

# Mitigating the Risks of Single & Sole Source Supply

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## Agenda

- \* Definitions
- 1. Rationale for using Single or Sole Source Suppliers
- 2. Risk assessment of Single & Sole Source Supply
- 3. Methods of Managing Sole & Single Source Supply Risk
- 4. Positioning your company for Long-Term Success



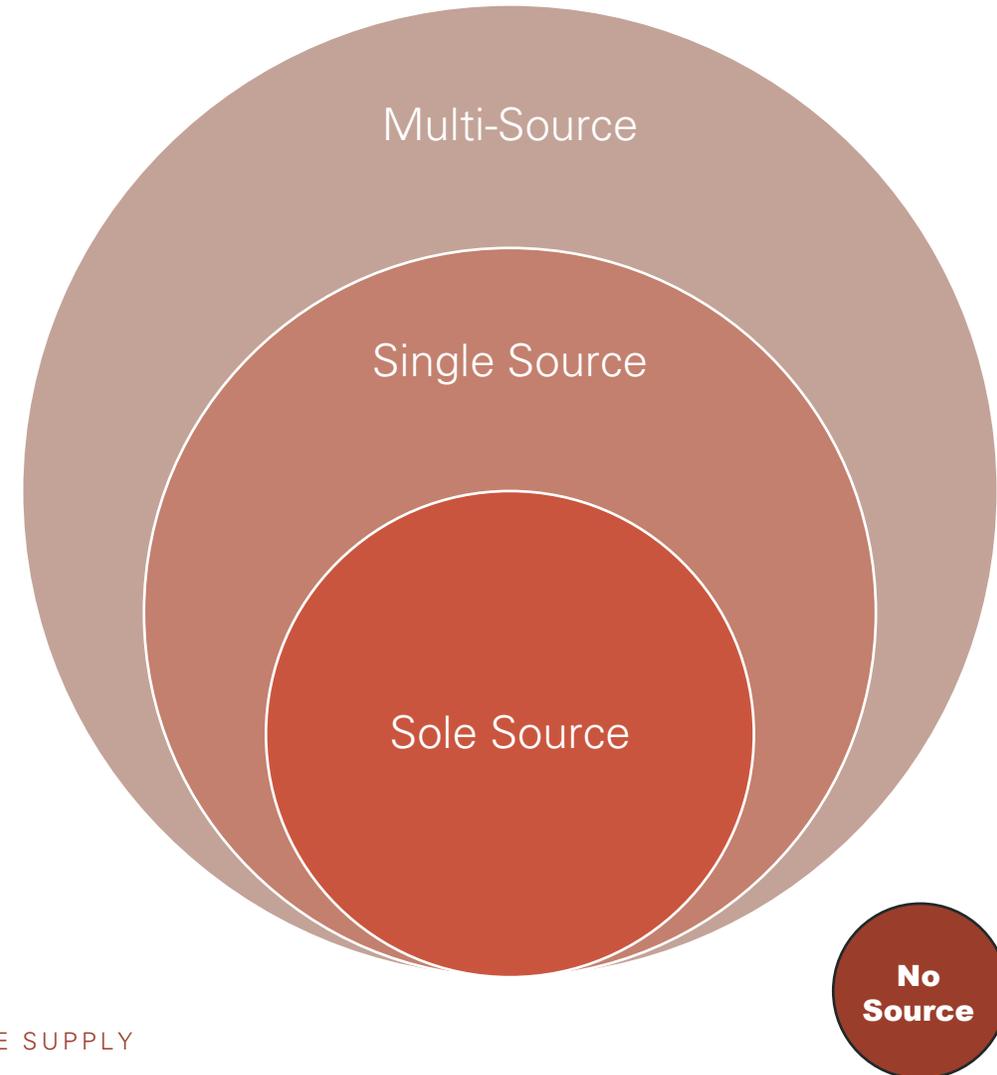
## \*: Definitions

### Types of Supply

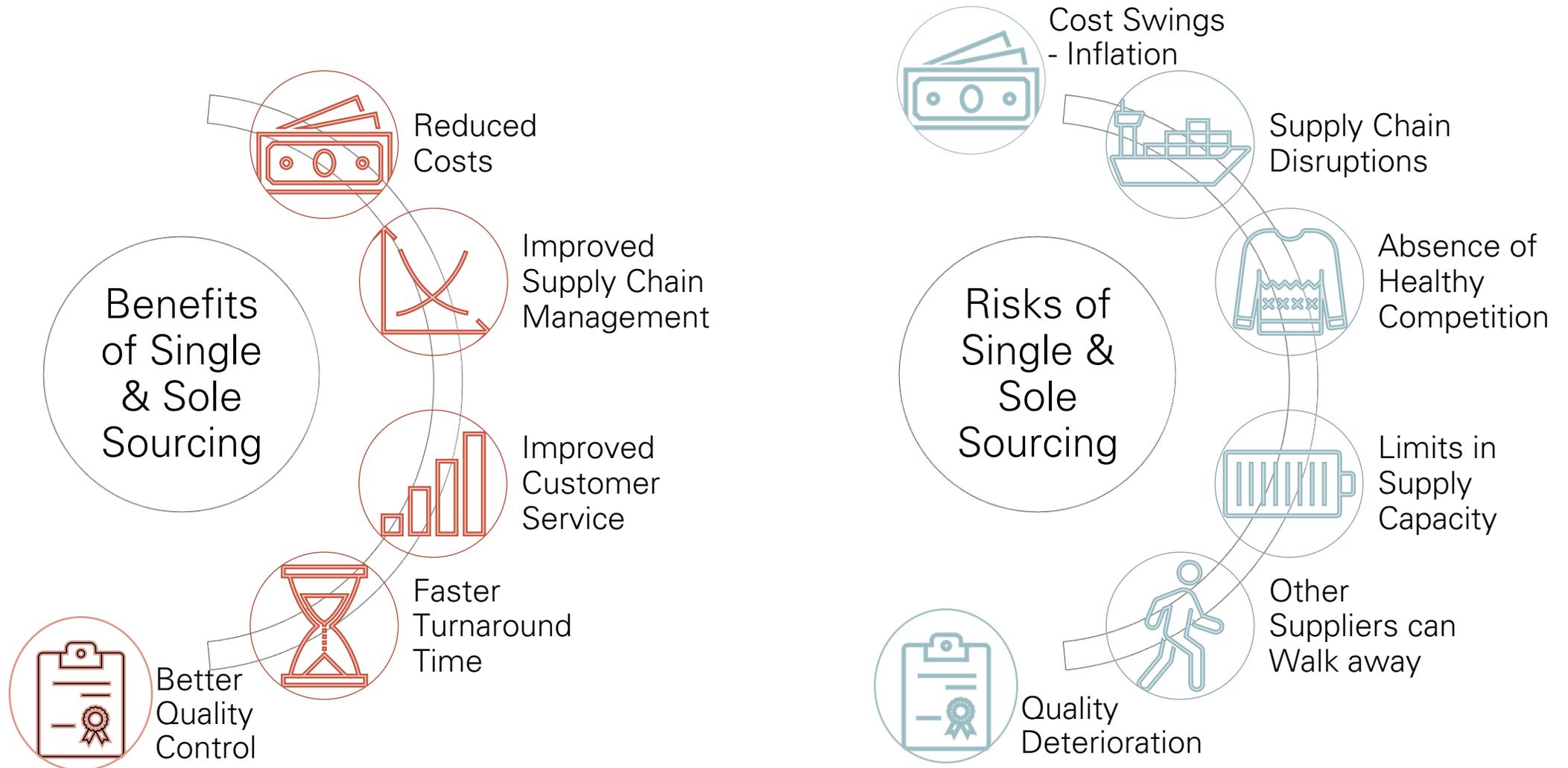
**Multiple Source suppliers.** Products or services are contracted to various suppliers needed to conduct the business instead of using traditional single sourcing.

**Single source supplier.** Although there are multiple options available, there is a decision to contract with only one supplier. This is often the case with long-term partnerships.

**Sole source supplier.** There is no other option but to go with the supplier identified (with no contenders) and given a contract to supply goods or provide a service required by the organization



# 1: Rationale for using Single or Sole Source Suppliers



A hand holding a pen over a document titled "Contract". The document has several lines of placeholder text. A thick, light-colored rope is tied around the hand holding the pen.

# Contract

## 2: Risk Assessment of Single & Sole Source Supply

1. Industry Assessment and Review
2. Supplier vs Customer – size, scope and culture
3. Environmental Review

# Risk assessment of Single & Sole Source Supply

## 1. Industry Assessment and Review

The classics –

# Risk assessment of Single & Sole

## 1. Industry Assessment and Review

The classics –

- **Porter's 5-Forces**

- The model encourages organizations to look beyond direct competitors when assessing strategy and, instead, consider broader environmental forces.
- Benefits:
  - Helps gauge industry competition levels. ...
  - Highlights where strengths and weaknesses are. ...
  - Shows what entities hold the most power in the industry. ...
  - Identifies opportunities for business expansion. ...
  - Guides corporate strategies and vision.

