

WHITEPAPER

SUPPLIER RISK WITHIN YOUR SUPPLY CHAIN:

Causes, effects and ways to proactively protect your exposure



Introduction

What does a resilient business look like in 2025?

We live in economically turbulent times. As such, managing supplier risk has become critical to business continuity. It's now essential to identify and address vulnerabilities that can destabilise your supply chain.

In this whitepaper, we'll cover these hidden threats and provide you with practical strategies to anticipate and proactively mitigate them. Equip yourself with the knowledge to navigate this fast-shifting landscape, and safeguard your business against unforeseen disruptions.

Discover how to transform uncertainty into a strength by leveraging real-time monitoring, AI-driven analytics and risk assessment tools such as Urba360 from Coface. These are accessible, actionable solutions that proactively protect you against the unexpected.

About Coface

Coface is a global leader in credit risk management, helping businesses protect themselves against the financial risks of non-payment. With over 75 years of experience, Coface supports companies in safeguarding their operations through tailored credit insurance solutions. In addition to insurance services, Coface offers exclusive access to valuable business information generated from its underwriting activities. Our network features information on millions of companies, across 200 international markets.

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What's causing the current rise in bankruptcies?

In the US – the world's largest economy – more businesses filed for bankruptcy in the first half of 2024 than in any six-month period since 2017. The majority of the 11,744 companies that became bankrupt were small- or medium-sized.

This volatile situation isn't confined to the US. Germany – the EU's largest economy – is facing similar challenges. Germany's Federal Statistical Office reported a 10.7% increase in insolvencies in August 2024 compared to August 2023 (source: [Reuters](#)). According to France's Groupe BPCE, the 12 months preceding July 2024 saw 62,844 French businesses declare bankruptcy – a 21% increase compared to 2019 (the last reference year before Covid-19) (source: [Le Monde](#)).

In Q1 of 2024 bankruptcies decreased across the EU in two sectors: trade (down 3.3% from previous quarter) and construction (down 1.2%). The biggest increases were observed in the transportation-and-storage sector (up 15.2%), and manufacturing sector (up 9.1%). (source: [Eurostat](#)).

Every one of these bankruptcies has additional consequences. Supply chains across the globe are being disrupted, placing yet more businesses at risk.

A perfect storm of economic pressures is behind this current wave of bankruptcies. Small- and medium-sized enterprises (SMEs) are particularly vulnerable. Inflation, delayed payments and high borrowing costs can force SMEs to operate on very tight margins. Then there are ongoing cash-flow issues, caused by fluctuating costs and volatile market demand.

As these economic pressures intensify, more SME-sized suppliers are finding it impossible to maintain stability. For many, this leads to insolvency. This, in turn, places pressure on other businesses in the supply chain.

Larger companies are not immune from these waves of disruption. An issue with a single component, service, additive or commodity can delay and even cripple production. For example: during the Covid pandemic, the lack of semiconductors available for the automotive sector caused backlogs so severe that the situation is only now normalising. Any size of business, small or large, can become the disruptor or the disrupted.

Certain sectors – such as automotive and retail – have been especially hard-hit by supply chain disruptions. Delays in sourcing critical components and managing inventory have led many businesses to insolvency. For example, True Value, a US-based wholesaler in the home improvement sector, recently filed for Chapter 11 bankruptcy, citing severe supply chain disruptions as a major factor in its financial collapse (source: [Sourcing Journal](#)).

A supply chain can be deceptively long and complex. Most companies only consider monitoring their direct suppliers. They don't always realize that there may be several further links to the chain, leading back to the original source of the commodity.

The long-term effects of the pandemic continue to spread through global supply chains. Many businesses are still struggling to adapt to new operational norms, which include challenges with inventory.

management and meeting unpredictable customer demand.

The shift from 'just-in-time' models to more resilient but costly alternatives has left many businesses exposed to increased overheads, making it harder for them to stay afloat. As a result, Covid-19 continues to play a significant role in bankruptcies.

There are additional factors causing the current surge in supplier bankruptcies and supply-chain disruptions:



Labour strikes are an ongoing challenge. Strikes by longshoremen at key US East Coast and Gulf ports have strained capacity, while farmers' strikes across various regions continue to disrupt supply chains, creating delays and shortages.



Geopolitical issues: conflict in the Middle East has intensified, causing a shipping crisis in the Red Sea, a vital route for global trade. Such disruptions in key supply corridors create ongoing risks to global supply chain stability.



Cyber attacks are increasing, with significant financial impact. The FBI's Internet Crime Complaint Centre reports that annual damages reached \$12.5bn in 2023 – a 21% increase from 2022, and a startling rise from the \$3.5bn reported in 2019.



