

Contents

Foreword ix

Endorsements xi

Acknowledgements xiii

Part I Introduction—Identifying, Assessing, Mitigating and Responding to Supply Chain Risk

1 Supply Chain Risk Management 3

1.1 Introduction 3

1.2 This Book 4

1.3 The Supply Chain Management Context 6

1.4 The Need for Supply Chain Risk Management 7

1.5 Apprehension without Action 7

1.6 Robust Strategies for Supply Chain Management 8

1.7 Disciplinary Roots of Supply Chain Risk Management 10

2 Risk Identification 13

2.1 Introduction 13

2.2 A Conceptual View of Risk for Identification and Categorization ... 15

2.2.1 A Butterfly Depiction of Supply Chain Risk 15

2.2.2 Delays and Disruptions: “Normal” and “Abnormal” Risks .. 18

2.2.3 Local-and-Global Drivers and Local-and-Global Consequences 20

2.3 Risk Categorization Motivated by the Supply Chain Organization .. 22

2.3.1 Supply Risks 23

2.3.2 Process Risks 24

2.3.3 Demand Risks 26

2.3.4 Corporate-Level Risks 28

2.4 Summary 32

3	Risk Assessment	33
3.1	Introduction	33
3.2	What Risks to Assess	34
3.3	How to Assess Risks	35
3.4	Example of a Cross-Company Survey: What Risks and How to Assess	37
3.4.1	Our Sample	37
3.4.2	What Risks Were Assessed	38
3.4.3	How We Assessed These Risks	40
3.4.4	Discussion	47
3.5	Summary	49
4	Mitigating Risks	51
4.1	Introduction	51
4.2	Risk Mitigation Strategies	53
4.3	Building Reserves for Redundancy	54
4.4	Tailoring Risk Management for any Given Company	57
4.5	Conclusion	63
5	Response as a Mitigation Approach	65
5.1	Introduction	65
5.1.1	Examples of Disruptions and Their Impacts	65
5.1.2	Dealing with Disruptions	66
5.2	Time-Based Risk Management	67
5.2.1	The 3-D Framework: Detect, Design, and Deploy	68
5.3	Response Time and Impact	70
5.3.1	Modeling Disruption Impact over Time	71
5.4	Time-Based Risk Management in Practice	72
5.5	Risk and Reward Considerations	74
5.6	Conclusion	76
6	How do Global Manufacturing Companies Mitigate Supply Chain Risks	77
6.1	Introduction	77
6.2	Literature Review	78
6.3	Motivation	79
6.4	Methodology	80
6.5	Samsung Electronics	82
6.6	Conclusions	89

Part II Mitigation Approaches and Applications

7	Strategic Approaches for Mitigating Supply Chain Risks	95
7.1	Introduction	95
7.2	Robust Supply Chain Strategies	97
7.3	Conclusion	107

8	Tactical Approaches for Mitigating Supply Chain Risks: Financial and Operational Hedging	109
8.1	Introduction	109
8.2	Different Types of Financial Risks	110
8.2.1	Risks Associated with Input Material Costs	110
8.2.2	Risks Associated with Labor Costs	111
8.2.3	Risks Associated with Foreign Currency Exchange	112
8.2.4	Risks Associated with Supplier Defaults	113
8.3	Financial Instruments for Managing Input Material Cost and Foreign Exchange Risks	114
8.4	Financial Instruments for Reducing Supplier Default Risks	120
8.5	Operational Planning for Managing Cost Risks and Supplier Default Risks	124
8.5.1	Capability for In-Season Replenishment	126
8.5.2	Flexibility for Switching Sourcing Locations	128
8.6	Integrated Financial and Operational Hedging	129
8.7	Conclusions	132
9	Application—Scenario Planning for Mitigating Supply Chain Restructuring Risk at a PVC Manufacturer	135
9.1	Introduction	135
9.2	One Company’s Story: Restructuring A Post-Acquisition Supply Chain	136
9.3	The Planning Spectrum	136
9.4	Planning Processes and Optimization	137
9.5	Use of Optimization for Strategic Supply-Chain Planning	139
9.6	The Need for a Combined Process	139
9.7	Scenarios and Scenario Planning	140
9.8	Middle Ground	143
9.9	Conclusion	145
10	Application—Mitigating Outsourcing-Related Risks	147
10.1	Introduction	147
10.2	Risk 1: Underestimating the Strategic Value of Procurement	149
10.3	Risk 2: Underestimating the Strategic Value of Outsourcing	150
10.4	Risk 3: Poor Understanding of Internal Capability and Cost Structure	152
10.5	Risk 4: Outsourcing the Wrong Thing	153
10.6	Risk 5: Underestimating the Importance of Incentive Alignment	155
10.7	Risk 6: Outsourcing Operations without Considering the Supply Chain	156
10.8	Risk 7: Outsourcing without the Right Contracts	157
10.9	Risk 8: Not Being Prepared for Supply Disruptions	158
10.10	Conclusion	159

