Casting a Wider Net:
Financial Risk in the Supplier Lifecycle

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Casting a Wider Net: Financial Risk in the Supplier Lifecycle

SIG: Global Fall Summit 2018
What We’ll Cover

• Introduction to RapidRatings & Caterpillar
• Caterpillar’s risk assessment process
• Supplier risk management best practices
• Impact of weak suppliers
• Financial health and intertwining risk areas
• Nuances of private company financial risk assessment
Our Perspective

Pioneering Financial Health.
We See What Others Don’t.

We challenge leading commercial, industrial, and financial service firms around the world to build business relationships founded on new standards in financial transparency.

✓ Financial Services: Credit, Underwriting, Alpha, Third Party Risk
✓ Corporate: Credit, Supply Chain, Enterprise Risk
Caterpillar: Non-Confidential

PRODUCT LINE
- Construction Equipment
- Diesel & Natural Gas Engines
- Mining Equipment
- Industrial Gas Turbines
- Diesel-Electric Locomotives

OUR SOLUTIONS

HELP OUR CUSTOMERS BUILD A BETTER WORLD.

98,400 Full-time employees

$45.5B 2017 Total Sales and Revenue*

AT A GLANCE

*Includes Inter-Segment Sales

171 DEALERS

SERVING 192 COUNTRIES

Global SUPPLIER NETWORK
Supplier Risk Management Concept

“The essence of risk management lies in maximizing the areas where we have some control over the outcome while minimizing the areas where we have absolutely no control over outcome.”

—Peter L. Bernstein
Continuous Risk Assessment & Response

Priority Issues

- Quality
- Viability
- Component Sourcing
- Availability
- Cost

Risk Mitigation Options
- Risk Monitoring
- Supplier Collaboration
- Onsite Support
- Financial Solutions
- Strategy reassessment

Actions
RISK MANAGEMENT
GUIDING PRINCIPLES

✓ Strive for clarity and transparency to drive awareness.
✓ Be proactive. Tackle issues as early as possible.
✓ Have multiple risk mitigation contingencies.
✓ Find the right balance between security and cost.
✓ Keep strategic alignment across your suppliers & customers.
Weak Suppliers Impact You in Many Ways

65% experienced at least 1 supply chain disruption
44% of disruptions occur at Tier 1
22% do not analyse the source of disruption

Consequences of disruption:

- Loss of productivity: 55% Down 13%
- Increased cost of working: 46% Down 7%
- Customer complaints received: 43% Up 3%
- Service outcome impaired: 34% Down 6%
- Loss of revenue: 32% Down 5%
- Damage to brand reputation/image: 31% Down 7%

BCI (Business Continuity Institute) *Supply Chain Resilience Report 2017*
Where Financial Health Fits in

- Gauge a supplier’s ability to weather future disruptions such as cyber attacks, natural disasters, telecom outages, new laws or regulations, etc.
  - Helping you choose whom to partner with in the short and long-term (who is in line with your risk appetite)
- Evaluate all suppliers on an apples-to-apples basis
  - Regardless of ownership, size, and geographic location
- Create a common language for making business decisions
  - For the whole lifecycle
Risk Control Areas are Intertwined

Studies reveal companies with poor financial health experience issues in supplier performance

High Risk companies are:

- 2.0x more likely to provide "Very Poor Quality" performance
- 2.6x more likely to provide "Very Poor Delivery" performance

Forward-looking visibility: protect against faulty product and potential disruptions
Financial Statement Sourcing

OUTREACH PREP
- Training
- Messaging

OUTREACH
- Collecting Financial Statements
- Escalation Support

PRODUCTION
- Data Analysis
- Ratings Production

- Monitoring | Reporting
- Refresh

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Keys to Successful Private Company Outreach

Global Reach

- **145** Rated companies from **145** countries
- **130** Rated private companies across **130** countries
- **118** Sourced company financials in **118** countries
Creating a Common Language Across the Enterprise

• Have common risk metrics from the start for all third parties on an apples-to-apples basis
  • Regardless of ownership, size, and geographic location
• Set the tone early with high standards of transparency and proactive relationship building
• Define a process for continuous assessment
  – Financial Health evaluation is not a one-and-done – it’s a holistic process
• Operationalize and have risk mitigation options
  – Thresholds, contingency plans, exit strategies
Key Takeaways

• Clarity and transparency are key for building strong business relationships and driving risk mitigation
  – Especially with private companies – there is a commercial value in transparency

• Financial health is a key risk indicator that can provide insight into other risk areas

• Creating a common language across the enterprise makes risk management more economical and efficient

• Being proactive and having multiple risk mitigation contingency plans can ensure business continuity and supply chain resilience
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