Climate-related disasters – droughts, fires, floods and the effects of La Niña – continue to impact supply chains. 2024's hurricane season was one of the worst on record.



Mitigating the risk of supplier bankruptcies

One of the most effective ways to mitigate the risk of supplier insolvency is by reducing your dependency on single suppliers. By diversifying your supplier base, you can ensure that if one supplier faces financial difficulties, others can step in and maintain your business continuity.

Regular financial health checks are another crucial step in safeguarding your supply chain. Performing financial assessments of key suppliers helps to detect early signs of distress, such as declining revenues or rising debt. By monitoring the financial stability of your suppliers, you can react early, giving you time to secure alternative suppliers if necessary. This proactive approach ensures that risks are addressed before they become issues.

Strengthening supplier relationships is also key. Building long-term, collaborative partnerships with your suppliers through contracts that share risks and rewards can support their financial stability and improve transparency.

Such relationships foster open communication and trust, which helps suppliers stay viable during challenging times and gives you a clearer picture of any emerging risks. By working closely with suppliers and developing mutually beneficial strategies, you can ensure a more resilient and transparent supply chain.



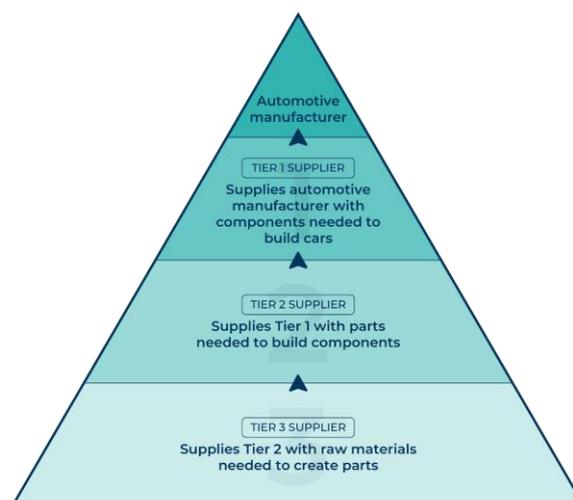
Why transparency across sub-tiers is essential

In supply chains, sub-tiers refer to the secondary and tertiary suppliers that provide goods or services to your direct suppliers (Tier 1). These sub-tier suppliers often operate further down the supply chain, and while they don't supply directly to you, their performance and stability can significantly impact your overall operations.

Achieving transparency across your sub-tiers is essential for modern supply chain management. Technologies such as blockchain, internet-of-things (IoT) and AI platforms can help you gain visibility across all levels of the supply chain. These systems help you map out the entire network, providing real-time insights into supplier activities. This makes it easier to track components, monitor supplier performance and quickly identify potential issues that could disrupt operations.

Encouraging data-sharing across the supply chain unlocks the full benefits of transparency. But successful transparency efforts rely on strong collaboration with suppliers. By highlighting the mutual advantages – such as improved compliance with regulations, and enhanced environmental, social, and governance (ESG) performance – you can foster a culture of openness with suppliers. This strengthens relationships and ensures that you're working towards common goals.

[A 2024 report from BSI Digital Trust](#) emphasizes the importance of such supply chain transparency, particularly in the context of current geopolitical and environmental issues.



Example of sub-tiers in supply chain.

By enabling sub-tier visibility, your business can engage in proactive risk management. When businesses have a clearer view of their entire supply chain, they can detect potential issues early, before they escalate into major disruptions. In doing so, they ensure operational continuity, even in the face of serious challenges.

Through a combination of technology, collaboration and proactive risk management, your business can create a more transparent and robust supply chain that's better equipped to handle risks at every level.

Evaluating backup suppliers for a resilient supply chain

Having a backup supplier limits the damage to your business when disruptions occur with your primary supplier. Backup suppliers give your business resilience and adaptability, ensuring that it continues to operate smoothly, even during unforeseen events.

Managing relationships with multiple suppliers requires careful coordination, however. Contract management, ongoing communication and regular checks are needed to guarantee that backup suppliers will actually be ready to step in when needed.

Regular evaluation of primary and backup suppliers is crucial to maintaining the efficiency of your supply chain. Key criteria such as financial stability, production capacity, quality control and geographical location should all be considered when assessing suppliers. This will help ensure that all suppliers meet the performance standards necessary to keep operations running without interruption.

