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Manage your suppliers

Table of contents

Manage your suppliers	2
Introduction	2
Get quality service from your suppliers	2
Building good relationships with suppliers	3
Use technology to improve efficiency	4
Service level agreements	4
Review your suppliers' performance	5
Ending supplier contracts	6
Here's how I reduced supplier costs	6
Helplines	8
Related guides on businesslink.gov.uk	8
Related web sites you might find useful	8

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Subjects covered in this guide

[Introduction](#)

[Get quality service from your suppliers](#)

[Building good relationships with suppliers](#)

[Use technology to improve efficiency](#)

[Service level agreements](#)

[Review your suppliers' performance](#)

[Ending supplier contracts](#)

[Here's how I reduced supplier costs](#)

[Helplines](#)

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[Related web sites you might find useful](#)

You can find this guide by navigating to:

Home > Grow your business > Growth through strategic sourcing > Manage your suppliers

Introduction

Finding reliable and competitively priced suppliers is vital to the success of your business.

Your initial focus may well be on negotiating the right price and other elements of the purchase agreement. But in the longer term, strong relationships and a collaborative approach can have more impact on the overall success of your supplier management.

This guide looks at how to manage working relationships with your suppliers, how to monitor their performance and the key issues when you end a supply contract.

Get quality service from your suppliers

To ensure a productive working relationship, select suppliers who offer a quality service and meet your specific needs.

Quality service

There are a number of national and international certification bodies that enable you to check the quality of a potential supplier.

The most widely recognised and respected of these is the International Organization for Standardization (ISO), which produces the ISO 9000 series of quality management standards.

Choosing suppliers accredited to a recognised quality management standard helps ensure that they have the right

processes in place to deliver consistent, reliable service to you.

See our guide on [quality management standards](#).

Smaller suppliers may not be formally accredited to a quality management standard. You'll need to carry out your investigations to reassure yourself that they can provide the reliability you require.

See our guide on [choosing the right suppliers](#).

Specific needs

Choose suppliers who can meet your specific needs. For example, if faster turnaround is a priority for you, then there is no point in selecting on grounds of cost if the turnaround requirements cannot be met.

One way in which to formalise this is to draw up a **service level agreement** (SLA) between your business and your supplier. See the page in this guide on [service level agreements](#).

With SLAs you can **agree targets** and **specify performance** standards that help to define the major responsibilities in your customer/supplier relationship.

An SLA will generally cover such issues as problem management, compensation, warranties and remedies, resolution of disputes and legal compliance. It can be extremely useful if legal proceedings ensue.

Building good relationships with suppliers

It pays to invest time in building good relationships with your key suppliers. If you can save money or improve the quality of the goods or services you buy from your suppliers, your business stands to gain.

Hints on dealing with your suppliers

Consider some of the following when working with your suppliers:

- Meet your contacts face-to-face and see how their business operates. Understanding how your supplier works gives you a better sense of how it can benefit your business.
- Keep in regular contact and update them on strategic changes or new products early on. This helps them adapt to meet those changes.
- Ask about their plans for development or expansion. Will this affect the goods or services they're providing to you?
- Help your suppliers by placing orders in good time, being clear about deadlines and paying on time.
- Make sure you have efficient purchasing, stock control and payment systems. See the page in this guide on how to [use technology to improve efficiency](#).
- Keep an eye open for any opportunities you can pass their way - in a good customer-supplier relationship they'll do the same for you.
- Make your business important to your suppliers and they will work harder for you. Some suppliers may offer better deals if you promise to use them exclusively. However this may cause significant problems if they go out of business.

Don't ignore opportunities offered elsewhere. Keep your options open by monitoring the deals offered by other suppliers.

Consider whether a **contract** or a service level agreement is necessary. This will guard against complacency on the part of the supplier. See the page in this guide on [service level agreements](#).

Use technology to improve efficiency

A high speed internet connection such as broadband will allow you to collaborate more closely with your suppliers through sharing plans, forecasts and consumer data. Sharing such information with your suppliers makes it easier for you to:

- analyse real-time information about sales, orders or market trends
- forecast and react quickly to changes in demand
- improve efficiency - accurate information on stock means you will only order the supplies you need

E-collaboration with your suppliers, such as using email and sharing spreadsheets, can be simple, but the greatest benefits come from sharing information in 'real time'. This requires more sophisticated technology, such as the following:

- **Inventory planning** or forecasting systems - use your inventory records to forecast the market demand for your product.
- **Online analytical processing** systems - analyse past sales performances and compare the

forecasts from different suppliers.

