Adding To The Bottom Line By Buying Value Instead Of Cutting Costs

by **PAUL PEASE**

Ask any executive what they want their salespeople to do, and it's invariably to sell value — read, generate profitable sales. Ask that same executive what they charter their buyers to do, and they'll tell you it's to cut costs. Therein lies the dilemma: Two directly opposite philosophies at the negotiating table, creating a huge business obstacle. That obstacle is the buyer, whose sole marching order is to cut cost at purchase, not to value the deal. From a buyer's perspective, if the person signing your check gives you price-slashing working parameters, that's what you do — no matter what it costs.

The end state is that the supplier cuts corners and delivers poor quality to make a profit, or goes out of business because they can't make a profit. Either way, the buyer ultimately loses.

To fix a problem, the cause must be understood. Buyers are given simple orders — cut costs. Worse yet, they are given a fixed objective — say, cut costs by 10 percent. There are many things fundamentally wrong here.

- The implied end state is to cut costs.
- By fixating on price, there is no pre-sale qualification process to investigate the vendor's business-worthiness. Is there a list of references proving the supplier's ability to commit to what was promised when it was promised?
- The buyer has absolutely no leeway to think outside the box — maybe a vendor has a product that is actually 10% higher in price, but reduces production costs by 12% and returns by another 30%, while providing a means of turning inventory two times faster. Custer was offered a Gatling gun (and didn't take it) before making his last stand.
- Some vendors, fearful of losing the account, will actually drop the price by 10% — even if it becomes unprofitable. Once a few vendors participate, everyone else had better get on board. And the quality "dumbing down" process begins.

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Paper Warranties

After cost, the next thing buyers (and sellers) negotiate is warranty. In tough times, desperate businesspeople play with warranties just like they play with price: they give it away and put "the problem" off to the repair/customer service department at some time in the future. A one-year warranty turns into three, three goes to five, and five years miraculously turns into a lifetime warranty. Businesses ought to warranty that they'll be around in three to five years, not that their product will last that long.

The problem with warranty — and why it's basically useless — is many businesses view the warranty as a symbol of their commitment to excellence (either as a buyer or a seller), when in reality it's just a piece of paper. A building owner in Los Angeles related how he had negotiated a "great deal" on a new building automation system. He bragged how the deal clincher was what he called "the Sears lifetime warranty" — the vendor guaranteed it would work. After two years, the building automation system didn't work, more time was spent in downtime fixing it than it was used in uptime, and the vendor went out of business.

The Ultimate Cost-Cutting Ploy: The "Let's Go Offshore" Pied Piper

It's amazing to watch industry chase cheap labor around the planet. In the '70s and early '80s it was Japan. Then in the late '80s and into the '90s it was Mexico. Now it's China. And they all do it like lemmings following a leader off the cliff.

Mechanical Industries in Milwaukee, Wisconsin, is a custom metal parts supplier for the watercraft, motorcycle and automotive industries. Their customers include Mercury Marine, Harley Davidson, General Motors and Bombardier, to name a few. One year ago, a key account informed Mechanical Industries that they were going off-shore to China to purchase the fuel lines previously supplied by Mechanical Industries. They were cutting costs.

An entire container of the fuel lines arrived from China at the former Mechanical Industries' account. They all leaked. Leaking fuel lines is not good. A shutdown production line is not good. Sending workers home because the production line is down is not good. Scrambling to fix a problem literally on the other side of the world is not good. The customer failed to value the little things that Mechanical Industries did in the assembly process of the fuel lines to make sure the lines didn't leak. Here's the incredible finale to this story: The buyer had the nerve to call Mechanical Industries and ask them to show the Chinese how to make the part! We can't print the well-deserved response.

Solution: Buying Value

Suppose you have a sore back and are shopping for a new office chair. It doesn't matter if the chair is $50 or $5,000: if it isn't comfortable, you're getting a bad deal regardless of the price. If you get a good price on a chair for $50 and can't sit in it because it's so uncomfortable, then your good price turns out to be a wasted $50 — plus your time to shop, time to go shopping again, and the fact that you still have a sore back. Likewise, a $5,000 chair isn't guaranteed to fix your back, either. A high price doesn't guarantee quality any more than a low price guarantees savings. The bottom line is that price — high or low — is totally meaningless if what you buy doesn't work or it ultimately costs you more to keep. The end state of any purchase is not how much it costs, but what its overall value is to the buyer.

The first priority is that the widget you are buying has to be

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able to do the job it is defined to do. It has to function. This means you'd better have a good understanding of what you want the widget to do. Just like the chair, if it doesn't do the job, it doesn't qualify as a candidate no matter how much it costs.

The second priority in buying anything is that it must work. It must work out of the box, after it's out of the box, and — if it ever breaks — must be easy enough to fix or replace so there is no appreciable interruption of performance. If the chair breaks, how quickly can you expect a serviceperson or get a replacement?

Then, the object of the game is to qualify enough resources that meet these first two criteria — functionality and performance — so that you can compare prices. Note the price criterion is not first, but third.

You can talk about asking your salespeople to sell value all you want, but if you were to look at one department to generate both immediate and sustained value within a business, it wouldn't be sales. It would be purchasing. No matter what it costs.