

Assessing Your Vendors' Viability

by
Virginia Kay Williams
and
Kathy A. Downes

Abstract

Modern libraries invest substantial resources in print and electronic serials. Unfortunately librarians do not always understand how financial issues faced by vendors in today's economy can adversely impact library services. Librarians are careful when initially selecting major vendors; however, good stewardship demands that libraries continue to assess their vendors' financial health throughout the relationship. This paper discusses the risks that vendor financial difficulties pose to library operations and recommends methods for librarians to monitor vendor viability.

Keywords: vendor viability, vendor finances, risk assessment, stewardship

Virginia Kay Williams is Acquisitions Librarian at Wichita State University. Ginger holds the M.L.S., S.L.I.S., and J.D. from the University of South Carolina. Her research interests include acquisitions and collection development. She is currently Vice-Chair/Chair Elect of the Collection Development and Management Section of the Association for Library Collections and Technical Services.

Kathy A. Downes is Senior Associate Dean for University Libraries at Wichita State University. She holds the M.L.I.S. from the University of Kentucky and the M.P.A from Wichita State University.

The authors would like to thank Dr. Pal Rao for his assistance with this paper.

Assessing Your Vendors' Viability

While libraries usually are very careful when they first select major vendors, good stewardship demands that a library continue to monitor vendor financial health throughout the relationship. Libraries often spend thousands, in some cases millions, of dollars per year with serial subscription agents, database publishers, and library software companies. Wichita State University (WSU), where the authors work, spends over one million dollars annually through its subscription agent, buys several hundred thousand dollars of databases directly or through a consortium, maintains a substantial deposit account with its approval plan vendor, and licenses several library software programs. Like many libraries, WSU's library remits funds at the beginning of the year with the expectation that vendors will provide a year's worth of journal issues, database access, or software support. In the current economic climate, with business bankruptcy filings doubling from 366,053 in 2006 to 754,784 in 2008, WSU librarians have found themselves spending more time monitoring vendor viability.¹

The last time a large number of libraries faced major disruption to operations due to a vendor financial collapse was in 2003 with the bankruptcy of Faxon. This 2003 bankruptcy of major subscription vendor divine/RoweCom/Faxon demonstrates the need to monitor vendors closely.² In the Faxon case, libraries had paid the agent for 2003 subscriptions, but the agent had not yet paid publishers when bankruptcy was declared. With its records in great disarray, the subscription agent had used much of the money to pay the company's debts before it went into bankruptcy; the remaining funds could only be disbursed after complex and timely proceedings in the bankruptcy court. Librarians who had worked with the agent spent months dealing with the

debacle. Libraries not directly affected were also concerned, as the loss of subscription revenue threatened the survival of some publishers and journals.³ Although WSU was not a Faxon customer, the bankruptcy's impact on publishers threatened the library's access to several important resources and highlighted the need for all libraries to regularly monitor their vendors.

Changing library vendors is extremely difficult. Even when there are strong signals that a company is financially troubled, the amount of work involved in changing major vendors discourages libraries from taking action. In a retrospective on the Faxon Company, Connie Foster briefly described some of the signals that prompted Western Kentucky University Libraries to sever a long relationship with Faxon in time to avoid being caught in the bankruptcy. The Faxon Company had been financially troubled for some time, but the staff time required to change subscription agents deterred Foster from recommending a change until a new software company bought Faxon in 2001.⁴ Changing subscription agents requires substantial staff time, but by monitoring vendor financial health, Foster helped her library avoid having to do the work of changing agents while coping with bankruptcy claims.

Bankruptcies and other risks

Bankruptcies and other actions such as vendor mergers, buyouts, restructuring, slow payments, downsizing, high staff turnover, and even meteoric growth carry risks for libraries who depend on those vendors for products and services. Librarians need to understand the potential risks associated with each of these business changes so they can assess whether the library needs to take any action.

