

Supplier Evaluation

The Credit Research Foundation



Results from a Recent CRF Study

Executive Summary

◆ Credit professionals are becoming more involved in Supplier financial evaluations and are producing measurable positive savings for their companies.

◆ Credit professionals are essentially utilizing many of the same analysis techniques used for traditional customers. Their analysis includes leveraging financial information and scores from the top credit agencies.

◆ Credit management has also mastered the key concepts of supply chain dynamics, including the challenges of sole source and key supplies that are important in evaluating the “big picture”.

◆ Most of those involved today characterize their roles as “advisory” or “partners”.

◆ This responsibility evolution for credit professionals is gratifying to see but is really no surprise to the many professionals who always knew they could contribute more value to their company.

CRF Supplier Evaluation Survey Results

Perspective - Several years ago CRF, identified a significant developing trend indicating credit professionals were becoming more involved in evaluating Suppliers from a financial perspective. Many companies were surprised to experience Supplier bankruptcies and financial difficulties which in turn adversely impacted their supply chains. This was all brought on by the Great Recession. A *Supply Chain Weekly* article dated 11/23/2011 entitled “Finance Departments Are Expected To Take Greater Control of Procurement” stated “Finance departments will put those in procurement jobs under greater scrutiny in 2012”. All of this no doubt has played a hand in steering financial evaluations to credit professionals who already possess the necessary skills.

Executive Summary – In February 2012 CRF conducted a survey to specifically explore these responsibilities. The goal was to better understand the current state and what to expect in the future. 275 participants responded to the survey.

Credit professionals are becoming more involved in Supplier financial evaluations and are producing measurable positive savings for their companies. 56% of respondents surveyed currently have these responsibilities and 44% expect to become more involved in the next three years. 19% indicated that they have produced measurable savings for their companies. But these responsibilities are new (5 years or less) for 70% of those involved, so this is a developing and expanding trend. This strongly suggests that there is significant opportunity for credit professionals to grow in this area. For those already providing basic evaluations, there is also opportunity to expand into more proactive areas such as recommending alternative, less risky suppliers. Most of those involved today characterize their roles as “advisory” or “partners”.

Credit professionals are essentially utilizing many of the same analysis techniques used for traditional customers. Their analysis includes leveraging financial information and scores from the top credit agencies. However, they have also mastered the key concepts of the supply chain dynamics, including the challenges of sole source & key suppliers that are important in evaluating the “big picture”. This flexibility is a further testament to the value that credit professionals can provide to their companies.

This responsibility evolution for credit professionals is gratifying to see but is really no surprise to the many professionals who always knew they could contribute more value to their company. *If you currently don't have responsibility for evaluating suppliers, we strongly urge you to step up and join this natural evolution! Start adding more value to your company and improve your own marketability in the process.*

Al Carmenini, RGCP
Senior Vice President
CreditRiskMonitor

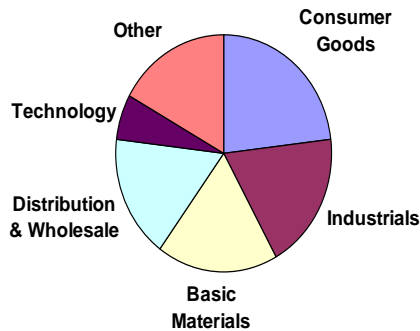
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Survey Results

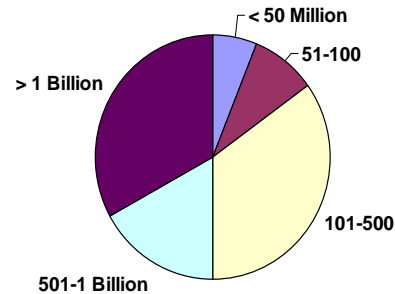
The following represents the survey results.

The participants represented a wide range of business sectors and company sizes.

Business Sector



Annual Sales



Consumer goods at 23% represented the largest business sector, followed by Industrial 19%. Basic Materials 18%, Distribution & Wholesale 17%.

