

# “Why is risk management a strategic decision?”

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Excerpt from the white paper:

## *Progressive risk management in the apparel supply chain*

*- with special attention to supplier structures*

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**It is imperative to understand that a company's risk profile is defined by its strategic decisions. The crucial first step in a risk management project therefore is to analyse internal processes to identify critical weaknesses - and not to simply list every possible risk, assuming that impending threats are mostly external.**

Unfortunately, there is no “one size fits all” solution to the strategic decisions brand managers must make, and some decisions potentially cause severe disruptions.

Two of the most prominent strategic decisions which can have an impact on the risk profile of a company are related to inventory and the sourcing set up:

### **Inventory**

Building up an inventory of stock reduces the probability of long lead times, poor customer experience and lost business. However, it is costly in terms of tied up capital and resources. Also, any stock remaining at the end of the season often must be purchased from suppliers, which negatively affects the company's sustainability profile.



Just-in-time manufacturing helps to prevent overproduction and reduces the amount of capital tied up in warehouses which are often expensive in terms of rent and maintenance. However, companies who choose this strategy run the risk of having insufficient trims and accessories available when needed which, in turn, can cause delivery disruptions.

## Single sourcing versus multi-sourcing

While flexibility and diversification may be seen as the best strategy in terms of mitigating the risk of supply chain disruptions, there is also a valid argument in favour of more simplicity in the organization of supply chains and strong relationships with a limited number of suppliers.

Relying on a small number of suppliers creates dependency and can heighten the risk of disruptions in unexpected circumstances, as we have seen with the global COVID-19 pandemic. In the fashion industry, however, there has been a trend to minimize operating costs and companies often forego flexibility in order to achieve a **lean supply chain**. Focusing on the development of strong relationships is key to improving and stabilizing financial performance as well mitigating the negative effect of risks on the financial performance of the brand.

*But let us not forget about what happened to Ericsson, at the time Sweden's largest company with an annual revenue of \$30 billion. Thunderstorms caused a surge in power at a chip making factory in New Mexico and - to cut a long story short - sprinkler systems caused water damage to the stock of mobile phone chips and it took several months for production to return to even half the level. The result was that a rather unspectacular phenomena in weather left Ericsson as "an also-ran in the industry where it had once been a leader " (Economist, 2005). In other words, even a major corporation was vulnerable to a minor event which happened far away, because of a decision to cut costs and delivery times by moving production towards single sourcing.*

**Multi-sourcing**, on the other hand, protects the brand indeed from the risk of existence-threatening dependency on one or a few suppliers, located often on another continent and being exposed to all the above-mentioned risks of a global network. If one vendor or supplier cannot deliver the requested volume, production is simply shifted to the next best alternative. It sounds like a safe, simple, and favorable solution to cope with unexpected events that might jeopardize capacity but, nevertheless, it bears a myriad of risks in itself. The management and process execution of a complex, global supplier structure is time- and resource-consuming. Bargaining power and the ability to save costs through economies of scale are either non-existent or extremely reduced. The overall "loyalty" to the customer is missing, which leads to such risks as hidden costs, non-compliance, and quality issues.

**To read the entire white paper, contact us: [info@newtrims.com](mailto:info@newtrims.com)**