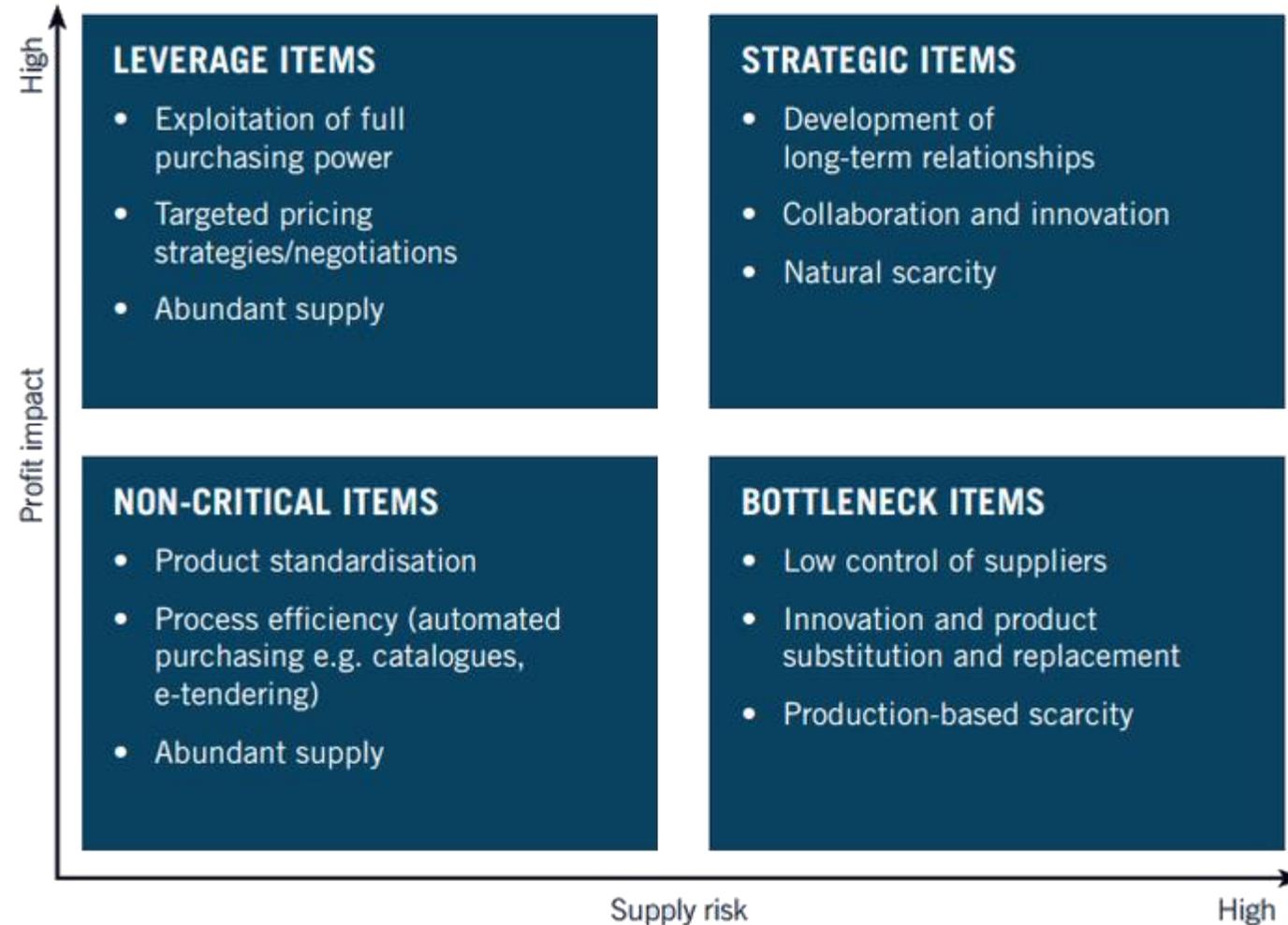


# Risk assessment of Single & Sole Source Supply

## 1. Industry Assessment and Review

The classics –

- **Kraljic portfolio purchasing model**
  - This model helps purchasers understand where their products are classified in terms of supply risk and profit contribution, and also know whether the balance of power lies with them or with their suppliers.
  - How to use:
    - Map supplier Impact and Risk

