



Using Smart Processes to Create **Resilient** Supply Chains

Supply Chain Risk Management
Best Practice Guide



Executive Summary

Risk is nothing new. And risk continues to change. Companies today are exposed to risks they haven't dealt with before. **Day-to-day operations are exposed to a variety of risks that can cause failure along global supply chains.** Examples: Fires in warehouses occur regularly in manufacturing facilities. Strikes cause disruptions to supply chains. The number of natural hazards on all continents has significantly increased. Such extreme weather events are also more severe and are becoming an ever-greater problem. Unanticipated insolvencies at suppliers can cascade through the supply chain, leading to incalculable and expensive consequences.

Relying on a limited number of specific suppliers, to reduce in-house production depth also harbors major risks. And on top of all that comes new supply chain laws such as Germany's Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz). Transparency and monitoring are becoming critical factors for success.

Drägerwerk AG & Co. KGaA has recognized that they need visibility such interdependencies to understand this extremely complex situation. The global specialist in medical and safety technology relies on **holistic supply chain risk management (SCRM)** to ensure **resilient supply chains**. Sphera Supply Chain Risk Management [formerly riskmethods] helps the company to uncover risks, identify threats, and ensure supply and sustainability.

This best-practice customer success story shows how the company professionally manages risk prevention, crisis response, and action planning within the supplier base – and how this enables Dräger to secure supply, maintains compliance, and protects its brand.

The Dräger logo is displayed in a bold, blue, sans-serif font. The letter 'ä' is represented by a 'd' with a dot above it. The logo is centered within a white rectangular area that is part of a larger grey background.

Drägerwerk AG & Co. KGaA is a leading international medical and safety technology company. Founded in Lübeck, Germany in 1889, the family-owned company is in its fifth generation, and the group is now listed on the stock exchange.

Guiding principle: Technology for life. The company's highly specialized medical products and solutions are used in industry and mining, by fire departments and police forces, and in hospitals, among others. Examples includes anesthesia workstations, ventilators for intensive care and emergency medicine, and patient monitoring.

Dräger employs more than 15,000 people in over 190 countries, and generated sales of roughly €3.33 billion in 2021.

How Dräger Built a **Resilient** Supply Chain

Past Hurdles and Challenges



Default Risks and Dependency

Like many other companies, Dräger traditionally requested and obtained financial information only selectively from its suppliers. As a result, this monitoring of suppliers' financial health was based on historical data. This meant that managers did not have sufficient information on current supplier data, and were not adequately alerted to supply chain risks.

Further aspect: By relying on specialized suppliers, some of them in a single-source structure, Dräger found it difficult to establish a "second source," or to cultivate alternatives in parallel.



Silo View

Until 2017, an isolated view of risks prevailed at Dräger. Departments worked with different procedures and systems. Because individual threads, such as findings and their potential effects, were not woven together, staff lacked clear and consistent guidelines. Not validating analyses lead to an ongoing risk of making inadequate decisions, with high costs as one consequence.



Lack of Transparency

In the past, a lack of transparency made it difficult to manage supply interruptions professionally. Sometimes considerable delay arose before task forces could react. And because the measures initiated were based on rudimentary data and information, expenditures for unplanned damage prevention were often enormous. For example, the need to secure cost-intensive alternative means of transportation or procure expensive component from other suppliers.

Road to Success: Transformation

Before beginning its transformation, Dräger had to clarify key questions:



How do we manage the transformation process? How do we move from silo thinking and uncoordinated actions to a joint approach?



How do we achieve a uniform understanding of the significance and potential impact of individual risks?



How do we generate truly relevant information in real time that can serve as a reliable basis for decision-making?



How do we respond professionally and immediately, particularly to a sudden loss incident?



What sets of measures do we need to put in place to be prepared for various (even unanticipated) negative events in the future?



What significant contributions to value creation, resilience, and competitiveness can we generate through cross-departmental project management?



Which software solution will support us in these aims?



Can the solution also be set up without IT involvement, without complex integration and, if possible, allow flexible connection of optional (further) applications?