11 Application: Mitigating New Product Development Risks—The Case of the Boeing 787 Dreamliner	161
11.1 Introduction	161
11.2 The 787 Dreamliner's Unconventional Supply Chain	165
11.3 The Dreamliner's Supply Chain Risks	169
11.4 What Boeing Did to Mitigate Risk	172
11.5 What Might Boeing Have Done Differently to Mitigate Risk	175
11.6 Conclusion	178
12 Application: Managing Product Recalls—the Case of Mattel, Inc.	181
12.1 Introduction	181
12.2 Underlying Causes of Mattel's Product Recalls	183
12.3 Mattel's Product Recall Management Process	184
12.3.1 Challenges Pertaining to Product Recalls	188
12.3.2 Opportunities Associated with Product Recalls	190
12.4 Conclusion	191
Part III Review of Quantitative Models for Managing Supply Chain Risk	
13 Risk Models for Supply Chain Management	195
13.1 Introduction	195
13.2 Supply Management	197
13.2.1 Supply Network Design	197
13.2.2 Supplier Relationships	199
13.2.3 Supplier Selection Process	199
13.2.4 Supplier Order Allocation	202
13.2.5 Supply Contracts	206
13.2.6 Robust Supply Management Strategies	211
13.3 Demand Management	212
13.3.1 Shifting Demand Across Time	214
13.3.2 Shifting Demand Across Markets	217
13.3.3 Shifting Demand Across Products	218
13.3.4 Robust Demand Management Strategies	220
13.4 Product Management	221
13.4.1 Postponement	223
13.4.2 Process Sequencing	226
13.4.3 Robust Product Management Strategies	228
13.5 Information Management	228
13.5.1 Information Management Strategies for Managing Fashion Products	229
13.5.2 Information Management Strategies for Managing Functional Products	230
13.5.3 Robust Information Management Strategies	236
13.6 Managerial Attitudes	237
13.7 Conclusions	239

14 Modeling the Value of Flexibility	241
14.1 Introduction	241
14.2 Supply-Cost Risk and the Value of Flexibility via Multiple Suppliers	242
14.3 Supply-Commitment Risk: the Value of Flexibility via Flexible Supply Contracts	244
14.3.1 Uniformly Distributed Market Shocks	245
14.3.2 General Market Shocks	246
14.4 Process risk: the Value of Flexibility via Flexible Manufacturing	248
14.4.1 (Discrete) Uniformly Distributed Plant Capacity	249
14.4.2 Normally Distributed Plant Capacity	250
14.5 Demand Risk: the Value of Flexibility via Postponement	252
14.6 Demand Risk: the Value of Flexibility via Responsive Pricing	253
14.7 Conclusions	257
15 Stochastic Programming for Supply Chain Planning Under Demand Uncertainty	259
15.1 Introduction	259
15.2 Motivation	260
15.3 A Stochastic Program for Supply-Chain Planning	263
15.3.1 A Stochastic Program for Asset Liability Management	263
15.3.2 A Stochastic Program for Supply Chain Planning	264
15.3.3 Comparison of SCP Model with the ALM Model	268
15.3.4 Demand-Scenario Generation: An Example	269
15.3.5 Risk Measures Consideration	269
15.4 Modeling Choices	270
15.4.1 Representation of Uncertainty	270
15.4.2 Decision variables	271
15.4.3 Time Periods and the Decision Horizon	271
15.4.4 Objective function	272
15.4.5 Constraints	273
15.5 Solution-Technique Choices	273
15.5.1 Decomposition	274
15.5.2 Aggregation	275
15.5.3 Sampling Scenarios	276
15.6 Conclusion	276

Part IV Perspectives and Topics for Future Research

16 Researchers' Perspectives on Supply-Chain Risk Research	281
16.1 Introduction	281
16.2 Growing Interest in Supply Chain Risk	283
16.3 Motivation for This Study	285
16.4 Methodology	285
16.5 Step 1 Findings: Diversity in Scope and Research Tools	286
16.6 Step 2 Findings: A Closer Look at the Definition Gap	292

16.7	Step 3 Findings: Three Gaps	293
16.8	Addressing the Gaps	296
16.8.1	Closing the Definition Gap	296
16.8.2	Closing the Process Gap	298
16.8.3	Closing the Methodology Gap	299
16.9	Conclusion	301
17	Conclusion and Future Research	303
17.1	Introduction	303
17.2	Identifying and Assessing Supply Chain Risk	304
17.3	Mitigating and Responding to Supply Chain Risk	305
17.4	The Nature of the Organization	306
17.5	Managerial Impact	307
17.6	Research Methods	308
17.7	Final Thoughts	310
	References	311