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Identify and Know Suppliers

By Connie Robbins Gentry



Risk in the supply chain extends to all your suppliers' suppliers

(October 1, 2008) Every day there are headlines about yet another product recall. This morning's *Los Angeles Times* (Sept. 16) reported that two infants have died, 53 infants were in critical condition, an additional 340 had been hospitalized and more than 1,250 were sickened by tainted baby formula in China.

That's heart-wrenching. What defies understanding however was the statement that the state-owned Sanlu Group, which distributed the formula, had begun receiving complaints in March but failed to take action.

Additionally, the newspaper reported that Fonterra, the New Zealand-based dairy that owns 43% of Sanlu, learned of the problem on Aug. 2 and New Zealand's Prime Minister Helen Clark had tried unsuccessfully to get Chinese authorities to issue a recall.

Digging deeper, the source of the tainted product was tracked to two brothers who ran a private milk-collecting station in the province where Sanlu is based, and provided milk products to Sanlu. According to the L.A. Times, the brothers' had been operating the business since 2004; last year one of the brothers began augmenting the milk with melamine, a toxic chemical that boosts protein readings in food.

What are the chances that New Zealand-based Fonterra knew that two brothers in China's Hebei province were suppliers to their baby-formula company? And if the owner of the distributor did not know its suppliers, chances are even slimmer that any of the retailers selling the formula to consumers would have a clue as to who the suppliers were.

Therein lies the true Achilles' heel in the global supply chain: Risk extends to all your suppliers' suppliers, but knowledge too often stops at the purchase order.

Integrity Interactive, based in Boston, works with global companies to address risk and ethics compliance in the supply chain. Richard Cellini, senior VP, business and legal affairs, at Integrity.

talked with me about his experiences helping retailers take ethics and compliance management from "aspirational to operational" business processes.

First, he suggested "applying old-fashioned actuarial and risk-management techniques from other industries to adopt a proactive approach, predicting future behaviors based on past occurrences."

That requires being in regular contact with all suppliers and maintaining a watchful eye as well as a diligent record over which suppliers consistently perform to expectations and communicate well. This group should be placed into a low-risk category, Cellini advised, while suppliers that exhibit less-acceptable patterns or perform erratically should be segregated and monitored closely. "Those are the ones that valuable auditing resources should be dedicated to," he noted.

Additionally, retailers should maintain accurate, up-to-date lists of who their suppliers are, where they are located and specific contact information.

The Customs Importer Security Filing (ISF) or "10+2 rule," proposed in January by U.S. Customs and Border Protection, is expected to take effect before the end of 2008 and may propel retailers closer to maintaining a database of international suppliers because it requires importers to provide extensive information on ocean cargo.

Note: The 10+2 rule was discussed at length in our September e-newsletter, Supply Chain Update. If you would like to be added to the distribution list for this newsletter, please e-mail me.