

# An holistic approach to purchasing – It's not *just* about price



*The importance of the purchasing function in your business goes without saying. Essentially it speaks to your gross profit result without reservation in regard to the products that you sell. **Garth Michalson** from Cleanstar offers his opinion on purchasing practices and hopes to 'enlighten' readers to alternative*

*salient considerations surrounding the function of procurement, other than simply crunching for the cheapest price.*

This article concerns itself with considerations surrounding procurement of the products you sell in your business rather than the stationery or tea and coffee you buy for it, though I guess to some extent some of the underlying principles outlined below can still be applied to these other areas. Contemplation of these other aspects – the flow-on of which are difficult to measure when making purchasing decisions can well put more dollars on your bottom line.

So let's start with a rough definition. What is purchasing? I would call the art of procurement the acquisition of products (and services) obtained at the best price, that satisfy the purchasers requirements in terms of quality and quantity delivered to a specific place within a certain time frame. At this early point in the article, I hope it has become immediately apparent that purchasing goes well beyond price alone. Being mindful of these other aspects that I will expand upon can well save your business a lot more money if you get it right.

Let's look at the aspect of **quality** (I will leave the topic of price until last). It is very seldom that one finds quality and cheap happily co-existing! I love sayings, quips, proverbs and adages. This is because history is littered with them for good reason based on actual human experiences and the pain or joy derived from said experience. A favourite is the time old adage; 'bitterness of poor quality is long remembered after the sweetness of cheap price is forgotten'.

Make sure that the products you are buying are of decent, merchantable quality. Purveyors of 'crap' are always found out, and it will cost the loss of customers. There is so much choice for product offered by so many different suppliers, the Australian Competition and Consumer Commission (ACCC) has had to tighten its warranty laws just to protect consumers from all the rubbish that is being sold.

Also consider the quality of the suppliers you choose to work with. Select suppliers to your business that specialise in what they do. Suppliers that display quality in the way they run their business. Suppliers who are efficient, with good systems and that are easy to deal with. They know their products well and most likely have strong quality control systems in place before they would offer their products for sale. These suppliers most likely also will have spare parts to back up the products they make or import.

When it comes to machinery for example, ask if the product being bought is electrically safe? Has the supplier bothered to ensure that the equipment they manufactured or imported meets the mandatory legal requirements of electromagnetic compatibility (EMC)? *Every* electrical device sold in Australia has to comply with EMC. If not, then you could wonder what other corners the supplier cuts in their

business. Non-compliant products sold, if recalled, will be a major cost and inconvenience to you and your customers.

Due to the nature of some products and the environment in which they are used, they inevitably will require maintenance or break down. Does your supplier have the capability to back you up with spare parts? If not, then your customer's machine won't work, which means they can't make money, which in turn means they possibly won't like buying from you! To paraphrase what William A Foster once said, "quality is never an accident.... it represents the wise choice of many alternatives". Aristotle bought into the action too when he said, "quality is not an act, it is a habit".

The aspect of **quantity** in purchasing is also very important. Suppliers love it when customers buy in bulk for many reasons. It is much easier and cheaper to pick a box rather than having to open a box and count out individual items. It leads to fewer mistakes in picking and it is already packed, saving the supplier expensive labour hours and materials to pack individual items. It keeps the suppliers' inventories turning over and frees up expensive warehousing space and cash flow. Suppliers will commonly even discount to encourage bulk purchases.

The number of times I see multiple orders for the same products from the same customer in a month is astounding. I can't help but think of all the administration costs imposed on their accounting departments having to reconcile so many unnecessary invoices, not to mention they could possibly have paid less if they had purchased in bulk. How much time (and money) was wasted having to compile multiple purchase orders instead of just one? And freight costs for each small order? Buying in bulk should mean more profit for your business – quite possibly avoiding freight costs by having bigger purchases. You would be surprised how many suppliers are happy to discount for bulk purchases.

Speaking of quantity, it is a good idea to work with suppliers who have healthy stock holdings. There is nothing more frustrating than missing out on business opportunities because the supplier didn't have the stock. Whilst out of stock occurrences are a reality in any business, the better you can mitigate these occurrences, the better off your business will be. Again, this is another argument to buy in bulk when your cash flow permits. Suppliers will run out of stock from time to time, so take responsibility for your business and load up on those key items where possible. If you can get this right you will save more money on your purchases (and measure the benefits in your profits) and reduce administration costs which are not so easy to measure, but definitely exist.

The concept of quantity can also extend to the number of suppliers you source from. Too many suppliers of duplicate products impose cost burdens on your administration because of extra time spent in accounting. You also dilute your value to the suppliers in the process. The more you can spend with a supplier, the more leverage you have to negotiate better price outcomes for your business which means bigger profits.

