Attachment

2.2 Price Negotiation

Price negotiation is extremely risky if you are not a product expert. A supplier can quote you basically any price. The question is not low they can go in terms of pricing, but rather in terms of product quality.

a. Keep track of your product specifications

It's typical that inexperienced buyers put immense pressure on the suppliers to offer a rock bottom price. Eventually, the supplier may give in and offer a lower price. But, what the buyer is not aware of, is that the new price is due to a reduction in product quality.

As the Chinese are rarely proactive in their communication, they will not bother to explain to you that they will use inferior materials and components. This will only be revealed much later when it is already too late.

Never attempt to negotiate the price, unless you have a broad understanding of the product specifications and quality options for a certain product. In addition, the product specifications must always be reconfirmed by the supplier, if they agree to lower the price.

b. Refer to company policy or instructions from a superior

You can deflect the suppliers attempt to refuse price reductions by referring to factors that are outside of your control. This can be done, even if you actually are the most senior officer of your company.

c. Always get quotations from multiple suppliers

You cannot tell if a price is accurate unless you have samples from multiple suppliers. Hence, we involve 10 to 15 suppliers in the RFQ process. Again, it is also of extreme importance that each supplier provides a product specification as part of the quotation. If not, you don't know what you've been quoted.

d. Don't expect extreme price reductions

Contract manufacturers have low-profit margins, and they are not operating as charities. If you want your supplier to get something out of doing business with you (especially as a startup client) they must make money too. Don't try to price them below the market price. If you can get a reduction of 5%, you have succeeded. Do not expect huge discounts.