SEGURA

supply chain clarity

RISK-PROOFING YOUR GLOBAL SUPPLY CHAIN

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> "There are all sorts of new risks - conflict minerals, human trafficking, counterfeit parts and more. And these can be just as devastating to a company as a hurricane or tornado and take even more business judgement to evaluate and ensure that your supply chain will not be disrupted"
>
> - Frank S Murry Jr, Senior Counsel at Foley & Lardner LLP

Risk in global supply chains today

Supply chain risk management is more diverse and more relevant than ever before. The Business Continuity Institute's (BCI) latest Supply Chain Resilience Report showed an increase in the number of organisations experiencing in excess of ten supply chain disruptions during a one-year period – from 7% to 22%.

Traditionally, supply chain risk management focused on environmental factors and "Acts of God" but now has to go much further than that. Certain aspects of a business' supply chain can increase risk. For example, the British Standards Institution revealed China, India, Vietnam, Bangladesh and Myanmar as the highest risk countries for human rights violations. Together, these five countries make up 48% of apparel production, 53% of apparel exports and 26% of electronics exports globally. By association, thisputs the apparel and electronics industries at risk - particularly those sourcingfrom the five most hazardous countries. The UK has moved from "low risk" to "medium risk".

22% OF BUSINESSES HAVE EXPERIENCED IN EXCESS OF 10 SUPPLY CHAIN DISRUPTIONS IN ONE YEAR

THE BUSINESS CONTINUITY INSTITUTE

Environmental risk

Environmental risks or "Acts of God", by nature are difficult to predict. The risks associated to such occurrences can range from damaged goods to delayed supply. Having a risk mitigation policy in place is essential to being prepared for potential supply chain disruptions.

Climate change mitigation, along with water crises have consistently emerged as top risks over the past 10 years, according to The Global Risks Report 2018. When a business is aware of who its suppliers are and where in the world they operate, it's easier to get a clearer view of the potential risks. Using mapping, you can identify the areas at the greatest risk of flooding, hurricanes, earthquakes etc.

"When there is a big disaster that disrupts supply chains, businesses tend to focus more of their risk management efforts in that area. However, as time passes after that event, maintaining those efforts can fade in importance,"
Jon Hall, executive vice president of FM Global

Water pollution is a huge environmental risk with an estimated 17%-20% of all industrial water pollution coming from dyeing and treating fabrics to be turned into garments. Chemicals entering water supplies could lead to huge brand damage, as welll as environmental devastation such as crop damage, the eradication of livestock and the pollution of local water supplies.

"A month shutdown would not be overly damaging, but if we have an extended three months or so we could start talking about serious volume and financial impact."
Kurt Sanger of Deutsche Securities in Tokyo.

One of the most resonating examples of the risk that environmental factors can play in global supply chains occured in the 2011 Thailand floods; amongst the debris were brand new cars. The flooding, some of the worst seen in decades, forced companies to suspend production in affected locations. Companies who experienced disruption included Honda, Toyota, Nissan and Sony.

> “Companies cannot rely on robust governance and remedy structures… which means the onus is on them directly to implement appropriate levels of due diligence and mitigating action.”
>
> - Lizabeth Campbell, head of societal risk and human rights at Maplecroft

Supplier non-compliance

Unauthorised subcontracting, breach of contract and human rights violations are just a few of the issues covered by the term “supplier non-compliance”.

The human rights violations experienced by the workforce of non-compliant suppliers can range from low wages and excessive hours to sexual harassment and denial of trade union rights. In the past, it was easier for companies to track and audit their manufacturers and suppliers due to the close proximity of their location. However, lower sourcing costs overseas means that many businesses choose to utilise a global supply base, but lack of regulation can mean poor practices go unchecked by the local authorities.

When identifying what constitutes supplier non-compliance to an individual brand, it is important to consider local influences. Whilst a manufacturer or supplier might adhere to local codes of conduct or legislation, often further actions need to be taken to comply with global laws.

In 2012, the California Transparency in Supply Chains Act came into effect, obligating companies operating in California, USA, to disclose information referring to their efforts to eradicate poor labour practices from their supply chains. The UK followed suit in 2015 with the introduction of the Modern Slavery Act which extended the responsibility of businesses regarding all forms of slavery and forced labour across their entire supply chain. Similar legislation is currently being established in Australia, as well as other parts of the world. With increased legal responsibility, supplier non-compliance is a greater risk than ever before.