Consumer Goods (E.g.: apparel, footwear & textiles, cosmetics & personal products, food & beverage, household products, appliances & tools, autos, trucks & parts, consumer electronics, entertainment, furniture, office products, recreational products, toys.)	23%
Industrial (E.g.: construction & materials (building and heavy), industrial equipment (electrical components, factory equipment, heavy machinery), industrial services, containers & packaging)	19%
Industrial transportation (marine, rail, trucking & air freight)	3%
Technology (E.g.: computer peripherals, network devices, storage devices, hardware, communications equipment, electronic instruments & controls, scientific & technical instruments, software)	6%
Services (E.g.: advertising & media, business services, security, broadcasting & cable, personal & household, printing, publishing, retail, travel, waste management)	4%
Basic Materials (E.g.: chemicals, mining & metals, plastics, rubber, iron, steel, paper & paper products, fabricated products)	18%
Distribution & Wholesale (non-manufacturing)	17%
Healthcare (E.g.: biotechnology & drugs, major drugs & pharmaceuticals, medical equipment & supplies, healthcare provider)	4%
Energy (E.g.: oil & gas (oil drilling, oil companies), pipelines)	1%
Telecommunications (fixed line, wireless & satellite providers)	0%
Financial Services	1%
Conglomerate (Use if your company clearly crosses major business sectors)	3%

Approximately one-third of the responses were from companies in the \$101 - 500 Million size range. Another third were in the More than \$1 Billion size range.

2. Your company's total annual sales are...	
Less than \$50 Million	6%
\$51 - 100 Million	8%
\$101 - 500 Million	34%
\$500 - 1 Billion	17%
More than \$1 Billion	34%

As expected, 71% of responses were from seasoned credit professionals with more than 20 years of experience. The “baby boomers” continue to dominate the profession.

3. How many years of credit experience do you have?	
Less than 5 years	3%
5 to 10 years	6%
10 to 20 years	20%
More than 20 years	71%

It was very gratifying to see that 56% of the respondents currently had responsibilities for evaluating suppliers for their company. This clearly indicates that credit professionals are rising to the occasion and evolving their responsibilities to include supplier evaluations. This will make these professionals more valuable to their current employer and enhance their marketability.

4. Do you currently have any responsibilities evaluating suppliers for your company?	
Yes	56%
No (proceed to last question if you wish to receive the survey results)	44%

With 21% of credit professionals being involved for 2 years or less and 49% involved for between 2 and 5 years the indication is that this is a relatively new trend. No doubt the negative impact of the “Great Recession” on company supply chains paved the way through supplier bankruptcies & other financial disruptions that surprised many supply chains managers.

It is also interesting to note that 22% have been involved for 5 - 20 years, which suggests that many progressive companies realized the value these professionals could add and took advantage of their skill sets earlier. Finally, with 8% involved for more than 20 years, indications are that there was a small group of companies that pioneered the way.

5. How many years have you been involved in evaluating suppliers?	
1 year or less	9%
1 to 2 years	12%
2 to 5 years	49%
5 to 20 years	22%
More than 20 years	8%

The next two questions probed credit professionals' level of involvement in evaluating suppliers.

Over the last 2 years 47% have been more involved in evaluating suppliers. This suggests again that the impact of the “Great Recession” pushed more companies to include Supplier financial risk in their overall evaluations of suppliers. 47% indicating the “same level” of involvement reinforces the suggestion noted in previous questions that many companies had credit professionals assessing this risk early or before the recessionary cycle.

6. Which best describes your level of involvement in evaluating suppliers over the last 2 years?	
Significantly more involved	22%
Somewhat more involved	25%
About the same level of involvement	47%
Somewhat less involved	5%
Significantly less involved	1%

44% expecting to be more involved in the next 3 years indicates that this trend will continue to expand. Credit professionals can expect more involvement and should seize this opportunity to provide more value to their company and evolve their responsibilities. This will also enhance their personal marketability, which will be very valuable in this challenging economy. Those who do not have these responsibilities today should step up and volunteer to take advantage of this trend to add more value to their company.

