

## Module 15 – Engaging and Negotiating with Suppliers



### Learning Objectives

- Participants will understand why supplier engagement is important
- Participants will learn the Key Considerations in Supplier Evaluation
- Participants will learn How to Negotiate with Suppliers
- Suppliers as Beneficiaries

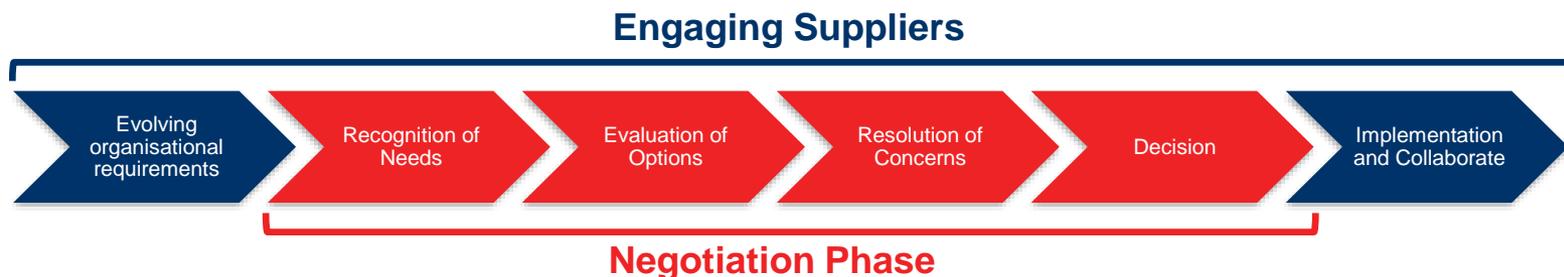
# Engaging and Negotiating with Suppliers

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## What is Supplier Engagement?

- How effectively organisations select their suppliers and then **manage, measure, and grow those relationship**.
- A Collaborative Partnership can be established between suppliers and customer.
- Understanding suppliers will assist your organisation's core objectives
- Suppliers are more than Service Providers... They are **Beneficiaries...**



## The Importance of **Supplier Engagement**

- Potential lower acquisition costs
- Improved planning, execution in delivery and after sales support
- Improved relationship → Understanding our needs (e.g. Kitting)
- Consistent Product quality or service provided
- Feedback mechanisms to ensure appropriate service delivery to beneficiaries



## Types of Suppliers

### Manufacturers

- These are the companies that research, develop and actually produce the finished product ready for purchase. Manufacturers are the source of the supply chain. Distributors, wholesalers, resellers and retailers who purchase goods from manufacturers and vendors benefit from the cheapest prices because no other companies have added their margin to cost of the goods yet.

### Wholesalers and Distributors

- These suppliers are companies that buy in bulk from several manufacturers or vendors. They warehouse the goods for reselling to smaller local distributors, wholesalers and retailers. Distributors and wholesalers may also supply larger quantities to organisations or government departments directly.

### Affiliate Merchants (Online)

- An affiliate merchant is a supplier that wishes to drive traffic to their website or sales of their product through banner ads and links placed throughout a network of affiliates. Merchants will normally pay affiliates a commission for every visit to the website or every sales conversion.

### Franchisors

- A franchisor is a business owner and will grant a licence to an individual, which allows them to develop their own business using the trademark, name, know-how and business systems of the franchisor which includes suppliers and often at better pricing than an individual could get themselves.

## Types of Suppliers

### Importers and exporters

- These suppliers will purchase products from manufacturers in one country and either export them to a distributor in a different country, or import them from an exporter into their country. Some may travel abroad to buy direct from suppliers in another country.

### Independent crafts people

- These are normally manufacturers of products they have designed or produced on smaller unique scales of economy and will usually sell direct to retailers or the end consumer through agents or trade shows

### Dropshippers

- These are suppliers of products from single or multiple companies that will deliver direct to the buyer once they have made the purchase. This can be cost effective as it eliminates the need for storage or display of the items for sale.