Delivering to a specific place in a certain time frame is another vital piece of the purchasing puzzle that needs to be considered. This is the **service** aspect. It is always a good idea to select suppliers that have a good distribution capability, with a reputation for timely service. Suppliers that have robust distribution capabilities most likely also have advantageous freight cost arrangements with their carriers. Lower freight rates translate into more profits for your business.

*Continue page 36...*

...Continued from page 34

Nowadays most suppliers rely on a network of logistics companies to carry out deliveries on their behalf. Some are good, some are horrendous, but they are necessary and an indispensable part of the supply chain. This is why it is important to work with suppliers who have healthy stocks – freight companies will get the goods to you (most of the time), provided the stock is available in the first place at the point of departure. Price, quality and everything else we have touched on go out the window if nothing can be delivered, and the exercise of purchasing effectively is defeated.

A supplier with a well stocked warehouse is important, but equally important, is one that sends stock out on time. When your supplier is reliable, you are reliable and your customers will value it. As politician Thomas Haliburton said, “Punctuality is the soul of business”.

All these points tied together leave us with the element of **price**. I have left it to last because it is the aspect that most people tend to fixate on in their purchasing considerations, and hopefully it can be seen now that it is only one of the key elements that are at play in profitable purchasing.

What good is it to buy cheap when the quality is poor? What good is it to buy cheap to receive delivery days after the deal deadline had to be met? The important point to take away from this is that the ‘true cost’ of an item is not only the price paid for the item, but all the other variables that come into play. What good is a supplier that always gets invoice pricing wrong, even though the goods are cheapest.

I could paint countless scenarios that could illustrate how cheapest is not always the lowest cost to your business. Just remember that there are countless other costs that come into play once the purchase order is raised, and by keeping these ‘almost impossible costs to measure’ in mind, will in the long run equate to a more profitable outcome for the business.

Just to recap, the following points will contribute to better purchasing outcomes for your business:

Paying your suppliers properly and on time gives your purchasing department more leverage when it comes to negotiating for better prices and trading terms.

If you are one of those businesses that have a strong positive cash flow, consider paying sooner in return for discounted prices. In addition, take advantage of your strong financial position and buy in bulk to get further discounts on the products you buy.

Suppliers that have good literature with information that is easy to access makes the purchasing task much quicker and therefore saves you money.

Suppliers that offer good marketing tools (displays, brochures, signage, etc) for its customers are advantageous to buy from as it helps you sell the products you are buying much easier.

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## Janitorial distributors need to embrace digital marketing reports CleanLink

An article written by Stephanie S. Beecher, associate editor of CleanLink, cuts straight to the chase in stating that ‘distributors should work to educate themselves about the digital environment through trade publications, professional associations and industry conferences’.

‘That being said, trying to tackle the arsenal of digital tools available to distributors can feel overwhelming. Considering the alphabet soup of terms floating around on the Web — ERP, PPC, CRM, CTR, SaaS and SEO — it may be in the best interest of the distributor to seek the expertise of an experienced Web professional, or Internet marketing firm.’

Beecher quotes Eric Cadell, director of operations at US company Dutch Hollow Janitorial Supplies in Belleville, Illinois, on the topic. “There are tons of companies who will work with independent distributors to leverage the same types of programs that Amazon and Google are using,” says Cadell. “It’s something we need to invest time in if we want to do just as well.”

Beecher goes on to state that technology consultants say distributors need to shed the traditional status quo, and acknowledge the importance of digital marketing. She quotes Guy Blissett, wholesale distribution lead for IBM, in saying distributors should be less focused on sales, and invest more heavily in developing their IT and marketing staffs.

“Distributors have typically been sales oriented — the sales staff drove the bus,” says Blissett. “Increasingly, distributors are realizing that the marketing function needs to be far more assertive, and that’s going to be a really uncomfortable transition.”

‘More and more, the people who are purchasing the services within jan/san are younger than 35, which is exactly why distributors need to embrace digital marketing, now, including social media. Conklin says distributors are so out of touch with the next generation that they cannot yet fathom the idea of communicating through Facebook’.

Beecher also seeks input from Dave Conklin, co-founder and CEO of ProspectMX, a US Internet marketing company in Lancaster, Pennsylvania. “In the 1990s, it would have been unacceptable to misunderstand the marketing of the company. These executives today have no clue as to how to market to those in their 20s and 30s,” Conklin says of social media communication. “They are afraid to allot dollars into it. In reality, it is no different than a sales rep picking up a phone call.”

‘Conklin says he describes the Internet as “a networking event” to help clients understand the importance of establishing a presence on the Web,’ writes Beecher.

“Businesses have to understand that if you think of the Internet as a networking event, that is made up of several rooms — Facebook, Amazon, eBay, Buy.com or Sears — that if there are people in these rooms that have products to sell, they need to be in that room. You want to be where the buyers are,” states Conklin.

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