

PODCAST

**PROCUREMENT
BLOCK
PODCAST**

SEASON 1 EPISODE 3

ERIC EVANS

Supplier Financial Health -
The Importance of MRIs & Checkups

April Harrison 0:03

Welcome to Procurement Block, a podcast all about digital transformation in procurement and supply chain and how blockchain risk management and change management all factor in. I'm your host April Harrison, Marketing Director for Trust Your Supplier. I'm a procurement novice eager to learn more from the people who are at the forefront of procurement innovation. On today's episode, I am being schooled by Eric Evans. Eric manages strategic partnerships and alliances at RapidRatings, including leading partner API integrations into procurement, supplier risk and governance risk and compliance platforms to benefit joint clients. Eric is involved with various working groups of shared assessments including co chair of the continuous monitoring group. Eric has over 20 years work experience from various companies including Aetna, Edger, Online and Donnelly Financial Solutions. He graduated from the University of Connecticut with a BS in finance and completed his MBA in finance at the University of Hartford. He is based in the RapidRatings New York City Office and lives with his wife and Cavalier King Charles in Stamford, Connecticut. Today, Eric and I discuss supplier financial health and why you want to go ahead and schedule your doctor appointments, Eric, welcome to the podcast. Can you tell us a bit more about yourself?

Eric Evans 1:29

Hey, thanks, April for having me joined today. Sure yeah, I'd love to. So I work at RapidRatings, of course, but I live in Connecticut, with my wife and my dog a King Charles Cavalier, and split time between the home office and the New York office which reopened, so I'm down in New York a few days a week. I've worked at RapidRatings about five years now and really enjoyed working with our clients around how they integrate our data into different platforms.

April Harrison 2:07

A King Charles Cavalier, is that a type of cocker spaniel?

Eric Evans 2:11

Yes, so he turns 10 this month, and he is a brown and white. So they're quite a lapdog great, great for a condo.

April Harrison 2:24

I would love to know, Eric, if you had one superpower, what would that be?

Eric Evans 2:31

Thanks, I think it would be the ability to fly just to get to places more quickly and fast and be in multiple places in a day and just go go far and wide.

April Harrison 2:47

I'm with you on that. Right, eliminate all the airports and you know, exactly. So far on this podcast, I've been learning about the importance of managing supplier information and the quality of supplier data. So as part of any supplier assessment, how important is financial help?

Eric Evans 3:09

Good question. Really important because it is often a leading indicator of risk, and really provides that transparency into what's happening at that company. So while their numbers, decisions and performance or results are often reflected in those numbers in those financial statements, so you know, income statement, balance sheet cash flow. And, obviously, they're usually two types of companies, public and private, and private companies can be more volatile. And those shouldn't be ignored. You know, especially, just because a lot of times, we found, companies we talked to have a hard time getting those financials. So, you know, it's really important because you want to see that trend line down. Well, if there is a trend line, you know, going south, you want to get in front of those issues more quickly. And equally as important, especially with the bounce back today, with coming out of the pandemic. If companies are supplying something to industry that's growing really fast or ramping up again, you know, will they be able to keep up with demand? So kind of, you know, I guess last year with the PP equipment type stuff, but as we know, I mean, I ordered, we just got our kitchen done. And so thank God, we ordered cabinets when we did right, so it's like all those type of supply chain issues going on backed up.

April Harrison 4:39

Right. How do you recognize the symptoms of a financially deteriorating company?

Eric Evans 4:46

So we provide key risk indicators and detailed analysis leveraging around 24 industry models, again, based off the financial statements, so in essence, it's like rubber An MRI or a CAT scan, in a way, like a financial health checker to detect issues early on. So our clients can mitigate risk. And we're looking at around 62 ratios. And also incorporating in leverage the quiddity and earnings performance. So we have like two scores of predictive short term score called the FAA chart that looks at default risk over the next 12 months. And then a core health score looks at really that medium term viability of a company and how efficient they are from an operations standpoint. So it's very different, you know, than a credit report or payment history. So then we then look at the intersection of those two scores, and

provide like a quadrant analysis, and then continuous monitoring trends. And, and then real detailed analysis, you know, that's easy to read and understand.

April Harrison 5:59

So you mentioned like an MRI or a CAT scan. So yeah, assuming that these play into like, you have like a regular health check of each year, but there might be times where you have to go in for special assessments.

Eric Evans 6:12

I think with the pandemic, it really highlighted the fact that while financials may change, maybe four times a year, obviously, some of our clients, you know, we're looking at some companies every two years, or every year, once a year, and but the pandemic, the frequency really turned up because they wanted to see how these companies were going to react to the industries that went down really poorly, right, oil and gas, retail transportation, a lot of those, you know, went down 15 to 30%. In terms of performance last year, so the message there is that you shouldn't be waiting, the frequency really should be done, you know, more often, especially if that company is in trouble. If they're, if they're not in trouble, then maybe Okay, fine, you could look at that maybe still every six months to a year. But if they're really trending down, you really want to keep an eye on them.