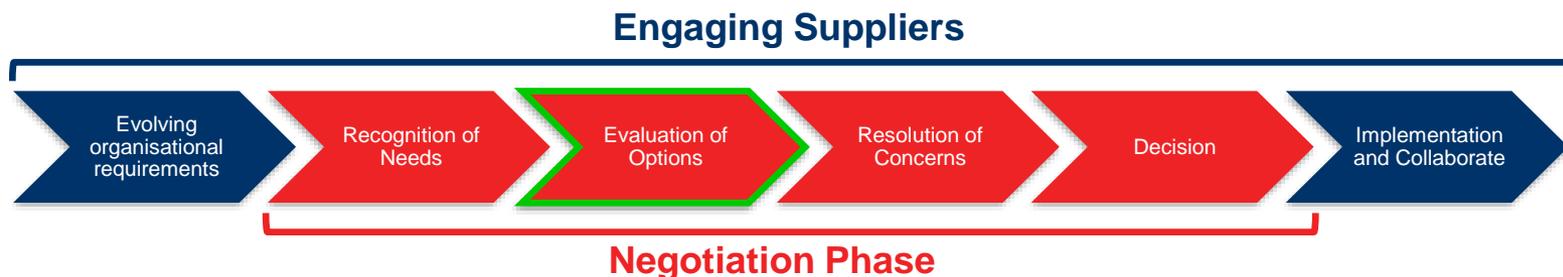
## How do we engage suppliers?

- *Be aware that your organisational requirements is **never consistent***
- **Recognition of Needs** your organisational needs prior to engaging
- Use this information to show your engagement is an **opportunity**.
- Negotiation proceedings should represent opportunity:
  - Invite suppliers to your meeting rooms for official negotiation
  - Represent your organisation's commitment to engage
  - Suppliers are not just service providers, they are **beneficiaries!**



## Evaluating the Suppliers

- **Evaluation of Options** is the second stage in the negotiation phase.
- Implementation of **Supplier Evaluation** is key, assessing which suppliers are most suitable for fulfilling your development or humanitarian needs.
- Analysis of suppliers' capacities:
  - Industry experience / National presence
  - Warehousing resources
  - Transport resources
  - Sourcing characteristics
  - Price fluctuation / Long-term agreements
  - Administrative capacity



# Recipe for Evaluating Suppliers

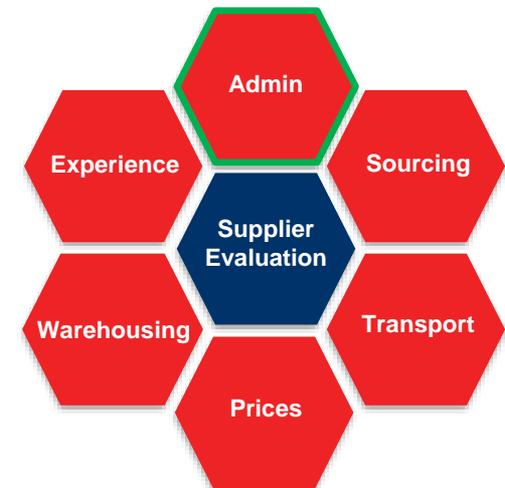


## Engaging Suppliers



## Recipe for Evaluating Suppliers: Administration

- **Administration** capacity must be assessed via the **Supplier Evaluation**. This examines the processes the supplier uses to do business: communication process, payment process, contracting process etc.
- This will allow you to determine if the supplier will fit in with the current administrative processes you employ.
- Key Questions:
  - Payment Terms?
  - Location and other offices?
  - Communication methods?
  - No. of Staff?
  - Family Business?



