

CASE 02

# Commercial Due Diligence & Risk Review

Testing a strategic supplier before commitment: evidence, dependency, contractual exposure and decision conditions.

Decision question

Should a mid-sized company enter a three-year strategic agreement with a specialist technology supplier, and if so, which conditions must be satisfied before signature?

|                                                            |                                                         |                                                              |
|------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------------------|
| <div>TRANSACTION</div> <div>3-year supplier deal</div>     | <div>EVIDENCE SET</div> <div>18 core items</div>        | <div>RISK FOCUS</div> <div>Dependency + enforceability</div> |
| <div>REVIEW TYPE</div> <div>Commercial / operational</div> | <div>DECISION</div> <div>Go / conditional / no-go</div> | <div>OUTPUT</div> <div>Risk memo + conditions</div>          |

ANALYTICAL FRAMEWORK

|                                                                 |                                                              |                                                         |                                                             |                                                           |
|-----------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------|
| <div>1</div> <div>Question</div> <div>Define the decision</div> | <div>2</div> <div>Evidence</div> <div>Structure inputs</div> | <div>3</div> <div>Analysis</div> <div>Test issues</div> | <div>4</div> <div>Priorities</div> <div>Rank exposure</div> | <div>5</div> <div>Options</div> <div>Support action</div> |
|-----------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------|

Illustrative demonstration case

This case is a fictionalised scenario created to demonstrate analytical method, decision structure and deliverable design. It does not represent a named client engagement.

# Decision context and evidence perimeter

The supplier appears commercially attractive, but several value claims depend on assumptions that are not equally supported by evidence. The purpose of the review is to distinguish commercial upside from contract and dependency exposure.

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| <b>Illustrative evidence reviewed</b> <ul style="list-style-type: none"><li>• Commercial proposal and pricing model</li><li>• Draft MSA, SLA and data-processing terms</li><li>• Security questionnaire and architecture summary</li><li>• Three customer references and two case studies</li><li>• Corporate filings and ownership information</li><li>• Implementation plan, roadmap and support model</li></ul> | <b>Decision-critical questions</b> <ul style="list-style-type: none"><li>• Can performance claims be independently supported?</li><li>• What happens if implementation is late or incomplete?</li><li>• Which services depend on subcontractors or key personnel?</li><li>• Can the buyer exit and recover data without operational lock-in?</li><li>• Are service remedies proportionate to likely business impact?</li><li>• Which risks can be mitigated contractually before signature?</li></ul> |
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|                                                  |                                                 |                                                 |
|--------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| COMMERCIAL ATTRACTIVENESS<br><b>High</b>         | EVIDENCE CONFIDENCE<br><b>Mixed</b>             | DEPENDENCY RISK<br><b>Medium-high</b>           |
| CONTRACT LEVERAGE<br><b>Strong pre-signature</b> | SWITCHING COST<br><b>Material after rollout</b> | PREFERRED STANCE<br><b>Conditional approval</b> |

|                                                                                                                                                                                                      |
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| <b>Review principle</b> <p>Do not treat supplier assurances, contractual rights and operational capability as interchangeable forms of evidence. Each supports a different part of the decision.</p> |
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Portfolio note: all company names, figures and operating details in this demonstration case are illustrative.

02 / EVIDENCE ANALYSIS

# Evidence strength, gaps and contradictions

The review grades not only the risk itself, but the evidence supporting each conclusion. Unsupported claims are tracked separately from confirmed adverse facts.

| Issue                   | Evidence status        | Observation                                         | Decision relevance |
|-------------------------|------------------------|-----------------------------------------------------|--------------------|
| Implementation timeline | Partially supported    | Plan exists; resource assumptions are not committed | High               |
| Uptime claim            | Supported historically | Reference data aligns with stated level             | Medium             |
| Data portability        | Ambiguous              | Export right exists; format / timing not defined    | High               |
| Subprocessor dependency | Confirmed              | Critical function relies on specialist third party  | High               |
| Customer concentration  | Incomplete             | No customer-level data disclosed                    | Medium             |
| Roadmap dependency      | Unsupported            | Two required features are future roadmap items      | High               |

MATERIAL RED FLAGS

## Where the risk is concentrated

- 01 Two required capabilities are not currently contracted deliverables; they exist only as roadmap statements.
- 02 Termination rights are clearer than exit mechanics. The draft does not define a complete transition-support obligation or structured data export process.
- 03 Service credits are capped at a level materially below plausible operational loss, reducing their value as a performance incentive.
- 04 A critical technical function depends on a named subprocessor, but replacement, notification and continuity obligations are weak.
- 05 The buyer would incur integration and training costs early, while the supplier receives a multi-year revenue commitment; leverage therefore shifts sharply after implementation starts.

Evidence gap versus red flag

A missing document is not automatically a negative fact. It becomes decision-critical when the missing evidence prevents validation of a claim that the investment case relies on.

