

## 20 Best Practices for Negotiating and Managing Key Supplier Relationships

### Evaluation and Selection

- 1. Supplier assessment is a two-way activity**  
Focus is not only on evaluating the ability of a supplier to deliver, but also on jointly exploring possible challenges of working together and soliciting supplier input on what the customer could do to ensure a successful partnership.
- 2. Supplier selection is based on multiple factors**  
Suppliers are evaluated and selected not only on the basis of price, but also on indicators of their ability to work as collaborative partners.
- 3. A database captures current and potential supplier profiles**  
Detailed supplier profiles are used to inform the evaluation and selection process. In particular, information about past performance and interactions with a supplier is logged by those who have worked regularly with that supplier.
- 4. Protocols clarify how business unit customers and corporate sourcing should interact during supplier selection and negotiations**  
Guidelines are clearly defined for who is responsible for doing what, who has the authority to make which decisions, and who needs to be consulted for their input on which issues and decisions.

### Negotiation

- 5. Supplier negotiations are managed as a collaborative process**  
Focus is on maximizing value for both sides, while coercive tactics aimed at “squeezing the last dollar” out of suppliers are avoided.
- 6. Negotiation is used as an opportunity to build a strong foundation for a good working relationship**  
Focus is as much on setting the stage for working together effectively once a deal is signed as it is on arriving at specific contract terms.
- 7. Negotiators are assessed and compensated based on overall quality of the deal**  
Assessments and incentives are based on multiple dimensions beyond price, including, for example, total value created, positive or negative impact on the relationship, value created for the supplier, and the like.
- 8. Formal transition activities are conducted when new supplier relationships are established**  
Such events involve anticipating and jointly planning for challenges, agreeing on decision-making and escalation procedures for when disagreement or conflict arises, and jointly defining shared performance and relationship health metrics. Transition and joint launch events may also occur when major new contracts are signed.

### Post-Deal Relationship Management

- 9. Relationships with suppliers who work with multiple business units are managed in a coordinated fashion**  
Communication and decision-making procedures are developed and implemented to ensure effective internal and external coordination.
- 10. Suppliers are encouraged to share innovations**  
A mechanism exists to enable suppliers to suggest product or process innovations and provides incentives for doing so.

- 11. A relationship manager is dedicated to each strategic supplier relationship**  
Dedicated relationship managers act as internal advocates for suppliers, serve as a resource and escalation point for suppliers, and facilitate coordination among different internal groups who interact with a given supplier.
- 12. A formal mechanism enables joint strategic planning with suppliers**  
Such a mechanism enables companies and their key suppliers to share information about their respective strategies, find ways to help each other meet important goals, and better align long-term plans.
- 13. Enterprise sourcing strategy is aimed at creating and preserving long-term relationships with suppliers**  
Such a focus ensures companies maximize the value of supplier relationships where a long- term time horizon is critical to facilitating joint planning and joint investment.

### Performance Monitoring

- 14. Regular supplier relationship assessments are conducted**  
Assessments are conducted against metrics for business performance and the health and quality of the working relationship.
- 15. Relationship assessments are two-way**  
Focus is not only on supplier performance, but also on assessing whether the customer has met their obligations and on diagnosing problems jointly and finding opportunities for mutual gain.
- 16. Assessment data is reviewed and analyzed systematically and jointly with suppliers**  
A formal mechanism exists to ensure that problems or opportunities uncovered by assessments are acted upon.

### Termination

- 17. Termination based on changes in strategy or business needs occurs in a way that minimizes negative impact**  
Such termination decisions are made in consultation with suppliers, with significant advance warning, and with efforts to mitigate impact to both parties.
- 18. Termination decisions are negotiated and communicated in a respectful, collaborative manner**  
Termination of supplier relationships is conducted in a way that preserves the potential for the parties to work together in the future, and minimizes potential for damage to a company's reputation.

### Portfolio Governance and Management

- 19. Supplier relationships are segmented into relevant tiers**  
Tiers are based on clearly defined criteria such as strategic importance and the cost of switching suppliers. A mechanism is created to help determine which tier suppliers fall into and how suppliers should be managed, depending on tier.
- 20. Complex supplier relationships are managed within a well-defined, formal governance structure**  
A governance structure, supported by relationship management processes, exists to manage relationships with key suppliers who are also customers and/or channels, and/or alliance partners.