

Know Your Supplier (KYS) for Successfully Managing Supplier Compliance



Supply chains provide rich assets, such as consumables, components, raw materials, machinery, assemblies, expertise and services that can reduce cost, boost efficiency and improve quality. But the flip side is that they can also bring liability in the guise of delays, problems, waste, extra cost and adverse PR.

Every manager who is contracting out business must ask: how much risk am I buying-in?

Minimising such liability is a challenge for supply chain managers, but by making use of technology and differentiating suppliers by basing assessment and compliance strategies on risk and spend, managers can simplify the task and minimise the cost of compliance management.

To avoid supply chain blindness and ensure managers can focus on adding value, it is crucial to replace old fashioned, cumbersome spreadsheets with modern software systems that can keep pace with supply chain growth, be used collaboratively and integrated with other back office systems to retrieve audit evidence and generate quick management reports.

Robust management processes are required to assess, manage and monitor risk. This requires a three-step compliance process:

1. Assess capability

- a. Supplier information is the critical starting point, but there's little point in gathering the same information for each supplier. It must be pertinent to the service they are providing or goods they are supplying.
- b. Verify the supplier information. This evidence shouldn't just be checked once a year, it should always be live, up to date and instantly retrievable.
- c. Authorise the information. Once a supplier is thoroughly checked and approved for any given product or service, ensure suppliers from this list are used by all departments. All too often the reality is that different departments stray from the approved suppliers list to appoint non-approved suppliers based on cheaper price. This can prove very costly if that decision also 'buys-in' risk.

2. Manage supply contracts

- a. Set clear policies and rules, so suppliers are very clear of what is expected.

b. **Contracts and specification.** Formalise your requirements so that nothing is left to chance.

c. **Controls and restraints.** Ensure suppliers understand any control processes that need to be followed, for example site access control on construction sites or railway lines, or exposure to heat, radiation, etc.

d. **Digitalize and Go Green.** Environmental protection is one of the important responsibility for every business. Digitalize your contract approval or review process, even generate or scan and capture documents can help internal or supplier trace easily and accurately.

3. Monitor suppliers

a. **Behaviour.** Don't let the robustness of your monitoring lull your suppliers into complacency and remove their sense of responsibility for their own compliance and performance. It's important to be clear about where accountability lies.

b. **Audit.** While physical audits have their place, technology can be used at lower cost to provide an audit trail. This can replace sprawling spreadsheets, minimising timescales and maximising efficiency.

c. **Three-way matching** is an AP invoice process that determines whether a supplier invoice should be paid. Simply put, three-way matching entails cross-referencing the invoice with its corresponding purchase order (PO) and delivery receipt to make sure all pertinent details, such as the quoted order amount and the number of items ordered, match. Doing this can help companies root

out fake or unauthorized transactions, which can cost a company an estimated 5% of its annual revenue, according to the ACFE report.

d. **Key performance indicators (KPIs).** It's often said what doesn't get measured doesn't get done. It's important to gather, measure and analyse statistics that illustrate whether the desired outcomes and objectives were achieved, for example percentage delivered on time, percentage fixed first time, percentage call outs achieved within target time.

Key Components & Checklist

Supplier-related disruptions may affect supply chain stability and resilience immensely.

So, a supplier network should be trustable both ethically and financially. For example, vendor fraud is one of the most disruptive vendor-related problems in supply chain. According to PwC, 19% of economic crimes and frauds are committed by vendors/suppliers.¹ Other than such illegal actions, unvetted suppliers can cause various other disruptions.

To avoid supplier-related disruptions, it is important that you know your suppliers well enough by implementing supplier risk assessments. Know Your Supplier (KYS) programs aim to ease this necessary step for supply chain executives. In this article, we will focus on the main components of a KYS program and provide a checklist for its implementation.

What is a KYS Program?

KYS is a procedure in B2B businesses, the equivalent of Know Your Customer (KYC) used in B2C businesses. Both KYS and KYC are programs implemented to prevent any third-party risks. The aim of KYS is to minimize the possible risks that your vendors can impose on your business, by making you more familiar with them. So, it offers supplier risk management which is a must of a successful supply chain.

