



# SMALL ENTERPRISE AUSTRIA

## The risk story 2



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# Small enterprise from Austria

## Context of the Company and the Supply Chain

The company is a small-sized company with a small number of employees specializing in the development and distribution of medical equipment. The company develops medical devices and designs prototypes. The start-up is specialized to research and development. It has limited production know-how and capital for running own production facilities which are particularly boosted by small and changing lot sizes. Thus, the production of the devices is mostly outsourced and only single parts are manufactured in-house. Based on this the production of the devices is planned based on components already available on the market and newly developed components (by the company itself). For the final production of the devices the company involve several suppliers (also for newly developed components) and one assembly manufacturer.

## Digitalization of SC

The European start-up has a high level of digitization. The interaction with the supply partners is preferably in digital ways, especially as most of them are in Asia. Within the company there are different tools to capture data, and the research and development machines are connected to each other to query the data.

The data collected in R&D is not exchanged with suppliers, i.e. with the subcontractors. For the contract manufacturers it is relevant that they deliver the product in the right quality, at the right time, in the right quantity. Preferably, the company also requests production data from its suppliers, but as most of them are not ready for data sharing this is rarely the case. These are things where certain trust is needed to the suppliers because it is a partnership, but nevertheless the internal data will not be shared with the outside world.

## Risk Management

The company has supply chain/ risk managers who are in charge of risk management.

**Practice of Risk Management:** the company has several areas of attention: IT, Human Resources and SC Partner. Employees must sign a contract that they will not take any data with them when they leave the company, and the company must be careful about what can be collected and how to prevent it. Plans that are sent to contract manufacturers are critical and must be secured. If employees and SC partners can access data at any time, it can lead to a loss of know-how, and risk managers are aware of this.

**Risks:** Currently, the company is primarily exposed to knowledge/legal and COVID-19 risks.

- Operational risk. There were no specific risks reported.
- Financial risk. There were no specific risks reported.
- Market risk. There were no specific risks reported.
- Cyber risk. There were no specific risks reported.
- The COVID-19 related risks. Little attention is paid to the topic of security. With Corona Security plans the company has very big problems with the suppliers. There are a lot of suppliers from abroad and slowly the supply chain is at the end. If it is tried to maintain the warehouses and there is a need to be able to deliver quickly and a part is missing, then production is at a standstill.
- Know-how/legal risk: Regarding the outsourced production of devices, it is a risk that drawings and technical specifications for the components are exchanged in digital form. Even if the machines are patented, certain information must not spill-over to competitors, especially process knowledge which is difficult to patent. All possible agreements (e.g. NDAs) are made with the respective suppliers to prevent unwanted spillovers or leakage. The idea of full transparency is therefore limited. There is a high degree of transparency with suppliers and a certain amount of trust, but unwanted spillovers can happen all the time. Exclusiveness of innovation is fading as imitation is always possible.

**Benefits of risk management:** The company experienced that close cooperation with suppliers results in better quality of the final product. Therefore, there is a

need to trust the supplier and to reveal production details which are a competitive advantage for the start-up. For the start-up SME, this became a problem in China. One innovative component has been produced by a supplier and then this supplier included this component in his portfolio making it also available to competitors of the SME. As this component was a key part of the innovation, the exclusiveness was reduced dramatically.

The company learned from the experience and decided afterwards that highly innovative components for devices need to be made in house. They are then delivered ready to go to the assembly company. Thus, the start-up decided to invest in own production capacity which requires a lot of capital and hired a production engineer to build up production know-how to avoid losing competitive knowledge again.

Unwanted knowledge spillovers can happen all the time in SCs. Legal measures are difficult to enforce, especially for SMEs and in foreign countries and it takes time to build a sufficient level of trust.