

## **“Know-How Paper”**

### **Making an agreement with Ukrainian sub-suppliers or... “How to cut down on up-front costs”**

A professional Ukrainian supplier should not only be identified, he should be cultivated, cultivated and cultivated. Identification and cultivation is costly and one of the many reasons why it is much more difficult and more expensive to outsource from Ukraine than one would expect.

The invoiced cost – the direct costs - from the supplier is often low or fairly acceptable and the main reason why Ukraine was chosen in the first place as an outsourcing platform. But the indirect costs are often much higher than expected. Euro 20.000 is easily away on internal salary, travels, external services, telephone calls, taxi driving, translators etc. Often, these costs are fixed and do not vary with anticipated purchase volume or actual order size. The company with the large volume I man hours has therefore, also for these reasons, significant lower unit costs than the company with the small volumes and will more easily gain from outsourcing than its small competitor.

The indirect costs are “hidden” as they are not displayed in the invoice from the supplier, but they will surely be displayed on the “Profit & Loss Statement” in the end of the year. The hidden costs cannot be eliminated completely but they can be minimized!

Contract negotiations are central but very often as expensive as identifying a potential supplier. Long lasting contract negotiations over substance are too expensive and are among the main cost drivers in establishing a new supplier channel. A very simple way to minimize the costs of negotiations is to use a simple and rather cynical “cut-off principle”: “We are the customer, we define the terms and conditions – take it, or leave it to your competitor!”

Having identified potential suppliers, the suppliers should be confronted by “take it or leave it” conditions. The potential Ukrainian supplier shall receive a package of documents, with all process and product specifications plus non-negotiable terms and conditions. The documentation should be clear in format and content and it should be clearly stated that it is not for negotiation but “for signing”.

Before identifying partners you must therefore be able to specify as a minimum:

- Product, Process and Quality
- Price per unit or batch
- Payment conditions
- Terms of delivery - INCOTERMS conditions
- Demand: A direct contact to English speaking contact in the UA company
- Define: Who prepares the final bilingual contract
- Prepare: Action Plan - Who does what and when?

Any deviation, changes in the plan or opening up for negotiations will increase the hidden costs and lower your gain from the new supplier channel.