



# Your 3rd Party Network.

Who are they really?

*And why does answering that question matter?*

## Part 1

A CLEARPRISM WHITE PAPER

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## Surprises are seldom a good thing.

Surprises are seldom a good thing when it comes to supply chain planning, execution and delivery. Economic impacts due to supply chain disruptions are costly in terms of time and monies (e.g., lost revenue in 2019 has been estimated at > \$60 billion up from \$36 billion in 2018 globally which far undercounts the amount in corresponding lost productivity. Source: Resilience360; McKinsey estimates 7% of operational budgets are allocated to mitigating 3<sup>rd</sup> party risks, annually).

A “hot topic” of the day, exacerbated by COVID-19 and its devastating impacts, rapid emergence and costs of surprise it inflicted on all supply chains in every industry, is one of Supply Chain Resilience. Such resilience is typically characterized as the ability to a) withstand shocks and b) respond to them quickly such that goods / materials can continue to be sourced, transported and delivered safely and (relatively) quickly.

Partners perform a critical role in most supply chains. Organizations seldom have all the capabilities they need to execute, scale and occasionally mitigate risks. Partners help perform these roles with the shape, characteristics and focus of differing partner networks becoming increasingly critical considerations regarding the differentiation and resilience of any particular organization.

Partner networks are also one of greatest sources of potential surprise, and consequently, risk of any organization. Ironically, one that is seldom seen until it is too late. **Resilinc, a leading supply chain event monitoring company, estimates that 55% of risk exposures on any particular organization stems from the “ripple effect” of risk from one’s partner network.**

And here it gets increasing and challenging and hence an imperative to focus on.

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Organizations know who makes up their Tier 1 supplier; they are contractually committed often measured by clear metrics of performance. However, organizations seldom know who their Tier 2 partners are and even less so tier 3 and so on. Such lack of insight exposes the organization to risks that they can only deal with after their implications “ripple through” the network down to the organization.

### Three critical questions:

1. What makes up one's expanded partner network – from Tier 1 – Tn?
2. What is the risk profile of that partner network?  
And, given that risk profile,
3. What is the resulting risk and financial exposure profile on our organization as a result?

Answering these questions is hard. The following table depicts the results of surveyed companies with more than 100 partners in terms of the extent to which they knew who their partners where (visibility) and the source of risk resulting. (source: Resilinc 2020)

	Tier 1	Tier 2	Tier 3
Visibility	75%	20%	5%
Risk (extent)	5-20%	20-50%	50-90%

Let's look at this a moment. 80% of tier 2 partners are unknown; 95% of tier 3. And the sources more than double as you move from who you know to the tiers of partners you don't. Which accounts for much "surprise" and suggests where the 7% of operating spend mitigating 3<sup>rd</sup> party risks goes.

Here's the blunt reality: There's no surprise in these numbers.

Answering the three critical questions is difficult. (Note: we were recently told by the global product leader of one of the world's largest technology companies with a supply chain platform that answering them was "impossible." We agree given the traditional way of attempting to do so.)

Why is answering them so difficult? Because the data is *DFI*: "dark, fragmented and incomplete." It's DFI regarding who makes up your extended partner network. Lack of insight into that extended network consequently means that it is impossible to know what the risk profile of your expanded network is. And consequently, impossible to know what your risk exposure is. Until it's too late.

The imperative is simple. Reduce your risk exposure by answering these questions.

### Three critical questions:

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And, given that risk profile,
3. What is the resulting risk and financial exposure profile on the organization?

(Note: there is more than a 'risk' play here – a strategic 'shaping your partner network play – a topic for a subsequent post.)

The question is: how.

The answer: algorithmically.

The value in doing so lies in being able to predict risk profiles and thereby mitigate a significant amount of risk thereby lowering the enormous amount of dollars and productivity lost as a result.

And here it gets interesting.

### Answering these impossible questions: insight from a green car.

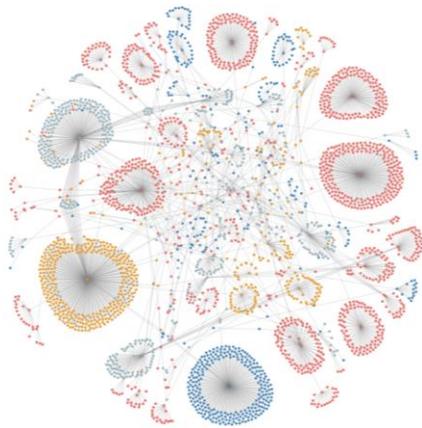
Years ago, my wife and I purchased a green Subaru. The hour we pulled out of the dealer lot, we suddenly noticed lots of green cars zipping along the highway, and green Subaru's to boot. Until that hour, we had noticed neither the prevalence of green cars nor the number of Subarus being driven around the Bay Area of California. The lesson? Things unknown doesn't mean they're not there. It's just that they aren't seen. Until there's a reason to see them.

