Supply Chain Matters Now

Idea In Short

Supply chain risk belongs on every executive agenda because globalization bred complacency. Companies must vet suppliers, structure contracts, monitor performance and react to disruptions before stock outs erode trust and revenue.

The Rude Awakening of Complacency

Most consumers never think about supply chains in daily life. People walk into stores or browse online and expect products to be available. This expectation defined life in wealthy economies for decades. Then 2020 shattered that assumption with recurring supply chain failures that made headlines worldwide.

Supply chain fundamentally means making things and moving things. Wherever people live, they experienced stock outs where inventory was unavailable. Think masks, vaccines, beef and toilet paper. Consumers accustomed to Costco shelves stacked high and Amazon deliveries in two days faced a rude awakening. The inexorable tide of globalization could actually slow down.

Thomas Friedman argued in 2005 that globalization and international trade were permanent fixtures. The United States benefits enormously from products flowing through dozens of countries, factories, airports, trains, ships and hands. Shoppers find persimmons from Israel and grapes from Chile in the same grocery aisle. The magic relay of value appeared unstoppable until it stalled.

Supply Chain Is About Place

In a digital-first world, people forget that physical products do not come from an internet factory. A chain of transactions, thoughtful people and businesses creates a relay race of value that appears on your doorstep. A child might mistakenly think Amazon operates like

Santa Claus with a workshop of elves. No reindeer and sled, just a grey Mercedes Sprinter van with Prime written on the side.

The Planet Money podcast series traced the entire journey of a single t-shirt from cotton to yarn to shipment. That narrative traveled from the United States through Colombia and Africa. It revealed how many hands touch a simple garment before it reaches a consumer. Understanding this physical chain grounds executives in the reality that place still matters enormously.

Supply Chain Is About Trust

The opposite of supply chain is complete vertical integration, where you own everything from start to finish. No need to trust, rely on or ask anyone because you do it all yourself. First, that is impractical. Second, that is expensive. Third, comparative advantage and trade exist for compelling economic reasons.

Suppliers, manufacturers, distributors, governments and customers all need to trust each other. That trust rests on confidence, track records, contracts and due dates. Relationships grow more complicated, further removed and increasingly risky as they expand. When physical and contractual linkages stretch away from corporate headquarters into less-developed markets, companies face greater volatility. A typical company now has a supply chain spanning multiple countries and partners in a complex web.

How to Mitigate Supply Chain Risk

The professionals best equipped to describe, advise and protect against supply chain risk are not consultants but lawyers. Consider the dozen different risk types involved: political, economic, currency, supplier insolvency, bribery, corruption, counterfeits, gray market diversion and weather. Contracts and relationships keep trade flowing. Billions of dollars in goods, services and money trade hands daily because rules exist. Commonly accepted practices, protocols, contracts and law enforcement sustain the entire system.

Consultants must be willing, humble and eager enough to look for answers anywhere. Baker and McKenzie, one of the world's largest law firms, produces extensive supply chain research. Their report titled The Companies Your Keep outlines five steps for managing third-party risk. The firm breaks its framework into vetting and selecting, structuring and

documenting, training and education, monitoring and evaluating, and reacting and remedying.1

Five Areas of Focus

Baker and McKenzie hired a consultancy to survey 100 executives. The results uncovered street-smart advice that anyone in procurement, export and import, or international markets should heed. Many of these best practices apply to any supplier-customer relationship regardless of geographic scope or scale. The recommendations blend supply chain, legal and business advice into actionable guidance.

The first principle is using your Request for Proposal [RFP] process to secure commitments from suppliers that address your greatest legal risks while the process remains competitive. Think ahead and put risk-related concerns on the table early in negotiations. During the RFP phase, vendors want your business and will eagerly satisfy requirements they perceive as unrelated to pricing.2

The second principle involves checking references and conducting in-person interviews with key partners in high-risk jurisdictions. This advice applies to any procurement that is strategic, high-risk or a potential point of failure. The third principle is developing a checklist of legal and risk-related questions for procurement officers. Collaboration between the legal department and supply chain is critical yet often ignored for more pressing problems.

The fourth principle is working backwards. Not all supplier and distributor relationships carry the same importance or risk. Create a two-by-two matrix evaluating potential impact versus risk. Prioritize those with the biggest impact and highest risk. The fifth principle is keeping contracts current, which sounds obvious but many Fortune 500 companies handle poorly.

Patterns, Breach Provisions and Local Law

Taking a step back to look for patterns is an incredibly deep and strategic point. Find the trends and white spaces that current legal and supply chain processes miss. What falls through the cracks? If these trends continue, what does that imply? How can the organization get ahead of the issues?

Including breach notice provisions and checking whether the third-party supplier can pay

the liability limit matters enormously. Does the supplier have the ability to pay future damages? Does the contract contain the breach notice provisions needed to enforce compensation? These are details management consultants might overlook.

Considering local law or similar laws to govern contracts in specific markets is a key point throughout the report. Think local. Using outside counsel for third-party audits makes sense for complex or high-stakes relationships. The best organizations treat audits not as compliance checkboxes but as opportunities to strengthen the supplier relationship and identify risks before they materialize.

Finally, use information gathered through monitoring to revise contracts, protocols and processes to prevent problems from recurring. This commitment to continuous improvement protects the supply chain over time. Companies that treat supply chain management as a living discipline rather than a static procurement function build resilience that pays dividends during the next disruption. The executives who survive future shocks will be those who learned the lessons of 2020 and acted on them before the next crisis arrived.3

- 1Supply Chain Risk Management Best Practices
- 2A Practical Approach To Supply Chain Risk Management
- 3Supply Chain Risk Management Strategies

Summary

Supply chains run on trust, contracts and relationships. Executives who treat procurement as a strategic function will weather disruptions better than those who assume shelves will always stay full.