

# WMC Consulting LLC

## Offshore Sourcing: To Contract or Not?

Many companies believe supply contracts with strategic offshore suppliers are not enforceable and therefore useless. The main value of a supply contract is to synchronize expectations with suppliers across all operating, commercial and financial connections. Most “Buyer-Seller” problems are not intentional underperformance or cheating by suppliers, but rather innocent mismatches of expectations between the parties. Different commercial practices, language, and business sophistication levels are the most common causes of conflicts in supply relationships. Assuring shared understanding and expectations is the foundation to relationship success.

Approach relationship management with the axiom – *“If it’s not in writing, it didn’t happen! If it’s not in writing, it’s not important!”* It is dangerous to assume business practices in a developing country mirror those in the West. Suppliers often naively believe that if a factor is not formally defined by the buyer, it must not be important, and the supplier can interpret the issue to their benefit, causing supply chain problems for the buyer.

Define all relevant terms and conditions covering operating (mfg., quality and logistics), commercial and financial interactions to build a solid foundation with offshore suppliers. Formal contracts are appropriate for long term, high volume/value strategic supply relationships. For less significant supply relationships, it is recommended that formal term sheets be developed and attached to purchase orders to be managed through the Supplier Acknowledgement process, assuring documentation and synchronization of expectations. WMC Consulting has field-proven T&C templates covering 20+ potential relationship terms, as well as contract templates for collaboration between buyer and the most strategic suppliers.

An overlooked value of formal contracts with offshore suppliers is the relationship-building power of the process. Buying companies go to the effort of contracting with important suppliers, not the unimportant. The process of contract negotiation and execution communicates the importance of the relationship to the supplier.

Back to the title question – *“Offshore Sourcing: To Contract or Not?”* – Supply contracts and defined T&Cs are always high-value investments in successful offshore supply relationships.

***WMC Consulting is a project management and advisory firm assisting North American companies and private equity firms to solve business challenges primarily in SE Asia. Over the past 22 years, the WMC team has worked on 400+ international projects for 250+ North American companies and 50+ private equity firms.***

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