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03 / RISK ARCHITECTURE

# Exposure by category and control lever

The main risks are not independent. Lock-in magnifies weak exit terms; roadmap dependency magnifies implementation risk; limited remedies magnify performance uncertainty.

| Risk category          | Inherent risk | Primary driver                   | Available control                                 |
|------------------------|---------------|----------------------------------|---------------------------------------------------|
| Implementation         | High          | Uncommitted resource assumptions | Milestones + acceptance criteria                  |
| Operational continuity | Medium-high   | Critical subprocessor dependency | Continuity obligations + notice rights            |
| Commercial lock-in     | High          | Early sunk cost + 3-year term    | Break rights + staged commitment                  |
| Data / exit            | High          | Undefined export mechanics       | Exit schedule + transition support                |
| Performance            | Medium        | Remedies weaker than exposure    | Service levels + escalation + termination trigger |
| Price / scope          | Medium        | Change-control discretion        | Rate card + approval thresholds                   |

LEVERAGE MAP

# When each party holds power

|                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                              |
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| <b>Buyer leverage - before signature</b> <ul style="list-style-type: none"><li>• Ability to select alternatives</li><li>• Control over term length and minimum commitment</li><li>• Ability to condition award on evidence</li><li>• Ability to require implementation acceptance gates</li></ul> | <b>Supplier leverage - after rollout</b> <ul style="list-style-type: none"><li>• Operational switching cost</li><li>• Knowledge embedded in implementation</li><li>• Data and workflow dependency</li><li>• Time pressure if the service becomes business-critical</li></ul> |
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**Strategic implication**

The most important protections must be negotiated before implementation begins. Post-signature requests will be made from a weaker bargaining position.

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04 / DECISION OPTIONS

# Go, conditional go or no-go

The evidence does not justify an unconditional rejection, but it also does not support signing the current draft without closing conditions.

| Option                           | Commercial effect                                   | Risk effect                                              | Leverage effect                       | Assessment     |
|----------------------------------|-----------------------------------------------------|----------------------------------------------------------|---------------------------------------|----------------|
| A - Sign current draft           | Fastest start                                       | Accepts unresolved exit, roadmap and continuity exposure | Buyer leverage drops immediately      | No-go          |
| B - Conditional approval         | Preserves timetable with defined closing conditions | Converts key uncertainties into enforceable obligations  | Uses strongest pre-signature leverage | Preferred      |
| C - Delay / alternative supplier | Reduces dependency on one vendor                    | Avoids current contract exposure                         | Preserves choice but costs time       | Fallback BATNA |

PROPOSED CLOSING CONDITIONS

## Minimum conditions before signature

- Convert roadmap-dependent capabilities into dated contractual deliverables or remove them from the business case.
- Add objective implementation acceptance criteria and milestone-linked payment / termination rights.
- Specify data export format, timing, assistance and transition support on termination.
- Strengthen subprocessor continuity, notification and replacement obligations.
- Add material service-failure escalation and termination triggers beyond service credits alone.
- Cap unilateral scope or pricing changes and document the full rate card for foreseeable change requests.

**Recommended decision**

Conditional approval: proceed only when the decision-critical uncertainties are either evidenced or converted into enforceable contractual protections.

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05 / DELIVERABLES

Decision package and negotiation support

A due diligence engagement should leave the client with a reusable evidence record and a negotiation structure, not only a narrative report.

| Deliverable                 | Purpose                                             | Decision use                    |
|-----------------------------|-----------------------------------------------------|---------------------------------|
| Executive risk memo         | Condense material findings, confidence and exposure | Board / sponsor decision        |
| Evidence register           | Link each conclusion to source material             | Auditability and follow-up      |
| Red-flag & gap matrix       | Separate adverse facts from missing evidence        | Prioritise diligence requests   |
| Contract issue list         | Translate risk into clause-level negotiation points | Counsel / procurement handoff   |
| Closing-conditions schedule | Define must-have protections before signature       | Preserve pre-signature leverage |
| BATNA comparison            | Compare delay / alternative supplier implications   | Negotiation discipline          |

WHAT THIS CASE DEMONSTRATES

Capabilities evidenced

|                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Analytical capabilities</b></p> <ul style="list-style-type: none"><li>• Evidence quality assessment</li><li>• Red-flag and dependency analysis</li><li>• Commercial exposure mapping</li><li>• Counterparty perspective</li><li>• Decision-condition design</li></ul> | <p><b>Execution capabilities</b></p> <ul style="list-style-type: none"><li>• Document review at scale</li><li>• Structured issue registers</li><li>• Executive decision briefs</li><li>• Negotiation-ready issue lists</li><li>• Clear separation of fact, gap and assumption</li></ul> |
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**Portfolio value**

This case demonstrates how a commercial review can preserve optionality and leverage by identifying which uncertainties must be resolved before the client becomes operationally dependent on the counterparty.

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