## Recipe for Evaluating Suppliers: Sourcing

- **Sourcing** characteristics of the supplier, in terms of where they source from, regularity and lead time, are important focuses of the **Supplier Evaluation**.
- This will give you an idea of potential stock ruptures (e.g. Supplies coming from Thailand are less likely to have problems than supplies from China)
- Key Questions:
  - Where do their supplies come from?
  - Do they have import/export experience
  - What is their business relationship with other suppliers?
  - Do they have an agreement with parent markets?
  - What is their market reach?



## Recipe for Evaluating Suppliers: Transport

- **Transportation** capabilities must be assessed, including their transport resources, available rented transport, transportation distances, thresholds and prices.
- Understanding these aspects will allow you to determine their suitability and capability for supplying the operations you require.
- Key Questions:
  - No. Vehicles owned or rented
  - Transport experience
  - Delivery radius
  - Requisite order size for delivery
  - Lead time
  - Transport and Handling costs



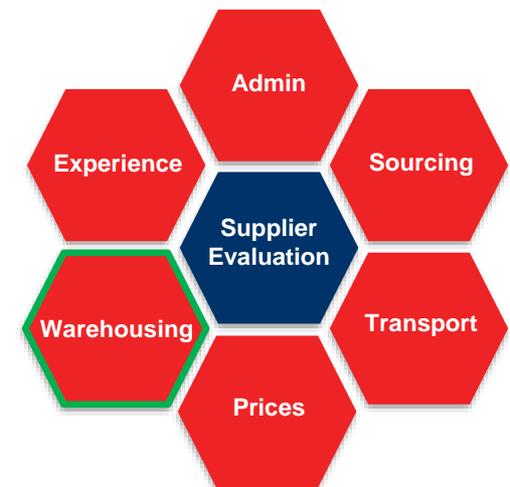
## Recipe for Evaluating Suppliers: Prices

- The supplier's **Pricing** strategy must also be investigated in the **Supplier Evaluation**, including their market rates, contracted rates and price fluctuation over time.
- Know what you were paying previously and COMPARE!
- Key Questions:
  - Are we paying better than market prices?
  - Other costs? (tax etc.)
  - How has the price changed from the previous period?
  - What are affecting the suppliers price?
  - Long-term agreements?
  - Fixed pricing?



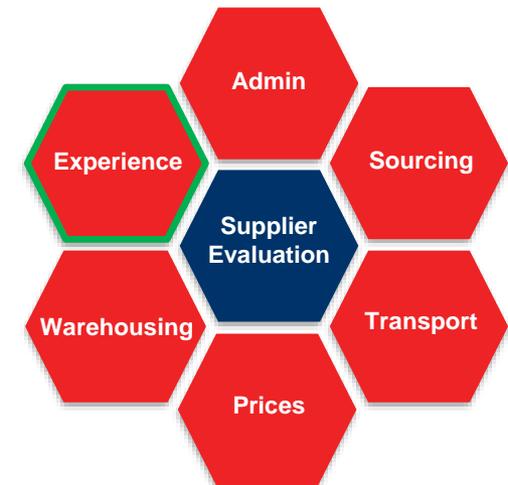
## Recipe for Evaluating Suppliers: Warehousing or Storage

- **Warehousing** capabilities are a crucial topic to be covered by the **Supplier Evaluation**.
- Similar to **Sourcing**, assessing the supplier's **Warehousing** capabilities will allow you to understand their reliability in sourcing materials when needed.
- Key Questions:
  - No. of owned/rented Warehouses
  - Location of facilities
  - Capacity?
  - Handling equipment?
  - Inventory holding period?
  - Pre-position supplies?



