

Shoes

'Shoe-me'
(Supplier)

'Dewsbury Stores'
(Retailer)

General brief

'Shoe-me' (Supplier), a shoe manufacturer, has been supplying shoes to the retailers for over 45 years. They have a reputation for high quality products and therefore cost 5% more than most other suppliers.

'Dewsbury Stores' (Retailer) is the largest customer of Shoe-me with a 52% share of their £9m business.

Shoe-me (supplier) brief

The letter from the retailer Dewsbury Stores (see attached) has not come as a complete surprise as you are very aware of the difficult situation they are in and know that they will try many different ways to gain essentially needed profit.

Your Financial director, Martin Dollar, has told you that your invoices have always been paid 30 days from date of invoice. The cost of agreeing to this request would be £222,932 per annum as the company would earn less bank interest and it would put the company out of kilter with your leather supplier, your largest supplier. In essence the company's cash flow would deteriorate and you know that cash flow is a KPI for the board.

As your net margin is only 7% this means that you would need to sell considerably more to stand still and with Dewsbury Stores Ltd current performance, that is very unlikely. As the Senior Account Manager for Shoe-me you have the authority to offer 37 days but no more.

The relationship with Dewsbury Stores Ltd is generally good.

You now need to write a letter to your buyer at Dewsbury Stores Ltd.

Dear Sales Director of Shoe-Me

Payment Terms

I would firstly like to thank you for your continuing support whilst we overcome the challenges that face us in the world of retailing. As you have no doubt been reading in the press we are facing tough competition, rising supply chain costs and a deflationary market.

However we have a new board in place and have begun tackling these longstanding issues. We have already committed to invest in upgrading each store over the next 12 months, reduce the head count at head office by 20% and commissioned the largest piece of consumer understanding ever undertaken in the UK.

I hope that we can count on your continued support and to that end I am asking for your agreement and commitment to changing to our standard payment terms with you; 45 days from date of invoice.

These new standard payment terms will commence from the beginning of the next financial year, 1st of the month.

I thank you for your on-going support and know that you want us to succeed in this tough environment as much as we do.

Yours faithfully

Mark Queen

Mark Queen
CEO Dewsbury's Stores

Dear Mark,

Re: Payment Terms

Thank you for your letter.

I am aware of the increasing competition and rising costs in our deflationary market; Shoe-Me face similar challenges in providing a high standard of support to you.

It is good to hear of your investment in both your stores and market intelligence to address the issues. I'm sure the decision to reduce head count at head office is not taken lightly and will be challenging to achieve.

Your proposed change in payment terms from the current 30 days to 45 days from date of invoice will cause us considerable problems. Moving to 45 days will interrupt the payment arrangements with our largest leather supplier and detrimentally affect our cash flow; something that cannot be recovered through our current level of sales.

If you are able to increase orders to us by 10% from the beginning of the next financial year, through modernised stores and greater insight into consumer spending habits, I can agree to extending payment terms to 34 days from the same date. I will be happy to discuss this with you in greater detail at our next scheduled meeting.

I assure you of our continued support and of our commitment to addressing the challenges of the current tough environment.

Yours sincerely,

Senior Account Manager
Shoe-Me