Bankruptcy, so what exactly does it mean? Federal bankruptcy laws provide two kinds of bankruptcy for businesses, Chapter 7 and Chapter 11. In a Chapter 7 bankruptcy, the company stops operating. The bankruptcy court appoints a trustee to sell the company's assets and pay off debtors and investors. The Faxon serials agency bankruptcy of 2003 was a Chapter 7 bankruptcy. When a mission-critical vendor files a Chapter 7 bankruptcy, the library is in a disaster situation. That vendor will no longer provide products or services. If the library has paid for subscriptions not yet received or services such as a hosted electronic resource management system, the library is a creditor of the bankrupt company. The library must work with the bankruptcy trustee to recover money paid for the unfulfilled subscriptions and remaining services. Bankruptcy trustees sell assets and distribute funds of the bankrupt company to secured creditors first, then to unsecured creditors, and finally to stockholders. A secured creditor is one who holds a legally enforceable contract that entitles the creditor to be paid from specific assets, such as a bank holding a mortgage. Libraries are more likely to be unsecured creditors, putting them second in line for repayment. Whether the library is a secured creditor or an unsecured creditor, the library will need to file evidence of the debt and communicate with the bankruptcy trustee regularly. Many months may pass before the library receives any money from the bankrupt company and the library may never be fully reimbursed. At the same time the library is working with the bankruptcy trustee, it also will need to seek a replacement vendor and cope with the loss of materials or services formerly provided by the bankrupt vendor. If a major vendor files Chapter 7 bankruptcy, the library staff may spend months working with lawyers while coping with interrupted subscriptions or services. A library would be wise to contact its legal representative as soon as it becomes aware that it may become a creditor in a bankruptcy proceeding to secure all of the assistance it can get.

Unlike a Chapter 7 bankruptcy, a Chapter 11 bankruptcy is troubling, but not usually a disaster for the library. In a Chapter 11 bankruptcy, the company continues operating while working with the bankruptcy court to reorganize its business and become profitable again. The company's management continues handling day-to-day operations, but major business decisions must be approved by the bankruptcy court. For example, in the summer of 2009, car companies General Motors and Chrysler both filed for Chapter 11 bankruptcy.

When a vendor files for a Chapter 11 bankruptcy, the library will continue receiving products and services, but it needs to monitor the situation carefully. The vendor's reorganization plan may include closing branches, eliminating product lines, cancelling contracts, or restructuring the terms of its debts. For example, when General Motors and Chrysler were in Chapter 11 bankruptcy in 2009, they both cancelled dealership contracts and eliminated some product lines. Although a successful reorganization may make the company stronger so the library can continue doing business with it, the library should begin to identify alternative sources of products and services just in case the reorganization is unsuccessful or the process eliminates products and services essential to the library.

Vendor mergers and buyouts, a second category of risk, are much more common than bankruptcies. Most libraries probably have experience with an automation system vendor merging with, buying out, or being bought out by another company. When two companies are combined through a merger or buyout, management will seek to eliminate redundancies. For the library, this may mean that the company combines regional offices and reassigns customer service and technical support representatives, requiring the library to build new working relationships. The library may also find that support suffers while representatives learn new responsibilities. These are usually short-term consequences; if library staff are patient and

diligent about following up with new representatives, service usually improves in a few months. As early as possible in the transition period, the library should contact the customer service manager and talk about the changes and any concerns the library has. Service issues that are not rapidly resolved should be brought to the manager's attention. If the library is having ongoing problems with vendor performance after a six-month transition period, it is time for a serious conversation within the library about its future business relationship with this vendor.

While service issues are often a short-term consequence of vendor mergers and buyouts, the library will need to continue monitoring the status of competing products offered by the vendor. If the vendor of a critical software product, such as the library's automation system or electronic resources management systems (ERMS), combines with another vendor who has competing products, it is very likely that the company will choose to focus on one of the two products. Once that happens, development of the other product tends to slow or stop completely and training opportunities as well as support for user groups of the product diminishes. Librarians may also notice that the best technical people in the company have gradually moved to the continuing product or left the company. Eventually, the company will declare end-of-life for one product, forcing libraries to migrate to the continuing product, migrate to a new vendor, or use the old product without any vendor technical support. When the vendor of a critical software product is involved in a merger or buyout, the library should inquire about plans for competing products. The library should be alert to statements that features from one product will be incorporated into a competing product within the new company, as this may signal an intent to develop one at the expense of the other. If the library's product is the one being phased out or marginalized, the library should begin assessing all competing products to decide whether to stay with the same vendor or switch vendors when migration becomes necessary. By being alert to

the possibility of product phase outs following a merger or buyout, the library can better retain control of any needed changes, for example, determining the timing of any needed software migration.