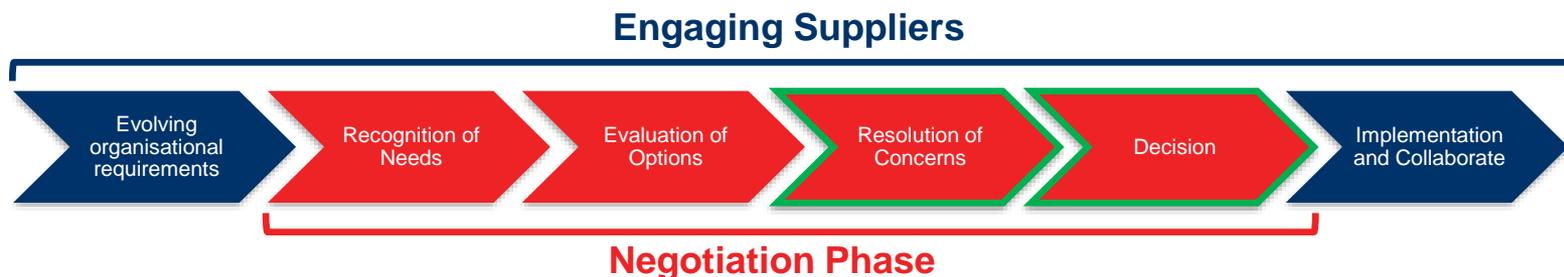
## Recipe for Evaluating Suppliers: Experience

- **Experience** of the supplier in working with NGOs, in the development sector, and in their industry in general, is a core focus of the **Supplier Evaluation**.
- This will give you an understanding of the supplier's professionalism, their national presence, and their knowledge of what the development sector requires.
- Questions should cover:
  - Years in the industry?
  - Response to disasters?
  - Developmental work experience?
  - Core markets they supply to?
  - Other NGO experience?



## Negotiating with Suppliers

- Once your team has narrowed down list of suppliers that are eligible, formal negotiations with suppliers begin
- Before you negotiate with suppliers, you need to **Prepare and Plan** your strategy
- If you fail to Prepare... Prepare to Fail...



