Supplier Risk:

The Modern Guide To Secure Vendor Onboarding

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Abstract

As businesses experience globalization, the complexity of their supply chains has grown proportionately. New supplier risks have emerged, and existing risks have evolved. Digital transformation, geopolitical context, and workforce turnover present unique challenges, emphasizing the need for an adaptive approach to supplier risk management. Procurement teams face **more challenges and responsibilities** than ever before, especially when it comes to fraud risks and vendor data security.

Supplier onboarding is the gateway to a successful supplier experience and business relationship. The cost of overlooking or underestimating the importance of this process can be critical for businesses. **Errors, payment frauds, financial loss**... Poor supplier onboarding can have serious consequences.

This guide aims to shed light on the evolution of supplier risks, the importance of supplier onboarding, and ways to fortify it against risks.

With the participation of:

Alexandra Lafaurie
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I. Mastering Modern Supplier Risks: **New Trends & Challenges**

A. Complex business environments increase supplier risks

Today's globalized economy brings unprecedented opportunities. Yet, with these opportunities come challenges and complexities. Interwoven supply chains, diverse regulatory environments, and the rapid pace of technological advancements have given rise to risks that can quickly spiral out of control if not effectively managed.

This was particularly visible during the COVID-19 crisis: one country or region of the world in lockdown had effects on the rest of the world's production and growth.

> Risks are more important than ever because businesses are more and more interdependent. And we've seen this with the COVID crisis: it put the world economy under a major strain. Everything from transportation to manufacturing was suddenly threatened.

Baptiste Collot
Co-Founder and CEO
Trustpair

Here are some of the main trends and risk factors in supplier management:

Digital Transformation:

The integration of digital processes and platforms within businesses is now more of a norm than an exception. However, it isn't without its pitfalls. The increasing reliance on digital tools brings an amplified risk of cyber-attacks, data breaches, and operational errors. Digital transformation presents many opportunities but it should be handled with care and with the appropriate tools, processes, and training.

> "Before, we paid in cash, now we pay with bank transfers and new payment methods. Information is the same: it used to be paper, now it's digital. This definitely increases risks."

Alexandra Lafaurie
VP Product Management
JAGGAER

Geopolitical Instability:

In an interconnected world, geopolitical shifts - conflicts or even natural disasters - have a cascading impact. The influence of geopolitical events on supply chains can be significant.

> "The geopolitical context impacts businesses more today than in the last two decades. The Ukrainian war is an example. It put many companies under pressure, in terms of workforce or production. The cost of goods also increased because the price of oil and gas increased."

Baptiste Collot
Co-Founder and CEO
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New workforce dynamics:

The changing dynamics of the workforce, marked by increased turnover rates, presents its own challenges. This frequent shift in jobs results in a continuous need for training, making it challenging to ensure consistent quality.

> "People used to stay 20-30 years in the same company: so you could be certain that there was a team handling processes with expertise and with the right information. Now turnover is higher, people move on quickly, and each time you need to re-train and share all the processes all over again. The workforce is much more volatile."

Alexandra Lafaurie
VP Product Management
JAGGAER

B. Supplier risks: 7 threats to businesses

As global supply chains expand and business environments become more intricate, the risks associated with supplier relationships amplify. Here are the 7 supplier risks businesses face:

1. **Financial Instability:**
   A supplier's poor financial health can lead to disruptions or a complete stop of production. Economic downturns, poor financial decisions, and market volatility can severely affect a supplier's stability. Collaborating with financially unstable suppliers can lead to disrupted supply chains and unforeseen costs.

2. **Compliance Risks:**
   Different regions have varying regulations, from environmental standards to labor laws. Penalties, fines, and reputational damage arise when suppliers fail to comply with regulatory standards. Many textile companies - like the Inditex group - have taken a reputation hit in the past years with the disclosure of the poor working conditions of their suppliers.

3. **Cybersecurity Risks and Data Breaches**
   Suppliers with weak cybersecurity measures expose your organization to data theft and financial and reputational damages. In fact, suppliers can be the first step to a larger fraud scheme targeting the buying business.