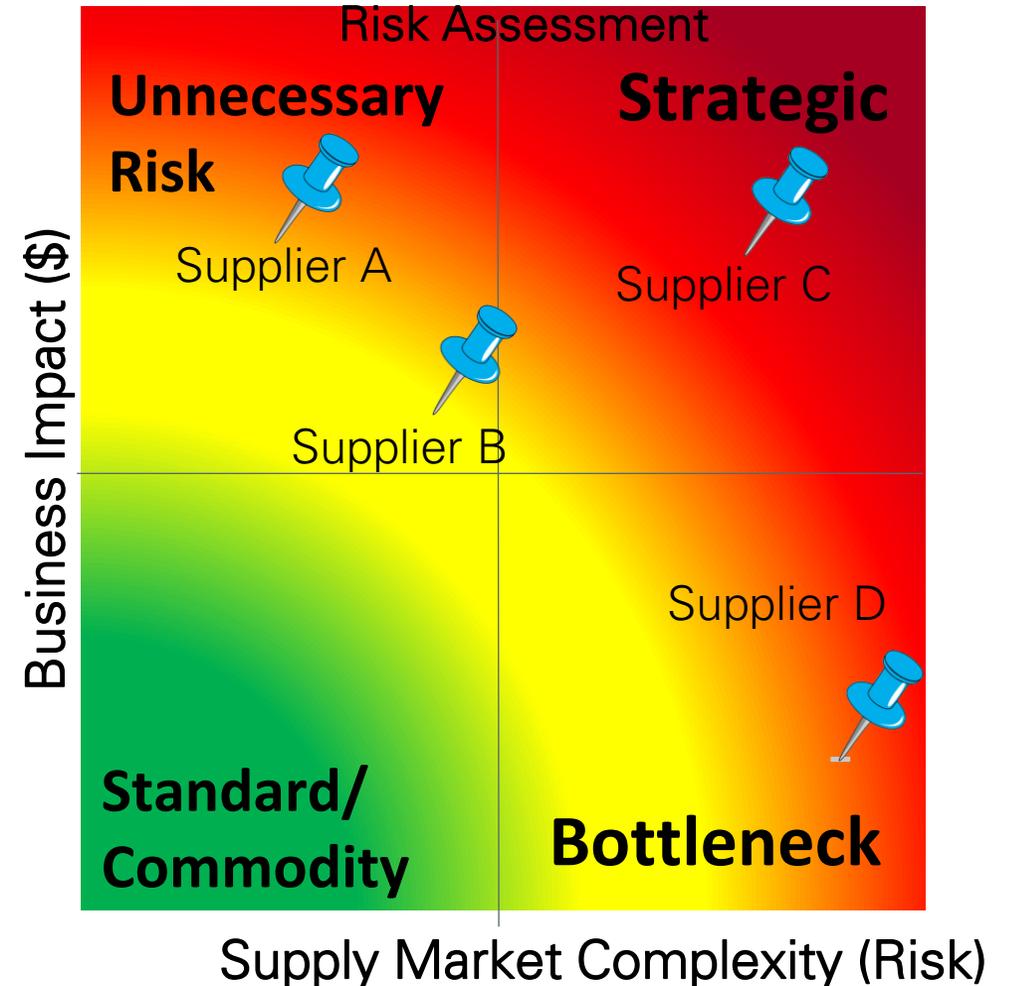


# Risk assessment of Single & Sole Source Supply

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# Risk assessment of Single & Sole Source Supply

## 1. Industry Assessment and Review

The classics –

- **Altman's Z-Score Model**

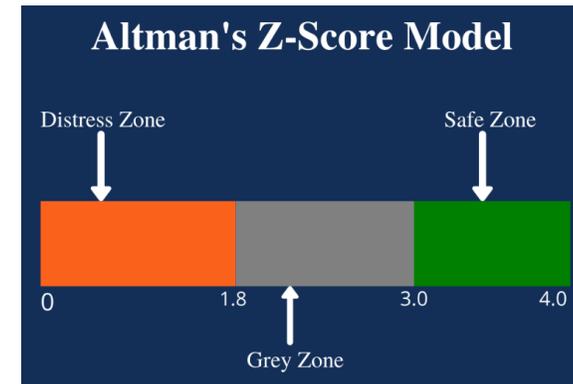
- A numerical measurement that is used to predict the chances of a business going bankrupt in the next two years.
  - Public, Private & Service Models
- How to use:
  - A Score below 1.8 signals the company is likely headed for bankruptcy
  - A Scores above 3 signals the company is not likely to go bankrupt
- Benefits:
  - Helps gauge cashflow
  - More difficult to hide troubles than with D&B scores
- Multiple other options: (e.g. Resilinc, ...)

### Measuring the 'Fiscal-Fitness' of a company: The Altman Z-Score

#### Z-Score for Public MFG Companies

1. Earnings Before Interest & Taxes:EBIT	\$ 57,400.00	example
2. Total Assets	\$ 673,520.00	
3. Net Sales	\$ 2,180,971.00	
4. Market Value of Equity	\$ 382,266.00	
5. Total Liabilities	\$ 240,735.00	
6. Current Assets	\$ 550,000.00	
7. Current Liabilities	\$ 376,261.00	
8. Retained Earnings	\$ 309,866.00	

Z-Score \$ 5.423



#### The Interpretation of Z Score:

**Z-SCORE ABOVE 3.0** -The company is safe based on these financial figures only.

**Z-SCORE BETWEEN 2.7 and 2.99** - On Alert. This zone is an area where one should exercise caution.

**Z-SCORE BETWEEN 1.8 and 2.7** - Good chances of the company going bankrupt within 2 years of operations from the date of financial figures given.

**Z-SCORE BELOW 1.80** - Probability of Financial embarassment is very high.

# Risk assessment of Single & Sole Source Supply

## Third Party Risk Assessments - Potential Suppliers

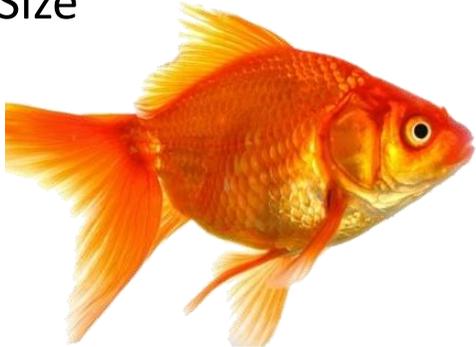
1. D&B
2. S&P Global
3. Resilinc
4. Dow Jones
5. Thomson Reuters
6. SAP Ariba
7. Rapid Ratings
8. Prevalent
9. Sphera (Formerly RiskMethods)



# Risk assessment of Single & Sole Source Supply

## 2. Supplier vs Customer – size, scope and culture

Size



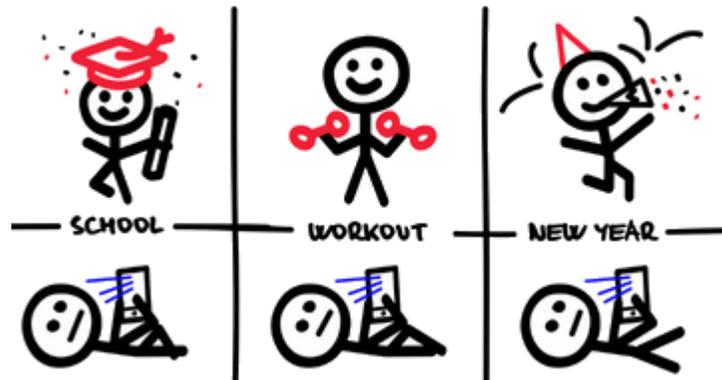
Scope



?



