile:

- Crowe’s flexible, weighted “scorecard” is developed in consultation with key supply chain, operations, and finance executives. You decide which supplier risks are of greatest concern, based on Crowe’s counsel and your own judgment, and then collaboratively develop metrics that reflect your concerns.

- Standing as independent, objective consultants and accountants, Crowe helps establish needed trust and confidence, so suppliers can share critical data with our commitment to confidentiality, while still being able to comply with all regulatory and financial reporting requirements.
- Our ability to work jointly with client representatives helps expedite the remediation of problems. At the same time, suppliers have an incentive to cooperate since the Crowe assessment can identify and address issues they might otherwise overlook.

**A comprehensive approach, diverse inputs and perspectives, and absolute confidentiality ... these are essential features of the Crowe Supplier Viability solution.**

When analyzing supplier stability, standard metrics such as the Altman Z-Score are useful, but they are just the beginning. The Crowe approach incorporates dozens of crucial metrics covering all aspects of a supplier’s health, beginning with a detailed analysis of financial indicators, including:

- Liquidity
- Debt
- Leverage
- Financial performance and trends
- Credit rating
- Risk exposure
- Diversity of customers, suppliers, and funding sources

These financial metrics are then combined with measures that are specific to supply chain reliability, including:

- Delivery trends
- Labor and equipment resources
- Response time
- Inventory levels
- Defects and returns
- Tooling and maintenance
- Education and knowledge
- Employee continuity

The result is a customized risk score-card that leverages the advantages of a holistic process framework while addressing the broadest possible range of objective benchmarks.

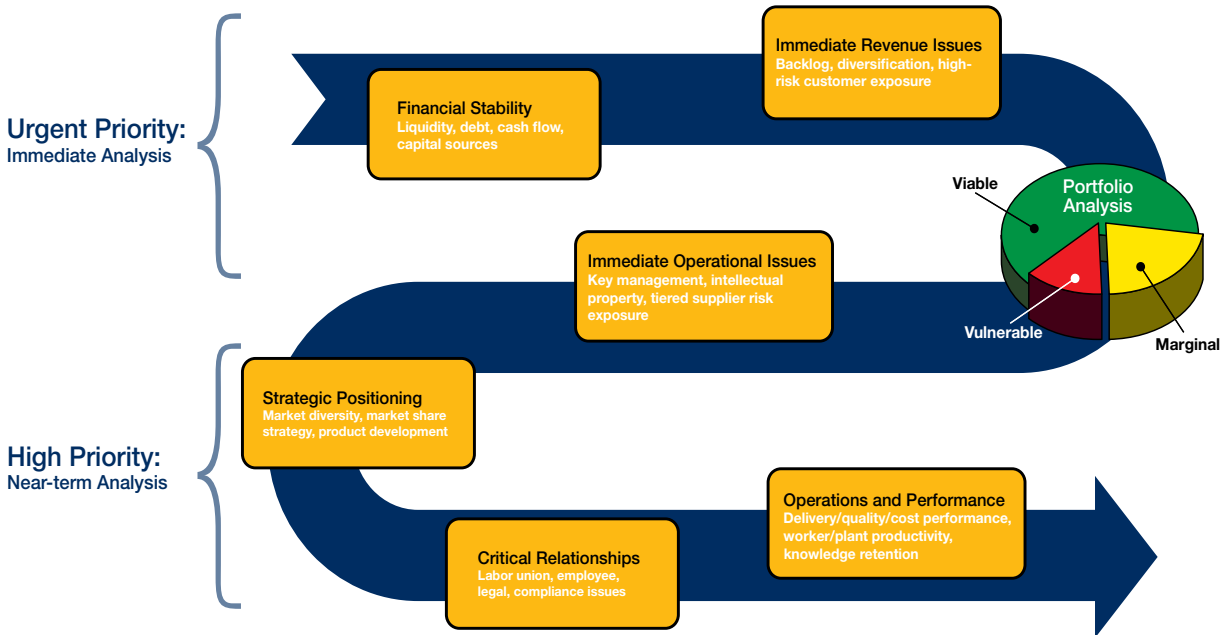
# Supplier Viability Solution: Why You Need Crowe

The rapid deployment of the Crowe Supplier Viability solution is a strong response to the significantly heightened threat of supply chain disruption. The Crowe solution provides visibility to the key financial and operational performance measures of suppliers.

