



## Brian Farrington Limited Procurement and Business Solutions People

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### IT ISN'T ALL ABOUT PRICE!

This is the phrase used by (some) technical staff to denigrate the efforts of buyers. They say, "It isn't all about price". We agree; however price is important. Mention the 'P' word in a negotiation and the sales 'rep' goes coy, or throws a tantrum, or threatens an impact on delivery. Tosh. Take no notice, challenge the price.

First of all we can dispel some myths. If you challenge the price, quality will suffer. Pardon me? Have the engineers /marketing specialists/fleet manager not written a specification that is capable of being measured? A well-defined specification can be incorporated in the contract. The buyer can ensure that a supplier's failure to meet the specification will lead to the contractual consequences. These can be the payment of damages, for example, or the termination of the contract, or a requirement to correct the defaulting specification.

Now we hear an objection from the engineer/marketer. That will cost you. Note the implied threat to the buyer's position. The implication being that somehow you pay twice to hold the supplier accountable for meeting the specification.

Are there any other myths around? Oh, yes. If you challenge the price the supplier may increase his tendered price. Now let us look at the logic of this for a few minutes. The tender says £400,000. The buyer challenges it and the seller now says £500,000. Whisper this next one. The seller may do this when the engineer/marketing (insert your favourite department name!) tells them they are the only supplier! The

preferred supplier! There is £500,000 in the budget! Delivery is crucial and we don't mind paying more for a quick delivery! We challenge the reader to persuade us that this doesn't go on.

Another myth can be exploded. This is one of the best. It is an act perpetrated by salespeople. They sniffingly respond that their tendered price is the best they can do. Well, that's all right then! Incidentally we have heard that said before prices have been reduced by 30% or more. That is strange. How to they do that then? Because the first price was a try on. That's why. Because they thought the functional specialist was a soft touch commercially. That's why. Because they never thought the buyer would get involved. That's why. Because they have entertained the engineer/marketer/IT specialist at nightclubs, football clubs, on overseas trips to Amsterdam. That's why. The trip to Amsterdam was only to pick the tulips. We fully understand.

The perceptive reader will have noticed that the word cost has not yet been mentioned. It takes some courage to realise that some suppliers do not know their costs. True, and we have the evidence. If there are no detailed drawings there can't be a bill of materials. If there is no bill of materials it can't be costed. This is where the estimator, springs into action. This fabrication will be about 40 tonnes so we will work on £5000 a manufactured tonne. Now we have a price. In the USA it's usually called a ROM price. What's that you ask? A Rough Order of Magnitude. We have known quotations with ROM upon them and this becomes the basis for a deal. No

surprise then when the invoice arrives at 60% higher. Before you ask, we are not writing this from the funny farm. It actually has happened.

So, lets have a go. Let's ask the sales 'rep' for the cost drivers. Be prepared, these people have been on a few courses for Key Account Managers. Their replies are instant. Company policy prohibits us divulging costs. That is confidential information. It wouldn't be helpful even if you know them. There are more aggressive responses. What do you want that for? Where is that going to get us? That is none of your business! All of these have been heard in recent months. The sales 'rep' is often paid on profit margin so the more they give away the less they get paid. It's a powerful motivator in a negotiation room.

It is naïve and unprofessional not to challenge prices. Price has got some relationship with other contractual features such as delivery, specification, quantity, period of contract, nature of relationship, etc. Negotiation is a high level skill acquired by few.

Some technical people often have an exaggerated perception of their ability in this area. The best advice is leave it to the professionals. Stop being negative, encourage the buyer to ply their trade. The professional sales rep thrives on incompetence and ignorance. Their impact needs to be professionally managed and the flaws in their pricing exposed. That is a job for the professional buyer.

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