   Multiple fraud scenarios involve suppliers. The first one resorts to hacking. Fraudsters hack into a supplier's system and impersonate them via email to ask for a change in banking details: the next payments will go directly to the fraudsters' bank account.

   Another possibility is phishing. Fraudsters send an email from a very similar email address to your supplier's address, asking for a change in supplier credentials. These types of cyber fraud are growing and can go undetected for some time without the right tools. They can happen during a supplier's onboarding process but also throughout the whole Procure-to-Pay process. This calls for ongoing supplier monitoring during the payment chain, thanks to automated solutions like Trustpair.
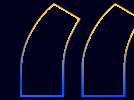
Suppliers are more and more targeted by cyber-attacks that actually target the buying companies. It's important to work with companies that have strong cybersecurity measures set up to avoid being defrauded through your supplier - without him even knowing.

Baptiste Collot
Co-Founder and CEO
Trustpair

4. **Quality Inconsistencies**
   Consumer expectations are higher than ever. A lapse in quality can lead to product recalls, reputational damage, and loss of customer trust. This has been the case with several high-tech brands like Samsung and Apple.

5. **Geopolitical risks**
   Natural disasters, conflicts, and other unforeseen events can halt production, leading to stockouts and lost sales. This has been quite visible with the Ukraine-Russia conflict. Imports from Russia were suddenly banned and Ukraine couldn't deliver goods and services like they used to, leading some companies to change their whole supply chain.

6. **ESG risks**
   ESG is a growing concern for consumers and businesses. Many individuals take ESG criteria into account when choosing a brand to buy from. Working with suppliers that comply with international standards in terms of environment or working conditions is more important than ever.

7. **Social Media risks**
   This is a new type of risk that blends many others. Social media is everywhere and its viral nature can escalate minor issues into major crises. Companies must monitor narratives about their brands and be ready to address issues that arise on these platforms.

"The ESG aspect is rather new but has a direct impact on your reputation. You need to be sure that you work with suppliers that are on the right side of environmental and social legislation."

Baptiste Collot
Co-Founder and CEO
Trustpair

"On top of the cybersecurity risks we talked about earlier, there's also what I call the "social media risk". At any given time anybody who is involved in your company can create turmoil on social media and have an impact on your company. The same goes for your suppliers."

Alexandra Lafaurie
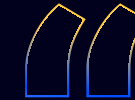VP Product Management
JAGGAER

II. Building Strong Foundations: The Essential Guide to **Supplier Onboarding**

A. Supplier onboarding: a stepping stone in the Source-To-Pay process

An unsecured S2P process is an open door to fraud, inefficiencies, and errors. Every stage of the S2P process offers its unique challenges. Here's what can happen without the efficient security measures:

- **Inaccurate Data Entry:** A simple typo can lead to incorrect payments or shipments to the wrong addresses, resulting in financial losses and damaged relationships.

- **Fraudulent Activities**: Scammers are increasingly sophisticated, using tactics like phishing to pose as legitimate vendors, which can lead to significant financial losses.

- **Regulatory Breaches:** Failing to verify a supplier's credentials can result in partnerships that violate regional or industry-specific regulations, leading to significant fines.

Supplier onboarding is a big milestone in the S2P. It's the beginning of your relationship with a new supplier and it can determine the rest of the partnership. As mentioned above, poorly onboarded suppliers can lead to erroneous payments, fraud, and compliance breaches, which can cascade into larger operational issues.

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Supplier onboarding is the front door, isn't it? It's the first step of your relationship with the supplier.

Alexandra Lafaurie
VP Product Management
JAGGAER

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Here's what supplier onboarding can help you achieve:

Find out about any red flags

Supplier onboarding is - in parts - about collecting information. This information covers operational grounds, compliance with regulations, and other critical topics. It's also the first opportunity to check bank account information and spot any discrepancies. In the end, the onboarding is a good way to spot any hard stops and red flags, before actually starting a business relationship.

"The hard part is defining what your red flags are. Many companies have lists that are way too long. Or the opposite: they think about critical information to ask too late."