- **Enterprise resource planning (ERP)** systems - can plan and schedule your entire business. By connecting your order and purchasing system with that of your suppliers, orders can automatically be placed and tracked and the supplier will automatically issue an invoice.

These systems can be very expensive. ERP systems can be rented from an Application Service Provider - however there will still be some extra costs, such as staff training.

See our guide on how to [create an IT system for growth](#). When sharing information, make sure that your data and your suppliers' data is protected. See our guide on [keeping your systems and data secure](#).

Service level agreements

Service level agreements (SLAs) are agreements or contracts with suppliers that define the service they must provide and the level of service to be delivered, and which also set out responsibilities and priorities.

SLAs themselves are **contractual obligations** and are often built into a contract - in the form of one or more clauses or as an entire section. SLAs can be used in any supplier contract where a service is being provided.

SLAs are complex documents that should be well defined and cannot be drawn up in an ad hoc fashion.

Drawing up an SLA

Typical SLAs set out:

- the service being provided
- the standards of service - see our guide on [quality management standards](#)
- the timetable for delivery
- respective responsibilities of supplier and customer
- provisions for legal and regulatory compliance
- mechanisms for monitoring and reporting of service
- payment terms
- how disputes will be resolved
- confidentiality and non-disclosure provisions
- termination conditions

If suppliers fail to meet agreed levels of service, SLAs usually provide for **compensation**, commonly in the form of rebates on service charges.

When drawing up your SLA with your supplier, highlight the most critical components of the deal so you can apply the strictest penalties to these. Build periodic **performance reviews** into the SLA.

In some cases, you may need to accept a supplier's standard SLA. For example, you are unlikely to be in a position to negotiate a customised SLA with your telecoms provider. If the SLA does not guarantee the service quality you require, you may need to look for alternative suppliers or make contingency plans to deal with any problems.

Review your suppliers' performance

It is a good idea to review your suppliers' performance at regular intervals. If you have a service level agreement (SLA) this will help you to assess the business/supplier relationship in the most objective way possible.

If not, even at this stage it may be worth using an SLA to define the terms and level of service you require from your supplier. The review process is particularly important as it will prevent existing suppliers becoming complacent.

Asking the following essential questions will help you ensure you are getting the best possible deal:

- **Price** - are you getting the best price? Does your supplier offer bulk discounts or other favourable terms?
- **Quality** - are you satisfied with the quality of your supplies?
- **Innovation** - do your suppliers regularly inform you of new products and services that might help improve your business?
- **Delivery** - are your suppliers punctual? Do the supplies arrive in good condition?
- **Account management** - do your suppliers respond quickly to any orders or queries that you place with them?
- **Service performance** - are your suppliers living up to their end of the agreement?

If, after the review process, you find that your suppliers are underperforming, the SLA will usually provide for compensation, commonly in the form of rebates on monthly service charges. See the page in this guide on [service level agreements](#).

You'll also need to review your own performance. For example, failing to pay your suppliers on time won't encourage them to keep their standards high.

Download a guide to supplier performance monitoring from the Chartered Institute of Purchasing and Supply (CIPS) website (PDF, 234K) - Opens in a new window.

Ending supplier contracts

There are many reasons for terminating a contract with a supplier. They might consistently fail to provide you with services or goods that meet your requirements, or you may find a cheaper or more reliable supplier elsewhere.

First check the contract to see whether there are **penalties** for terminating the deal early. Ideally, when drawing up the contract, you will have agreed an **exit clause** that minimises what you have to pay. Otherwise, the penalties may mean you are effectively locked in with that supplier. If their quality and effectiveness decreases, your business may suffer.

As well as financial barriers to changing suppliers, you will also face **operational** ones. There may be disruption to your business when you switch to a new supplier with different processes or systems.

Make sure that your existing supplier gives you all the information you need to make the transition smoother. If possible, negotiate so that your new supplier takes responsibility for handling the changeover process.

To avoid such problems you should think

about the possible pitfalls of ending a contract early at the contract negotiation stage. For example, if the contract is for bespoke software, you should make sure that ownership of intellectual property is clearly defined at the outset. See our guide on **protecting intellectual property**.

