

Vendor Financial Health Monitoring:

WARNING SIGNS TO WATCH OUT FOR

Have you discovered that your vendor's financial performance is declining? Hopefully you saw the signs early on. If you didn't, here are a few warnings to watch for next time.

Protect Your Organization

When you're in the contract negotiation phase, make sure you include language that'll require your vendors to automatically send you financial statements as they become available every year. **They should be producing new income statements and balance sheets for you annually. If they aren't, you may have cause for concern.**

In addition, establish clear service level agreements (SLAs) that give you the option of gracefully exiting the contract, with no financial penalty to you. This is one safeguard in vendor management that is often overlooked. Poor financial performance can lead to poor performance metrics on the SLAs or poor service quality. Also, it may be useful to have these performance measures revisited annually along with the vendor's financial statement review. You can likely ask your business units to help, as they're communicating with vendors on a daily basis.

9 Warning Signs

When businesses experience a decline in financial condition, they tend to react in the same general manner.

Be on the lookout for these common indicators to help determine if there may be an issue:

1 LACK OF COMMUNICATION
Many times, you'll notice a lack of communication from your account representative, as the vendor will stop responding either because they're confused about who is handling your account or because no one is currently assigned to your account.

2 INACTION ON PROJECTS
Projects will begin to suffer the same fate as your account rep.

3 STAFF REDUCTIONS
Meaning, there'll be staff reductions due to cost cuts. Public or private layoffs are often a signal something is horribly wrong.

Quick Tip:
You may notice that LinkedIn is suddenly full of "former employees".

4 Decline in Service Levels
With staff reductions tends to come a decline in service levels across the entire organization.

5 Rapid Staff Turnover
And, their executive staff begins to churn.

6 Technical Issues
Because of staff reductions and the inability to retain expertise, technical issues seem to pop up more and more.

7 Bad Press and Litigation
The decline in service levels will result in bad press and eventually litigation.

8 Slow Pay Problems
All of this can result in slow pay problems which will worsen service level gaps and cause declines in product quality.

9 Research and Development Halts
And finally, there'll be research and development halts, as the business may need to quit spending on the product development or sunset the product. As a result, product delivery may slow down. Perhaps, they may even sell the operating division.

Declining Financial Performance of a Vendor
Loss of Business or Decline in Income

If You Already Suspect a Decline in Financial Condition

Do these 6 things:

- 1 Reach out to the vendor and be upfront with them. Address any issues right away.
- 2 Clearly and concisely outline your concerns. Provide them to the vendor and request that they let you know how they plan to resolve them and in what timeframe.
- 3 Review your contract for your current SLAs. Use SLAs as a course of action.
- 4 Perform a new risk assessment and make sure management is briefed on the situation.
- 5 Determine the risk this poses to the organization.
- 6 Escalate ongoing monitoring accordingly.

As the dominos fall, these signs can result in some major concerns for your organization such as unresolved issues, long response times, exposure to cybersecurity risk and unexpected product or service downtimes. **Keep yourself aware and be proactive when you suspect a decline in a vendor's financial performance.**

Download free sample assessments of vendor controls and see how Venminder can help reduce your third-party risk management workload.

[DOWNLOAD NOW](#)

[PRINTABLE VERSION](#)

venminder

(270) 506-5140 | venminder.com

Copyright © 2020 by Venminder, Inc.