Alexandra Lafaurie
VP Product Management
JAGGAER

Test the budding relationship

The onboarding is the premise of the rest of the relationship. You can see how reactive your supplier is and how easy communication and collaboration are. It's the moment to start on a solid basis or on the contrary, correct the track.

"When you start asking questions, you'll see how responsive or not the supplier is and how interested he is, how well and quickly he's going to communicate. So it's also interesting for the overall quality of the relationship."

Alexandra Lafaurie
VP Product Management
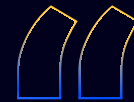**JAGGAER**

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B. Mastering the Crucial Stages of Supplier Integration

Supplier onboarding usually follows standard steps: the collection and verification of information, a detailed risk assessment as well as continuous training and feedback. However, some of these milestones have more to it than it seems. Here are some tips that can be useful for successful onboarding.

1. **Define the KPIs of a successful business relationship**
   You need to determine what pointers will prove the relationship is working: is it increasing sales? Lowering costs of production? Improving your NPS? This will help you assess the relationship further down the line. On top of that, you can set specific KPIs you want your suppliers to respect before doing business with them. It could be related to their financial performance, sustainability, or experience in the market. By being clear on what you're looking for and looking to achieve from the start, you'll higher your chances of doing business successfully with that supplier.

> Do I want to work only with suppliers that have more than 10 years in business and have a certain financial stability? Do I need them to pass the $100 million revenue mark?

Alexandra Lafaurie
VP Product Management
JAGGAER

2. **Ask for information - but for the right information**
   Restrict yourself from listing too many criteria to onboard a supplier. In a way, the supplier is also onboarding you: he's placing his business in your hands and taking a risk as much as you are. Asking for too much information from the start - especially if it requires digging out data from different sources and teams - might scare off the supplier and slow down the relationship before it even starts.

3. **Order your questions by themes and types**
   A simple but useful trick. Questions cover several categories and can concern different teams. Have them sorted by theme: it will be easier for both parties to review them and fill them in. The easier the process the better for the rest of the relationship.

4. **Create simple approval workflows**
   When starting a new supplier relationship, you need to shape a new business relationship. It might be similar to existing ones with other suppliers, but you do need to create workflows that are adapted to your supplier - his processes, teams, and so on. These workflows should be as straightforward as possible. This is where automation comes into play: a tool like JAGGAER uses AI to suggest adapted workflows.

5. **Explain the onboarding process to your suppliers.**
   Sometimes overlooked, this step is important. You can't hand off dozens of questions and send a login email to a new supplier without context or explanations. Onboarding, even though it greatly benefits from automation, needs a human touch to be successful. Explaining how the onboarding - and the following steps - will go can only help the rest of the relationship.

"In the end, it's about finding the right balance between asking too much and asking too little. What really matters is asking the right thing."

Alexandra Lafaurie
VP Product Management
JAGGAER

"It's an important part of the relationship to explain the whole process and the risks involved. The relationship between a supplier and a buyer is a partnership. The supplier also takes risks when doing business with you: getting paid on time, and so on. And they accept this level of risk, which is why you should make the onboarding as clear as possible."

Alexandra Lafaurie
VP Product Management
JAGGAER

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Trustpair and JAGGAER's Tips to Level Up Your Supplier Relationship

Find the right balance

Supplier onboarding is a two-way street. It's about businesses making sure suppliers check the right boxes before starting to work with them, but it's also about suppliers entering a partnership that should be simple and hassle-free. It's important to strike the right balance between requesting too much and asking too little.

Streamline collaboration and communication

Communication and collaboration are the keys to a fruitful business relationship. Maintain clear lines of communication with your suppliers. This ensures that any issues are addressed promptly and can prevent minor hiccups from becoming major problems.

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You need to be smart about supplier onboarding. You need to ask the right questions and remember it's a two-way street. In a way, suppliers are also onboarding you! They're trusting you to do business with them. I really encourage more collaboration in the supplier onboarding process than there usually is.

