

# Employ Strong Practices to Detect Supplier Financial Risk and Minimize Disruption

Staying on top of supply chain risk is essential to maintaining a healthy business, especially in today's evolving global market. Business profitability relies on productivity, and a strong supply chain is the foundation.

To combat disruption, it is critical to take precautionary measures that unveil potential financial risks before a problem occurs. Employ these best practices to minimize disruption and maintain a seamless, continuous supply chain.

Your supply chain's financial viability is better protected from vulnerability when you implement:

## Best Practices for Sourcing New Suppliers

- ✓ Determine appropriate supplier financial health metrics as part of your sourcing due diligence
- ✓ Partner with your finance and credit teams to evaluate the financial health of potential partners
- ✓ Have a Plan B in place to diversify critical suppliers to keep production fluid when you only have a single source of supply
- ✓ Maintain an open dialogue with your Plan B supplier to confirm they can accommodate your supply needs should you require their services
- ✓ Diversify your source of supply with a plan that balances cost with credit worthiness

## Best Practices for Managing Existing Suppliers

- ✓ Implement a system to monitor the financial health of your suppliers on a regular basis, especially if you are consolidating a list of supply partners
- ✓ Create a custom monitoring plan for your critical suppliers
- ✓ Insist that all your critical suppliers share information about their financial health, even if available through traditional sources
- ✓ Build a financial reporting template for your supplier performance evaluations

- ✓ Begin a continuous open conversation about financial health at the supplier level, as well as downstream; do this during—but also in between—supplier meetings
- ✓ Visit key suppliers often to check for physical signs of financial or operational stress
- ✓ Establish relationships and ensure regular communication with one to two key supplier contacts
- ✓ Collaborate with your finance team and have a “big-picture” view of your supplier's financial trends

## Best Practices for Sustaining Longer-Term Supplier Relationships

- ✓ Make sure to stay up-to-date on changing margin dynamics or collateral requirements in a specific industry, and openly discuss the implications with key suppliers
- ✓ Stay on top of overall industry health and review any risks with your suppliers
- ✓ Constantly re-evaluate the financial health of all critical suppliers and have a Plan B in place in case a replacement is needed
- ✓ Reduce possible sources of disruption beyond your first-tier supply base

# The Role of Technology In Supply Chain Resiliency

With thousands of suppliers, use advanced technology to pinpoint risk and build a more resilient supply chain:

- CreditRiskMonitor's **FRISK® score** is the most advanced and reliable way to monitor public company financial risks, unlike payment-based scores which can provide a false sense of security.
- Our automated **customized alerts** monitor the news and provide advanced warning of supplier financial distress, helping you to be more agile and increase supply chain resiliency.
- Evaluating a vendor with our **Peer Analysis** helps to assess its financial strengths and weaknesses among its industry peers and identify competitors who are a more financially stable alternative.

## Three indicators that only provide a partial picture of a supplier's financial health

When assessing the financial health of your supply chain, be aware these indicators only provide a portion of information needed.

### 1 LIQUID ASSETS

Though liquid assets are a great indicator of cash on hand, debt ratio is equally important in assessing the supplier's financial health.

### 2 DOCUMENTATION PROVIDED BY SUPPLIER

Financial records should reflect accurate information, but since the supplier is trying to sell their services, you'll want to double-check other public and private financial records.

### 3 SEC FILINGS

SEC filings for public companies are a rich source of information, but provide little forward-looking data. Use the wisdom of the markets as reflected in the stock price and market capitalization to better anticipate future financial weakness.

## When it comes to financial risk, how well do you know your suppliers?

The financial failure of a key supplier can bring your operation to a grinding halt. And when it comes to financial risk, what you don't know CAN hurt you. That's why we offer a set of tools to help you detect supplier financial distress. Want to get a handle on financial risk exposure in your supply chain?

Contact us for a demo and  
**SUPPLIER FINANCIAL RISK ASSESSMENT**  
[www.creditriskmonitor.com/request-demo](http://www.creditriskmonitor.com/request-demo)