Unlike traditional supplier risk management initiatives that track and respond to after-the-fact performance and quality metrics, the Crowe Supplier Viability solution focuses on forward-looking elements of disruption risk, providing an early warning to enable a sound and proactive response:

1. The Crowe approach is built upon getting the most up-to-date operational and financial data available, and accumulating results going forward. This comprehensive approach, drawing on a diverse set of inputs, is critical to understanding potential supplier risk.
2. Crowe brings its reputation as a reliable, independent public accounting and consulting firm. We find that these factors result in suppliers sharing much more information with our firm than they are willing to share with their customer (your organization) or with our competitors.
3. We appreciate that the confidentiality and security of proprietary information are crucial. This commitment to confidentiality is essential to enabling suppliers to communicate crucial performance and financial data without hesitation.
4. Our proprietary Crowe Navigator® Web-based tool provides immediate visibility to supplier information at a glance. This solution is proven and enables the collection, analysis, and reporting of metrics and risk information quickly and efficiently to a variety of stakeholders.
5. The Crowe Navigator interface also provides access to information not available inside your company.

## Supplier Analysis



# The Crowe Solution: Fast, Structured, Adaptable

The Crowe Supplier Viability solution is a proactive, flexible approach that can help you identify risk in your supply chain and develop appropriate responses, while also giving your suppliers information they can use to address and reduce their risk.

Our approach leverages the Crowe best practice foundation, which is adapted in close consultation with our client to exactly meet their specific needs. Our structured, three-phase process helps ensure consistent results.

## Phase Zero: Review and Planning

Crowe thought leadership and experience are invaluable in helping you develop an accurate, objective, and reliable assessment of the current state of your industry and the relative vulnerability of your organization to supplier failure. Beyond identifying risks and opportunities, Crowe also provides critical leadership in mitigating the risk by developing proactive, forward-looking options and laying the foundation for subsequent actions.

## Phase One: Targeting and Collection

The Crowe highly qualified financial and manufacturing consulting team helps you identify critical suppliers, define key metrics, and begin collecting needed information. This data capture capability is a key Crowe strength that individual manufacturers themselves cannot perform. Simply put, suppliers are much more open about sharing confidential financial information with our independent consultants than with their customer (you). This results in a much higher success rate in gathering the critical information required to adequately assess supply chain viability.

During this first phase, we develop a process with each targeted supplier to acquire the most current data, rolled forward on a monthly basis. Given the highly volatile state of the industry, waiting for the public release of quarterly data is simply not adequate.

Through an intensive, results-driven collection process, our team quickly executes thousands of managed contacts to guide suppliers through the process of delivering required data and then enters the information into our secure Web-based risk analysis engine.

## Phase Two: Evaluation and Remediation Planning

The Crowe experienced team processes the collected information using our risk modeling capabilities to highlight those suppliers in need of immediate attention and action.

The process delivers a comprehensive picture of total supplier risk, using a variety of financial, strategic, and operational metrics. By applying a broad range of ratio and scoring methods, Crowe's team ensures accurate, "apples to apples" comparisons and studies.

The outcome of this phase is a detailed — yet clear and intuitive — dashboard that quantifies the risk posed by each supplier, taking into account both the degree of supplier risk and the criticality of the supplier's role.

The insight gained through this process allows your supply chain team to identify appropriate, high-impact actions that should be taken to follow up on individual or groups of suppliers. Having a well-thought-out and managed plan helps ensure that remediation efforts deliver maximum impact.

This balanced, comprehensive evaluation and planning effort prepares the way for the critical third phase, during which the company takes action to address targeted problems.

## Phase Three: Addressing Problems

Armed with the appropriate risk-mitigation plan for your entire supplier portfolio and for each vulnerable supplier, the Crowe team helps you implement the solutions to fix the problems or address the risk. Actions may include continued monitoring, further on-site review, or a more comprehensive intervention with the supplier's agreement and support. In severe cases, Crowe can also help manage alternative sourcing efforts if required.

In every instance, the recommended response is designed to mitigate risk to acceptable levels. At the same time, our practical approach minimizes the potential disruption, cost, and uncertainty associated with remediation efforts.