That lesson has guided us in terms of how to answer the impossible questions regarding:

1. Who makes up our extended partner network
2. What is the risk exposure – or flip it around, what is the partner financial and operational health – of that network and consequently,
3. What is the resulting risk exposure on us in terms of operational and financial KPIs?

The figure below depicts the extended partner network – T1, T2 and T3 - of a global industrial manufacturing company. It was derived from stitching together data from a wide variety of global information sources – making visible what was once dark, fragmented, and incomplete. The techniques to do so included natural language processing, machine learning and math.

Tier 1, Tier 2, Tier 3



#### Top Impacted Capabilities

Capability	Location	Exposure
Castings	IND	HIGH
Forgings	IND	HIGH
Mechanical Engineering	FRA	MID
Machining	USA	MID
Electronics	USA	LOW
Testing	USA	LOW
Hoses	JPN	LOW

#### Underperforming Partners

Capabilities	Partners			
Capability	Tier	Partner	Location	Exposure
Forging	T2	Castex Tech.	IND	HIGH
Castings	T1	A.L.D. Ltd.	AUS	HIGH
Testing	T3	PT Sumber...	USA	MID
Machining	T2	Schmitt Ind.	USA	MID
Hoses	T3	Yasunga Corp.	JPN	MID
Spare Parts	T1	Amtek Auto	AUS	LOW
Engineering	T2	ESI Group SA	FRA	LOW

20%

% of Castings capabilities exposed

7%

% of Testing capabilities exposed

The **results** included weaving together the fabric that makes up this company's global and extended partner network. Each partner was identified in terms of who they were, where they were located, the capabilities they brought to the table to support the partnership and the regulatory and reputational risk exposures they faced.

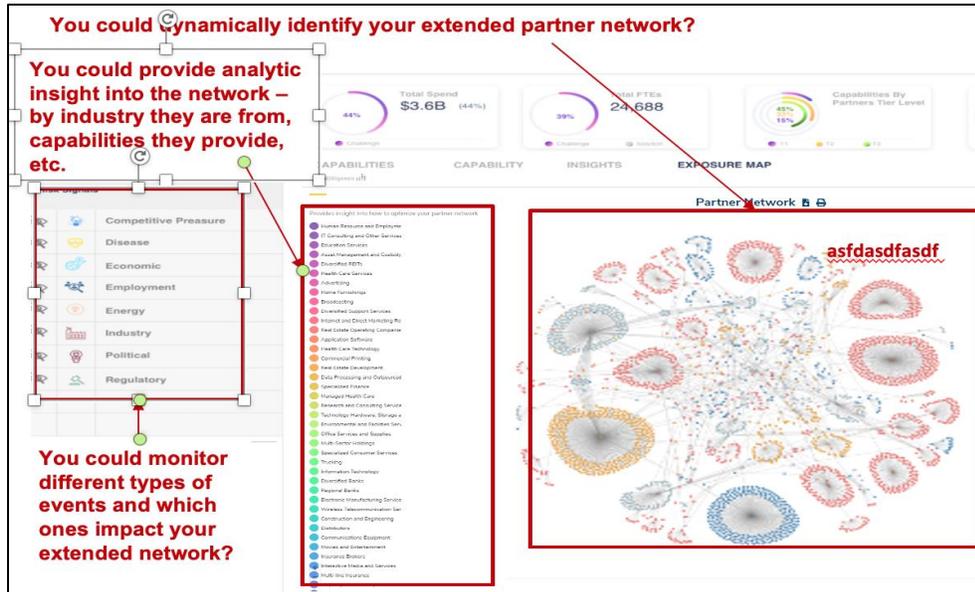
*In 72 hours.*

The **insights** were immediately useful based on the resulting "partner health scorecard" that was dynamically generated consisting of insight into:

