

Business Services Common: Over reliance on one supplier

The business is linked to the integrity and economic health of one supplier. This puts the business at risk if that supplier has problems.

Indicators

- The business has only one large trade creditor (eg in its creditor ledger which totals \$1 million, \$950,000 is taken up by one creditor).
- The terms of trade with this creditor are very strict.
- The business is trading in a specialised field.
- The business is trading in a new or developing field.

Causes of the problem

- Due to the industry involved there is only one supplier available.
- The business was forced to look overseas for suppliers and it was easier to only use one supplier.
- Technology required by the business is new and expensive and can only be provided by one particular supplier.
- When the business first used the supplier it was not in a strong bargaining position.

Short term solutions

- Examine whether there are any other suppliers available who would be willing to give more reasonable terms.
- Examine whether there are any local suppliers to avoid the costs of shipping and foreign currency exposure.
- If the business has grown and is in a stronger bargaining position, it may be possible to renegotiate the terms of trade with the supplier.
- Examine the possibility of cross trading with the supplier.

Long term solutions

- Look into the possibility of producing the products in-house or by developing a new division.
- Examine all new suppliers with a view of receiving more reasonable terms.
- Determine whether other raw materials can be used, or developed, to replace the current ones received from the supplier (eg glass may be more appropriate than plastic).
- Buy the supplier.
- Monitor the economic health of the supplier (eg by obtaining its financial statements).
- Maintain close contact with supplier (eg senior executive lunches).



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