



CASE STUDY

November 2017

Quality and Delivery is Predicted by Financial Health



Correlating Financial Health and Supplier Performance

Understanding financial health helps you drive improvement in supplier performance.

Working with new suppliers

When considering a new supplier where you have no existing quality or delivery history, Financial Health can be used to improve a supply chain's operating performance by helping sourcing analyst select suppliers likely to contribute positive performance. What's more, it can guide you on what to expect, and shape your supplier relationship strategy going forward.

Working with existing suppliers

Financial Health can help identify among existing suppliers those most capable of improving their performance metrics. What's more, early warnings of Financial Health deterioration or stress is an excellent way to identify potential supplier performance issues before they occur, protecting your supply chain from business disruption and enabling you to make adjustments to your supplier relationship strategy as needed.

Fortune 100 Global Manufacturer Supplier Performance Study

Financial health is the gateway to understanding a company's underlying strengths and weaknesses and speaking one single language for business decisions; it provides a universal benchmark for choosing whom to partner with in the short- and long-term. A company's financial health is instrumental to determining its ability to expand when business may be good, weather unforeseen disruptions, and how nimble it is to invest in infrastructure and resources, both financial and non-financial.

Poor Financial Health increases probability of issues with supplier performance

If a company is financially distressed, it's reasonable to wonder if they will have a reduced capacity to invest in programs focused on supporting quality and delivery of goods and services for their clients. To explore this hypothesis, we partnered with a Fortune 100 global manufacturer in a study that examined 298 suppliers across a 36-month period and their respective Supplier Performance Scores and Financial Health Ratings (FHR®). Overall, the study found that systematically selecting suppliers with strong Financial Health will improve results in quality and delivery.

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What does this mean?

- A supplier with weak Financial Health is **2.0x** more likely to provide **Very Poor Quality***
- A supplier with weak Financial Health is **2.6x** more likely to provide **Very Poor Delivery****
- A supplier with stronger Financial Health is **better equipped to ramp up** production to keep pace with your production demands
- A supplier with stronger Financial Health and Core Health is better able to **maintain business continuity and operational resilience** during cyclical downturns and / or a disruptive event

* Quality Performance was measured by the number of non-conforming parts received per million.

** Delivery Performance was measured by the number of late shipments in parts per million.

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