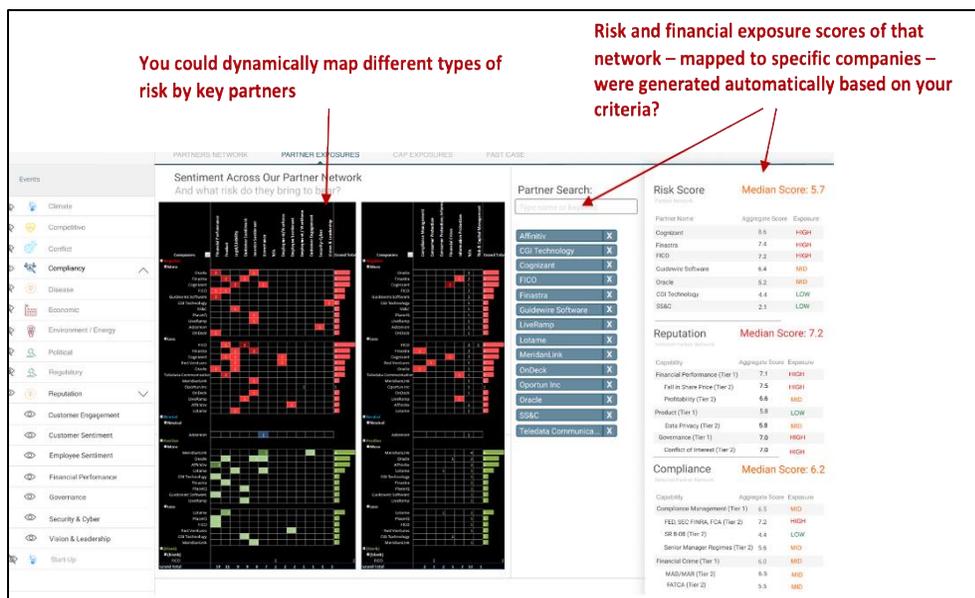
- The overall financial and operational risk profile of the network
- A dynamically generated financial risk as well as reputational risk score per company
- A taxonomy of different risks faced by company and location
- A profile of the nature of the partnership, including the capabilities holding it together, as well as:
- Competitive insight into how this company's partner network compared with several others of their competitors.

Here are a few questions for you:

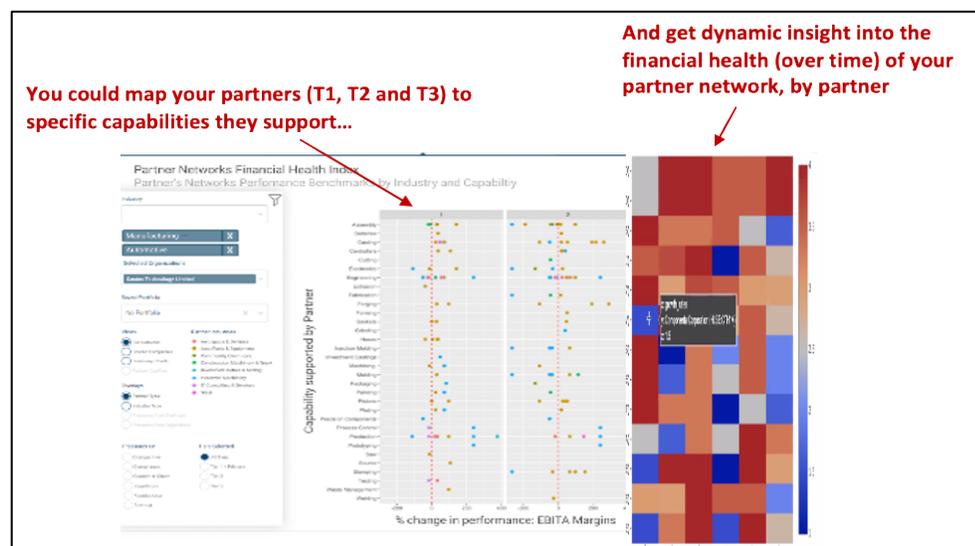
What if...



What if...



## What if...



## A call to action: beyond Supply Chain Resilience

A single severe shock to your partner network could erase a year's earnings (source: McKinsey Risk and Resilience in Supply Chains 2020). Other analysts estimate that 7% of yearly operating spend for companies over \$500m in revenue is spent on mitigating risks from partner networks (Resilience360, 2020).

Supply chain resilience is a hot topic of the day, understandably. Its key premise is pragmatic: **build capabilities to respond quickly** to supply chain and partner shocks in terms to maintain business profitability and revenue as well as possible.

We're suggesting something else – something complementary to this. Its key premise is strategic: **build capabilities to predict emerging shocks and exposures**. With what benefit? 1) Lowering the economic costs of shocks by getting ahead of their impact. And 2) a strengthened partner network throughout insight into which partners to focus on depending on the type of risk they face and consequently, you may.

The techniques now exist to answer these once thought of “impossible questions.” My uncle was a professor of mathematics and computer science at Notre Dame for 27 years. He drilled into me the concept that “asking the right questions is difficult.” But once you figure out **what** the touch questions are to ask, the

steps regarding **how** to answer them become clear. And some new techniques from natural language processing, machine learning, algorithmic design and math make answering these questions pragmatic... and fast.

T'is time to take advantage of new capabilities to answer once impossible questions.

#### About the Author:

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Previous roles included Head of Strategy & Transformation (IBM – Middle East / Africa), Senior Vice President Global Strategy, KPMG Consulting, CEO of Advanced Analytics Company. Author of three books on Business & Technology Transformation.

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