7. What do you expect your involvement in evaluating suppliers to be in the next 3 years?	
Significantly more involved	17%
Somewhat more involved	27%
About the same level of involvement	52%
Somewhat less involved	2%
Significantly less involved	2%

The following “check all that apply” question probed current responsibilities. The A to E responses suggest that most of the involvement is upfront and less is ongoing monitoring. 77% checked A - qualifying a supplier *before* entering into a relationship. Only 25% conduct routine reviews, which is a best practice on the traditional customer side. Perhaps this best practice has not yet become a requirement – *an opportunity for credit professionals to be proactive and lead the way!*

Items F & G probed more of the “proactive” responsibilities. The light involvement suggests that this may be another opportunity for credit professionals to leverage their skill sets and provide more value to their company. This is especially true for G – “Recommending alternative suppliers that are financially less risky”, provided they meet all the other traditional supplier requirements. This is a well known proactive best practice on the traditional customer side.

8. Indicate your current responsibilities in evaluating suppliers. (check all that apply)	
A - Perform a review to qualify a supplier before entering into a business relationship.	
B - Monitoring the financial risk of KEY suppliers	
C - Continually monitor for changes in financial viability.	
D - Monitoring the financial risk of RISKY suppliers	

E- Conduct routine reviews of all suppliers.

F - Compare suppliers to their competition via peer analysis

G - Recommending alternative suppliers that are financially less risky

The majority (71%) of the respondents characterized their role as “Advisory” and 23% as “Partner”. It is very interesting to note that 2% had sole responsibility for performing financial risk assessment. This item should definitely be revisited in the future to see if this is an early trend or is unique to the 4 companies responding.

9. Which best describes your role in performing financial risk assessment for suppliers?

Advisory role	71%
Partner with the Procurement group	23%
Sole responsibility	2%
Other, please specify	4%

With an overwhelming 93% stating no, this strongly suggests that the same Customer analysis skills and experiences are applicable to Supplier evaluations. A few reported that they did have special training or certification from such organizations as The Institute of Supply Management (ISM). This may be an area where CRF may want to offer more educational sessions at its future conferences.

10. Have you received any special training for evaluating suppliers?

Yes	7%
No	93%

Receivables portfolios are typically measured in terms of the average size of the A/R balance. Supplier portfolios are typically measured in terms of the size of the “annual buy” which is the annual total of all purchases made from the suppliers in a given portfolio.

On a cumulative basis 43% had responsibility up to \$1 Million and nearly 2/3 (62%) had responsibility up to \$5 Million. ***This is a significant involvement and gratifying for all credit professionals to see!*** With only 3% responsible for \$500+ Million this could suggest that there is opportunity for credit professionals to aspire to this level.

11. Please check off the typical annual buy of the suppliers you evaluate.

Less than \$500,000	20%
\$500,000 - 1 Million	23%
\$1 - 5 Million	19%
\$5 - 10 Million	8%
\$10 - 25 Million	9%
\$25 - 100 Million	7%
\$100 - 500 Million	10%
More than \$500 Million	3%

It is not surprising that credit professionals turned to the major credit agencies for Supplier financial information. As expected, D&B was number one at 86%. CreditRiskMonitor and Experian both scored 28% followed by Equifax at 20% and Cortera at 16%. No other agency scored more than 5%.

65% availed themselves of free internet services & 66% received financial information directly from Suppliers.

12. When seeking supplier financial information, check off all of the sources that you use?

Dun & Bradstreet	86%
CreditRiskMonitor	28%
Experian	28%
Equifax	20%
Cortera	16%
Free Internet services	65%
Customer provided	66%
Other, please specify	23%

57% said it was “About the same” while 27% indicated it was harder obtaining confidential financial statements from private suppliers vs. traditional private customers. This suggests that this requirement may be new to suppliers and they are initially resisting. Suppliers may have “clout” like traditional major customers, especially if they are a “sole source supplier”. This is where credit professionals will need to work closely with the Procurement folks to fully understand supplier importance to the supply chain.

13. Which best describes your experience in obtaining confidential financial statements from private suppliers vs. traditional private customers?

Significantly easier	5%
Somewhat easier	11%
About the same	57%
Somewhat harder	15%
Significantly harder	12%

Financial Risk Scores

The next three questions probed the use of financial risk scores.

59% used financial risk scores in evaluating suppliers, which is similar to the use on the traditional customer side. This further reinforces that Supplier analysis is similar to Customer analysis.

14. Do you use financial risk scores in evaluating suppliers?	
Yes	59%
No	41%

Dun & Bradstreet appears to be a key source of risk score information at 70%. However, nearly 30% of the respondents indicated the use of in-house models developed to assign scores. Followed by the application of the Altman Z scores and a host of other providers of scoring detail.

