



Choosing suppliers

Establishing positive and mutually beneficial relationships with suppliers is crucial to the success of your business. The foundation of solid supplier relationships is having well-defined expectations in relation to quality, delivery and payment terms.

You are likely to need suppliers when:

- starting a business
- you need products or services that you can't provide yourself

Top tips

- Use industry databases, journals and association websites to find lists of local suppliers. Also search the online business directories and attend expos aimed at your industry.
- Ask for personal recommendations of good suppliers from other business owners. Review online forums to seek feedback about their standards of service, ask for recommendations through our Facebook group 'I'm a small business owner in Western Australia'.
- Create a shortlist of companies and rate their services against your priorities (quality, reliability, returns policy, price, location, speed of delivery and terms of business).
- Talk with sales representatives to check their product knowledge and understanding of your business needs. It's important to establish a good relationship so they will keep you updated about new products or services and special deals.
- Do a credit check on potential suppliers to protect your company and reduce its exposure to risk. There are a number of trade and industry specific credit reporting bodies that can undertake credit checks and risk ratings on potential suppliers and customers.
- Set up long payment terms with suppliers, for example 30 days, and short payment times from your customers of seven or 14 days. Follow a structured payment routine (weekly is good) and pay on time.
- When placing an order with a supplier, ensure your order is confirmed in writing and that the terms and conditions of sale are clear to both parties.
- Don't rely on a single supplier for products or services that are essential to the operation of your business. Always have a back-up plan if your main supplier lets you down.

Questions to ask

Are they a well known supplier?

You should be aware of how much your competitors rely on the same suppliers as you. This may put you at risk if a supplier has an issue with stock levels or delivery. They may also give preference to larger customers with greater buying power.

Do they sell directly to the public, either on or offline?

If you're a distributor buying a finished product, make sure your supplier isn't selling directly to end users at a price that means you can't compete.

What are their payment terms and are they negotiable?

A good supplier is someone who will work with you. The profitability of your business is in their best interests too.

What will your total costs be?

Ask your supplier if you will need to pay delivery fees or re-stocking charges. If you are geographically remote there may be fuel surcharges to take into consideration.

Do they take back excess stock? What is their returns policy?

If sales of the product are disappointing or the product doesn't perform as your customers expected, find out if you can return it to the supplier without incurring major costs or loss of profits.

What is their quality control process?

Are they a manufacturer and supplier? Do they operate to national or internationally recognised standards?

When do you take ownership of the stock?

Does the product you ordered become yours as soon as it's delivered or after a certain grace period? You need time to inspect goods and ensure they are in an acceptable condition. If possible, add a clause in your contract that allows three to five days to check an order before taking full ownership.

Are they able to provide samples?

Most suppliers should be able to send samples of their product so you can compare the quality before investing large sums of cash. Check if you will be charged for these samples.

What will your expected gross margin be?

If you are a distributor, ask the manufacturer how much you should expect to make selling their products. This will allow you to calculate your profit and work out if this product is worth investing in.

What is their lead time?

You need to know how long it will take from placing an order to it being shipped and you receiving it. This is essential information to adequately control your stock levels.

For more information visit smallbusiness.wa.gov.au or call 13 12 49.

Note: This information is not a substitute for legal advice.