CIPS RISK INDEX

A Global Retrospective

CIPS RISK INDEX INTRODUCTION

With increasing globalisation has come a much higher risk for supply chains. As a result, Supply Chain Directors and Chief Procurement Officers are being asked to evidence their mitigation strategies, which can include the here-and-now as well as looking ahead for risks on the horizon. The CIPS Risk Index has been created to respond to this demand and forms an essential part of the toolkit for global supply chain risk owners.

CRI helps organisations manage global supply chain risk

Leading global excellence in procurement and supply
Why CIPS Risk Index?

The CIPS Risk Index provides an informed perspective on risk in the global supply chain environment. The Index aims to help sourcing professionals understand the risks to which their global supply chains may be exposed.

It is designed to look ahead and identify early warnings of changes in the macro environment that may affect suppliers. From the global, quarterly headline figure, it can also be examined at a regional/country level perspective.

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**ABOUT CIPS**

The Chartered Institute of Procurement & Supply (CIPS) is the world’s largest procurement and supply professional organisation. It is the worldwide centre of excellence on procurement and supply management issues.

CIPS has a global community of over 100,000 in 150 different countries, including senior business people, high-ranking civil servants and leading academics. The activities of procurement and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability.

**ABOUT DUN & BRADSTREET (D&B)**

Dun & Bradstreet (D&B) is the world’s leading source of commercial information and insight on business, enabling companies to Grow Relationships Through Data® for more than 172 years.

Today, D&B’s global commercial database contains more than 240+ million business records. The database is enhanced by D&B’s proprietary DUNSRight® Quality Process, which provides customers with quality business information. This quality information is the foundation of D&B’s global solutions that customers rely on to make critical business decisions. D&B provides D&B Risk Management Solutions™ to mitigate credit and supplier risk, increase cash flow and drive increased profitability.

www.cips.org/risk-index
How does it work?

The CIPS Risk Index is composed of multiple unique assessments undertaken by D&B’s economics team of over 40 in-house economists, data analysts and contributors working in-field across the world. In all, 132 countries (comprising 90+% of global economic activity) are assessed across nine categories, on a monthly basis. The individual country scores are then aggregated to calculate a global supply risk score.

This "bottom up" approach allows us to provide insight at a global, regional and national level, as well as deeper analysis into areas related to social unrest, natural disasters and business environment.

To provide a supply chain lens on global risk, the contribution of individual countries to a global risk score is weighted by their corresponding contribution to exports of goods and services in nominal terms according to data published by the IMF.

The world trade patterns of 2010 were chosen for the index and applied across the 20 year period for consistency. 2010 is an appropriate year because it both provides a suitable weight to the importance of certain emerging markets today to global supply chains and reflects their increased commercial and economic importance post-financial crisis.

In constructing an index weighted by country involvement in global supply chains, there is a bias towards the 20 or so countries that dominate world trade. For this reason, CIPS and D&B have also developed regional views on the Risk Index and also provide individual un-weighted scores at the country level through a coloured heatmap (see page 6).
What does it mean?

The CIPS Risk Index launched in Q1 2014 with a global score of 79.8. This is just fractionally lower than the all-time peak reached in Q3 2013. Using this new methodology to analyse data over the last 20 years, we believe that businesses are trading in unprecedented economic and political times. The Index scores supply chain risk way above the trend recorded throughout the latter half of the 1990s and first half of the 2000s.

Companies that operate across borders are facing difficult decisions across their supply chains with elevated levels of uncertainty surrounding economic, financial and political risk factors.

CIPS and D&B believe there are three fundamental questions that arise from this index which can only be truly answered over the coming quarters and years:

1. Are risks declining?
   Are we now on a path, albeit an uneven one, towards recovery and reduced operational risk levels globally? There are encouraging signs from some countries that this may be the case, that the economic healing process is underway, but it would require a major improvement in our risk assessments for the larger Europe and Asia economies to recover to the global risk levels last seen before the onset of the financial crisis in 2008.

2. How are organisations responding?
   Secondly, how have businesses dealt with this unprecedented increase in uncertainty in their operating environment? Have they changed their business strategy, sought to transfer the risk (if so, who is now carrying this risk), and/or have they invested in developing resilient supply chains? Some may well be simply relying on their crisis management skills to get them out of a problem as and when it arises. Time will tell.

