The Importance of Due Diligence

It's your key to great partnerships with small businesses

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If you aren't able to effectively vet small business partners, you could be missing your chance to achieve a competitive advantage.

In today's hyper-competitive marketplace, third-party relationships are more important than ever. Choosing the right vendors, partners and suppliers is essential to achieving your organization's goals.

The trouble is, due diligence can be complicated, and even more so when it comes to evaluating small business partners. The plethora of regulations, massive amounts of siloed or difficult-to-access data and complex processes can be grueling to grapple with. When your potential partner is a small business, hidden or missing information adds to the complexity.

Don't let due diligence stand between you and a good partnership. By focusing on a few key capabilities, you can equip your organization to proactively manage risk, partner with the right organizations and make business decisions with confidence.

Let's take a closer look at three main types of risk you should be looking at: **regulatory, financial and reputational**.

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The ever-changing scope of regulatory compliance

There are thousands of regulations governing businesses in the United States today. They range from consumer and labor protection to environmental impact to data privacy and security—and beyond.

And these regulations have a two-fold impact. You aren't just responsible for your own organization's compliance, you're required to vouch for your partners' compliance too. Plus, you're expected to keep up with new and changing regulations and figure out their implications for your business.

If that sounds intimidating, consider the cost of non-compliance: your business could face stiff fines and a damaged reputation.

Top regulatory bodies impacting businesses in 2019

1. Foreign Corrupt Practices Act (FCPA)
2. California Transparency in Supply Chains Act
3. Financial Crimes Enforcement Network (FinCEN)

The remedy

Invest in solutions that can make it easier to vet potential business partners and stay up to date with regulatory changes. Working with an experienced service provider can help you avoid adverse impacts to your business, such as:

- Fines and penalties
- Legal action
- Loss of revenue and reputation

Financial issues beneath the surface

In 2018, more than 89,000 U.S. companies filed for bankruptcy.[1] If one of these companies were your supplier, would you have seen it coming?

It can be challenging to get accurate, timely financial information on small businesses. And since 99.9% of U.S. businesses are small businesses,[2] it's extremely likely you're already doing business with one, or more. That makes your ability to effectively vet them even more important.

Things you need to know about your business partners' finances

- Is there a derogatory event lurking in their background?
- Are they headed for bankruptcy?
- Do they have the resources to meet your needs today, and to grow with you as you scale?

Why it can be hard to perform financial due diligence on small businesses

- Most U.S. small businesses don't have a traditional credit profile.
- Of those that do, many have only a single, low-limit credit card on file.
- Personal financials can impact small business solvency.

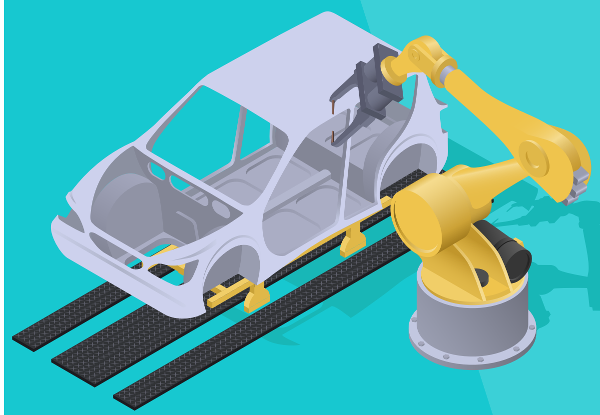
The remedy

Make more informed decisions by looking beyond traditional business credit. Tapping into a deep, wide breadth of data resources can alert you to:

- Derogatory financial history that could be predictive of risk.
- Delinquencies or other indicators of financial insolvency.
- Signs of potential problems among the principals of the business.

Don't let this happen to you

One auto manufacturer suffered millions of dollars in lost revenue, contract penalties and expedited shipping fees when its supplier of a special wheel component unexpectedly filed for bankruptcy.