Alexandra Lafaurie
VP Product Management
JAGGAER

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# III. Leveraging Automation: The Future of **Supplier Risk Management**

A. Enhancing the Supplier Onboarding Experience with Automation and AI

Using the right tools to make it easy for both sides

Companies often deal with hundreds or thousands of suppliers - sometimes more. Having the right supplier management tool is a necessity, not a convenience. Businesses have to use innovative and integrated supplier management platforms that automate data validation, track supplier performance, and flag potential risks. This will improve supplier onboarding quality and speed, on top of reducing human errors and risks.

Here are some of the benefits of implementing a supplier management system:

- **Integration:** Automated platforms usually offer multiple integration possibilities. Integrations mean additional features and capabilities, as well as data centralization. JAGGAER's integration with Trustpair offers enhanced fraud detection and prevention capabilities - like automated account validation directly during the onboarding phase and throughout the whole P2P process.

- **Data validation:** Automation tools can quickly verify the authenticity of the information provided by suppliers, ensuring accuracy from the start. This includes bank account validation to prevent payment fraud at the onboarding stage and further on.
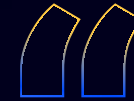
> Automation is the ultimate help. Onboarding can be painful for both parties: you need to reduce all the repetitive tasks, with workflows, triggers, and so on. We have a client that has 190,000 suppliers for example. With these numbers, if you don't have automation, you can't do business.

Alexandra Lafaurie
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- **Alerts:** Systems can flag discrepancies or potential risks in real time, enabling swift action and decision-making.

- **Efficiency:** Using an automated system will reduce manual processes and leave more time for strategic high-added-value tasks. For example, using an automated account validation solution directly integrated into the supplier management solution prevents from having to manually - or by phone - control each supplier's banking details during onboarding or throughout the S2P process.

AI is also making its way into supplier management and supplier onboarding. It provides advanced solutions like document validation, predictive alerts based on previous behaviors, and tailored workflows.

With AI's help, the efficiency and effectiveness of the onboarding process can be significantly enhanced. For example, it can validate documents in an instant, by scanning them and checking the right components are in the right place.
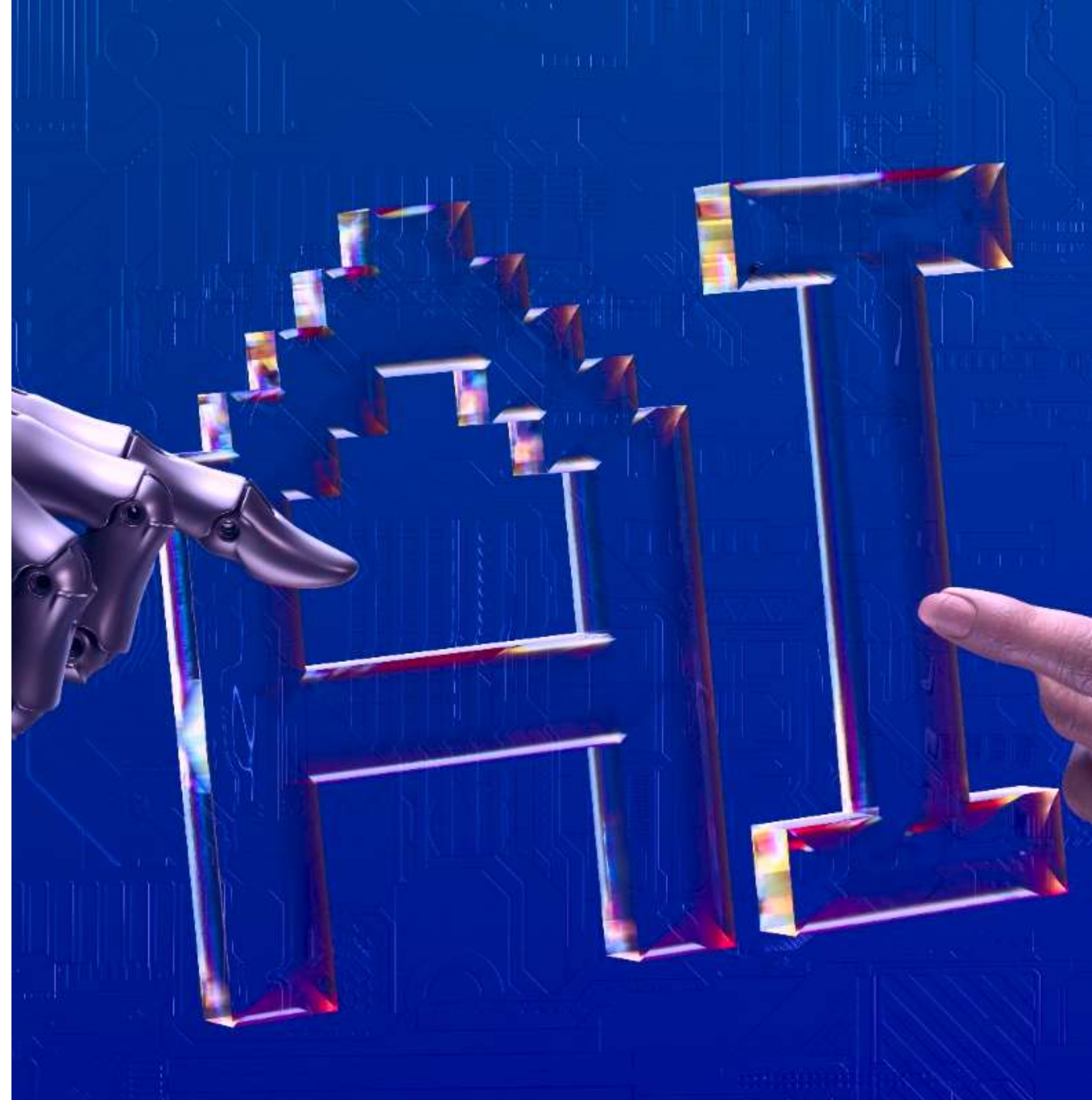
B. Securing Your Entire Source-To-Pay with **Automation**

