

Geopolitical risk: identifying and managing procurement risks early

Geopolitical risk refers to the danger that political events such as conflicts, sanctions, trade disputes or regime changes impair a company's supply chains and procurement costs. For technical buyers, it is a central element of supplier and material risk management. It particularly affects critical raw materials, China-related business and complex supply chains spanning multiple countries. Those who systematically embed geopolitics in the procurement process react faster and avoid costly emergency measures.

Key facts

- Geopolitical risk encompasses conflicts, sanctions, tariffs, export controls and political instability in procurement markets.
- Typically affected are critical materials, single sourcing, long transport routes and dependent upstream supply tiers.
- The basis is a risk-based country and supplier assessment, often integrated into the supplier rating.
- The key countermeasures are risk diversification, buffering strategies such as blocked stock management and localisation of procurement.
- Compliance requirements such as sanctions and export control screening are mandatory and must be anchored in the process.
- The term is relevant to regulators and reporting; specific obligations should be reviewed legally on a case-by-case basis.

Definition: geopolitical risk

Geopolitical risk describes the probability and possible impact of political events on procurement, production and ability to supply. It is an umbrella category that includes, among other things, war and armed conflict, trade sanctions, tariff and trade disputes, export controls, resource nationalism and political instability. For procurement, the operational consequence matters most: how severely are the availability, price and compliance of critical materials and suppliers impaired?

Distinction from other procurement risks

Geopolitical risk is not the same as operational supplier risks such as insolvency or quality problems, although it can amplify them. It often affects multiple suppliers and regions simultaneously and is difficult to predict. In practice, it is therefore usually managed as a distinct risk field alongside supply risk, price risk and compliance risk, and assessed together with these in risk classes.

Direct and indirect transmission channels

Geopolitics has direct effects through export restrictions, blocked transport routes, tariffs or payments defaulting. Indirect effects arise through commodity price volatility, increased energy and logistics costs and long lead times due to re-routing. Demand shifts and currency risks also belong here, as exchange

rates often price in political events quickly.

Typical exposure patterns in the supply industry

Not every procurement item is equally exposed geopolitically. The exposure results from the interplay of country-of-origin concentration, substitutability and the transport chain. Buyers should therefore determine by commodity group where geopolitical disruptions would have which effects – from the direct supplier back to the raw material source.

Critical materials and raw materials

Rare earths, specialty chemicals, semiconductors and certain metals often originate from a small number of countries. In the event of export restrictions or export tariffs, there are hardly any short-term alternatives. Here, high transparency down to sub-supplier level, long-term hedging arrangements and a deliberate blocked stock management approach for defined periods help.

Single sourcing and Asian procurement markets

Where single sourcing coincides with suppliers in conflict-prone or sanctions-relevant regions, exposure is at its highest. Offshoring strategies of recent decades also have an after-effect here: large purchasing volumes in a few country clusters increase concentration risks. A reassessment via cross-functional sourcing with logistics, quality and engineering is recommended in such cases.

Transport and logistics chains

Disrupted shipping routes, blocked border crossings or damaged rail networks lengthen transit times and drive up freight rates. For time-critical components, alternative routes and mode changes (air freight instead of sea freight) should be assessed in advance. Order confirmation chains with delivery date commitments must be scheduled more tightly in crisis situations than in normal operations.

Methods and approach: embedding geopolitics in the procurement process

Geopolitical risk cannot be eliminated, but it can be managed systematically. The approach follows the classic risk management cycle: identify, assess, manage, monitor. What is decisive is that the results do not end up in a presentation but take effect in procurement decisions and processes.

Assessing country and supplier risk

The starting point is a risk-based assessment of all relevant countries of origin and suppliers according to criteria such as political stability, sanctions status, intensity of trade conflicts and logistics dependency. Ideally, these assessments feed into the supplier rating and determine the allocation to risk classes. Supplier self-disclosures provide supplementary information on sites and sub-suppliers.

Criticality matrix and action planning

In the second step, the business criticality of each material group is mapped against geopolitical exposure. High exposure plus high criticality results in concrete measures: qualifying second sources, regionalising procurement, building safety stocks or adapting specifications. The action plan belongs in the procurement business plan and is supported by senior management.

Early warning system and monitoring

A simple early warning system is often sufficient: defined triggers (e.g. sanctions list changes, new export controls, escalating conflict regions) with clearly assigned actions. Industry news, embassy and customs notices and supplier feedback are evaluated in a bundled manner. What matters is a clear escalation path that enables a response within hours rather than days in a crisis.

Management levers: which measures work in practice

There is no single measure against geopolitical risk, but rather a bundle of measures. The appropriate mix depends on industry, material criticality and margin situation. As a general rule: diversification protects against failures, buffers protect against time losses, transparency protects against surprises.

Risk diversification and localisation

Risk diversification means several qualified sources in different regions – ideally with active volume so the second source does not wither. Localisation, i.e. moving procurement or production closer to the sales market, reduces transport and trade conflict risks but often increases unit costs. Both levers must be weighed against total cost of ownership, not just the purchase price.

Contractual and price hedging

Long-term contracts with fixed-price components or indexation clauses can partially hedge supply commitment and price risk, but they do not replace failure scenarios. Delivery date commitments should be combined contractually with information and escalation obligations in the event of disruptions. Payment securities and carefully timed early payment and payment terms also protect with suppliers in unstable markets.