A KYS program may ensure that suppliers supply products that meet the requirements of your company. Therefore, businesses can increase productivity and lower costs through the KYS program.

4 “Know”s of a KYS Program

For implementing a competent KYS program, you should follow these 4 “know” rules:

1. Know your supply chain partners

You should know who your suppliers are, and what their business values and models are, any connected parties of suppliers in sanction list? Which all this information can help to decrease any supplier risk that can potentially harm your business.

2. Know what you buy

You should be certain that you are familiar with the products in your supply chain, where they come from, under what conditions they are produced, any certification etc. (e.g. you might need the

factories/providers to have ISO certification) Also, you should be aware of the impacts of these products on society and the environment. ESG risks caused by your suppliers can be more harmful to the reputation of your business than you think. To improve ESG standards sustainability of your work, check our article on ESG reporting best practices.

3. Know what's happening in your supply chain

As a business leader, you should be monitoring all the transactions happening between you and your suppliers. Moreover, you should control whether there are any problems or risks in any process within the supply chain, to preclude any snowball effect in the long run. Supply chains are increasingly switching to new technologies to facilitate the monitoring of these supplier transactions. You can benefit from the latest technological solutions like the implementation of Multi-Tier in the supply chain for achieving this end.

4. Know how others can assist

Businesses cannot handle all the monitoring work by themselves. Noticing when and where you need assistance from experts is also part of a successful business. For a successful KYS optimization, investigate and reach out to expert ideas.

A Checklist You May Consider

These constitute the outlines of a KYS program. However, you should also check whether more detailed steps are under control. Here is a checklist of concrete steps you can take to better know your vendors:

- Conduct **due diligence during the onboarding of your suppliers**. This is especially crucial for preventing any vendor fraud and also avoiding doing business with firms that can be on the sanctions list or doing business with sanctioned companies and countries.
- Implement **automated know-your-vendor technology** to get control of the vendors by automatically checking revised sanction lists. Vendor management software (VMS) is helpful for this, especially if it is AI/ML driven.
- Assess **risks that can be caused by your current suppliers**. You should monitor their transactions, financial, compliance, and ESG risks on a regular basis.
- Check **the performance of your current and potential suppliers**. It is important that the quality of their work meets your business expectations.
- By using automated system with 3-ways matching component to handle the approval process, saving AP staff time and effort left best to investigating unmatched details.

By leveraging sophisticated supply chain visibility solution, companies can overcome challenges, streamline operations, and ultimately drive success.

What is supply chain visibility?

Supply chain visibility is the ability to track and monitor every aspect of your supply chain in real-time, from raw materials to finished products. This level of oversight allows businesses to identify potential issues, optimize processes, and make informed decisions. In an increasingly globalized market, having a clear understanding of your supply chain is more important than ever.

How can modern solutions help overcome supply chain visibility challenges?

Supply chain visibility tools offer a range of features that help businesses overcome common challenges, such as:

