

# Sourcing & Supplier Agreement Best Practices

This document is to help you with working with suppliers and manufacturers to help avoid costly mistakes or things you need to be aware of as you start your journey.

## **Product Samples**

- Request two Samples from different production runs to see if there are any inefficiencies.
- If supplier is providing shipping with their cost, make sure it's separate line item the shipping cost on purchase order so you don't pay importing taxes on it.
- Ask if the sample cost can be applied to the cost of a future order (if you decide to do business with the same company).
  - Put these terms in the PO.

## **Quality Control**

- When you receive your sample, write down the things you don't like.
  - Keep the list handy for Quality Control section of the Terms contract.
- Hire an inspection agency to ensure product quality
- If products fail inspection, the terms should state the company is responsible for paying for the second batch of products.

## **Regulatory Requirements**

- Products will have different regulatory requirements. Ask the suppliers what regulatory or certificate requirements other customers typically ask about regarding the products you're looking to purchase.
- Ask freight forwarder as well and ask if you need them.

## **Products**

- Double check that there are no patents or trademarks before order is finalized.
- Stay away from branded products
  - For example, products that look like an Apple iPhone

## **Purchase Order**

- It's best that the buyer creates the PO because you provide the terms and do it your way. Most of the times, that is how a supplier wants it.
- Create a PO with the supplier using a spreadsheet.
- Keep the language simple, nothing left to interpretation (1st grade reading level).
- If the supplier asks you for a Reseller License (U.S.), leave that part blank on the PO.

- Reseller License may be required, but typically not.
- Make sure product packaging and design specifications are included on the PO.
- Know MOQ (some companies won't want to deal with small orders).
- When you finalize a deal with manufacturer, pay 30% before inspection, pay 70% after the inspection passes.
- If products fail inspection, the terms should state the company is responsible for paying for the second batch of products.
  - The company may not pay, though it's not a deal breaker if they don't - it's a leverage point for future orders.
- Put the inspection terms on the PO so the company knows you're serious about quality.
  - Even if you decide not to send an inspector on site, this tactic will let the supplier know you're serious about quality.
- Company should agree with PO. If not, move on.

## Payment Methods

- Payment methods differ for each country
  - U.S. - PayPal, Debit, Credit, Wire/Bank Transfer, Check
  - China - Wire/Bank Transfers
    - PayPal is typically OK for the sample purchase
- *Do not EVER use Western Union!*
- Be aware of this scam that has recently come up with suppliers emails getting phished. What happens is they have accessed the email without the supplier aware and will email those customers who have PO's coming due and will email the customer saying, "Please wire to this account instead."
  - This is rare, but it's a red flag. What you must do is contact that supplier on phone or skype to confirm. That is why it's good to have an inspection company review the products before the last release.

## Packaging

- A supplier may package products for you. If they don't, ask for the supplier to ship products from their facility to the facility that will package your products. This might require an additional fee.