

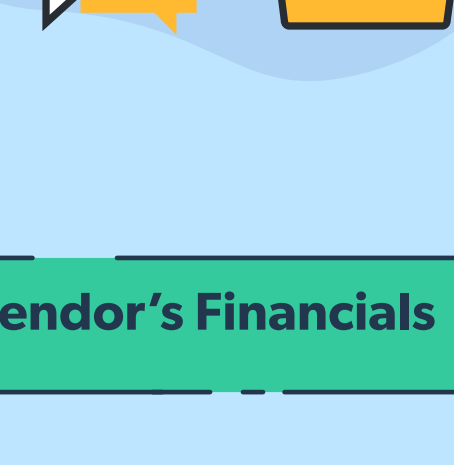
6 Actions to Take

After Reviewing a Vendor's Financials



It's critical for organizations to continually monitor and assess the financial health of vendors.

Financial assessments provide a thorough view of the risk associated with the viability of your vendors. Financial health monitoring provides the insight needed to preemptively act so that you can mitigate potential vendor risk arising from poor financial health.



6 Next Steps After Reviewing a Vendor's Financials

1 Follow the set of standards for risk management on vendor financial health that your organization has in place.

Prior to reviewing the vendor's financial health, you should have reviewed your organization's vendor financial health criteria. This information helps align all the organization's stakeholders with a common set of standards to manage the risk associated with vendor financial health viability. Over time, as additional vendors are onboarded and evaluated, your team should review and modify the internal vendor health standards, if necessary.

For example, the organization should clearly define the approach to arrive at financial risk ratings consistently across the vendor base. This process typically includes creating financial risk ratings (e.g., high, moderate and low). Those ratings should reflect the information evaluated, such as the quality of financial information reviewed, revenue and profitability of the vendor, the vendor's solvency and their ability to meet debt obligations.

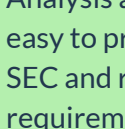


2 Determine if the financial information obtained from the vendor was sufficient enough to result in an accurate vendor health rating.

Prior to your review, your organization should have defined what vendor financial documentation is acceptable to complete an adequate review. The availability and quality of financial data is essential to assess and monitor a vendor's financial health.

Obtaining Documentation from Public Vendors

We often see the following for vendors that are publicly traded or have public debt:



Key information, such as vendor financial statements, audit notes and management discussion.

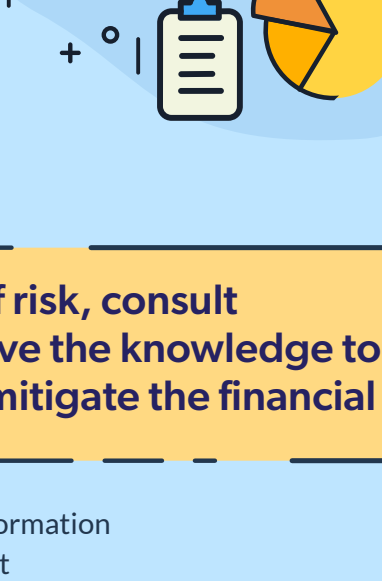
Analysis around financial performance is easy to procure in the public domain given SEC and regulatory disclosure requirements. However, private entities aren't required to (and often don't) share financial information to external parties. In these cases, it's imperative to establish the acceptable level of financial data needed from private vendors to understand their financial health.

Obtaining Documentation from Private Vendors

To get your organization what is needed from private vendors, narrowing the financial request list to a set of major data points can be sufficient, such as overviews on:

- Revenue performance
- Profitability performance
- Cash availability
- Debt/funding

Inquiring for access to the data that is already prepared by the vendor's financial advisors (e.g., financial auditors) can also be efficient and is a best practice, given audited financial statements are of higher quality and have more rigor than company-prepared financial information.



3 If there is an unacceptable level of risk, consult professionals and experts who have the knowledge to move forward with next steps to mitigate the financial risk.

Proper documentation and financial assessments can bring information to light on vendors that an organization's internal team may not have good insight into or appropriate knowledge on to take the next best steps in mitigating risk. The risks and findings that arise from vendor financial assessments require action, which create a necessity to consult professionals who have specialized experience in addressing and managing these risks.

