

# Knowledge is power

Dealing with new customers, suppliers or partners always involves an element of business risk. Paul Brown looks at ways in which the procurement team can assess the situation and negotiate a better deal.

**Procurement is often in the front line when it comes to dealing with new suppliers, customers and partners. It is up to the department to secure the best interests of the organisation, and this means striking a deal that poses little or no risk to the business.**

Game theory consequently is relevant and can be applied to negotiations.

To achieve this, buyers need to identify the risk level of the companies the organisation buys from, sells to and partners. The more your team can understand about a supplier's financial and business background - including its directors and shareholders - the easier it will become to avoid doing business with companies that could harm your bottom line. This kind of intelligence also enables you to negotiate a better deal among suppliers and thereby improve your organisation's profitability.

## Devil in the detail

To assess the risk another company might pose, you need access to detailed financial information and background.

This applies not just to suppliers, but also to partners and even potential customers. But what should you look for? You need to know about company debt and debts held by directors and shareholders in the company. All this information will enable you to quickly assess the creditworthiness of a prospective customer or supplier and provide a rough, but workable, barometer of risk.

Information can be gathered "manually" - by searching the internet, or in the UK by applying to Companies House for financial records or subscribing to separate information sources. However, these processes are likely to be labour-intensive and costly, and a process that takes too long will not help the procurement process.

So you need to refine your processes to improve your organisation's risk posture. One way to do this is to subscribe to a single business information resource, which can provide all the information needed.

Ideally, an information resource should give access to financial data over a five-year period. It should include profit and loss, key ratios and turnover, and details of any company debts and commitments held by directors and shareholders. This is important since executives are often the weakest link in a company's risk profile. It should also tell you whether these stakeholders hold any additional directorships or shareholdings in other companies that may have a higher risk and will therefore influence the potential impact of your supplier.

Every organisation will have a different attitude to risk, and the level that is acceptable to the business. You need to establish an "acceptable" profile that your suppliers can be measured against.

An organisation cannot afford to waste time identifying risk before giving the go-ahead on a contract. However, making an assessment part of the procurement process speeds it up. This approach can save the company millions of pounds at a later date.

## Tracking change

Having identified potential threat in a particular company, a procurement officer needs to keep abreast of changes in that company that may alter the risk profile. But if you use a lot of suppliers, that monitoring can be time-consuming. An information resource that automatically flags changes in a particular supplier can help in this respect.

News specific to the company will inform you of any changes that may affect the company's risk profile such as change of parent company, mergers and acquisitions, bad sales

performance at the company or even in other parts of its business, or the ending of product lines. This could alert a procurement team to the need for renegotiation or for identifying a new supplier.

## Negotiation tool

A key part of successful bargaining is understanding a supplier's business. Viewing a company profile and analyst reports on the company's industry can improve your knowledge of existing and potential suppliers and the markets they operate in.

And the more information you have about a supplier and its business position, the easier it is to use that knowledge to your advantage. Regular news updates on the company, and notification of additions to your initial research, will ensure you are always making decisions with the latest information.

Knowing that a supplier has a cashflow problem could enable you to negotiate a better deal if a cash payment upfront can be agreed. You may discover that two or three suppliers you negotiate with separately actually all belong to the same parent company, which could help you to negotiate a better contract and reduce the paperwork involved in separate contracts.

Keeping ahead of trends in your suppliers' markets can also be invaluable. You might find out about a new product developed by a supplier's competitor. This could give you advance warning of a product trend, and therefore of a potentially better product. Alternatively, it could enable you to reduce costs if you mention this "better" product in negotiations.

Using an information resource also allows you to search for new suppliers more easily. Having selected an existing supplier profile, you could search for "companies that match this profile". Such a technique dramatically speeds up searches for

alternative suppliers and helps procurement teams to become more efficient at finding and managing new suppliers.

Procurement professionals seeking to improve operational efficiencies and reduce risk must look beyond the information their suppliers provide, and develop their own expertise in sourcing product or market information. Best-practice strategic sourcing depends on high-quality insights.

#### Supplier Information Checklist

- Does your information source provide sufficient information on the company and the industry it operates in?
- Is it clear if it is part of a parent company and what other companies are involved in the parent?
- Can you see who all the key directors and shareholders are?
- Can you view debt records, such as county court judgements, mortgage arrears or charges?
- Is the company publicly listed? If so, is it on a regulated exchange?
- Is the company a subsidiary of a publicly listed parent?
- Is the company well known and well established?
- Are there any institutional shareholders with more than 20 per cent share capital?
- Are any directors or shareholders on sanctions lists?
- Does this individual or organisation have sanctions or enforcement actions against it?

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