RANA PLAZA
VERSUS
TRIANGLE SHIRTWAIST FACTORY

1,135 people fatally injured	145 people fatally injured
Dhakar, Bangladesh 2013	Manhattan, New York City 1911
38 people charged with murder 3 were charged with helping owner flee	No charges brought against factory managers or owners

Brand damage

One potential consequence of supplier non-compliance is brand damage. The Rana Plaza disaster is one example of brand damage caused by unauthorised subcontracting. When the Rana Plaza building collapsed in 2013, 1,135 people were fatally injured. In the following weeks, the fashion brands whose clothing was being made there were identified, and a pattern appeared; most brands were unaware that their items were being made in that location. This called into question not only their ethics but their ability to track and control their supply chain.

Global supply chains risk being affected by brand counterfeits. The counterfeit clothing market not only eats into the profits of genuine brands but can also damage their image. Burberry worked hard to recover its reputation as a luxury designer after its iconic check pattern became readily available on local markets at knockdown prices. In 2012, the design house took a network of Chinese counterfeiters to court, winning £63 million in damages as a result.

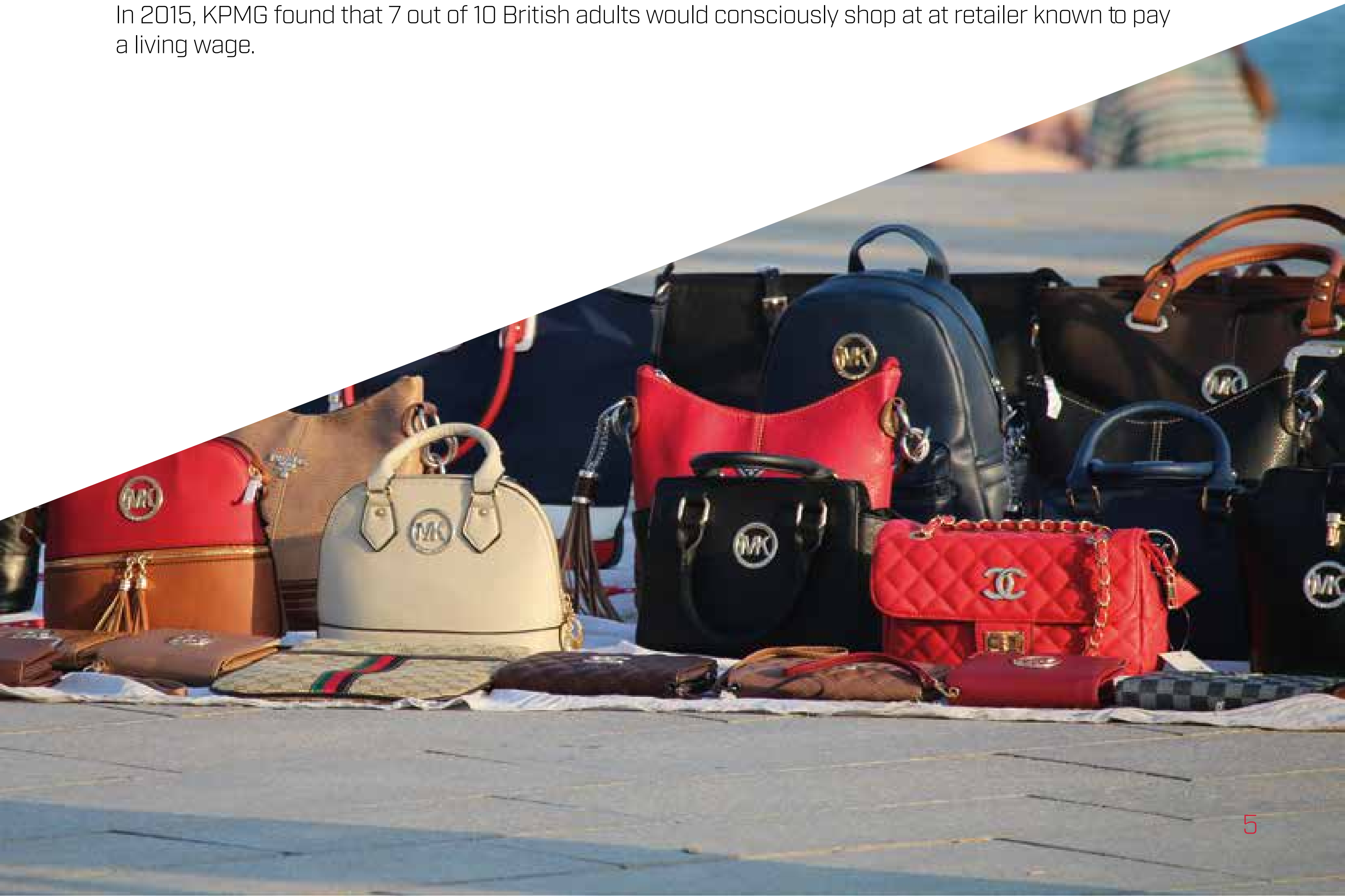
Case study

When American clothing company Patagonia discovered evidence of questionable employment practices among their supplier base, they knew it was time to act. Confident that tier one manufacturers were complying with their fair labour codes, the brand conducted further investigations, and discovered that indentured servitude was present among seven of its tier two, component level suppliers.

Patagonia stated: Debt bondage effectively creates "a form of indentured servitude that could also qualify, less politely, as modern-day slavery. And it's been happening in our own supply chain".

For a brand that had built a strong reputation based on ethical and environmental responsibility, modern slavery in their supply chain could threaten their reputation and customer base.

In 2015, KPMG found that 7 out of 10 British adults would consciously shop at at retailer known to pay a living wage.



> "If you don't constantly monitor your supply chain, your exposures may change significantly in short order—you will have new customers, new suppliers and your suppliers may have changed their suppliers."