Vendor restructuring carries many of the same impacts associated with mergers and buyouts. During a restructuring, the library often is required to build relationships with new service representatives, adapt procedures in response to changing services, or make decisions about changing product lines. Signs that a vendor is restructuring, such as consolidating offices, shifting resources from traditional services to develop new services, and acquiring or divesting ancillary product lines, are neither positive nor negative on their own, but should be considered in the context of the industry and the needs of the individual library. Librarians should be aware that many of these restructuring activities are in response to industry trends, and vendors who do not respond to these trends will eventually be unable to meet the library's needs. In the film *Other People's Money*, character Lawrence Garfield declaims, "You know the surest way to go broke? Keep getting an increasing share of a shrinking market."⁵ Today, gaining an increasing share of the shrinking print serials market is a very real concern for serial industry vendors, so it is not surprising that savvy serial vendors are focused on restructuring to secure and grow their share of the expanding digital serials market.

Libraries need to closely examine restructuring activities to determine whether they improve library services and operations or put them at risk. For example, libraries that use subscription agents to handle thousands of subscriptions might be pleased when agents develop new services for digital serials management. These services can both help the library directly and help the vendor survive as the print serial market shrinks. But these same libraries may be concerned about the health of their subscription agent when large publishers are observed

offering incentives to libraries and consortia to buy digital journal packages and databases directly, bypassing subscription agents and their service fees altogether. On the other hand, libraries that are developing plans to reduce dependence on subscription agents may find these publisher incentives highly desirable and timely.

In addition to competing with subscription agents, several publishers have recently engaged in restructuring activities that raise special concerns for collection development and acquisition librarians. These publishers appear to be focusing their brands by selling titles in tangential subject areas and acquiring titles in their core subjects. One such example is found in Reed Elsevier's recent actions concerning their library science and business publications.⁶ Buying and selling journals creates the risk that the library will lose access to digital back issues, usually requiring quick actions to maintain access that may include the triggering of the library's digital archive arrangements with an outside archiving service such as Portico. Publishers, who begin to frequently change the content of their online journal and database packages, present an additional challenge to libraries when these changes occur after the budget is set for the year. Additionally, publisher restructuring can prompt changes in pricing models; for example, some publishers are shifting from print-plus-online pricing models, where online access is free or substantially discounted for print subscribers, to online-plus-print models that include a substantial surcharge for maintaining print. Some publishers are also offering libraries incentives to switch to online-only access or are dropping print subscription options completely. All of these publisher restructuring activities create a variety of risks for libraries in terms of access to materials and budget planning.

Slow payments, downsizing, high staff turnover, and even meteoric growth often are early warning signals that vendors are having difficulties which may eventually affect the library.

News that a vendor is slow making payments to its suppliers suggests cash flow problems; the library should be diligent in making prompt payments to avoid exacerbating the problem while being aware that cash flow issues can impede the vendor's ability to update products and services. Downsizing, or reducing the number of employees, may be a strategic part of restructuring efforts or may be a response to cash flow issues. High staff turnover not only indicates that employees are unhappy, but also often results in inexperienced employees who have difficulty meeting the library's needs and who may be slow in updating unfamiliar products and services. Meteoric growth at first glance appears to be a positive development; however, meteoric growth can be difficult to manage if the company is not financially prepared for rapid expansion or is unable to hire and train new employees quickly. If the vendor's management addresses any underlying problems effectively, then slow payments, downsizing, high turnover, and meteoric growth may result in nothing more than some short-term service issues for the library. But once a library notices these early warning signals of problems, it should monitor the vendor closely for other signs of instability.