3. Where are the opportunities?
   There is a third factor which will also be explored with the CIPS Risk Index: in spite of the global picture, where are the opportunities at regional and country level that sourcing and supply professionals should be evaluating and how are they changing over time; opportunities which can only be unlocked through a better understanding of the risks that need to be managed.

www.cips.org/risk-index
The unprecedented journey

From 24.4 to 82.4 over 20 years

The CIPS Risk Index has been validated against almost 20 years of intelligence carefully compiled and analysed by Dun & Bradstreet. The unprecedented journey to today’s global risk score can be explained through the following key milestones:

- The 1990s were characterised by a period of rapid globalisation, the rise of the emerging markets, an explosion in the capabilities of information technology and communications and positive spill-overs into the productivity of advanced economies, especially the United States. In Q1 1998 the negative change in the Index score reflected the onset of the Asian financial crisis and its ripple effect with the risk score contribution for that region alone increasing dramatically from 8.65 at the end of 1997 to 14.05 by Q4 1999, resulting in the global score rising from 26.8 to 38.8
- The global risk score abated and dropped down until the dot.com crash and beginning of the economic slowdown and recession at the turn of the Millennium with the global risk score reaching a new peak of 41.3 in its aftermath in 2002
- The global economic recovery picked up again in the early years of the new Millennium and the CIPS Risk Index remained flat until Q4 2007 at 36.9 However, with asset prices being fuelled by easy credit availability, a major crisis was reaching its tipping point
- With the financial crisis breaking fully in Q4 2008, all regions in the world recorded dramatic increases in risk – specifically Western Europe, North America and Asia Pacific - and the global risk score jumps to 61.7 within just 6 months before peaking temporarily at 65.1 in Q2 2010
- The level of risk escalated again in Q1 2012 through to Q3 2013 with the onset of the Euro crisis. Given the trading importance of a number of the larger European economics into global supply chains D&B’s negative scoring in these countries resulted in a huge contribution to overall global operating risk. This raised the CIPS Risk Index score to an all-time 20-year high of 82.4 in Q3 2013.
- At Q1 2014 the CIPS Risk Index sat at 79.8, just fractionally down from the 20-year high, reflecting our cautiously optimistic outlook for 2014 and beyond. Clearly though, overall risk remains exceptionally high.
At a country level, we have observed countries with dramatic changes in the operational risk that they present to global supply chains:

- The US has jumped from the lowest risk country score band of “DB1”, using D&B’s scoring methodology, to “DB2” across this time period. D&B country scores are divided into seven bands ranging from DB1 (lowest risk) to DB7 (highest risk). Each band is subdivided into quartiles (a-d) with an ‘a’ designation representing slightly less risk than a ‘b’ and so on. Only the DB7 score is not divided into quartiles. So while the US is still relatively low risk, this is a significant change in risk profile given the US’s contribution to global trade.

- While China and India have remained consistently between medium risk bands of “DB3” and “DB4”, Russia has always held a much higher risk profile between high risk “DB6” and “DB7” bands

- Likewise with MINT, Mexico has held a consistent medium risk profile between “DB3” and “DB4” over the 20 year period, while Indonesia has experienced periods of time at high risk levels of “DB6”. Nigeria has never been lower than “DB6” in the same period and Turkey has experienced significant volatility starting the 20-year period at “DB3” and currently scoring “DB5” but did touch “DB6” during the period under analysis.

By providing a regional perspective, we can also see how each of seven regions (as defined by the OECD) contribute to the global risk score and how their contribution has changed over time:

- The two notable shifts since the 2008 financial crisis have been in Western Europe and Asia Pacific. Given that Asia has been the primary beneficiary of the globalisation of supply chains in recent years, it is a major source of concern that this is one region that has seen a significant increase in operational risk.

- The Great East Japan earthquake and its tragic consequences in March 2011 led to a downgrade of Japan’s country risk score due to the overall supply side shock from “DB2c” to “DB3a”

- The extensive flooding in the same year that affected Thailand led again to a downgrade from “DB4c” to “DB4d”. These two events had significant effects of global supply chains

- The Arab Spring which started in early 2011 created significant change in the stability of local supply chains. In the specific case of Egypt, its risk score deteriorated from a healthy “DB3c” to “DB5c” following the uprising in February 2011 and currently sits at “DB6a”

- Bangladesh is another country which was downgraded a notch in August 2013 to “DB5d” due to the deteriorating security situation in the country and increasing frequency of highly disruptive strikes.

At a thematic level, we have also seen that major environmental disasters and social unrest events can influence the operational environment and these are reflected in the regional index and country-level scores.

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When we consider fashionable clusters of emerging markets such as BRIC (Brazil, Russia, India, China) and MINT (Mexico, Indonesia, Nigeria and Turkey), we can see contrasting fortunes and quite significant differences in risk profile, which should mean that these emerging markets are not seen as homogeneous clusters of equal opportunity; quite the opposite:

www.cips.org/risk-index
Further information

COUNTRY INSIGHT REPORTS
Quarterly reports for 132 countries provide in-depth analysis of a country’s risks and opportunities in relation to the global and regional business environment. They provide summary recommendations, trend and forward-looking analysis and focussed narrative around the implications of each key risk factor.
www.cips.org/dnb-qtr

COUNTRY RISKLINE REPORTS
These monthly reports provide a snapshot view of a country’s cross-border risk exposure, focussing on the political, commercial and macroeconomic environments.
www.cips.org/dnb-mth

COUNTRY HEATMAP
Use the Country Heatmap to quickly locate the countries which are relevant to your supply base. If they are at a threshold of, or beyond your risk appetite, you can find out more from detailed D&B country reports.
www.cips.org/risk-index