## Phase Four: Sustaining the Solution

With immediate issues addressed, the Crowe team now prepares for the true value-add of the process: perpetuating the solution and the best practices that have been introduced. Beginning with a frank and objective review of lessons learned, Our experienced assessment professionals reevaluate the company's current state of risk in view of the improvements that have been made and the evolution of the industry that has occurred since the project launch.

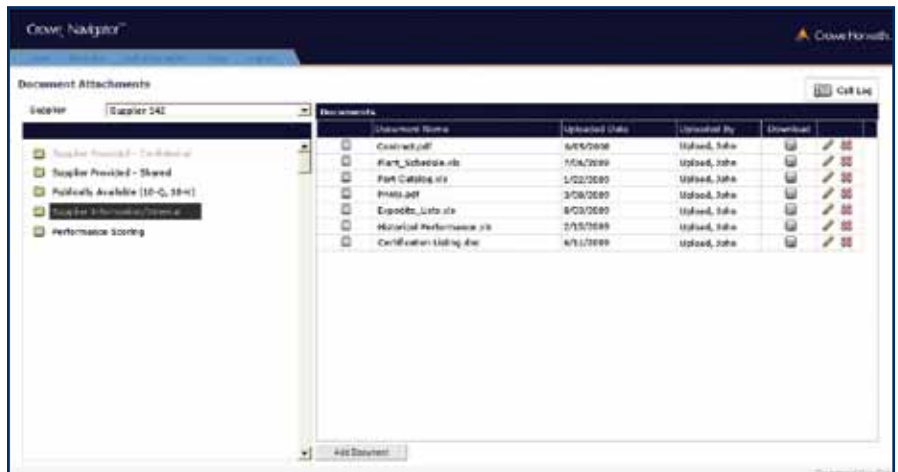
# An Intuitive and Proactive Solution to Analyze Supplier Viability

Using the highly intuitive and secure Crowe Navigator interface, the integrity of data is protected and consistency is established. This proprietary Web-based application allows you to access data securely, comprehend the supplier risk picture immediately, and develop risk management action plans quickly and decisively.

With supplier results and risk elements stored in a secure database, Crowe can assist in establishing a system of performance alerts that helps keep designated personnel informed as the supplier risk profiles change over time. The result is a highly proactive approach to helping ensure the stability and reliability of your entire supplier portfolio.

*“The supplier industry is witnessing a very rapid and dangerous decline.”*

Neil De Koker  
President, Original Equipment Suppliers Association  
quoted by Aftermarket Business magazine,  
June 12, 2009<sup>4</sup>







## Contact Us

For more information about the Crowe Supplier Viability solution or any of our other practical, cost-effective business services, contact:

Vicky Ludema  
800.599.2304  
vicky.ludema@crowehorwath.com

## About Crowe Manufacturing and Distribution

The Crowe manufacturing and distribution practice works with clients to develop high-impact solutions in the areas of M&A integration, process optimization, supplier viability, IT advisory, working capital management, risk management, assurance, and tax.

## About Crowe Horwath LLP

Crowe Horwath LLP is one of the largest public accounting and consulting firms in the United States. Under its core purpose of "Building Value with Values<sup>®</sup>," Crowe assists public and private company clients in reaching their goals through audit, tax, advisory, risk and performance services. With 26 offices and 2,400 personnel, Crowe is recognized by many organizations as one of the country's best places to work. Crowe serves clients worldwide as an independent member of Crowe Horwath International, one of the largest networks in the world, consisting of more than 140 independent accounting and management consulting firms with offices in more than 400 cities around the world.

[www.crowehorwath.com](http://www.crowehorwath.com)

<sup>1</sup>The Wall Street Journal: "U.S. Turns Focus to Health of Auto Suppliers," July 15, 2009, <http://online.wsj.com/article/SB124752795979835531.html>

<sup>2</sup>Aftermarket Business: "Suppliers seek additional \$8 to \$10 billion in government assistance," June 12, 2009, <http://aftermarketbusiness.search-autoparts.com/aftermarketbusiness/Distribution/Suppliers-seek-additional-8-to-10-billion-in-gover/ArticleStandard/Article/detail/602944?contextCategoryId=42271>

<sup>3</sup> News release: "Treasury Announces Auto Supplier Support Program," March 19, 2009, <http://www.treas.gov/press/releases/tg64.htm>

<sup>4</sup>Aftermarket Business (op cit)