Beyond onboarding, automation plays a pivotal role in ensuring the security of the entire Source-to-Pay process and supplier relationship. Automated invoice matching, real-time compliance checks, and continuous account validation are just a few of the benefits that come with a well-implemented automation strategy.

Trustpair and JAGGAER's integration is a good example of the benefits of automation for the entire S2P process. Thanks to this integration, vendor data is continuously controlled and audited directly in the supplier management solution. Trustpair provides automated account validation during the onboarding phase but also throughout the payment chain, each time there's a request for credential changes or before payment campaigns.

> Automated platforms provide instant risk assessments. These assessments need to happen not just when you onboard a vendor, but all along the vendor relationship. A vendor might be okay at the beginning of the relationship but not later on. And you can't rely only on manual controls to do these checks during the whole supplier relationship.

Baptiste Collot
Co-Founder and CEO
Trustpair

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Every step of the S2P process, from sourcing to payment, is vulnerable to risks. Automation offers useful safeguards:

- **Consistency:** Automated systems ensure every supplier is onboarded and assessed using the same rigorous standards.

- **Traceability:** Every transaction, change, or alert is logged, providing an invaluable audit trail.

- **Scalability:** As your business grows, automated systems can effortlessly handle the increased volume of suppliers and transactions.

- **Security:** with a platform like JAGGAER, you can benefit from account validation at different stages of the S2P process, thanks to its integration with Trustpair. Trustpair integrates with tools like ERP, or Procurement portals to ensure automated account validation. This means your vendor data will be checked from onboarding to payment, securing the whole payment chain.

Summary

In this rapidly changing landscape, understanding and managing supplier risks is more vital than ever. With the rise of digitalization, geopolitical influences, and changing workforce dynamics, it's essential for companies to stay ahead of the curve.

Supplier onboarding is a stepping stone in the Source-To-Pay process. A poorly managed onboarding can put the entire payment chain at risk of vendor fraud. The key lies in leveraging automation and collaboration for more efficiency and security.

Trustpair and JAGGAER's integration facilitates supplier onboarding by automating account validation checks during the onboarding phase. It also ensures data security throughout the entire payment chain, thanks to ongoing vendor data audits.

This guide was created in collaboration with:

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With the platform, more than 200 companies worldwide have already wiped out fraud.

Talk to an expert