## Negotiating with Suppliers: Preparation and Planning

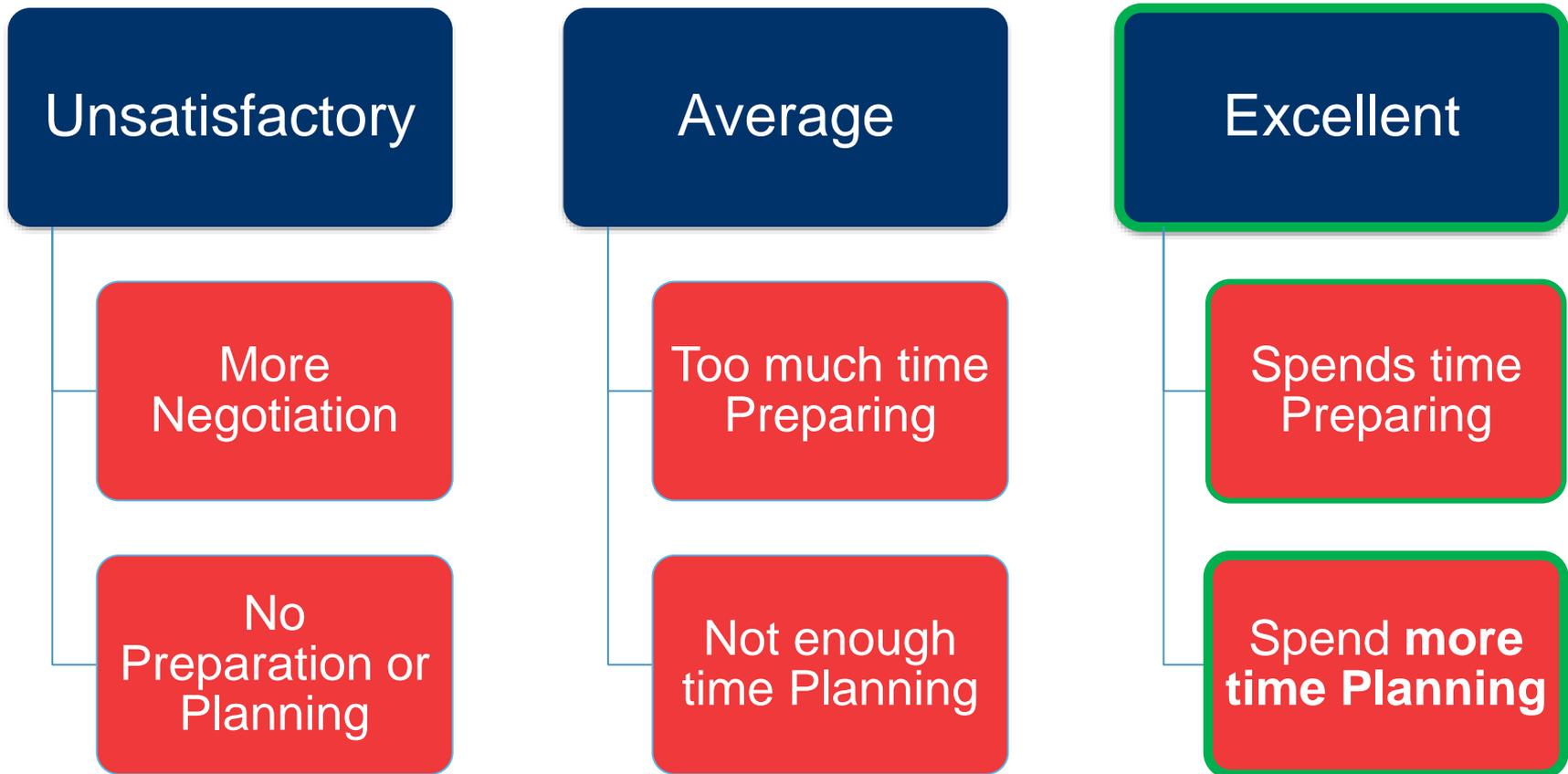
### **Preparation:**

- *Collecting all relevant data and making calculations before the negotiation takes place.*
- Do you sufficient information to make an informed decision?
- Specifications, timeline, budget, delivery point...

