Are You Sure Your Supplier is Financially Stable and Healthy?

"What if my manufacturing supplier suddenly closes shop?"

Because of COVID-19, product manufacturers have quickly realized how the virus has exposed weak links in the global supply chain. During and after the virus has run its course, many of you will likely see suppliers who will not survive. *(Unfortunately, some of our aluminum extrusion competitors are closing.)*

Being confident in your supplier's stability needs to be more than a gut-check today. You are going to have to dig in and conduct your due diligence to understand their financial health and business history to ensure they will be there when you need them.



How do I determine my supplier's financial health?

When you partner with a new supplier – or evaluate an existing one – key criteria you will want to examine, include:

- **Business History**
    - Conduct your own online research, including a supplier's website, to determine if the company has a history of workforce reductions, eliminating or adding services, selling subsidiary businesses or production lines, or engaging in mergers or acquisitions. Uncovering this type of information about investments, divestments and returns, can help you gauge a supplier's overall business health.

    - Set up a Google Alert to monitor the internet for content about your suppliers. Receiving timely information and news about your suppliers will allow you to be aware of any significant business changes.
- **Credit History**
    - You can take advantage of online resources, such as Dun & Bradstreet, to research a company's financial history (even privately held companies), including credit score, business revenue, sales volume and value of assets. These resources also offer ownership information, bankruptcies, and payment history down to the average days paid late. Too many red flags may indicate instability.
    - While many suppliers are likely not public companies, if your supplier is publicly traded, check their website, as they are legally required to share their financial balance sheets. Here you can assess financial trends year-over-year, or identify significant drops in revenue or other major business activities. You may also want to read the annual report and letter to shareholders for additional insight into the business's current situation and future strategic plans. Public companies also host quarterly investor conference calls, where you can join to hear comments from the company's CEO and CFO, directly.

What questions should I be asking suppliers?

Sometimes there is no other way to get helpful information without asking tough questions. The following questions will help you judge a supplier's financial health.

- **How diverse is the supplier's market base?** It is important to understand your supplier's market diversity, or lack thereof, as this could show long-term stability. If the supplier serves diverse markets for its business revenue, when one industry is down, others can carry the supplier through. Compared to a single-market supplier for automotive, if the market is down, so is the supplier. Will the supplier be able to survive the downturn, and open its business when the market returns? Or, will you need to shop for a new supplier?
- **Does the supplier have sufficient working capital and access to liquidity?** Banks are being more discerning with loan applicants in today's bumpy economy. Now more than ever, lenders are digging deeper into their customers' financial health. Financially risky companies may not get the financing they need to grow and prosper. Alternatively, financially strong suppliers will have greater access and better terms for financing, enabling them to continue to get stronger. The supplier may not be open to sharing this information but it is important to ask the question anyway.
- **What are the supplier's plans for capital investments this year? Next year?** Companies that invest in themselves, even during difficult economic times, show resiliency and confidence in their abilities to grow and prosper.
- **Is the supplier an "essential business," during the COVID-19 pandemic?** Being able to serve customers during times of crisis, such as the recent government lockdown, could factor into a supplier's longevity. If the supplier is not an essential business and is required to shutdown, it may not be able to withstand the financial burden. Keep in mind that what determines if a business is essential can change depending on the situation.
- **Has the supplier received governmental financial support (e.g. pandemic SBA loans and PPP federal relief package)?** If so, in what ways could the economic relief affect their business in the short or long term? This type of financial support can be telling about a business's longevity.

How often should I evaluate my suppliers?

We guarantee you that things will change for most organizations following COVID-19. Whether a supplier is selling off product lines to free up cash, or expanding its footprint or services to open capacities, every business will need to adjust to a fluctuating manufacturing environment. What you see today can change tomorrow. This is why you should consider regularly monitoring your suppliers.

Red flags to watch for that could indicate unnerving business changes include a pattern of layoffs, selling equipment, a low number or no job openings, or selling product lines. On the other hand, news about new products or services, leadership additions to staff, or facility and equipment upgrades, are strong indicators of business growth and financial health.

With the chaotic impact of COVID-19 on our economy, strategic suppliers will make strategic moves that may be difficult to understand from an outside perspective. If a supplier shows a red flag, be sure you understand the why. You may learn a supplier's decision makes good sense for it to remain financially sound. Such strategic changes are sometimes necessary. If your supplier takes a financial hit during the COVID-19 pandemic, know that many others likely will as well. You do not want to over-react either.

Seek Financially Healthy Suppliers

When was the last time your organization worked through a pandemic?

COVID-19 has OEMs taking a hard look at their supply chain to understand what the soon-to-be new normal in manufacturing looks like.

During critical times, suppliers who exhibit resiliency and tenacity, and are able to flex with negative impacts on needed resources, will come out better than their competition. These suppliers will not only survive the bad times, but will thrive because of them.

Continue achieving your business success by doing your due diligence to understand the suppliers you choose to work with on a deeper level. True understanding and having confidence in your supplier's stability is more than a gut-feel.

Note: This article is Part I, an urgent priority, of a two-part article series that outlines ways to evaluate your manufacturing suppliers' financial health. Part II will discuss other key criteria product manufacturers can look for in their suppliers to determine business health and longevity during the COVID-19 pandemic.

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Alexandria Industries is a multifaceted manufacturing supplier. We use advanced technology and a skilled workforce to create extruded aluminum products, precision machining, heatsinks, finishing, plastic injection and foam molding, welding and assemblies.