Balancing cost and resilience is equally important. While cost remains a key consideration, companies should also evaluate suppliers based on their ability to contribute to supply chain resilience. A category-specific analysis can help identify alternative sourcing strategies, ensuring that supplier selection not only focuses on affordability, but also supports long-term stability.

By considering these factors, businesses can create a robust supplier network that stands ready to handle any challenge.



Business information: your proactive defense against supply-chain risks

AI and advanced analytics are increasingly being used to predict potential supply chain risks. By cross-referencing huge datasets – including transactional data, public reports and analysts' reports – these systems produce business information. This business information can then be used to make informed decisions, protect against non-payment risks, and foster growth.

According to a [2024 Gartner report](#) commissioned by IBM, these tools are used by only 29% of employees – a percentage that has seen only minimal growth over the past seven years.

According to the report, the adoption of business information tools is primarily hindered by their complexity and lack of accessibility. Users say they find dashboards intimidating and difficult to master.

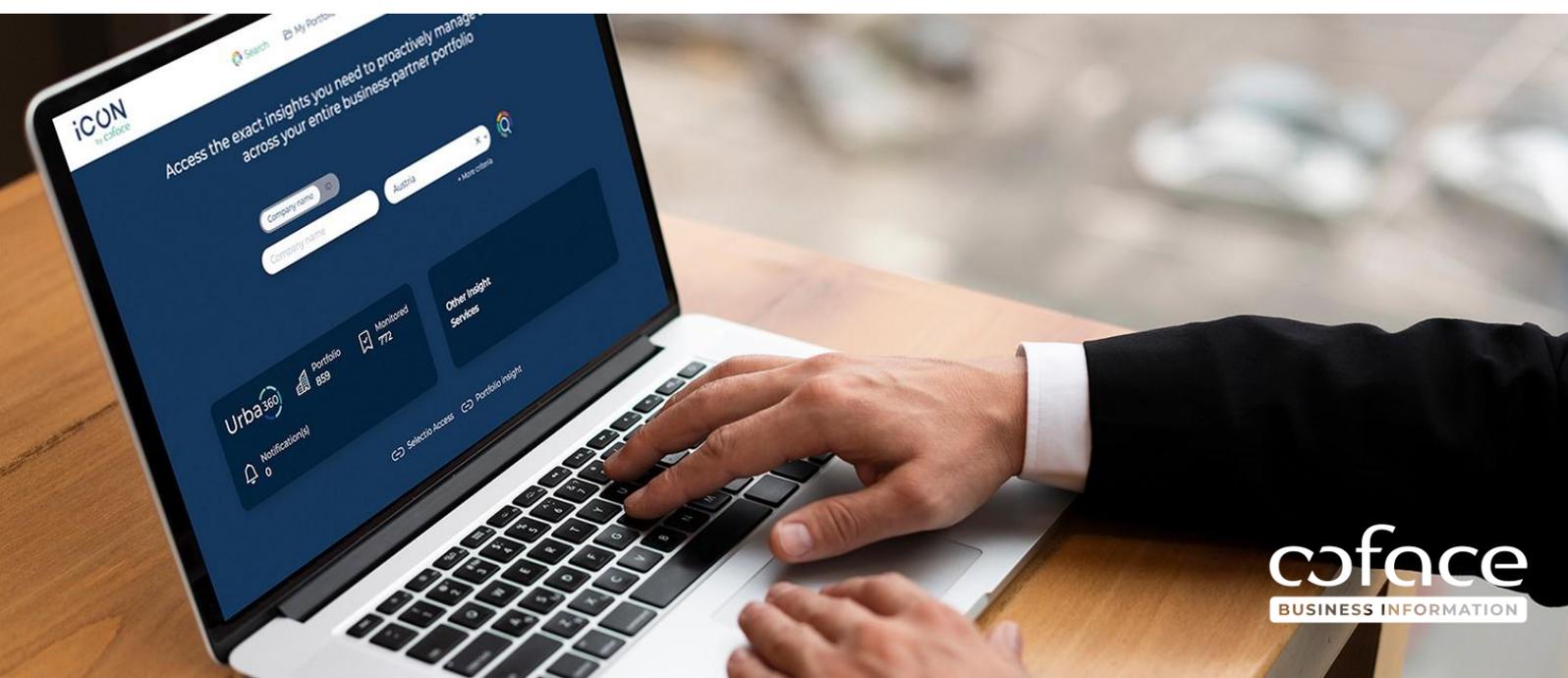
In addition, many dashboards offer only high-level summaries without actionable insights. This leaves decision-makers lacking the context needed to take action.

Finally, users report not understanding what data is relevant to their specific needs. This makes many dashboards ineffective for exploratory analysis and real-time decision-making.

