

Negotiation Tips For Dealing With Suppliers



Procurement professionals handle quite a bit. One of the most important tasks is procurement negotiations or working with suppliers to get ideal contract terms. Strategic sourcing comes down to negotiation skills. Use these tips to build a successful negotiation strategy to improve your supply management throughout your supply chain.

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Have a Deposit Available

To create leverage with a supplier, have a deposit of at least 50% ready to go. The

more of a down payment you're willing to make, the better your negotiating power will be. Suppliers are just as concerned about getting paid as you are and addressing the issue up front helps them see you are a customer worth working with. Having a deposit available is critical if you're a new company and don't have much of a track record in working with suppliers you can use as a reference.

Research Actual Costs

Knowing what it costs the supplier to make their goods always puts you in a good position. When you have this information, you know how much room there is in price negotiations. It shows the supplier you've done your homework, which can help build trust and credibility.

Refer to Their Customers

Before beginning the negotiation process, ask the supplier for references from their other customers. Reach out to those customers and ask about their experiences. Most of the time, if they're happy with the products and services from the supplier, they will share their prices with you. This is valuable information you can use to get the best possible deal.

Get Quotes from Other Suppliers

No matter what you're in procurement negotiations for, it's best to obtain quotes from at least three suppliers, by sending a request for proposal (RFP) to multiple suppliers before entering into negotiations with any of them.

Let all the suppliers know you're getting quotes from others and intend to go with the one who gives you the best offer. This creates competition for your business, and most suppliers are willing to work with you to get your business.

Look for Areas of Mutual Gain

Getting the lowest price isn't the only thing to focus on during negotiations. Often times, if you find that a supplier will not budge on price, there are other ways you can get cost savings in a contract. By finding areas of mutual gain - something that's good for you and the supplier, you'll have more leverage. For instance, you can address the size of the down payment, discounts for bulk purchases or early payment, or the terms of the warranty. If price isn't negotiable, look for value-add wherever you can.

Price is often the main negotiation point, but suppliers are in the business of making money, too. Don't shy away from a vendor just because they're high. Take time to work out other favorable terms before giving up.

Keep the Lines of Communication Open

Maintain great communication and you'll have leverage for use in future negotiations. Remain attentive and responsive to issues. This helps to build a rapport with suppliers to give you the upper hand in subsequent meetings. This is especially helpful when working to get a better deal or address a cost increase with one of your current suppliers at contract renewal.

Learn the Industry Jargon

Take the time to learn industry lingo and basics. If you can't do that before you meet with a supplier, at least be open to learning from them. This way you at least sound like you know what you're talking about during negotiations - and may even find that you *do* know what you're talking about.

Think Like a Supplier

Suppliers are businesses, too. They have product to sell and money to make just like you do. Present your business as a resource, and don't be afraid to toot your own horn a little. When you can show the supplier a proven track record, the supplier will be more likely to partner with you. After all, money talks, and when the supplier sees that you can make them money, that trust and credibility you build can help you get more favorable terms.

Play the Numbers Game

Before meeting with any suppliers, research and determine the maximum amount you're willing to pay. Tell the supplier you're willing to order a high quantity and get their price for that amount. After they give you the price, ask how much you'll pay for an amount less than what you want. Then, tell them you want this many units and you're getting it at a cheaper price from their competition. Provide a reasonable price, and chances are they'll beat it. It's all about the numbers - and striking a balance between quantity and quality.

Be Confident

Don't be afraid to sell yourself as a customer who will provide a lot of business. Make sure they know you intend to give them repeat business over the long term. Using past purchase data, let them know how much business they can expect to receive from you. If you don't have that data available because you're just starting out, use sales projections.

Also, remember the better deal goes to the person that wants it the least. If you appear too eager or desperate in your negotiations, you'll fail at getting the deal you want. There's always a chance the supplier won't be flexible enough to strike a deal with you, so have back up suppliers ready so you can still get what you need.

Remember: Suppliers are Partners

For a successful relationship, you need to work together. Find ways to help the supplier save money or time, and you're improving their lives much the same way they are improving yours. Whether you help them save money from their vendors, or time by reducing the time it takes to make and process your order, the more you can do for them, the more they will be willing to do for you. Take time to understand their business model, and they will appreciate you as a customer.

Don't Accept the First Offer

Never accept the first offer. Issue a counter offer or ask them for a better price. Remind them about the amount of business you're offering them, and you're looking to develop a long-term relationship with them. If the quoted price includes features or services you don't plan to use, make them aware of this. Chances are they will counter with a better offer. If they do not, you can move onto another one of the suppliers you requested quotes from.

Be the Ideal Customer

Above all, make an effort to be their ideal customer. It doesn't matter how much business you give suppliers if you're the problem customer. You won't get the best deal because it's too much work to do business with you. You need them as a supplier just as much as they need you as a customer, and it's important to remember that.

Make an effort to pay your invoices on time. Maintain open lines of communication. Treat your business relationship as a partnership, because if you take advantage of them, you may find yourself stuck trying to find a new supplier. If you burn too many bridges with suppliers, you may find it difficult to impossible to procure the materials you need to continue operations.

Procurement's goal is to get the best overall deal. Supplier negotiation doesn't have to be difficult, but it does help to have a plan before approaching anyone. Using these negotiation tactics in your meetings increases the chance you'll walk away with the deal you wanted, giving you a competitive advantage.

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