

— ASSESSING VENDOR — Financial Risk

WHY IT'S NOT JUST ABOUT THE NUMBERS

Financial risks associated with vendors are often overlooked or, worse still, treated as a check-the-box exercise.

This, however, can be detrimental to not only your third party risk management program but, on a larger scale, may have direct implications on how you operate your business.

IT'S A STANDARD PRACTICE TO COLLECT FINANCIAL STATEMENTS.

When a third party is a publicly traded company, financial statements are easily accessible. If your third party is a privately-owned company, actual data pertaining to financial strength may be more difficult to come by.

FINANCIAL RISK RUNS SO MUCH DEEPER THAN JUST THE NUMBERS.

Yes, numbers will fluctuate during quarterly earning calls, but a strong third party risk management program should strive to connect the dots. It requires expert review, typically by a qualified financial analyst, to accurately dissect the financial information.

Go Beyond the Numbers

The financial strength of a key vendor which plays a critical role in your operation can really work to both your disadvantage or strategic advantage.

A well-capitalized third party may have the resources to grow with you, to support your business model as you expand your market and can represent your brand well.

On the downside, if a vendor is struggling financially then you may have other problems to contend with. If cash flow is a problem for the vendor, things may need to be cut for them to continue operations. Service and support are usually the first two areas to suffer. How could this impact future research and development, level of expertise and customer service? Will the vendor need to outsource some of their services to make their business more viable?

Weak Financials May Indicate a Variety of Issues

If a company has weak financials, it may indicate issues such as:



LOSS OF BUSINESS

Are your competitors going elsewhere for this product?

Have major accounts been lost due to an issue?



LITIGATION AND BAD PRESS

Have they suffered a breach and are dealing with the fall out?



DECLINE IN SERVICE LEVELS

Are your customers reporting long hold times for customer service calls?



INTERNAL EXPERTISE

How will the vendor attract and retain staff?



LOSS OF KEY MANAGEMENT

Have they lost key management team members?

They may replace them with staff who are not as qualified.



SLOW PAY

Does the vendor rely on fourth party vendors to fulfill part of their services? If so, it could cause slow pay issues between vendors and result in service level gaps or a decline in product quality.



INFRASTRUCTURE SUPPORT AND FUTURE DEVELOPMENT OF INNOVATIVE TECHNOLOGY

How will the vendor adapt to future growth? This should include their ability to identify talent and resources for support staff or technical expertise. Additionally, how will the vendor continue to develop technology which may provide you with a competitive advantage?

It's important to gather and communicate data on all your vendors to know where they stand.

To do so, conduct regular meetings, use performance scorecards, do ongoing monitoring of social media and litigation or review of consumer complaints. These can help paint the broader picture of the overall business health of your vendor partners.

If your third party risk management program follows a check-the-box exercise, then the likelihood of your organization truly managing risk is weakened. Taking something such as the financial health of your vendor seriously can have a significant impact on the overall success of your business model.

Venminder can analyze your vendor financials for you. **Download a free Vendor Financial Health Analysis sample.**

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