

How to do business with the big boys and not get burnt

Supplying multi-national corporations can be risky for small and mid-sized businesses. Legal expert Guy Wilmot reveals how to protect yourself

by Guy Wilmot

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Nissan and Jaguar-Land Rover are two prominent examples of big businesses expanding in the UK and hiring more workers.

Conventional wisdom suggests this is good news for local businesses acting as suppliers in the North-East and Midlands. But is this an oversimplification?

For small and medium-sized businesses a multi-national corporation can in many cases make an ideal customer – they are (usually) a good credit risk, there is potential for big orders and economies of scale can be obtained by dealing with one large customer.

But there is a downside. A big business will know that they are a valuable customer and will try to obtain advantage in the procurement relationship where they can. There are some things smaller businesses should be aware of when dealing with multi-national customers and large corporations and there are some steps you can take to mitigate your risks.

1. Understand the 'rules'.

Winning business with a large business can be expensive and time consuming. Although most private businesses are not subject to the detailed legal regulations which apply to public procurement, a private business may still require a competitive tender. You should try to understand how a competitive procurement works and how to write a tender.

A good understanding of public procurement rules will be valuable even in dealing with private procurement as often similar processes and terminology are used. There is a 'knack' to tendering and businesses should apply for as many tenders as possible.

2. Be sure you're comfortable with the terms

With many large customers there will be very little 'negotiation' on the contract terms. Often a contract will be issued and you, as the supplier, will be expected to sign the terms without question. The terms issued will often be very one-sided in favour of the customer.

Having said that, one very positive trend that I have noticed recently is that some businesses (one of the large supermarket chains is a stand-out example) are starting to realise that ludicrously onerous contract terms are counter-productive for the customer and are now issuing much more balanced terms. I hope this enlightened approach spreads.

3. ...but don't be afraid to negotiate

Also my experience is that, in most cases, by the time the contract has been issued the customer will be, at least to some extent, committed to using the supplier. This does give the supplier some leverage to obtain concessions on the contract terms even if the customer has told the supplier that they will not countenance any changes.

My advice on contract terms is that there is no harm in asking for amendments. I would recommend that the contract terms are reviewed and that redline issues are raised with the customer.

Many businesses will have in-house legal departments and you may need to engage a solicitor to negotiate on your behalf. However, if you cannot incur the costs of separate legal advice then sometimes it is worth asking in-house lawyers to explain certain terms and clauses. Often they will try and be helpful to the extent their duties

allow them to.

4. Ask for shorter payment terms on big orders

One of the main gripes businesses like yours have with bigger customers is delayed payment. A large customer will often insist on very long payment terms and as a significant customer representing a bigger chunk of your debt book this can be a double blow. As with contract terms I would advise that there is no harm in asking for shorter payment terms, especially for big orders.

However, you may be understandably reluctant to inform a customer that the size of an order is overwhelming your working capital. There are finance options available like invoice discounting and factoring, but you should be wary of invoice discounting facilities as they come with significant charges, can be difficult to escape, and cannot usually be used for one-off orders.

New, more flexible options like Marketinvoice.com are also available which allow for finance to be raised against a single invoice.

5. Don't put all your eggs in one basket

Most supply agreements between SMEs and large corporations are 'framework' agreements without any guarantees in relation to orders etc. For this reason if at all possible you should seek to avoid becoming over reliant on one or two customers.

In fact if a supplier becomes reliant on a single customer they may become less attractive even to that customer. Many purchasing managers believe that if their business is the dominant customer for a supplier that the supplier may struggle to adjust to demand with sufficient flexibility. Don't put all your eggs in one basket.

Guy Wilmot is a Partner in the corporate & commercial team at Russell-Cooke LLP. www.russell-cooke.co.uk