Why Dräger Chose Sphera Supply Chain Risk Management [formerly riskmethods]

An explosion at the Marl Chemical Park, one of Germany's largest chemical sites, provided the catalyst. "We realized that we needed to **get a head start**. If we only learn about such events from the media, it's far too late," says Mathieas Kohl, Head of Group Insurance, who also acts as one of four **crisis coordinators** at Dräger. Also, to maintain their **insurance coverage** without spending more on premiums, Dräger needed to demonstrate a solid SCRM program. The logical consequence was to work with Sphera [formerly riskmethods].

Thanks to Sphera Supply Chain Risk Management [formerly riskmethods], Dräger is now able to **holistically view the broad range of risks**.

TASKS



Make risks transparent



Evaluate information and data



Evaluate criticality



Look ahead and anticipate



Implement proactive action plans for emergencies

Monitoring begins during product development, as risk clusters can already be identified at this stage.

Two Pillars of Risk Assessment

View of Product and Material Numbers

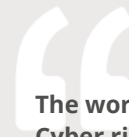


Today, Dräger looks at individual critical materials and supply chains early on during product development or change processes. Employees **assessed the criticality** of the situation and, if necessary, initiate measures to keep risks as low as possible.

View at Supplier Level



Processes such as supplier evaluation, risk reviews, and risk monitoring are closely watched – and this is where Sphera Supply Chain Risk Management [formerly riskmethods] comes into play. Whereas initially only a small number of selected suppliers were monitored, today all suppliers from the “direct” product groups and the most important suppliers from “indirect” groups are monitored around the clock. **Risk scoring by Sphera [formerly riskmethods] is also used for new suppliers or suppliers that need to be qualified.** Dräger uses standard indicators as well as individual indicators, such as financial indicators for top suppliers.



The world keeps turning. Cyber risks are among the threats we have to deal with. Remote work also provides a gateway for criminals.

Mathieas Kohl
Head of Group Insurance
Dräger

Using Sphera Supply Chain Risk Management [formerly riskmethods]



Risk Profiles and Scores

Recognizing that the company must be always prepared for negative events wherever they occur in the world, Dräger implemented Sphera Supply Chain Risk Management [formerly riskmethods]. Threats in the supply network can thus be monitored automatically and in real time in 24/7 mode. The entire supply chain, from subcontractors to customers, along with the corresponding risks, are displayed on a digital world map. **Risk profiles and risk scores are automatically generated for all suppliers that are under consideration.** The employees involved receive immediate notifications of events and can act quickly. Sphera Supply Chain Risk Management [formerly riskmethods] accesses millions of global data sources and selects the information that indicates potential threats to Dräger.



Supplier Selection

Threats exist at every link in the supply chain, but especially at the less visible n-tier level. This is why monitoring should go beyond the largest (and presumably most important) suppliers, as basic knowledge already exists about their performance. Equally as essential is having information and findings about those suppliers who manufacture products or supply materials and that are critical to success – no matter the volume of goods supplied. Dräger initially included their most critical 100 suppliers. **Then step by step, they extended monitoring to all direct suppliers, followed by indirect and newly connected supply partners.** All direct suppliers and a large number of the most important indirect suppliers are now monitored.



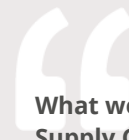
All Types of Risks

Various risks can threaten production. For example, Dräger monitors natural hazards (tornadoes, floods, etc.), geopolitical risks, risk objects, and logistics risks (central hubs such as ports), **cyber risks**, man-made risks such as fires in production facilities, and also financial risks on the supplier side. Here, incidents such as patent lawsuits, changes in supplier management, late or missed salary payments, or rumors of shareholder exits can indicate financial distress. **Sphera Supply Chain Risk Management [formerly riskmethods] detects a wide range of such signals that warn of an impending**



Financial Rating

A critical aspect of success at Dräger is the financial rating of suppliers. Indicators that are on the radar include balance sheet, profit and loss, rating trends, payment morale, product recalls, quality, and logistics KPIs. **Sphera Supply Chain Risk Management [formerly riskmethods] automatically integrates third-party ratings into supplier risk scorecards and generates standardized risk scores to ensure that all risks can be compared.** Regulatory risks are also critical for Dräger.