- Limited access to information
- Siloed data
- Manual processes

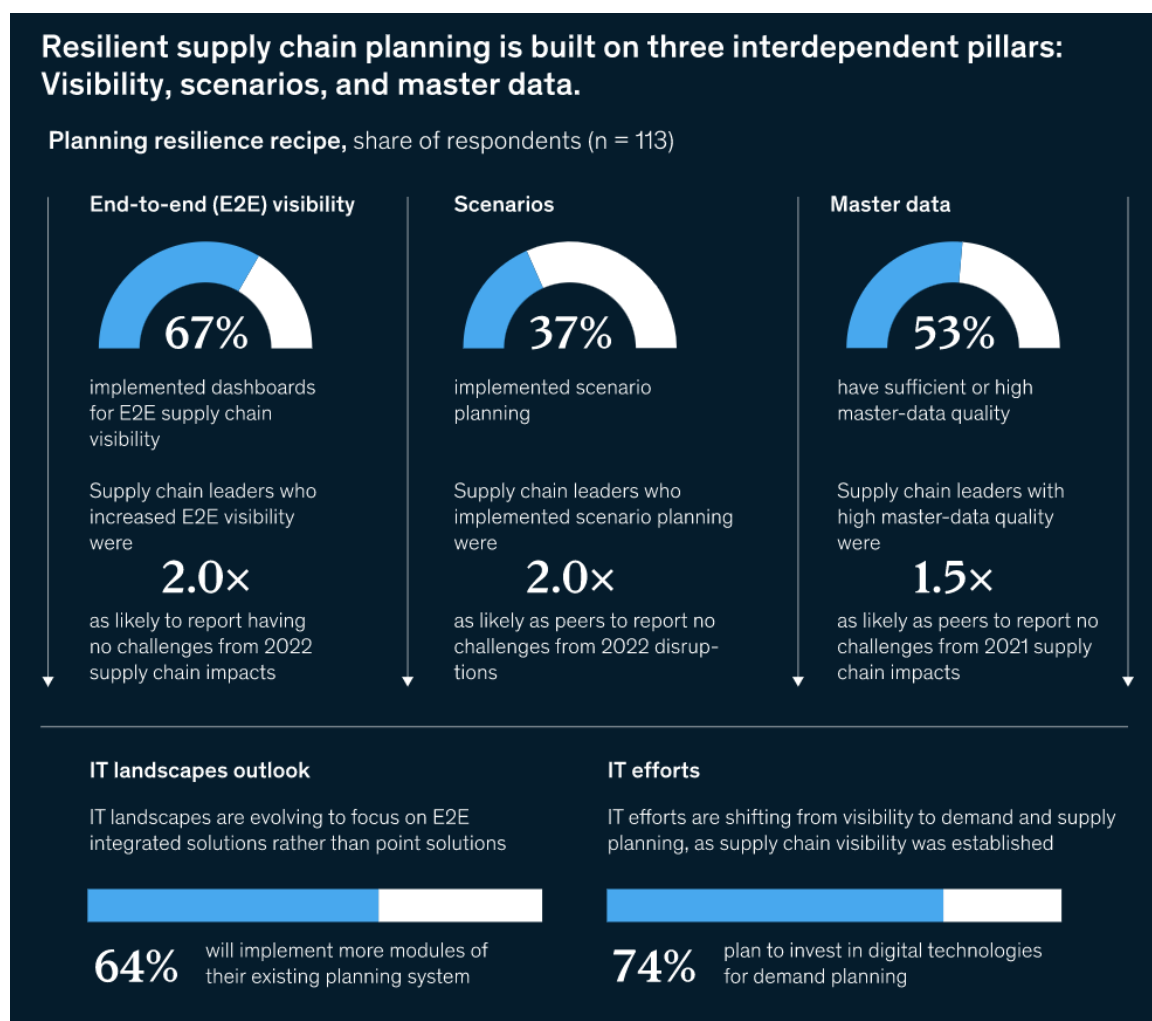
By centralizing and analyzing data, these solutions provide actionable insights that enable organizations to improve efficiency, reduce costs, and enhance customer satisfaction. Here's how advanced supply chain visibility software can transform your operations:

1. **Real-time tracking:** Monitor every aspect of your supply chain, from inventory levels to shipment status, and make informed decisions on the fly.
2. **Advanced analytics:** Identify trends, uncover hidden opportunities, and forecast future demand using sophisticated algorithms and machine learning.

3. **Collaboration tools:** Streamline communication and coordination among suppliers, manufacturers, and logistics providers.

Studies show that companies using software that offer dashboards for end-to-end supply chain visibility were twice as likely to overcome supply chain challenges in 2022 (Figure 3). The study also shows that about 74% of respondents have established supply chain visibility technologies and are focusing digital efforts on demand planning.

Figure 3. Supply chain visibility dashboards help achieve supply chain resilience.



Source: McKinsey

Factors while shopping for supply chain visibility platforms

To maximize the benefits of supply chain visibility software, it's essential to choose a solution tailored to your business's unique needs. Here are the top five factors to consider:

1. Customization & User-friendliness

Customization and ease of use are important factors when selecting a supply chain visibility solution. A solution that is intuitive and easy to navigate, for example, will enable a more seamless transition and reduce the time required for your team to become familiar with it.

You can consider no-code or low-code solutions based on your needs and level of digital dexterity.