>
> - Jon Hall, executive vice president of FM Global.

Supply Risks

In today's world of celebrities and social media, styles are continually changing and to compete, businesses must be able to keep up. This is challenging with late deliveries and qualityissues being some of the biggest obstacles to overcome, particularly in the fashion and retail industries.

When things go wrong and the speed to market isn't quick enough, the financial implications can be huge. The rise of fast fashion has lead to supply chains needing to move faster than ever. At best, a late discount can increase the cost of transport by forcing a company to pay for air freight opposed to the cheaper option of sea freight. At worst, it can cause missed sales opportunities due to products being on the shelves much later than expected. With customer demand moving at an ever changing rate, a delay in delivery can mean garments have to be discounted immediately, as trends have already moved on. This leads to significant financial loss.

As with speed to market, quality issues often go unidentified until it's too late. By implementing a nominated supplier policy, brands and retailers aim to guarantee quality and accountability. However, manufacturers will too often self-source to unauthorised subcontractors, improving their own margins but reducing the retailer's visibility and therefore control. This means the finished goods may be of inferior quality or even contain counterfeit components produced in unaudited factories without the brand's knowledge.

Despite many retailers having existing nominated supplier policies in place, manufacturers often source product components from unauthorised and unknown suppliers, potentially severely impacting on the quality of the retailer's product. Retailers therefore have very limited visibility and control beyond their primary suppliers. Outdated processes are time consuming, error-prone and difficult to reconcile back to specific purchase orders – so miscommunication, errors and disputes occur. This can result in production delays, additional costs for the brand and could result in the products being late to store.

The Solution

In a digitised world, technology can be used to help risk-proof global supply chains. ERP and PLM systems allow for the management of fast-paced supply chains, but this doesn't always go far enough.

