

How Your Clients Can Purchase Their Way to Profitability

Mark Braverman

Alliance Cost Containment

<http://www.alliancecost.com>

973-760-5691

“External Collaboration is Indispensable”

So said IBM’s 2009 Global Study of interviews with 765 CEO’s. Findings relating to companies that pursue external collaboration included:

- Business partners were second on the list as sources of innovation.
- They “outperform the competition in revenue growth and average operating margin.”
- They have higher customer satisfaction & quality, more timely access to skills, markets and products, strategic flexibility, and reduced risk.

These goals can be achieved using common sense about relationships and logistics. The strategies are equally valuable to your clients and your own firms. The single most important concept is a radical one. Suppliers need to make a profit to provide good service and survive. Purchasing is a 4 legged stool consisting of price, quality, process improvement and service. No supplier can be the best in all and prosper. Ultimately, the vendor will be forced to compromise on at least one of the legs.

It is time to redefine vendor relationships from adversarial to collegial.

Building Business Partnerships

Your ultimate goal is to create Business Alliances with your key vendors. A Business Alliance is a relationship between firms in which they mutually agree to move from the traditional vendor/customer push-pull to a model with joint cooperation with greater value for both parties.

Book appointments with the 3 or 4 “best of breed” suppliers in your key purchasing commodities. Discuss the imminent RFP and that the award is based on the ability to become an effective business partner. They will grow their revenue, at appropriate margins, and reduce their cost of doing business by working for common goals together.

- Commit to working together on accurate inventory projections .
- Eliminate freight charges, even if costs go up. They are a license to cheat.
- Eliminate difficult or quirky requirements like “bill & ship complete.”
- Require quarterly updates and an annual business review
- Entertaining is out. It’s not really free.

Vendor Consolidation

- Select the goods and services that represent the largest percentage of the total spend.
- Vendor consolidation saves as much as 10-25%, combining reduced costs with process streamlining. It also enables greater leverage in price negotiation.
- Assign weights to the 4 critical metrics with input from all parts of the firm that touch this commodity.
- Get usage on the top 60% of your items and put them on an RFP.
- You don't want the lowest **price**. You want the lowest **net cost**. That means price minus terms and rebates, quantifiable process improvement, reduced returns, and better access to new and alternative products. Your bidders should address all of these issues in their RFP response.
- Bring the team back together, crunch the prices and metrics, and pick the winners. A primary & back-up vendor for each category should be selected.

Strategies to Reduce Net Costs

- Utilize billing and prompt pay terms instead of credit card payment.
- Propose monthly summary invoices.
- Structure rebates based on hitting mutually agreed upon growth targets, as well as through reductions in the vendors CODB.
- Find out about manufacturer's end user rebates and Marketing Development Funds.
- Manufacturer's price cuts AND increases are to be passed on, proportionate to the current mark up.
- For non-contract items, use cost plus, not list less. Cost plus provides a better ability to audit.
- Order electronically. Phone and fax are too time consuming and generate too many data entry errors.
- Use the vendor's website for approval routing to eliminate hard copy sign-offs

Business Reviews

- Have these quarterly with your largest vendors, with a more detailed annual review.
- Remove slow items from your core and replace them with higher volume items. Expect a higher price for the slowing item, but a lower price for the faster.
- Ask about new, alternative or generic products.
- Provide satisfaction ratings for key metrics and discuss areas of improvement, streamlining, further cost reductions, and error elimination.
- Don't forget to say "Thanks!"