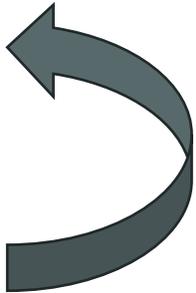
Culture



# Risk assessment of Single & Sole Source Supply

## 3. Environmental Review

- Find the data to explain trends in the industry
- Talk to the industry experts
- Non-competing companies

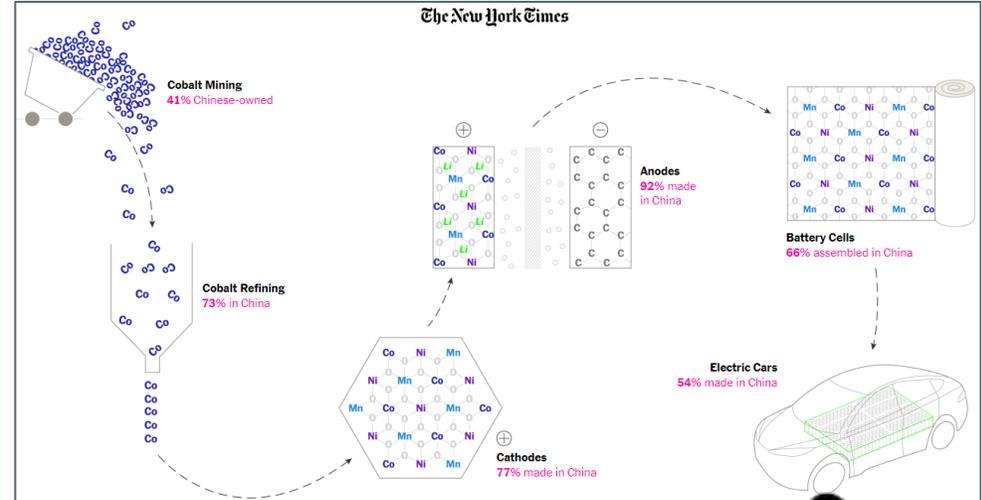


U.S. BUREAU OF LABOR STATISTICS

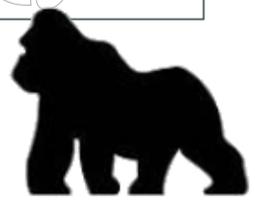
ECONOMIC RESEARCH

FRED

ECONOMIC DATA | ST. LOUIS FED



MITIGATING THE RISKS OF SINGLE-SOLE SOURCE SUPPLY





### 3: Methods of Managing Sole & Single Source Supply Risk

Position

Culture

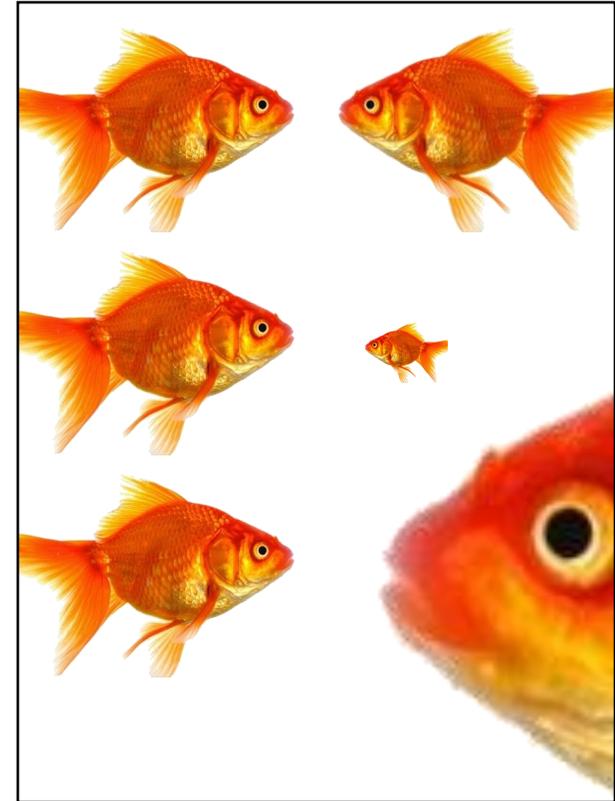
Conducting

# Methods of Managing Sole & Single Source Supply Risk

## 1. Know your Supplier, Position, and Relationship

## 2. Think Through Possible Leverage Points

- Can the purchased product be broken down into sub-components of which some could be dual-sourced?
- Could the end user (your customer) help drive for alternatives?
- Can the threat of loss of competitive position in your marketplace be leveraged with your supplier?
- Could the product be made in house?
- Could the supplier be designed out in the future?
- Can the “carrot” of future business be utilized?
- Could the loss of preferred supplier status for the future be leveraged?



