



This article first appeared in the August issue of *My Business* – for more *My Business* articles please visit

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RETAILING

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Negotiating the best deals with suppliers

FOR A LONG TIME, large retail chains have dominated the market, and many smaller retailers can't understand how they are able to do so. They look at the margins they are making, and wonder how larger stores are able to sell at the prices they do.

Is it just because of their size? Is it because of their large product offering? Do their enormous advertising budgets swing sales their way?

While all of these factors help large retail chains to dominate the market, the real reason the big retailers continue to grow while small players are swept aside is their ability to extract more money from their suppliers in the form of trading term arrangements.

I am regularly asked by smaller retailers if they should negotiate with their suppliers to get some of the great deals the big guys get? My answer is always the same. What is the worst that could happen? You might get turned down, but you won't lose anything by trying. Suppliers aren't going to rip their stock out of your store simply because you asked for a trading terms arrangement.

Putting trading terms together

This shouldn't be a difficult task. Just start by listing the areas of concern for your business, and areas you want to accelerate. Here are some questions you can ask to get yourself going:

- How can I extend my payment terms?
- How can I spend more money on advertising?
- How can I sell slow moving lines?
- How do I get more dollars per square metre?

- What is my value to the supplier?
- How can I ensure that I am always in stock without holding high volumes of inventory?
- How can I rapidly open additional stores?
- Can I get the supplier to pay for the fixtures in my store(s)?

Now that you have asked yourself these questions, start to think about ways in which you can get a better deal from your suppliers. What is essential is that you show your suppliers how they will benefit from the arrangement. It must be a win/win situation for both parties.

If you're wondering what areas the big retailers target, I have listed some of the bonuses they negotiate in their trading terms. There are more, but these are the outcomes I feel are of greatest benefit to smaller retailers, and the ones most likely to succeed.

Rebate contributions – Your suppliers need to ensure that you can further develop and promote the industry to ensure that their business survives and grows. The most practical way to calculate a rebate contribution is a fixed percentage based on net invoice values.

Settlement discounts – If you are prepared to pay for invoices promptly, you could negotiate a settlement discount if you pay within an agreed date.

Sale or return – Allow the rotation of product without the requirement of a replacement order. You could also negotiate a sale or exchange of product, and sale or markdown of product.

New store openings – Ask for one-off opening order discounts for all new stores. This will help your cash flow greatly in your store's early days.

Sales person incentive policy (SPIVS) – Approach a supplier about offering an incentive to sales staff to sell problem or promotional stock. Additional commission or gifts are the way to go.

Show your value

You must show suppliers the uniqueness of your brand. If the supplier sees value in what you have to offer, they will give you more than you expect. Also work on selling your vision. If you have growth strategies or exciting marketing campaigns in the pipeline, get the supplier to buy into the vision and become a partner in the success of your retail business.

Dealing with large chains is a necessary evil for suppliers. They have manufacturing plants that require volume trade to pay for employees, machinery, and R&D. They see smaller retailers as an opportunity to get some margin back!

This is where the opportunity lies! Get them to partner in your growth strategies. The amount of money that you would be asking for in your trading terms would be miniscule compared to what they get hit for by larger chains. If you handle negotiations in a professional manner, and always negotiate win/win outcomes, your trading terms will increase your profits and help your business grow. ●

■ **Tony Gattari is the Managing Director of the Achievers Group. He built Harvey Norman's computer business from \$12 million to \$565 million in nine years.**

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