April Harrison 7:09

So that's kind of checks how resilient they are. When you have unplanned events, such as the pandemic or a natural disaster, or anything like that, tell me a little bit more about how that plays a role when you have those types of disruptions and volatile market conditions.

Eric Evans 7:26

Yeah, really good point. So we're oftentimes, you know, a leading indicator, and what can happen, we've done some studies where using our clients data around timeliness and performance, and overlaying that with financial health, it really

showed us confirmed our suspicion that companies that were weak financially were more than two times likely to ship a defective product and more than two and a half times likely to ship something liked. And so they could be cutting corners, if they're, if they're weak financially, they may not be investing in infrastructure, technology, they may not be rehiring people. And that can often lead to not being able to fund programs and sustainability or cyber. And on the flip side, they may not be as resilient if they were to incur a cyber breach, or, you know, a subsidiary dumping something, you know, in a river or, you know, conflict minerals, or a natural event happening. So, oftentimes, you know, the stronger the company financially, they kind of weather those storms better, and especially market conditions if they're well capitalized cash flow.

April Harrison 8:42

Okay, so let me see if I got it. So if the financial indicators can tell you how certain issues can actually end up trickling down, you mentioned, the quality issues or things like that can have an effect throughout the whole,

Eric Evans 8:56

right, right, exactly, more catastrophic. And what we did last year, and still can do is we stress tested, so to speak the financials, by reducing them appropriately by a certain percent, based on analysts, consensus estimates were the industry they were in, even with pro forma statements. So we helped our clients really, you know, look into a crystal ball to see, you know, how bad or how fast some companies were deteriorating, and in a couple of quarters, because of the, you know, global pandemic. And that was quite helpful. probably didn't paint a good picture. You know, companies that had underlying issues going into the pandemic pretty much got worse.

April Harrison 9:41

Yeah, there were probably very few companies that increased their profitability, and I'm thinking of like zoom as one of those.

Eric Evans 9:49

Yes, right. Yeah. I mean, obviously, there were certain companies that that did well, or increase their sales probably in the pandemic like a Peloton. Or LuluLemon, you know, people becoming more casual and wearing workout clothes at home and things like that.

April Harrison 10:06

Right? So those are sort of the exception rather than

Eric Evans 10:09

Yes, exactly.

April Harrison 10:11

How difficult is it for procurement teams to stay on top of the financial health of their suppliers so that they can really monitor and track this?

Eric Evans 10:20

Well, especially if they have a lot of suppliers, they really oftentimes, we find in talking to companies, before they really sign up as a client, they are doing a lot manually. And so they may have one or two people or or team onshore offshore, googling, you know, ad hoc requests to look at financial viability, but they might be just running the credit report, and then they can't really get the private company financials, and they'd have to well, so they give up. And so it's hard to find information on those companies, without going to them directly, which is what we do we primary source them. So I think procurement teams really need to scale leverage technology, eliminate manual work. So it's, it is difficult, unless they really make it. You know, there are some exceptions where they can make an m&a put it in the contract, you know, to get financials, but then can they keep up and scale a team? And oftentimes, we find they can't write the detailed analysis and

commentary around it. So like, what is the number mean and, you know, leveraging automation is really key.

April Harrison 11:35

Part of this, I'm assuming there's a lot of supplier performance evaluations and continuous monitoring needed. And you mentioned a couple of, like, automation, and are there other best practices or measures to put in place?

Eric Evans 11:48

Yes. So obviously, we really advocate clients to help them you know, get their digital house in order, so to speak, and operationalize financial health within their sourcing, onboarding, or continuous monitoring workflows, best practices, you know, do, you should really look at the private companies don't ignore them, you know, we rule of thumb, we've seen most supply chains or vendor programs contain 60 to 70% of private companies, and 20 to 30% of public, most people think it's the reverse that they have more public companies, and not a lot of privates. But let me what we call segment their supplier lists, we find they're mostly private. And so they should be reviewing the tiers of criticality determining which ones to rate and on what frequency or cadence. And so, another best practice is, again, with operationalizing it, some of our clients have even flagged it in their system that if, if the company's not sharing the financials with with RapidRatings, of course, we can do it on our platform, too, they'll know that that company is not being transparent. And so you know, that's, then they kind of go on a list of, you know, do we really want to do business with them going forward if they don't want to be transparent. And so, really, another great best practice is to lean into the supplier by collaborating frequently, I know a lot of companies, you know, I don't know if their quarterly or semi annually business reviews, but with the pandemic, we really found clients leaning into their supplier more frequently, and it doesn't have to be a negative or punitive conversation. A lot our clients use strategies during the pandemic, like spot buys, extending financing, or, you know, pay their suppliers faster, or made investment investments in them. So, ultimately, it's asking the key questions, you know, the right questions, and collaborating with that supplier to learn what's going on and how they can help them.

April Harrison 14:07

So if we go back to like the doctor analogy. It's more about preventative, rather than having to manage an illness or condition after the fact.