1. United States Bankruptcies, Trading Economics, https://tradingeconomics.com/united-states/bankruptcies
2. 2018 Small Business Profile, U.S. Small Business Administration, Office of Advocacy, https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf

Reputation matters, and not just yours

You’ve worked hard to cultivate your customers’ trust. Do you want to risk it with a questionable business partner?

Unreliable or unethical partners can ruin your reputation and cost you money—in more ways than one. For example, businesses that can’t prove they keep a close watch on their partners’ reputations could lose a potential 50% savings on contingent business interruption insurance rates.[3]

When partners turn your good reputation bad

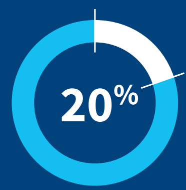
- A major airline took the brunt of the reputational hit when its independent partner, left passengers stranded on the tarmac overnight.[4]
- A multinational food and drink company found itself embroiled in a costly reputational crisis after discovering slave labor in its coffee and cocoa supply chains.[5]

The remedy

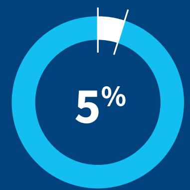
Be proactive by enabling continuous visibility into how your partners are behaving. Ongoing monitoring can help you detect problems and quickly intervene to:

- Avoid disruption to your business and customers
- Mitigate damage to your brand reputation
- In some cases, protect human lives

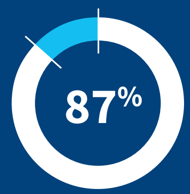
Did you know…



Confidence in a company’s reputation accounts for **20%** of its market capitalization.[6]



Supply chain disruptions reduce shareholder value by an average of 5%.[7]



87% of executives rate reputation risk as more important than other strategic risks.[8]

3. Sourcing Innovation, “The ROI of Supply Chain Resiliency,” November 2013. http://www.mypurchasingcenter.com/files/8813/9567/6952/ROI-of-Resiliency-by-Resilinc-11_2013.pdf
4. Airlines fined for stranding passengers on tarmac, The Seattle Times, November 24, 2009. https://www.seattletimes.com/life/travel/airlines-fined-for-stranding-passengers-on-tarmac/
5. Nestle “failing” on child labor abuse, says FLA report, BBC News, June 29, 2012, https://www.bbc.com/news/world-africa-18644870
6. The 2017 U.S. Reputation Dividend Report, Reputation Dividend: What’s Your Reputation Worth? http://www.reputationdividend.com/files/9415/0048/5298/US_2017_Reputation_Dividend_Report.pdf
7. Ibid.
8. Deloitte 2014 Global Survey on Reputation Risk, October 2014. https://www2.deloitte.com/content/dam/Deloitte/pl/Documents/Reports/pl_Reputation_Risk_survey_EN.pdf.

A 360° view of your business partners is crucial to properly managing risk—**whether regulatory, financial or reputational**.

You can get that comprehensive view with exhaustive (but not exhausting) due diligence.

Remedies include:

- Integrated, automated risk management workflows that make it easy to vet potential business partners.
- Robust data sources that can help you better assess the financial health of third parties.
- In-depth due diligence at the start of a business relationship, and throughout, so you can take proactive steps to protect your organization.

How can we help you?

LexisNexis® Risk Solutions can support you throughout the entire due diligence lifecycle to help you identify, monitor and assess risks and opportunities to your business. We stay on top of regulatory changes and what they mean for our customers. And that means you can spend more time doing business—and less time on due diligence.

Our solutions can help you:

- Lower compliance costs
- Increase operational capacity
- Reduce cycle times
- …and enjoy peace of mind

Optimize your business and reduce risk

Our due diligence solutions allow you to evaluate and assess business partners more quickly, efficiently and consistently. Gain a competitive edge with our market-leading capabilities:

Coverage on 25% more businesses than any other provider.

Extensive, curated, up-to-date data sources not accessible from free tools.

83 billion records from more than 10,000 sources.

Advanced linking technology that uncovers insights at the legal-entity level.

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Let’s talk.

To find out how we can deliver better results for your organization, **contact us at 800.897.1644 or risk.lexisnexis.com/SMBRisk**.

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