Adjusting inventory and planning

For geopolitically exposed items, higher safety stocks and adjusted planning parameters can make sense, controlled via a service level target per commodity group. Automatic replenishment must be parameterised accordingly so that buffers are not run down unnoticed. In close interplay with the master production schedule (MPS), the additional stock can be kept targeted and capital-efficient.

Key KPIs for managing geopolitical procurement risks

Geopolitical risk itself cannot be measured directly, but its impacts and the effectiveness of countermeasures can. Established supplier and logistics metrics can be used for this if they are analysed by risk class. What matters is reporting the metrics regularly and linking them to clear owners.

Delivery and supply metrics

On-time delivery, fill rate and delivery date reliability show whether disruptions are already reaching supply. Read out by country of origin region and risk class, they become an early indicator before failures occur. Noticeable deterioration in one region triggers defined review processes.

Structural and dependency metrics

The proportion of critical items with only one source, the share of purchasing volume per country or region and the number of qualified second sources per critical commodity group make dependencies visible. In addition, the average replenishment time in the event of disruption serves as a scenario metric. These figures belong in regular supplier management reporting.

Compliance, law and current developments

Geopolitical events create immediate compliance obligations: sanctions list screening, export controls, origin and proof-of-origin requirements and increasing reporting requirements for supply chains. Procurement organisations need clear processes and documented checks for this. The specific legal obligations depend on country and industry and should be reviewed legally on a case-by-case basis.

Sanctions, export controls and tariffs

Sanctions lists are amended at short intervals; supply relationships and payments must be screened on an ongoing basis, including retrospectively for existing contracts. Export controls increasingly affect technologies and components that were previously unremarkable. New tariff and trade measures often change price calculations within weeks – price clauses should reflect this.

Supply chain transparency and reporting obligations

In practice, customers and capital providers increasingly demand evidence of origin, intermediaries and production sites. Supplier self-disclosures, audit rights and contractual commitments form the basis, supplemented by risk analyses along the supply chain. In the procurement process, this can be mapped via a procurement approval workflow that only permits releases with complete risk documentation.

Developments: de-risking and regional networks

Many industrial companies are currently overhauling their procurement strategies towards de-risking: more regionalisation, greater transparency down to sub-supplier level and strategic buffers for critical items. Formats such as a supplier innovation day are increasingly used by suppliers for joint resilience planning too. The trend is moving away from pure cost decisions towards an overall assessment including total cost of ownership and security of supply.

Typical metrics

On-time delivery (by risk class): > 95 %

a decline in one region indicates effective geopolitical disruptions

Proportion of single sourcing for critical items: < 20 %

typical benchmark; a falling share shows effective diversification

Qualified second sources per critical commodity group: >= 2

active volume recommended so the source remains ready for use

Fill rate for exposed items: > 98 %

align with an adjusted service level target per commodity group

Practical example

A medium-sized mechanical engineering company sourced electronic assemblies and mechanical components predominantly from one Asian procurement cluster. After initial export restrictions on upstream products and heavily fluctuating transit times, replacement purchases and expedited freight rose significantly. The company subsequently carried out a criticality and exposure analysis by commodity group, qualified European second sources for the most critical items and built up defined safety stocks.

- Risk classes defined for all procurement items and integrated into the supplier rating

- Second sources qualified in two further regions and proven with a small active volume
- Blocked stock management introduced for four critical assemblies with clear capital approval
- Sanctions and export control screening anchored as a mandatory step in the procurement approval workflow

Conclusion

For industrial buyers, geopolitical risk is not an abstract topic but has a direct impact on availability, costs and compliance. What is decisive is the systematic translation into day-to-day procurement: risk classes, critical items, clear triggers and prepared measures. Diversification, targeted buffers and regional alternatives measurably reduce vulnerability. At the same time, sanctions and export control screening is non-negotiable and must be documented in a process-reliable manner. Those who treat geopolitics as a permanent management field turn threat scenarios into plannable courses of action.

Frequently asked questions

What does geopolitical risk mean in procurement?

Geopolitical risk describes the danger that political events such as sanctions, conflicts, tariffs or export controls disrupt the supply of materials and services. Availability, prices, lead times and compliance are all affected. For procurement, it is a distinct risk field that should be systematically assessed and managed.

How can a buyer reduce geopolitical risks?

Proven levers include risk diversification across multiple sources and regions, localisation of critical purchases, safety stocks for exposed items and contractual safeguards. Transparency down to sub-supplier level is also essential. All measures should be weighed against total cost of ownership.

Which materials are particularly affected?

Typically critical raw materials such as rare earths, semiconductors, specialty chemicals and certain metals, whose extraction or processing is concentrated in a small number of countries. Partially critical standard parts can also be affected if they are imported from unstable regions. What matters is an analysis by commodity group, not a blanket list.

What role do sanctions and export controls play?

They are the most immediate expression of geopolitical risk in day-to-day procurement: anyone violating sanctions or export controls risks severe fines and reputational damage. Suppliers and sub-suppliers must therefore be screened on an ongoing basis. The specific obligations depend on the individual case and should be reviewed legally.

Are higher safety stocks the right answer?

For geopolitically exposed and critical items, safety stocks are often a sensible component, but they tie up capital and can lead to losses with obsolete parts. A differentiated approach using a service level target per commodity group makes sense. Buffers complement source diversification, they do not replace it.

How do you assess the geopolitical risk of suppliers?

In practice, country of origin, site concentration, sanctions status, transport routes and substitutability are assessed, and the results are translated into risk classes. Supplier self-disclosures on sites and

sub-suppliers are helpful. The assessment should be incorporated into the supplier rating and updated regularly.