Eric Evans 14:19

Right, right. Exactly, you know, digging deeper, and, you know, really getting in front of those issues, and asking those questions, to find out what they're doing or how they could help them or help the relationship, you know, between the two does it again, or ultimately do they have to move away from them? You know, if it's a sole source supplier, do they have to find an alternative one, you know, in the drastic cases, but oftentimes, maybe they're working together to different strategies, you know, maybe it's freeing up, you know, work capital spending terms things like that?

April Harrison 15:03

Do you find... I'm assuming automation would definitely play an important role in larger companies that have a lot of suppliers? Are there more issues, the more suppliers you have and staying on top of the financial health?

Eric Evans 15:17

With leveraging us because it's kind of your your outsourcing and where we are gathering the financials. So if you have lots of suppliers, you know, we can handle it. But with automation built in, it really does help to streamline the process. And, again, it's about baking in those workflows that may have centered around scores or insights. So then you can have your team, you know, do the right things, and perhaps sign it to a colleague run a deeper dive. And so it can be managed, it just needs to be, I think, really baked into the workflow,

April Harrison 15:58

It's important to look at before you actually make the decision to onboard but then also, keeping check on it.

Eric Evans 16:06

Exactly. If you're doing a sourcing event. And it takes several months, let's say you had group of suppliers you're looking at, before you award a contract, you may want to review all those that you end up narrowing down, look at their financial health. But then, if it takes a while to sign contracts, and it takes another year, once you onboard them, then you should really look at their financial health again, and then do it continuous continuously after that, you know,

April Harrison 16:35

I appreciate you putting it into terms of health care, since I'm a procurement novice, that really helps with giving me something that I can relate to.

Eric Evans 16:43

It's like ordering another, you're going to get your checkups. Obviously, we all go to the dentist, hopefully, you know, twice a year and you've got your annual checkup. But you know, you tend to calibrate based on what's happening. And if you need more care,

April Harrison 16:58

yeah, and I'm learning the older I get, there's more special routine things that you need to have checked.

Eric Evans 17:04

Exactly, yes, yes, unfortunately, in private companies tend to be more volatile. So you know, smaller they are, depending on the country they're in sometimes could affect what's happening. So really, you know, taking that into account, there may not be as many news headlines on them as well, like public companies. And so

really, that's where you really want to kind of go under the hood, a little bit more financials, you know, really do help with, you know, being a leading indicator, and, again, reflect what's what might be happening internally at that company as well. So they say, if sales are going down, or they you know, if the company's you know, borrowing more and leveraging a lot of debt, then that's, that's something that you want to get in front of.

April Harrison 17:55

So I have something called extra credit time, if you have any advice or hacks you would like to share with our audience who may be like me a new kid on the procurement block.

Eric Evans 18:06

Okay, yeah, I like that. Obviously, get started take action, don't be afraid of financial health. A lot of people may not know finance other than, you know, Chuck books and things like that. But we make it really easy for someone to adopt and consume our scores, because we explain it in very, you know, in English, but very plain, easy to read Cliff Notes, so to speak, around what's happening at that company. So it's, it's really digestible. I think the other thing is, it's really about platform to platform. So really looking at getting your digital, as I said earlier, digital house in order, data hygiene, and then really hooking this into your workflow and process to make it much more automated. So you don't have to think about it. And it becomes, you know, a one off here and there, you know, some trends we're seeing, as well as, you know, inviting a supplier in, you know, to do at once and share it with many. So we have an FA char network, which can be embedded into other networks.

April Harrison 19:10

So integrated into your systems and your workflows. So like you said, it's, it's almost like when you go to the doctor, and they say, do you want to go ahead and schedule your next appointment? So that way, you don't have to think about it.

Eric Evans 19:26

Right, exactly. It's everything's teed up or pushed to you. I mean, obviously, there's, there's a lot more kind of App Center models. And so you know, having having different apps, you know, embedded in and having them running in the background, as you're kind of doing that sourcing onboarding, continuous monitoring makes it much easier. So you don't have to think about it.

April Harrison 19:53

Okay, great. Great. where can our audience find you if they want to reach out to learn more about financial health or you know, FHR

Eric Evans 20:00

Yeah, I appreciate it. You can contact me Evans, e-v-a-n-s at RapidRatings.com or just go to RapidRatings.com and they have there's a lot of different white papers and things that we have as well.

April Harrison 20:11

Well Eric, thank you so much for schooling me on supplier financial health, I really learned a lot today. So thank you for joining me.

Eric Evans 20:19

Thank you.

April Harrison 20:20

All right. Take care.

Eric Evans 20:22

All right. Thanks so much.

April Harrison 20:25

That's it for this episode of Procurement Block. I'd like to thank our guest Eric Evans for joining me on the show. Procurement Block is produced by Trust Your Supplier, you can reach us at ProcurementBlock.com. Show notes are available on our website, and you can leave your questions and comments via the listener comment form. Thank you for learning with me today. I'll leave you with wise words from Benjamin Franklin, "An investment in knowledge pays the best interest."

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