

## How to Avoid International Disputes: First, Be Good to Your Suppliers.

*At a round table there is no dispute about place –Italian Proverb*

**E**very company, whether in the product or service business, depends on its suppliers. In today’s highly globalized business environment, it is likely that at least one of these suppliers is located overseas.

While reducing costs is the main motivator for companies to source value chain components abroad—and that’s a good thing for any profit-generating enterprise—this all too frequently results in **disputes with suppliers**. And that’s not surprising.

It’s natural to assume that distance and cultural nuances will sometimes cause a **minor disagreement**--whether over price, quality or delivery terms--to flare-up into a **serious dispute**.

“So what,” one of my clients once told me, “we’re still getting fantastic margins.”

“Be careful,” I advised the client, “litigation can easily erase those ‘fantastic’ margins. Worse yet, your back- up suppliers may get wind of the dispute and **cut you off**. Now you’re left scrambling for a new supplier while your customers are screaming for their orders.” Good luck with that.

Unfortunately, this client cared only for short-term profits and overlooked how important it is to form **long-term relationships** with suppliers.



Many business owners seem to get the supplier issue backwards. “They think that because they write the order, they're in the dominant position and can exploit it with unreasonable demands.” This is exactly the kind of thinking that almost always results in **out-sized disputes**.

## Suppliers are Vital

Like the Italian proverb at the top of this post, companies have got to learn to sit down with their suppliers at a **round table** and stop worrying about having the best seat. This means giving both sides of the relationship **equal** value.

There are a number of factors why it pays for a company to build a strong relationship with its suppliers:

- **Quality:** Supplier components can positively or negatively affect the quality of your product. Higher quality increases customer satisfaction and decreases returns, which adds cash to your bottom line.
- **Timeliness:** Their timely deliveries are crucial to how customers view your reliability. A quick turnaround can become the key to minimizing your inventory, which in turn translates to less risk of inventory obsolescence and lower cash needs.
- **Competitiveness:** They can give you the one-up on your competition based on their pricing, quality, reliability, technological breakthroughs and knowledge of industry trends.
- **Innovation:** Suppliers can make major contributions to your new product development. Remember, they live their product more than you do; they're working to be on the cutting edge of innovation for their product. The good ones will understand your company, its industry and needs, and can help you tweak your new idea.
- **Finance:** If you've proven to be a considerate, loyal and paying customer, you may be able to tap into your suppliers for additional financing once you hit growth mode--or if you run into a cash crunch. That financing may take the form of postponed debt, extended terms on new purchases, a loan, or an investment in your company.

## Treat Your Suppliers Well

There are 4 ways a company can become a valued customer to its suppliers:

1. **Always pay on time.** For the sake of emphasis, I'll repeat this one: Pay your bills on time! You can negotiate for favorable payment terms before you place an order, but once the order is placed, don't renege or attempt to change the rules. If you can't, call up your suppliers and tell them why and when you will pay. Don't play games with suppliers' cash. You'll be absolutely amazed at the goodwill and benefits you will earn by observing this simple rule.
2. **Provide adequate lead times.** Try to give suppliers as much lead time as possible on your orders. Unless there's a compelling, competitive reason not to, share with them an honest projection of your needs and keep them abreast of any significant changes in that

estimation. When developing your lead times, it helps to be knowledgeable about your suppliers' production methods and needs.

3. **Personalize the relationship.** Visit suppliers' offices. While you're at it, include them in some of your strategy meetings. Invite them to break bread and invite them to your office parties and picnics.
4. **Share information.** Keep the good suppliers aware of what's going on in your company. Tell them about changes in key personnel, new products, special promotions and so on. Many times, you'll find that good suppliers can help you find new customers.

Understanding why your suppliers are so important and identifying the ways you can be a valued customer will go a long way towards building lasting supplier relationships.

Doing so will greatly minimize the chance a minor disagreement will flare-up into an international dispute. Now who wants that.