



The Benefits of Establishing Strong Vendor Relationships

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For most companies, establishing and maintaining strong vendor relationships is one of the biggest keys to overall success. Vendors often provide services, supplies, merchandise and raw materials that are integral to a business' ability to deliver quality products and services to its own customers.

Ideally, vendors should be viewed as partners rather than just third-party providers of services, supplies or materials. In a true partnership arrangement, what's good for your business is good for your vendors, and vice versa. Therefore, you should strive for win-win scenarios whenever possible that benefit both your company and your vendors.

Accounts Payable Management

One aspect of vendor relationships that's especially critical is accounts payable management. The fastest way to get on bad terms with your vendors and thus damage these relationships is to fall behind in the payment of vendor invoices. In a worst-case scenario, vendors could pull your company's credit and insist on COD payment or cash in advance — or even stop delivering services, supplies or materials to your business.

On the flip side, though, you can boost your cash flow by extending your vendor payment terms. For example, if you can extend your average vendor payments from 15-30 days to 45-60 days, you'll generate up to 30 additional days of working capital. This could eliminate your need to borrow money to meet short-term working capital needs, thus saving your company money and giving you more financial flexibility.

Stretching out vendor payment terms without damaging vendor relationships is a tight balancing act. There are a number of negative outcomes that could result from not finding the right balance:

- Vendors could pull your credit or stop deliveries altogether.
- You could start receiving inferior products or poor customer service from vendors.
- In "line down" situations where a vendor stops delivering services, supplies or materials, you could be forced to find other less-reliable vendors who will charge higher prices, or have to go without these services or supplies. This will impede your ability to make sales and generate cash and could lead to the loss of long-term customers.

So how do you extend your vendor payments without damaging these crucial relationships? The key lies in ensuring open lines of communication with your vendors and negotiating with them to try to arrive at win-win payment solutions that benefit both sides. Doing so can be tricky, though, especially if you are not experienced in these kinds of negotiations and the nuances of various payment methods and terms.

An outsourced CFO services provider can offer valuable assistance in this exercise. This financial professional will have a thorough understanding of the various payment types and terms that can be used between your

business and your vendors. An outsourced CFO will also understand the tactical goals and concerns of both your business and your vendors so he or she can offer solutions that are acceptable to both parties. The result is improved cash flow and healthier vendor relationships.

Performing Vendor Reviews

Another key to successful vendor management is performing periodic vendor reviews. Over time, companies sometimes grow complacent in their vendor relationships and don't take steps to ensure that they are receiving the highest quality products and services at the best possible price. While there's certainly value in establishing long-term relationships with preferred vendors, it's important to step back from these relationships periodically and make sure they are still delivering what you need.

During your periodic vendor reviews you should examine the following:

Price — Are your vendors offering you the best possible price? Notice we didn't say the *lowest* price. Other vendors might undercut your vendor's price, but you need to make sure quality and service won't suffer, as well as weigh the cost of potential business disruptions caused by switching vendors.

Quality — Has the quality of products and materials you receive from a vendor declined over time? If so, it's time to sit down with the vendor to explain your concerns and give them a chance to earn your business back by stepping up their quality game.

Service — Similarly, are you receiving the same level of customer service from your vendors now that you did when you first started working with them? Sometimes vendors start to take long-time customers for granted and slack off in the customer service area. If so, let vendors know about your concerns and give them a timeframe during which they have the opportunity to improve their service and reestablish your loyalty to them.

Concluding Thoughts

Establishing and maintaining strong vendor relationships is one of the biggest keys to business success. Vendors often provide services, supplies, merchandise and raw materials that are integral to a business' ability to deliver quality products and services to its customers. One aspect of vendor relationships that's especially critical is accounts payable management. An outsourced CFO services provider can help you extend vendor payments and improve cash flow without damaging these crucial relationships.

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