Strategies for Monitoring Vendors

So what steps can a library take to monitor its vendors and protect itself from the consequences of the above-mentioned risks? One strategy is for the library to develop a procedure for regularly assessing its vendors' financial health through the creation of financial viability profiles for mission-critical vendors. A financial viability profile helps organize and record financial and other pertinent information about a vendor in order to monitor the financial health and stability of that vendor. Profiles generally include information about the vendor's business ratings, stock performance, legal issues, business changes, and contacts with the library.

These profiles are developed by the individual institution and customized to reflect local interests. Depending upon the institution's preference, vendor profiles may be created using everything from a database to simple paper forms. Most profiles allow for year-to-year comparisons.⁷ An example of a simple paper vendor profile form is shown in Figure 1.

*****Typesetter, please insert Figure 1 here.*****

Figure 1. A sample vendor profile form.

Once the method for recording vendor information has been established, a library will want to identify the vendors to be assessed, decide the timing of the assessment process, and identify the librarians responsible for managing the assessment process. As a library may deal with dozens if not hundreds of companies each year, it may wish to create a list that prioritizes vendors by how mission-critical their products and services are in combination with how difficult it would be to recover should these products and services no longer be available. After completing this prioritization, most libraries will find that they can complete a satisfactory risk assessment of their vendors by focusing on the three to five companies that top their priority list. The timing of the review process should be based on the needs and workflow of the library. Scheduling a vendor review just prior to the development of the next fiscal year's budget would ensure that current information is available for annual decision making; however, some libraries might find it difficult to schedule a major review project at that time of the year. Another strategy would be to gather information throughout the year and evaluate a portion of the vendors each quarter. Regardless of the timing, it is important that the library assign personnel to the assessment project. At a minimum the librarian responsible for acquisitions and the librarian

responsible for the overall budget should be involved. Depending on the library's size, more staff may also be involved in the information gathering.

A library may choose to gather financial information about its vendors from a number of sources. Sources include direct contacts with the vendor, information from vendor websites or publications, standard business reference sources, general and industry news items, library databases, and professional colleagues.

A library's direct observations of a vendor's business practices and its relationship with the library's vendor representative can give important insight into a vendor's financial health. A vendor that offers a high level of service, adheres to a philosophy of continuous improvement, and observes sound business practices, probably enjoys good financial health. On the other hand, many of the behavioral changes mentioned earlier such as increased turnover or reduction in the number of sales representatives, new service charges, unexpected/unexplained price hikes, shipping delays, delays in returning calls or emails, or increased mistakes, may all signal that a company needs further monitoring. Beyond direct library interaction, changes in vendor conference behavior such as reduced participation, reduction in sponsorship of events, and reduced exhibit space may also be potential indicators of a change in financial status.

To test the validity of any concerns, it is critical that a library schedule formal meetings with its major vendors each year. Vendor meetings should include discussion of any issues a library might have about changes in the vendor's business practices. Additionally, these meetings can be used to probe for insight into the company's ongoing projects and goals. Beyond the formal meetings, libraries must develop a good rapport with their vendor representatives. These representatives often can give advance warnings about changes in a vendor's business product line, as well as provide important insights into the vendor's health. If possible, a library should

schedule an exit interview with any departing vendor representative. After Faxon went under, it was anecdotally reported that a number of libraries had dropped the service based on what their representatives said or did not say. Libraries should use their vendor profiles to record any information about a vendor gathered through personal contact including general uneasy feelings. While these vague feelings alone would not warrant a change in the vendor relationship, they could be the first signal that further investigation is in order.

A key place to go to gain ongoing information about a vendor's plans and priorities is the company website. Although websites are major marketing tools for the vendors and will have a certain amount of positive bias, most vendor websites also contain substantial amounts of useful information. Check the website's news sections for current information about the company. If the company is publicly traded, see if there is a section for investors that posts its annual report or discusses the company's financial situation. If the company distributes a newsletter, read it. Also look to see if the vendor is maintaining and updating its website. Problems might be looming if a vendor has not yet adopted contemporary methods for handling customer transactions. Note the vendor's goals and any changes in the vendor's profile.

