

How to Negotiate With a Supplier

Written by Ankur Bhatia
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Sales and profit margins play an intrinsic role in the development of a successful business organization. Most small and medium enterprise owners operate on a tight shoe string budget and often struggle to get best possible prices for materials and supplies. Negotiating with potential suppliers can work as an advantage for such business establishments and can clearly make a difference in their budgets and sales. There are a host of subsets when it comes to negotiating successfully with a supplier. Negotiations are not fixed on pricing alone and can include the spectrum of delivery times, payment mechanisms, and quality control. Since successful negotiations with a supplier includes a host of checks and balances, it is much more imperative for small business owners to understand the importance of negotiations.

Understand Your Supplier: Before embarking on any negotiations with the supplier, conduct a basic research on suppliers who can offer valuable inputs while finalizing pricing and other details. The bargaining power of the company is directly related to the supplier's potential need for your company. Considering the background and current market sentiments, the supplier can be made to compromise on costing if the deal is really important for him. Although if the supplier has no such needs to establish his company or brand and is nearly a monopoly based vendor, the bargaining power is reduced substantially. No matter which side of the spectrum one looks at, doing a thorough background check on the supplier and market sentiments of the products or services being offered can help unlock a host of information that can be useful on the negotiating table.

Develop A Dedicated Negotiating Team: It is imperative for all business establishments to have a dedicated negotiating team in place that can focus on all kinds of negotiations with multiple suppliers. Negotiations can be a challenging task and it is essential to have the right people working on behalf of the company to conduct all price negotiation discussions. Dedicated negotiation team must intrinsically work with all the related departments and develop their strategy in consultation with the core management as well as keeping in view the research of costs and market sentiments of the product or service.

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Research Actual Costs: It is always useful to do a thorough research on the cost structuring of the products of the supplier. Although it may not always be an easy task to assimilate the actual cost of the products being supplied by the vendor, an estimation of the actual costs work just as well while negotiation with the supplier. The vendor or the supplier is justified in keeping certain profit margins while selling the final product but a pulse on the actual costs can throw open wide possibilities to negotiate and gain an upper hand in finalizing costs.

Offer a Win-Win Situation: Offering a mutually beneficial scheme to the supplier can make sure that not only do both parties get a share of their expected goals but also allows for far smoother negotiations in the future. Leaving a supplier unhappy may be a bad idea since one may require the services of the same vendor again in future. Offering a collaborative proposal like a long term contract may actually help the company achieve its short term pricing and service goals while keeping the supplier happy and content.

Be an Efficient Paymaster: Most suppliers are worried about the payment structures and schedules. One of the best decisions business enterprises can make is to offer higher deposits and swifter payment structuring compared to the market in order to bring more negotiating power on the table. Offering deposits to the supplier adds on to higher leverage rate opening up the possibilities of cutting down supplier quotations smoothly.

Draft a Legal Contract: Once all the obligations including pricing and services have been settled verbally, it is imperative to draw up a written contract to avoid any possible backtracking or confusions. Drawing up a written contract may not go down well with some suppliers who may believe it as a trust deficit. But it is always wise to make up a company policy to get everything drafted in a written legally agreement. One of the advantages of a written agreement is that suppliers will find it difficult to back track their negotiated terms and conditions considering any future developments and will possibly ensure timely delivery at the right price.

And most importantly, build and keep a good relationship with your supplier who is your vendor. Try and keep a good and honest rapport, because it is a known fact that people will go an extra mile for those they prefer and trust. Not only that, if you have a good rapport with your vendor, it will make you more confident while discussing money matters or even credits at times. If the supplier is treated as much part of your business they will definitely open in helping you get what you require within your budget.