### **Planning:**

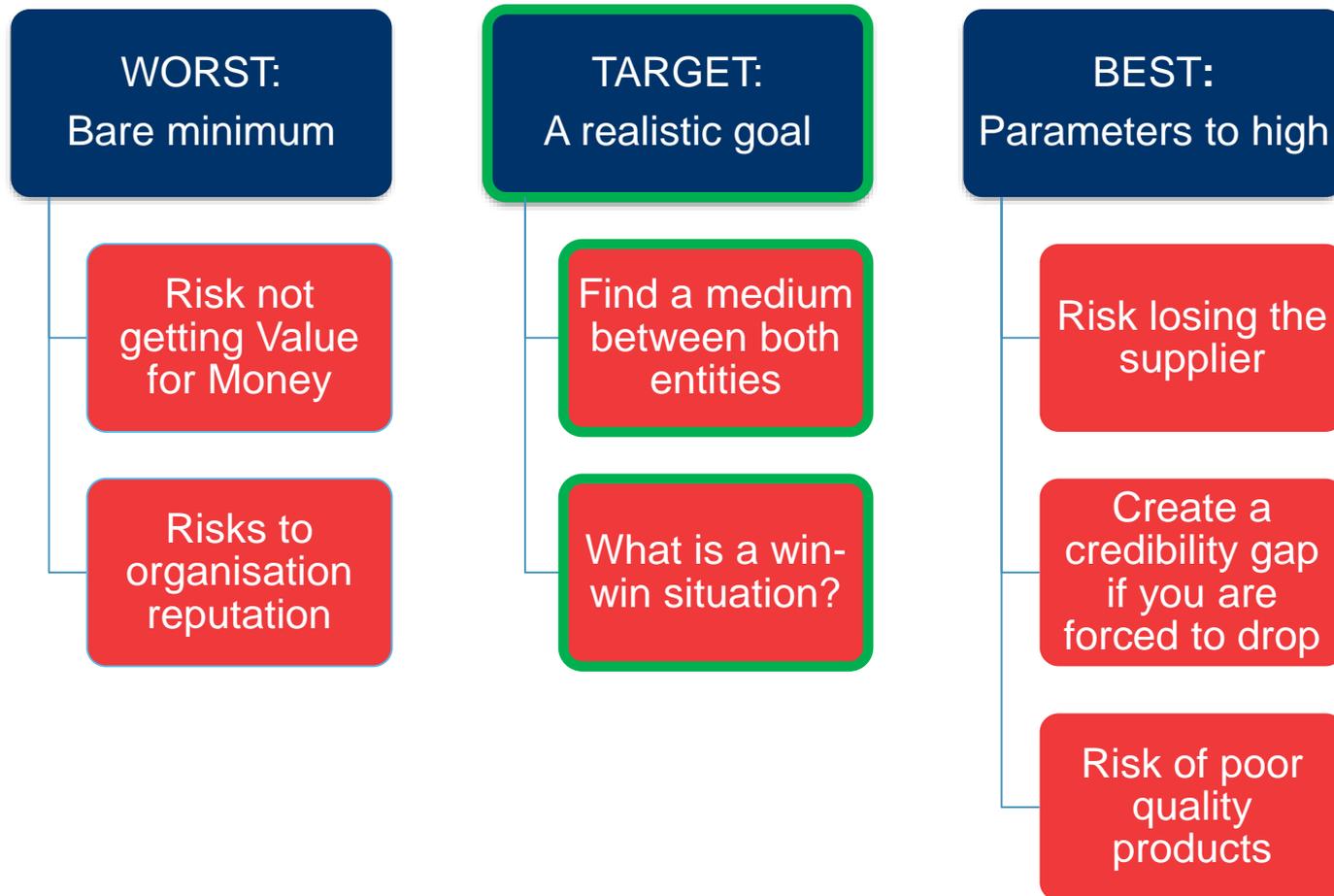
- *Deciding how you can use the collected information to your advantage*
- Which information should you share with the supplier?
- What tactics should you use?

## Negotiating with Suppliers: Preparation and Planning



## Negotiating with Suppliers: Preparation and Planning

*How do you set your Parameters before negotiation?*



## Negotiating with Suppliers: Preparation and Planning

### ***Preparation Summary:***

1. Set your limits (upper and lower bound).
2. Set your goal, and have a fall back position.
3. List the priority items to negotiate.
4. Predict what the supplier might bargain for.
5. Determine win-win with supplier

### ***Important Factors:***

- Explore options for both parties
- Look for areas of common ground, or mutual interests
- Consider long-term and short-term implications of the agreement
  - What are the risks?
- Is it the best deal for the REQUESTOR or the ORGANISATION?

### ***Factors to Negotiate:***

- Value for Money (Long-term prices)
- Payment Terms
- Penalties and Insurance (Accountability)
- Source of supplies (if necessary)
- Organizational requirements
- Lead times and Transport method
- Goods/Services replacement
- Long-term Storage

## Tickles and Tricks

- Finding a medium between the organization and supplier is not always easy
- What are some things that can be done to ‘protect yourself’?

### ***Delays and Deadlines:***

- Allow more time than you think you need
- Deal with key issues earlier on
- Take a toilet break during heated discussions
- Ask supplier for their priorities
- Let them know some decisions are ‘above my pay grade’



### ***Documenting:***

- Have a note book and write in-front of the supplier
- Ask someone to take detailed notes
- Record conversations if you have to.
- Have a supplier database – identify key events

### Engaging Suppliers



## Discussion: Experience with Suppliers

- Challenges with Suppliers in your country?
- How did you solve them?
- How do we treat Suppliers as Beneficiaries?