Beyond personal observations and vendor provided information, insights or information from professional colleagues can provide valuable indicators of a company's financial health. Listservs and blogs provide an informal source of information. While information found in these sources should be verified, concerns expressed in blogs could be a signal that a negative change has occurred with a vendor. Professional websites, such as the one maintained by the American Association of Law Libraries Committee on Relations with Information Vendors, may also act as vendor watchdogs.⁸ When gathering information from professional colleagues, do not overlook the vendor relationships maintained by the various library consortia. If a large consortium has

stopped using a major vendor, it is essential to find out why and note this information in the vendor's profile.

Beyond informal information about vendor business practices, important vendor financial information is available in commercial reference sources. A library with access to a strong business collection or premium business databases already has on hand many of the sources needed to obtain fairly neutral financial evaluations of vendors. Financial indicators such as net income, total sales, credit scores, or stock performance will help a library gain a clearer picture of the company's financial health. Wichita State University Libraries relies on commercial services such as LEXIS/NEXIS Academic and Standard & Poor's NetAdvantage for gathering most of the financial information for its vendor profiles. With a little extra work most of this information can also be obtained from a number of freely available web sites. For example, basic stock information as well as detailed financial information can be obtained for publicly traded companies from the SEC's EDGAR database. Additionally, a number of news services allow for the set up of alerts or RSS feeds to track news items about specified companies. For example, iGoogle can be used to create a customized Google homepage featuring news gadgets for the various companies being monitored. An example of one such page can be found in Figure 2.

*****Typesetter, please insert Figure 2 here.*****

Figure 2. Customized iGoogle news feed.

As the library gathers information for each of its vendor profiles, its goal is to identify patterns that warn of problems before the occurrence of a major event such as a Chapter 7 bankruptcy. Information gathering about vendors ought to be completed at least one or two

weeks before a review meeting is scheduled to discuss the vendor profile. Before the review meeting, the library decision-makers involved in the vendor review process should examine the profile, reading all the information recorded for the current year and comparing with information from previous years. At the review meeting, the librarians should discuss the information in the profile and look for answers to such questions as:

- Are the share prices of the vendor holding steady or improving over time? Are earnings per share steady or growing? Are the company's officers or other insiders buying or selling their stock in the company (insider sales and buys can be easily obtained by scanning financial publications such as *Barron's*). For publicly held companies, stock prices and transactions are indicators of investor confidence that the company will be profitable in the future. If stock prices are declining for one company when the rest of the industry has stable or increasing prices, the library should look for reasons that investors are concerned.
- Has there been a major change in ownership recently? A major change in ownership may simply result from an owner deciding to become less active in the business and disposing of shares to others who will keep the company growing, or it may happen when there are problems within the company or disagreements among owners. To assess the possible impact of the ownership change, it is important to determine why the change has occurred.
- Does the financial information indicate that the company's income, sales, and assets are declining, remaining steady, or growing? Declining income, sales, and assets indicate problems which the company should be trying to address. How is the company addressing these problems?

- Does the financial information show that liabilities have increased significantly? Has the company's credit rating changed? Are the number of employees growing or declining? Increased liabilities and employees may be necessary for a growing company to expand, but if the company is not growing, the library may be concerned.
- Have there been major changes in top executives, auditors, and legal services? Some change over time is normal, but frequent changes may signal problems in the company.
- What significant legal cases or intellectual property developments have occurred? Most companies will have some legal cases, and many in the serials industry will have some intellectual property activities, but from the library's perspective significant legal cases and intellectual property developments are ones which either threaten or improve the company's profitability and business development. It is important that the library evaluate whether a recent case might harm the company's viability.
- What are the company's goals and challenges according to news stories, company publicity, and company representatives? Are there new developments with products and services the library uses? Is the company focusing resources on other products and services? Changes in goals or movement away from library products could signal that the vendor's and library's goals are no longer compatible.

- How much turnover has there been in company sales representatives in the last year and in the last three years? Are library staff members expressing concerns about service?