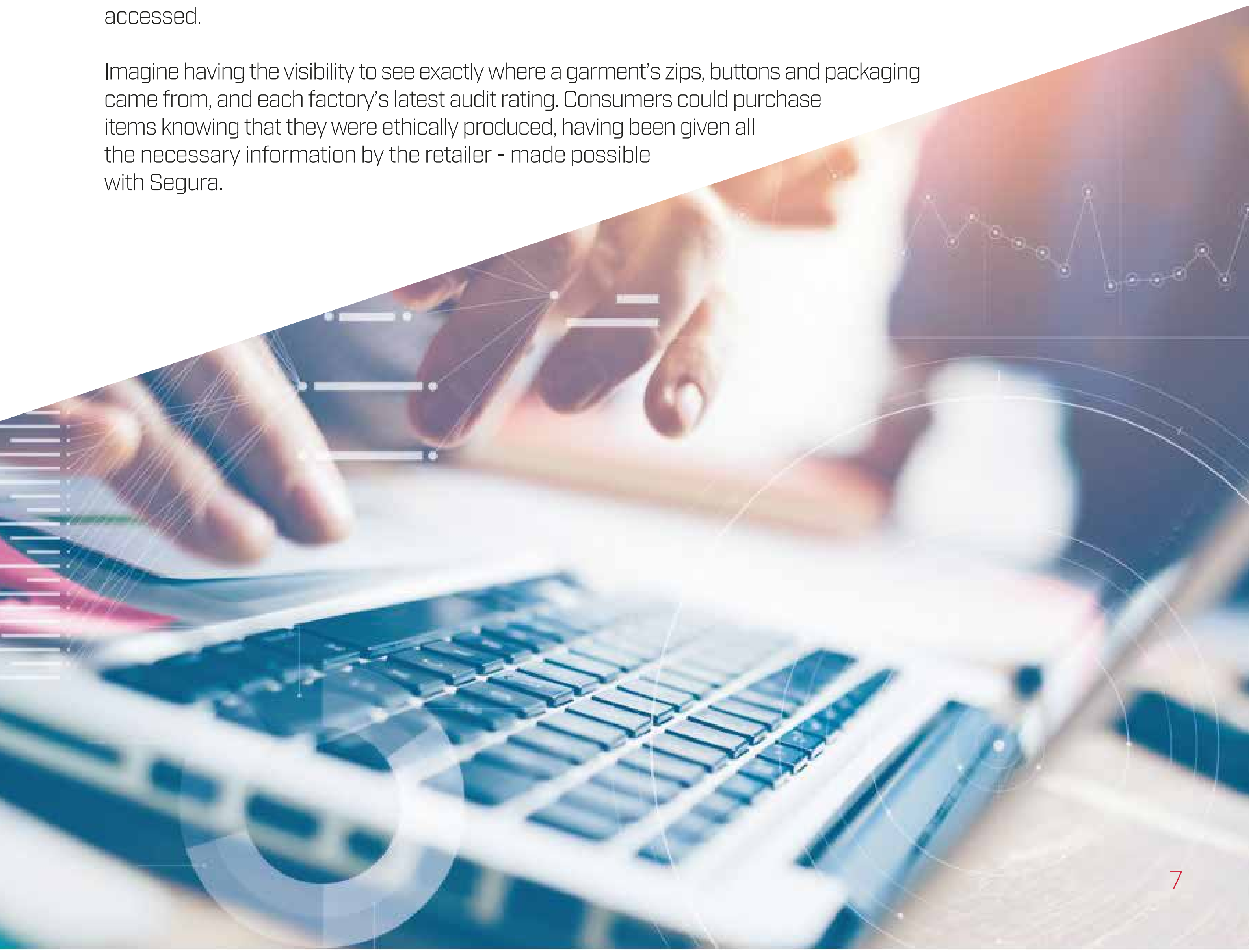
Segura's platform makes it possible to monitor and manage a brand' s secondary supply chain and beyond. By building a complete audit trail through a full transactional layer, brands can trace orders back to the production line, identifying the cause of any delays and addressing future supply chain risks before they are realised. As a result, brands rarely need to get involved in discussions about product quality or order information. Disputes between suppliers can be handled directly through the platform, which keeps a full audit trail of all transactions.

"Ted Baker is committed to working with all our suppliers in a fair and open way, Segura offers us a tool to strengthen these relationships. The interactive online platform allows us to work even more closely with our suppliers, ensuring that we have up to date information and making it easier to understand and map our supply chain."
Conscience Manager , Ted Baker

In the case of a delayed order, the Segura platform can alert the brand in real-time, diverting disasters before they occur. Being one step ahead can create significant competitive advantage.

Segura platform, when paired with a sufficient auditing process, can satisfy section 54 of the Modern Slavery Act. The platform provides the brand with a single portal through which audit documents can be stored and accessed.

Imagine having the visibility to see exactly where a garment's zips, buttons and packaging came from, and each factory's latest audit rating. Consumers could purchase items knowing that they were ethically produced, having been given all the necessary information by the retailer - made possible with Segura.



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