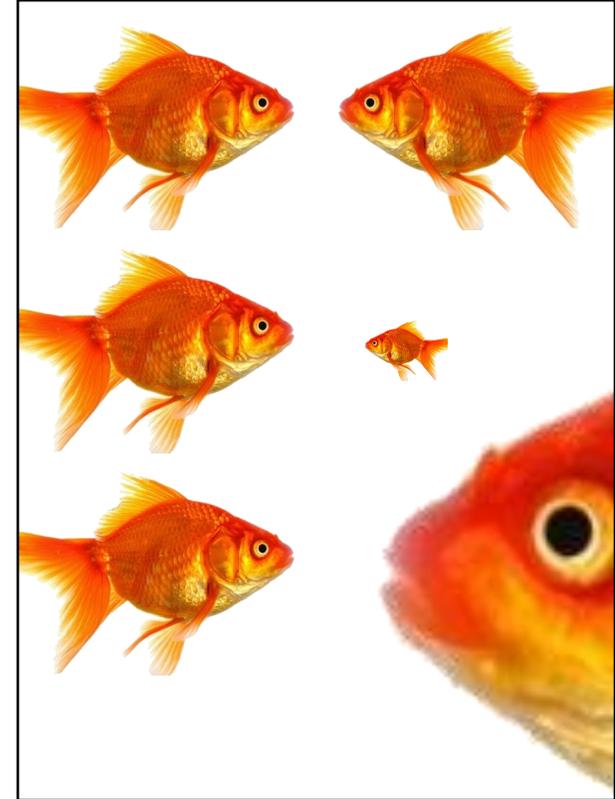
# Methods of Managing Sole & Single Source Supply Risk (Continued)

## 3. Define your Relationship Approach

- a) Customer of Choice
- b) Old-fashion Table Pounding
- c) Traditional Arm's length
- d) Dead-beating

## 4. How Will You Conduct the Choir?

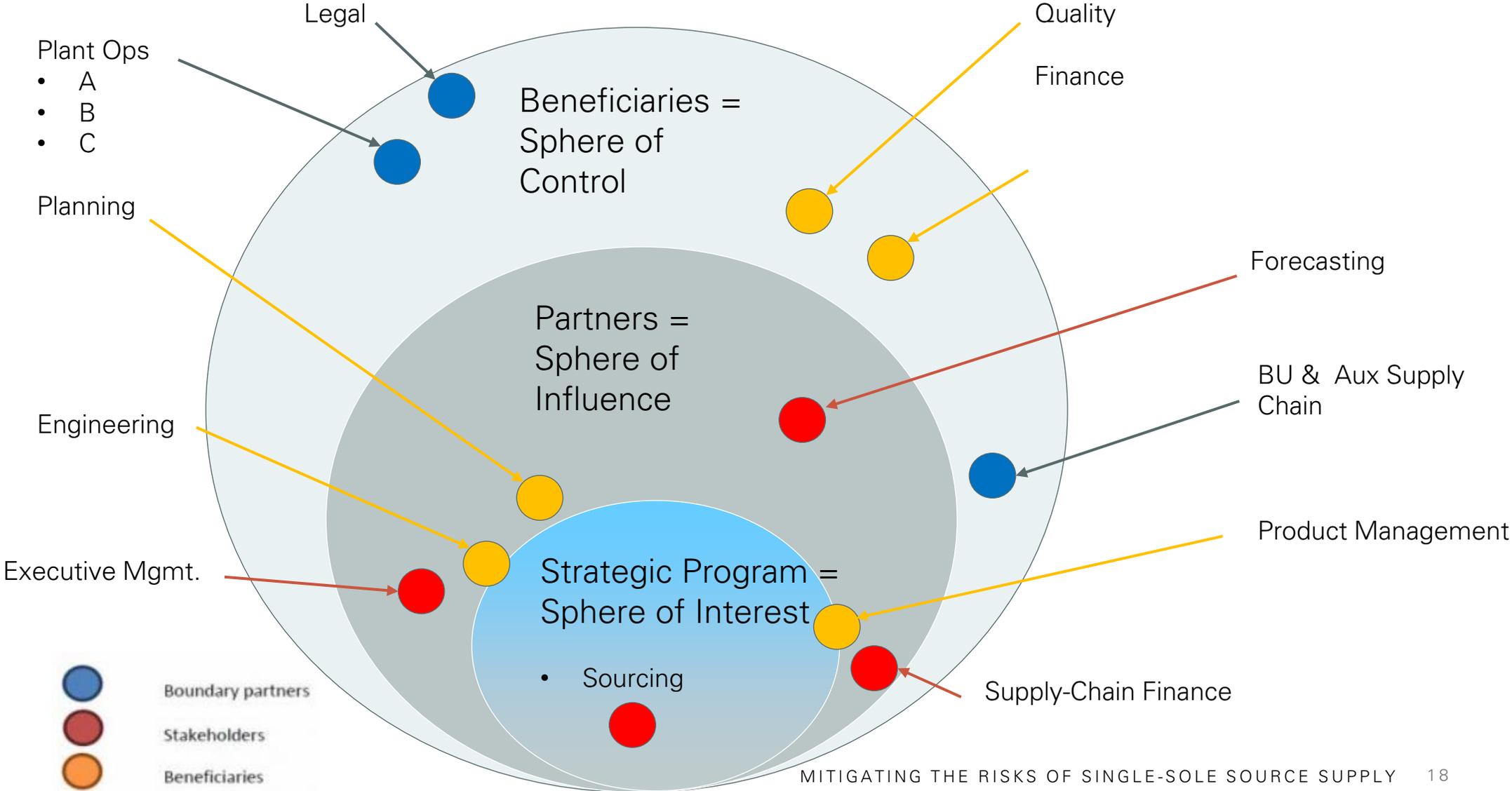
- 1. Who participates
- 2. What is the beat (timeline)