What we appreciate about Sphera Supply Chain Risk Management [formerly riskmethods] is the speed, high accuracy, and relevance of the risk alerts. This allows us to make informed decisions – proactively as well as reactively in the event of a crisis.

Mathieas Kohl
Head of Group Insurance
Dräger

Integration into Organization and Processes



Alerts

Important: Too many broad and unspecified alerts, or “noise” can overwhelm employees involved. Staff must be enabled to distinguish between critical and non-critical notifications. **Sphera Supply Chain Risk Management [formerly riskmethods] selects relevant information from millions of global data sources and channel it specifically using predefined risk criteria.** The alerts are reported via email and push notification to Mathieas Kohl and Florian Treuer, Manager Projects and Processes in Strategic Purchasing, as well as to the respective affected lead buyers.



Cross-Departmental Collaboration

Different departments usually assess risks and events from their respective perspectives. However, threats with all their possible consequences must be viewed holistically. **A professional SCRM ensures a holistic view.** It provides valuable information across departments and, above all, makes sure that everyone involved knows what to do. At Dräger, the impetus came from the insurance department. The purchasing department was then involved. The threads generated via The riskmethods Solution also come together in other departments, such as **IT (cyber issues) and logistics.** Many of the main logistics routes are mapped in the system.



Network

Mathieas Kohl says that communication within the company has improved since Sphera Supply Chain Risk Management [formerly riskmethods] was implemented. “I advise challenging your own organization. For example, I sometimes forward critical information to colleagues when this seems relevant for them,” says Kohl. **“We talk about it and check whether the processes behind Sphera Supply Chain Risk Management [formerly riskmethods] are lived in the group. Otherwise, we will not gain any added value from the system when we don’t act on alerts.** This intensifies our contacts in our network and at the same time builds trust.”



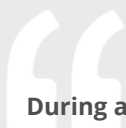
Coordination During the Pandemic

During the stressful coronavirus situation, Dräger also was able to advantage of their comparatively early focus on risk management using Sphera Supply Chain Risk Management [formerly riskmethods]. As early as mid-2019, demand for FFP protective masks increased due to bushfires in Australia. The situation worsened noticeably as the coronavirus pandemic spread. Dräger formed ten task forces ad hoc to address major challenges from the areas of logistics with China, to screen various (also dubious) requests regarding protective equipment and respirators, for allocation and coordination, as well as for communication with various government agencies.

The special crisis situation verified just how important it is to create transparency within a network using SCRM software.

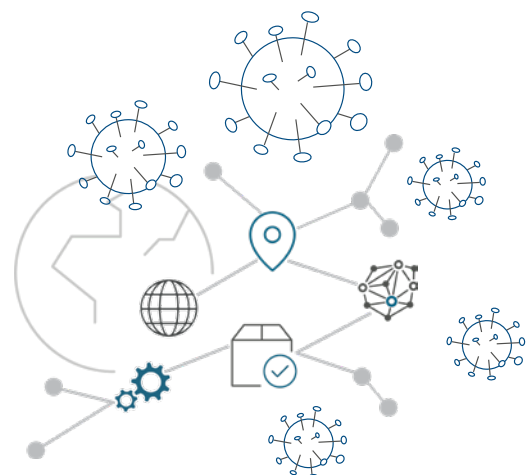
Dräger maintained an overall view of the supply capability of its partners along the fragile chains at all times and was thus able to prevent supply chain disruptions.

The company was prepared across all departments.



During a number of critical supplier failures, Sphera Supply Chain Risk Management [formerly riskmethods] helped us determine the specific consequences for our supply much faster, so we could find better alternatives and secure our production capability.