But for companies that adopt a Business Information (BI) platform that's both easy to use and easy to understand, that tool soon becomes highly prized, increasing productivity and improving decision making. Valuable data is democratized, across the entire company.

Reliable, accessible, up-to-date business information empowers them to make informed decisions and maintain operational continuity in a complex global market.

By combining business information with suppliers' risk visibility, companies can build a proactive defense against risks, and ensure long-term resilience.



Urba360: a proactive supplier-risk solution

As we've seen, suppliers face a wide range of potential disruptions – from financial instability and operational failures to political unrest and environmental disasters. These issues don't just affect the suppliers themselves but can ripple through entire supply chains, leading to costly production delays, reputational damage and financial loss.

That's where Urba360 from Coface comes in. It's a business information platform that's transforming how companies approach supplier-risk management.

Traditional methods of assessing supplier risk often rely on outdated or limited data, leaving businesses vulnerable to unforeseen disruptions. Urba360 offers a solution grounded in real-time insights and proactive risk management.

The platform offers up-to-date information on millions of companies worldwide, enabling businesses to monitor their suppliers continuously, anticipate risks and make better decisions, faster.

Urba360's key features



Comprehensive risk insights

The platform delivers a clear, data-driven overview of supplier financial health, operational stability, and exposure to risks. It allows businesses to assess both large enterprises and smaller suppliers alike.



Proactive monitoring and alerts

Continuous monitoring and customized alerts ensure that businesses stay ahead of risks such as financial instability or changes in creditworthiness.



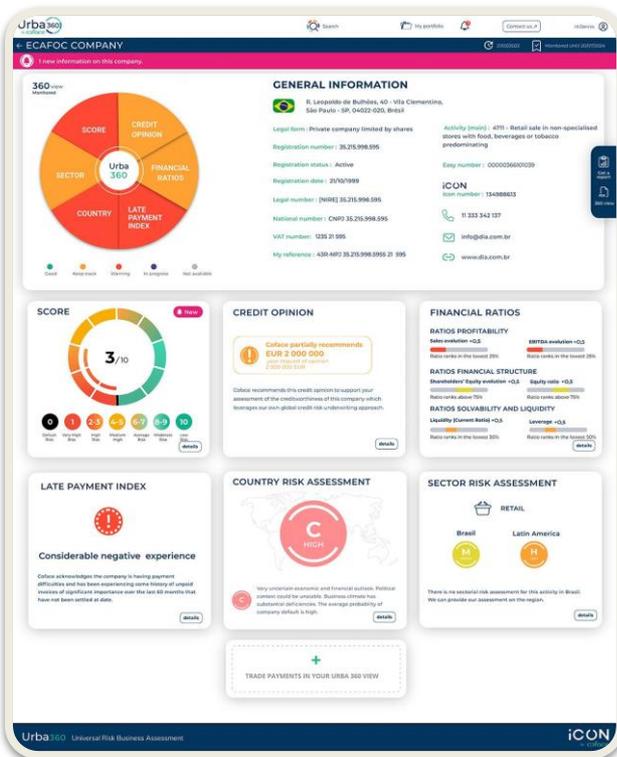
Supplier portfolio management

Urba360 enables companies to track their entire supplier portfolio (primary and secondary suppliers) in one dashboard, making it easy to monitor key metrics and potential vulnerabilities.



Prospect evaluation

Urba360 allows users to make quick, easy, accurate evaluations of potential new suppliers. These instant assessments cover the suppliers' location, sector and financial records.



Urba360 provides insights to assess suppliers' risk across several areas:



Score: A swift assessment of a supplier's stability and its risk of default.



Sector comparison: See how a supplier's performance stacks up within their industry.



Geopolitical risks: Evaluate risks based on a supplier's operating country.



Credit opinion: Assess a supplier's creditworthiness for informed procurement decisions.



Key financials: Cross-reference financial data to evaluate a supplier's health.



Late payment index: Track payment histories to reduce long-term financial risks.



“Using Urba360, we can access more reliable information, more quickly.”

VP Group Treasury Financing and Credit Management at a Global Software Company

To learn how Coface and Urba360 can help you manage supplier risk contact your sales representative

By offering these insights, Urba360 helps businesses avoid supply chain disruptions, strengthen supplier relationships and quickly identify backup suppliers when needed. The platform's global reach – covering over 200 million companies worldwide – allows businesses of any sector to make informed decisions no matter where their suppliers are located.

Urba360 represents a competitive advantage on supplier risk management, giving businesses the tools they need to effectively manage supplier risk.