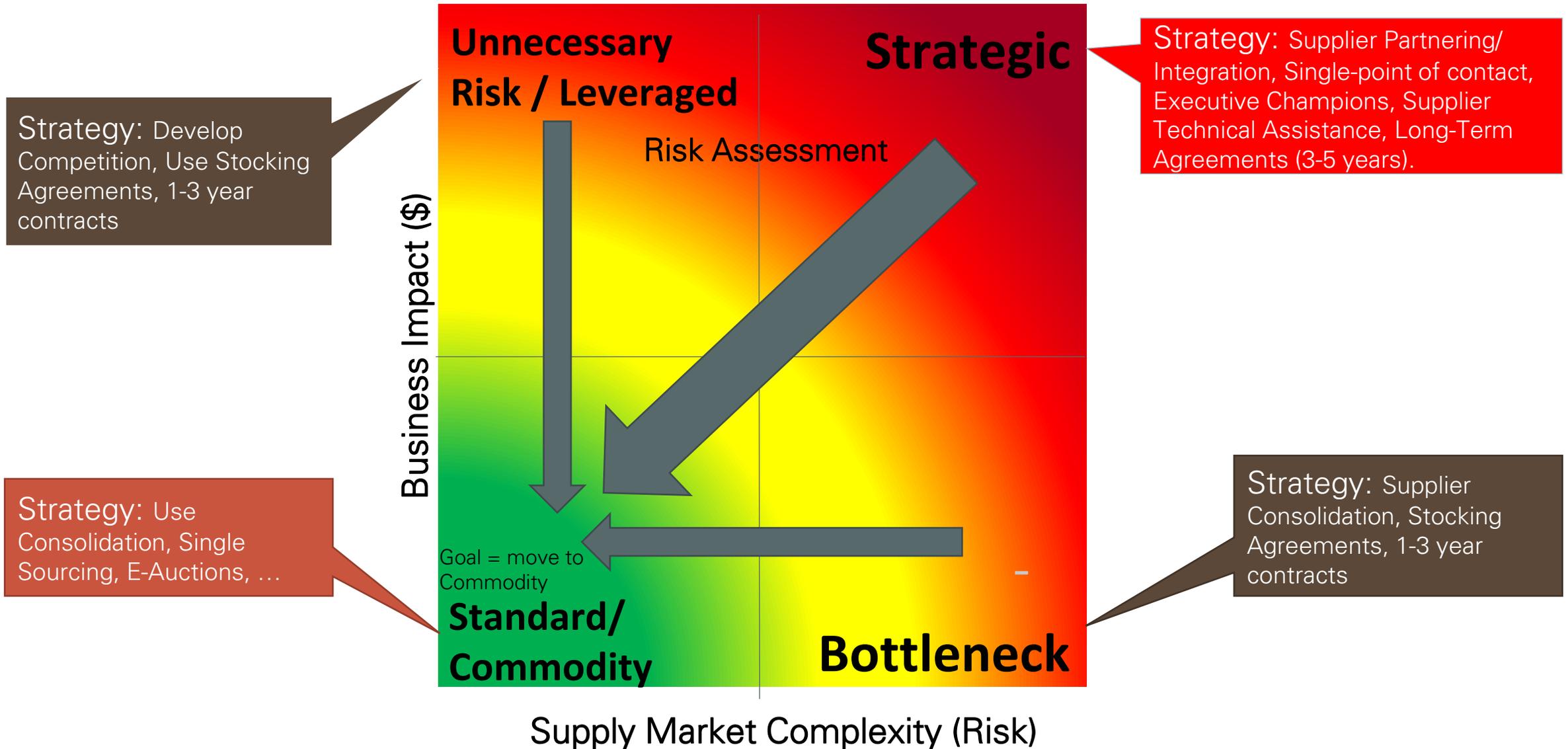


## 4: Positioning your company for Long-Term Success

# Influence Map



# Commodity Requirements: High-level



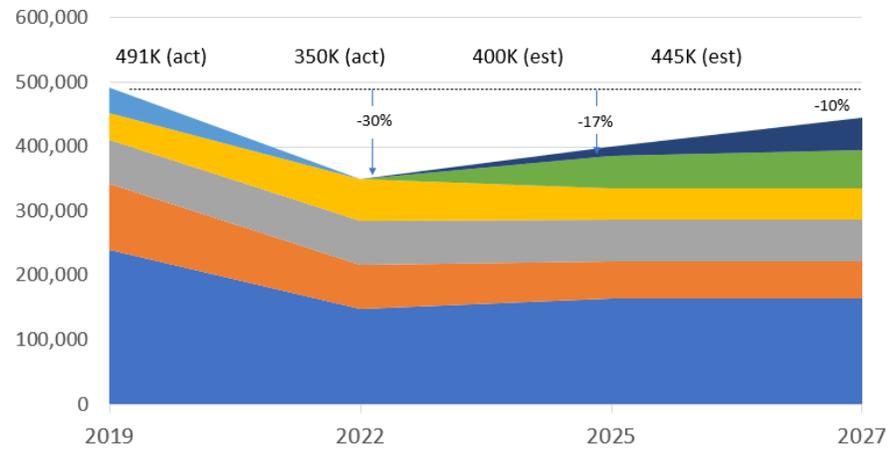
# Positioning your company for Long-Term Success

Example



# Example

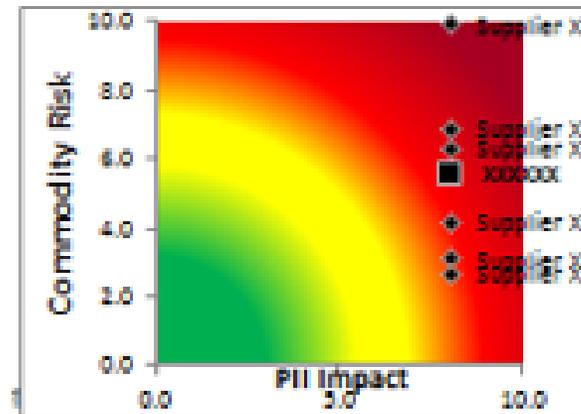
## Environment



## Supplier



## Relationship



## Example (Continued)



Become a favored customer

### Implement Friendly Tactics

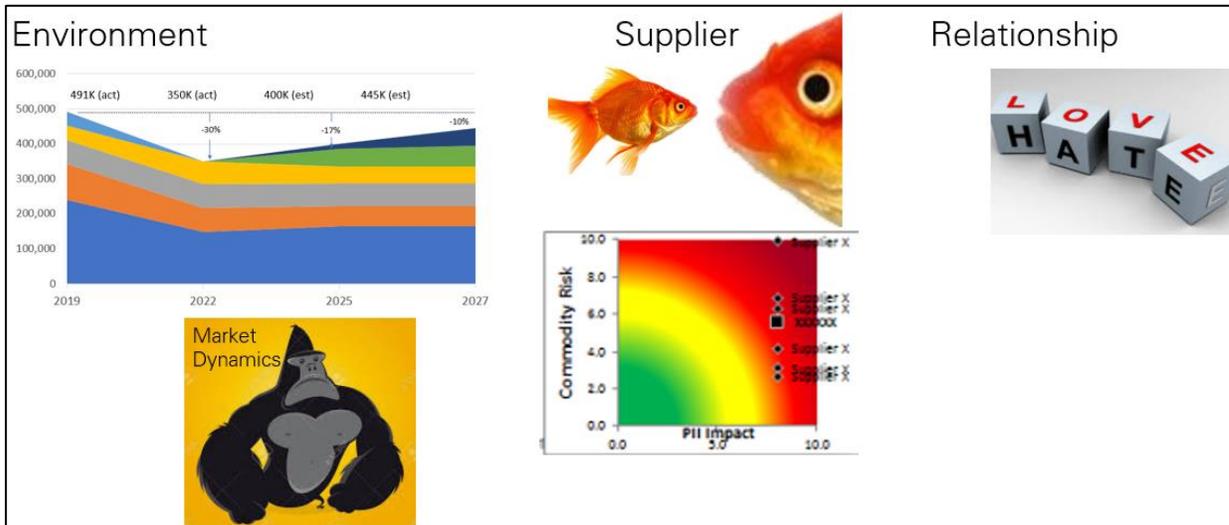
- Pay on time
- Good forecasting
- Availability for communications

### Focus on Communication

- Aligned Voices
- Consistent Messaging
- Set cadence of communication
- Clear processes and roles for problem resolution

### Long-term Planning

- Understand your Options and Alternatives
- Tools:
  - Multi-Year-Agreements
  - Supplier Business Reviews
  - Multi-Level Alignment Plans
  - Annual Strategic Category Reviews
  - Senior management interface





## Key takeaways

1. Be Prepared: Understand the market environment, Supplier risk level and your sourcing strategy
2. Understand your supplier positioning, leverage points, and how you will manage your supplier.
3. Select your relationship approach and define how you will execute your plan.
4. Use best-practice tools to ensure success in these challenging relationships!

# Questions

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