Consider seeking legal advice when drawing up important contracts. You can **search for a solicitor on the Law Society website - Opens in a new window.**

It is a good idea to have guidelines in place for how you handle the termination of a supplier contract to help you to avoid alienating a supplier you may need at a later date.

Explain to the supplier why you are ending the contract. They may be able to offer you a better deal - and save you disruption - by lowering the price or raising the quality of goods or services they provide.

Here's how I reduced supplier costs

Ros Lee

McMillan-Scott

Ros's top tips:

- "Take control and centralise your purchasing."
- "Communicate your purchasing policy to staff and make sure it's adhered to - but listen to their feedback too."
- "Balance cost savings against product quality and service levels."

Ros Lee is administration director for contract publishing company McMillan-Scott. When she joined the business, one of her first challenges was to rethink the way suppliers were managed. A thorough review and cost analysis led to a new purchasing policy and significant savings.

What I did

Look at the figures

"When we started our supplier review, the company didn't have an official purchasing policy. Like many businesses, we had grown significantly but purchasing systems hadn't caught up. Staff were still ordering supplies on an ad hoc basis.

"The first thing we did was to list all our suppliers and calculate the current spend on everything from stationery to company cars. Once we had all the information in a central database, we could look at areas for improvement.

"It was clear that there was scope to cut costs by centralising all purchasing, rationalising our supplier base and negotiating better deals with key suppliers."

Communicate with suppliers and staff

"The next step was to consult with existing suppliers and investigate alternatives. Even where there were cheaper options, we didn't dismiss existing suppliers out of hand. We talked to them face-to-face to explain our new purchasing policy. We wanted to give them a chance to compete with the other suppliers we were considering.

"We also made sure new suppliers

understood our needs and that we understood the way they operated. Developing good relationships from the outset is important. If you help your suppliers, they'll be more willing to help you.

"It was essential to put an end to ad hoc buying, so the new policy was immediately circulated to all staff. There was some initial resistance, but by talking to them and listening to their concerns we overcame it. One major staff worry was that product quality would decline, making their jobs harder. We were careful to provide a product sample for testing whenever a substitution was planned."

Monitor and review

"Some savings are apparent straight away. For example, changing our stationery supplier resulted in an immediate 20 per cent cost reduction, while limiting supplier choice for company cars led to an average 15 per cent discount on prices.

"We also undertook a formal annual review of our purchasing policy. We compared costs year on year and assessed product quality and service performance across all our suppliers. Staff feedback was taken into account and key findings were communicated to suppliers where appropriate."

What I'd do differently

Balance cost against service

"The ultimate goal of a purchasing policy is to control costs. But good supplier relationships are based on more than just money. We learnt a few lessons in the early days.

"For example, we switched telephone suppliers to gain a huge cost saving. But the service levels didn't meet our needs and the business suffered temporarily. Before long, we reverted to our original supplier. Now, every decision we make to retain a supplier or take on a new one involves careful analysis of service levels."

[Read more case studies that describe first hand how people tackle real-life challenges and opportunities](#)

Helplines

The Chartered Institute of Purchasing & Supply

01780 756 777

BSI Standards and Publications

020 8996 9001

Business Link Helpline

0845 600 9 006

**[Related guides on
businesslink.gov.uk](#)**

[Manage overseas suppliers](#) | [Choosing the right suppliers](#) | [Quality management standards](#) | [Stock control and inventory](#) | [Negotiate the right deal with suppliers](#) | [Create an IT system for growth](#) | [Overview on selling to government](#) | [Keeping your systems and data secure](#) | [Outsourcing](#) | [Buyers' terms and conditions and unfair contract terms](#) | [Protecting intellectual property](#) | [Here's](#)

[how I chose and managed my IT supplier](#)

[Related web sites you might find useful](#)

[Introduction to purchasing good practice on the Chartered Institute of Purchasing and Supply \(CIPS\) website - Opens in a new window](#)

[Purchasing and negotiation courses on the CIPS website - Opens in a new window](#)

[ISO 9000 overview on the ISO website - Opens in a new window](#)

[Download a guide to supplier performance monitoring from the Chartered Institute of Purchasing and Supply \(CIPS\) website \(PDF, 234K\) - Opens in a new window](#)

[Solicitor search tool on the Law Society website - Opens in a new window](#)