Mathieas Kohl
Head of Group Insurance
Dräger



Benefits at a Glance



Real-Time Information

The AI-based Sphera Supply Chain Risk Management [formerly riskmethods] supports Dräger in identifying threats to the supply network in real time. It empowers procurement to assess that risk and prevent or control possible effects through immediately activated, professional action management. It also raises awareness of risk avoidance within the enterprise and enables preventive crisis response. **Threats, patterns, and assessments are generated in real time and automatically by Sphera Risk Intelligence.** Buyers or risk managers can see the different threat potentials of individual suppliers, locations, and logistics hubs on their dashboard.



Faster Crisis Response and Proactive Risk Management

Real-time information enables companies to react faster. Analysis of the impact of threats shows where priorities lie and where resources need to be deployed. **Action plans support rapid risk reduction.** Companies gain competitive advantage by maintaining business operations and expanding market share. In addition, it is important to identify threats at an early stage to be able to take professional countermeasures before damage occurs. This is particularly important at Dräger due to high regulatory requirements and single-source situations. For this reason, risk management is already integrated into product development processes.



Business Continuity

The aim is to maintain business operations in all crisis situations and thus secure competitive advantage. Dräger has anchored a consistent risk management approach in the company based on risk awareness, transparency, cross-departmental cooperation, and trust. **Early detection and access to ready-made action plans are the cornerstones for ensuring business continuity even in difficult phases.** The coronavirus pandemic recently brought logistics more into focus as a risk area. With the help of Sphera Supply Chain Risk Management [formerly riskmethods], Dräger was able to respond quickly, in a structured manner, and faster than the competition. In this way, the enterprise was able to adequately meet customer requirements even in an exceptionally difficult situation such as the coronavirus pandemic.



Compliance

Dräger operates in a highly sensitive market environment. Medical products and healthcare technology must protect, support, and save lives. Business activities are subject to strict regulatory requirements. This means that the organization and systems must continually be adapted to new conditions. Employees must be trained accordingly. Suppliers must be enabled to achieve and maintain Dräger's high quality standards.

Conclusion

When it comes to managing supply chain risk, rudimentary measures and loose threads are no longer an option. Resilience proves its worth above all in crisis situations. Proactive risk action is the foundation for robust risk management. The starting point at Dräger in 2017 was a resilient risk concept that the company wanted to proactively present to the insurer, so as to maintain the existing quality of coverage in the event of potential insurance claims. At the time, most insurance companies had increased premiums, in some cases substantially. Dräger therefore opted for Sphera Supply Chain Risk Management [formerly riskmethods] at an early stage. Since then, the company has been coping in a highly professional manner with a wide range of influences arising from bottlenecks in supply chains, tightening transport capacities, suppliers at risk, changes in the regulatory environment, or even mission-critical single-sourcing.

During the pandemic, Dräger was a reliable partner because the organization quickly found pragmatic solutions and unconventional approaches. At the same time, the company gained new customers because it was able to better manage customer needs than many of its competitors, for example, through partial deliveries.

By using Sphera Supply Chain Risk Management [formerly riskmethods], Dräger has the necessary visibility to understand any influences on their supply chain. In the event of a disruption, it can initiate predefined measures systematically.

However, it is also clear that professional SCRM is not a one-time project. Mathieas Kohl compares it to a “marathon with no finish line.” This means staying on track, getting new people on board, and keeping motivation high, all of which enable Dräger to stay ahead of risk.



**riskmethods was acquired by Sphera in October 2022. This content originally appeared on the riskmethods website and was slightly modified for sphera.com.*

About Sphera

Sphera is the leading provider of Environmental, Social and Governance (ESG) performance and risk management software, data and consulting services focusing on Environment, Health, Safety & Sustainability (EHS&S), Operational Risk Management (ORM), Product Stewardship and Supply Chain Risk Management (SCRM). For more than 30 years, we have served over 6,700 customers and a million-plus users in 80 countries to help companies keep their people safe, their products sustainable and their operations productive.



www.sphera.com

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Contact us to learn more about how Sphera can help your business meet its safety, sustainability and productivity goals.