EMIRATES Business24|7

Balance of power in a supply chain

By Tom Addyman on Monday, August 17, 2009

The relationship between buyer and supplier should always be more hand in hand than head to head, but like many partnerships, a balance of power can be at its core. In a world of supply and demand, the basics are pretty straightforward; if what I demand is available at the right price with the right service and offered on a consistent basis, the chances are that is where I will take my business. That is competition and unless you are part of a cartel or own a monopoly, those are the rules. Clients and customers ultimately decide whether a business succeeds or not. Get things wrong and they will vote with their feet and their chequebooks, but there are certain steps you can take to help keep them firmly routed to the spot.

For businesses with a small client base, there is always the danger of either a mass exodus or a steady trickle that will at least muffle, and possibly silence the once deafening ring of the cash registers. It is directly proportionate; the smaller your base, the greater the risk and throw into the equation a narrow range of products and things look decidedly dodgy. So, what is a quick fix solution? For a start, it is probably best to broaden your client base and/or diversify your products. Henry Ford's early mantra of "any colour so long as it's black" was fine while customers had little bargaining power, but if you throw into the equation a 1908 polka dot Nissan, he may have bought some other paints.

By the same principle, when there are too many suppliers and shortage of buyers, the pendulum swings the other way. A monopoly becomes a monopsony – a market where buyer power rules. A concentrated number of customers and a wide base of suppliers forces far more aggressive competition, and if those buyers are responsible for a significant amount of the output, their collective custom becomes a market force to be reckoned with. The distributors, manufacturers and service providers may not exactly be bending over backwards, but their spines are certainly arched.

As soon as your customers have a choice, they have power and it is down to you to persuade them that your bang is best for their buck. But balancing the books with the bang can be a number crunching nightmare. How much discount can you afford? What extra services can you provide? At what point does your bang become a whimper and your business blows a Model T gasket?

The massive hypermarkets compete with each other directly, all vying for the mass market from a huge clientele. They rely on a high turnover of FMCGs at a relatively low cost and, although there are far more sophisticated strategies, much of their custom is won and lost on the price-war battlefield.

For the corner street grocery stores, however, there is no bulk buying advantage and no carefully conceived marketing strategy to woo customers. They are, as we said, running a decidedly risky business. It is unlikely the owner can afford loss-leaders or too many "buy-one- get-one frees". What he may have going for him is a differential. Something the big boys cannot afford. He may be more convenient to his primary trade area. He may accept credit. He may deliver. And he may remember your name – something that can be a bigger draw than saving 50 fils on a tube of Colgate.

Even if your business is part of a much larger business to business set up, the principles are the same. It is all about purchase power. And remember that every link in a supply chain is a buyer as well as a supplier, so make sure you always leverage your own bargaining strength. As part of that process, you should know your business and you should know if your service or product provider is applying the same standards as you. It is also always worth bearing in mind that as a provider you do not have a divine right to provide. Never underestimate the customers' sheer brute force. If the cost of an outsourced supplier becomes untenable, they may find it a more attractive proposition to dispense with your services and fill the void in-house.

So, we have established that a broad base is good for business and, as long as you are providing quality, you are heading in the right direction. But how do you attract new clients and maintain those that already exist? To hold on to that custom you already enjoy, make sure that you retain the qualities that brought them to you in the first place. Always monitor your competition and where you may be losing an advantage, create an incentive. For instance, if your customers may look at another supplier for reasons of location or accessibility, weigh up the options of delivery. Can you afford it? Can you afford not to? Can you cover the costs? Your customers have the power to choose, but you may well have the power to be their choice.

For attracting new customers, the solution can be as simple as dialogue. With the right service, the right cost and the right reputation, you can encourage your existing clients to refer new ones. Testimonials, reward schemes or even the simple, but hugely effective word of mouth can pay dividends.

Conduct your own PR campaigns and ask for open, honest feedback on the goods and services you supply. This not only helps you to improve and modify your business, but it is a great tool for client relationships. In an environment where far too few SMEs provide any kind of after-sales service, this will set you apart. It is as much about perception as it is application.But while the principles of economics may apply to many medium-sized businesses, there is always going to be a place for small sole traders.

As our corner street grocer knows, he will never stock laptops or Dh6,000 barbeques, but people will always need bread, milk and eggs. As long as he does not put too many in one basket.