Finally, the librarians need to ask themselves two questions:

- What questions need to be followed up with the vendor representative?
- Does the library feel comfortable that this company is healthy?

Most viability reviews will conclude that the library is comfortable with the company's financial health, but may have a question or two for the representative. For example, the librarians may want to know if a new product or service has been adopted in any similar libraries. For those vendors, the librarians will seek additional information from the vendor representative, rate that vendor as satisfactory for the year, and begin gathering information for the next annual review. If, however, the librarians have too many questions or feel uneasy about a company, they need to act on these concerns. As a first step, the library should contact the vendor representative, explain that concerns about the company were raised during the annual vendor viability review, and ask for a meeting or conference call to discuss those concerns. Depending on the outcome of this meeting, a library may want to gather additional information about the company, schedule another review in six months, request and pay for a credit report on the vendor, or begin investigating alternative sources for the critical products and services provided by the vendor in question.

Librarians should remember that the purpose of a regular vendor viability review is to spot troublesome patterns early. Concern about a mission-critical vendor does not mean that the library needs to change vendors immediately. Investing in such a review system can, however,

build in reaction time so that libraries have the opportunity to consider other options for procuring products and services, and consider whether investing staff time in making a vendor change is warranted. As librarians who recall the Faxon bankruptcy will no doubt agree, being able to avoid an abrupt need to change major vendors is well worth devoting a little time every year in monitoring the financial health of the library's vendors.

Notes and References

¹ "Bankruptcy Statistics," *U.S. Courts*,

<http://www.uscourts.gov/bnkrpctstats/bankruptcystats.htm> (accessed September 30, 2009).

² Note that the company name "divine" is written entirely in lowercase.

³ Sue Wiegand, "Financial Issues: Changes in Serials Acquisitions in the 21st Century," *The Serials Librarian* 49, 1/2 (2005): 241-251.

⁴ Connie Foster, "Beyond Vision, the Reality of Shatterproof Windows and the Demise of the Faxon Company," *Serials Review* 29, 4 (2003): 265-266.

⁵ *Other People's Money*, DVD, directed by Norman Jewison (1991; Burbank, CA: Warner Home Video, 2005).

⁶ "Library Journal for Sale as Reed Elsevier Says It Will Divest B2B Publishing Business," *Library Journal Academic Newswire*, <http://www.libraryjournal.com/info/CA6534369.html> (accessed September 30, 2009).

⁷ Bob Artner, "Develop a Vendor Viability Plan," *TechRepublic*, http://articles.techrepublic.com.com/5100-10878_11-1050444.html (accessed September 30, 2009).

⁸ *American Association of Law Libraries Committee on Relations with Information Vendors*,
<http://www.aallnet.org/committee/criv> (accessed September 30, 2009).

Attachment 1. Major Vendor Profile

Company:

Library's Annual Expenditures / Year for this vendor:

Critical Services for Library:

Company website:

Parent Company:

Major Subsidiaries:

Business (Primary and Secondary SIC/NAICS codes):

Key Competitors:

If Publicly Held	EXCHANGES:		TICKER SYMBOLS:	
STOCK PERFORMANCE (Quarterly)	Date:	Date:	Date:	Date:
Share Price				
52-week high/low				
Earnings Per Share (EPS)				

If Privately Held, major owners (note any major changes in ownership):

FINANCIAL INFORMATION	Year:	Year:	Year:	Year:
Net Income				
Net Sales				
Total Assets				
Total Liabilities				
Credit Rating				
Employees				

Attach current list of top executives, auditors, legal services. Note any changes from previous year and indicate any reasons given for change.

Significant Legal Cases (Full Citation and outcome):

Significant Intellectual Property (New or Expiring Patents and Copyrights):

Major News Stories:

Company Goals, Challenges, Directions (website, corporate reports, news releases, etc.):

Company Representatives with whom library works (Names, titles, comments about changes):

Library staff comments about working relationships with company and its representatives:

Dates of meetings with company representatives during year (attach notes):

Attachment 2. iGoogle News Feed