15. If yes, where do you obtain financial risk scores? (check all that apply)	
Dun & Bradstreet	70%
CreditRiskMonitor	21%
Experian	14%
Cortera	10%
Equifax	6%
In-house model	30%
Public models, i.e. Altman Z score, etc.	23%
Other, please specify	10%

Only 26% did use scorecards, suggesting this best practice has not yet become fully acceptable on the Supplier side. It may also suggest that financial elements have not yet been integrated into the Supplier score cards used by many procurement professionals. These scorecards typically include measures of quality, reliability, price, delivery timeliness & accuracy, diversity compliance, etc.

16. Do you use scorecards in your supplier evaluations?	
Yes	26%
No	74%

At 90% “Suppliers risk of business failure” dominated this “check all that apply” question. This reinforces that the primary focus of credit professionals is to assess the financial risk of supplier failure. The next two significant variables were “Supplier’s financial viability & capital” (60%) and “Supplier’s dependence on your business” (46%). It was gratifying to see the latter scoring high as it indicates that credit professionals also understand the “big picture” when it comes to supply chain dynamics. Other variables mentioned included traditional supplier measures like quality, reliability, reputation, etc.

17. What variables are you assessing in your supplier review? (check all that apply)	
Suppliers risk of business failure.	90%
Supplier's financial viability & capital capacity to meet the present scope and the future growth of your company	60%
Supplier's dependence on your business to stay in business.	46%
Competition (Are there competitors that have the capability to step in the event your supplier fails to perform?)	32%
Other, please specify	7%

Virtually all answered no to this question, indicating credit professionals are leveraging their existing customer analysis ratios.

18. Do you use any special ratios for Supplier evaluations that you DO NOT use for your traditional customer base? (please list)
27 Responses

In exploring the KEY differences in assessing suppliers vs. traditional customers, “Importance of supplier to the entire supply chain” at 53% dominated the responses. This suggests credit professionals have a good comprehension of supply chain dynamics and have grasped the importance of the role key suppliers and sole source suppliers play in the chain. This goes hand-in-hand with the 30% indicating that “Sole source suppliers require more analysis & monitoring “. At 33% “Long term viability” was also a significant factor. This was not surprising, as supplier contracts typically are multi-year commitments as opposed to typical customer terms of 30-90 days.

It was interesting to note that 33% indicated that there were no differences, further reinforcing that the basic financial analysis is the same for Suppliers and Customers.

19. What are the KEY differences in assessing suppliers vs. traditional customers? (check all that apply)	
Viability analysis looks out over a longer term	33%
Importance of supplier to entire supply chain	53%
Key suppliers require more analysis & monitoring	17%
Sole source suppliers require more analysis & monitoring	30%
No differences	33%
Other, please specify	3%

It was gratifying to see that 71% checked off that it was a “good idea” to get involved in supplier evaluations and no one said it was a bad idea. 65% also indicated “Broaden my value add to the company” which further reinforces that this is a good evolutionary path for credit professionals. With 19% indicating “Saved my company significant dollars” is a strong testament that credit professionals are producing tangible measurable results for their companies. While only 7% indicated “Helped advance my career”, this trend is expected to grow in the future as more measurable benefits are achieved by credit professionals.

20. How would you characterize your experience to date getting involved with supplier evaluations? (check all that apply)

Good idea	71%
Bad idea	0%
Helped advance my career	7%
Broaden my value add to the company	65%
Saved my company significant dollars	19%

With 89% indicating yes this response reinforces a resounding affirmation that this is an excellent evolutionary path for credit professionals.

21. If you had it to do over would you get involved with supplier evaluations?

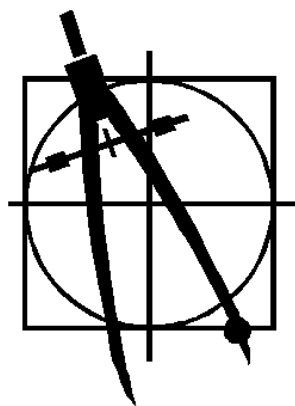
Yes	89%
No	2%
Maybe	9%

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RESOURCES

Visit the Credit Research Foundation website for additional resources

<http://www.crfonline.org>



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