Example

For instance, a retailer might not have a team with coding capabilities and still requires a high level of customization on Real-Time Reporting or frequent change of approval processes.

You can also provide this solution like online supplier portal/mobile application to your suppliers. In this case, it can benefit from the same solution platform with Real-time integrated information.

2. Seamless access with the Supply Chain Management (SCM) data

The effectiveness of your supply chain visibility solution relies heavily on its ability to integrate with your existing supply chain management (SCM) information. Seamless integration enables the system to access and analyze data to get the information in real-

time without any disruption or corruption and providing a comprehensive view of your supply chain.

Look for solutions with one integrated module for Supplier checking and Supply Chain Management, even Financial Accounting is preferred. Or the solution that offer pre-built integrations with existing systems (Two-Tier Model) if your company or Head Quarter is already with their own sophisticated ERP systems which is not easily replace at the moment.

3. Number of employees of the vendor

Bigger is not always better. Some studies¹ suggest that small, medium-sized businesses or SMBs can offer a more personal and customized service since they prioritize customer service.

Therefore, make sure the vendor has a trustable minimum company size (ideally 25+ employees) and test their customer service capabilities before making any commitments.

4. Type of solution offered

There are various types of supply chain visibility solution, each offering different features and capabilities. Some solutions focus on specific aspects of the supply chain, such as inventory management, while others provide end-to-end visibility across all processes. Consider the specific pain points and objectives of your organization when evaluating vendors.

Example

A global manufacturer wants to optimize its inventory levels and reduce carrying costs. It should prioritize solutions that offer robust inventory management features, such as demand forecasting and automated replenishment.

5. Industry-specific requirements

Different industries have unique supply chain challenges and requirements. For instance, the pharmaceutical industry must adhere to strict regulations regarding product traceability, while the automotive industry requires seamless coordination among numerous suppliers and manufacturers. Choose a platform that understands the intricacies of your industry and offers tailored solutions to address its specific needs.

Example

Consider that a pharmaceutical manufacturer needs a solution that helps them comply with regulations, such as the Drug Supply Chain Security Act (DSCSA). It should prioritize software that offers features like serial number tracking and electronic pedigree documentation.

6. Customer support and training

Implementing a new supply chain visibility software can be a complex process that requires thorough training and ongoing support. Evaluate the quality of customer service offered by the software provider, including their responsiveness, expertise, and availability. Additionally, consider the training resources available,

such as webinars, tutorials, and dedicated account managers, to ensure a smooth onboarding process for your team.

Example

A logistics service provider or LSP wants to train its staff on a new AI-powered real-time shipment tracking system. It should choose a provider that offers comprehensive training materials and responsive customer support to help the team quickly adapt to the new solution.

Article Sources:

1. <https://research.aimultiple.com/>
2. <https://www.cips.org>

ABOUT INTROV

Founded in 2008, Introv started off as a Cloud Based Consultancy company offering local businesses cloud computing solutions.

Upon seeing a gap in the market, the company focus shifted to include understanding customer's true needs, and what business value could be delivered to the customer by doing so. The

Company has grown substantially over the years and now operates as a full service IT consultancy service provider in the Asia-Pacific region (APAC).

As one of the leading implementers of the world's No. 1 Cloud Enterprise Resource Planning (ERP) system in APAC, we empower customers with the strategic use of innovative technologies and deliver world class results that help customers grow by redefining their business practices, while boosting their overall growth and success.

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ABOUT ORACLE NETSUITE

For more than 20 years, Oracle NetSuite has helped organizations grow, scale and adapt to change. NetSuite provides an integrated system that includes financials / Enterprise Resource Planning (ERP), inventory management, HR, professional services automation and omnichannel commerce, used by more than 36,000 customers in 217 countries and dependent territories.

What is NetSuite ERP?

NetSuite ERP is an all-in-one cloud business management solution that helps organizations operate more effectively by automating core processes and providing real-time visibility into operational and financial performance. With a single, integrated suite of applications for managing accounting, order processing, inventory management, production, supply chain and warehouse operations, NetSuite ERP gives companies clear visibility into their data and tighter control over their businesses.