A best practice for addressing and managing risk from high-risk vendors includes regular and frequent follow up requests for additional documentation to better understand and address the risk levels. Additionally, professionals and experts can help mitigate future risk by advising your organization on the decision to find alternative vendors to meet your organization's appropriate product and service level needs. This can occur by discontinuing contracts with your high-risk vendors that don't have strong financial viability to support your organization's product and service requirements.



4 If the level of financial risk is acceptable, continue to regularly request updated financial documentation from vendors – combined with assessing and monitoring – as it's not a one-and-done exercise.

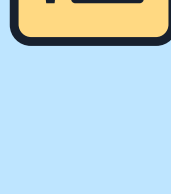
The cadence of requesting information from key vendors depends on a variety of factors, such as the risk rating on each vendor, your organization's internally defined processes on outreach and your team's resource/staffing availability. At a minimum, for vendors that have an acceptable level of risk, we recommend requesting financial documentation and performing assessments on an annual basis. This provides enough insight over the financial health of a vendor over a year and how the new financial information has trended against prior information on the vendor that was provided and assessed.

With critical and high-risk vendors that are managed accordingly to meet a level of risk that becomes acceptable, adopting a quarterly or even a monthly cadence of data requests and adoption of quarterly financial health assessments can be beneficial. This regularity ensures that these vendors are remaining viable from a financial health standpoint to meet their contractual obligations to provide products and services to your organization.



5 Manage the findings within standard templates and questionnaires across the organization.

Creation of standard templates and questionnaires that can be utilized across all vendor relationships is a best practice. Having templates, such as a standard questionnaire that gathers key financial information from vendors, can alleviate teams and internal staff from the time-consuming burden of data collection, as well as simplify its requisition across a vendor base. The adoption and implementation of standard templates and questionnaires for vendor financial health can also identify where your organization may have gaps or missing information from vendors. From there, your team can work to acquire additional data with follow up requests to vendors that can appropriately address and mitigate risk.



PRO TIP

Within these templates, it's common to have a location to write in comments elaborating further the reasoning behind your response based on your review of the vendor's financials.

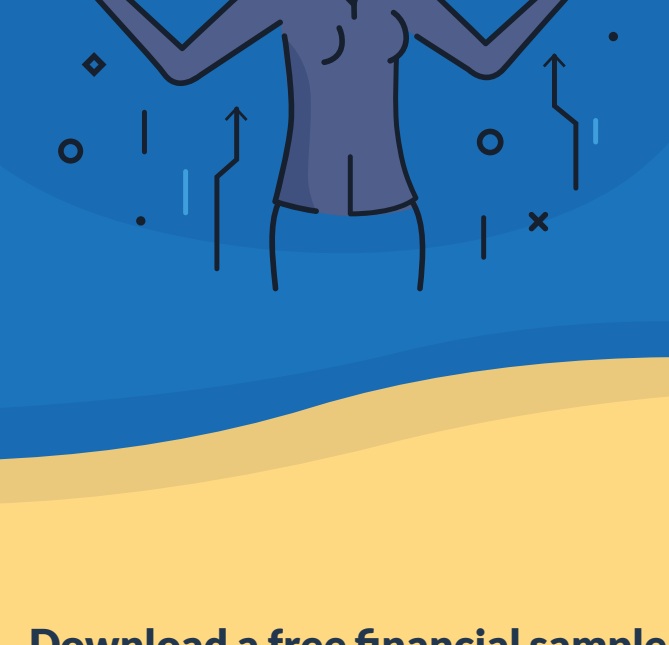
6 Maintain the financial information and assessments in a central repository.

In today's ever-evolving and fast-paced business environment, data inflows and outflows are extremely difficult to manage. There are many systems that hold key information on an organization's vendors and few systems that integrate all this data and knowledge in one centralized location. To fully comprehend the financial health of vendors, it's a best practice to adopt and maintain a central repository that provides the most up-to-date financial information and assessments available on vendors. This allows your internal team to manage, pull and request information from a common location, which can reduce the risks from data loss and reduce the costs from redundancy of workflows performed by your internal team members.



Having the financial data and information on your key vendors alone is the bare minimum of monitoring vendor financial health.

It's important that organizations take the next steps and best practices highlighted here to enhance its internal processes and procedures while helping mitigate the risks that can arise from poor vendor financial health.



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