

Ten Supplier Pricing Mistakes to Avoid When Dealing With Procurement

This article was printed in CONTROL's December 2009 edition.

By [Jerold Bernstein](#), President, Value Pricing Group and [Donald Stock](#), Supply Chain Executive

In the June issue (www.controlglobal.com/articles/2009/SuppliersMistakes0906.html), we discussed ten supplier pricing mistakes, and noted that the customers who involve procurement in their purchases are in a stronger position to gain price concessions from their supplier. Procurement organizations see supplier pricing mistakes every day. Understanding these will help you better understand what you need to do to maintain price when procurement is involved in the purchase decision.

Mistake 1: *Not understanding the culture, needs, and incentives of the procurement organization.* Price is important, but the procurement organization is measured on other factors as well. For example in this tough economic environment procurement may be pushed hard to implement and obtain immediate cost reductions or cash flow improvement. For example: As an incumbent supplier you may have an opportunity to lock in business with better payment terms. These terms may be implemented immediately vs. a competitor that may require lengthy qualifications. Procurement will tell you their objectives if you ask. They want to know how you will help them meet these objectives.

Mistake 2: *Sales representatives discusses only price not the value of their offering.* Contrary to popular opinion many procurement organizations are open to a “value” sell. Get to know what your customer values and create a clear value sell proposal and use it.

Mistake 3: *Assuming that procurement knows your value proposition.* For example: Procurement is considering two machine tools. One is priced at \$400 and the other is priced at \$800. The \$400 tool wins, right? If the two tools are measured on cycles before replacement, the \$800 tool is the clear winner. If procurement doesn't understand this, the \$400 tool wins.

Mistake 4: *Not recognizing customer cost of change from the incumbent to a new supplier.* This cost of change can be significant, easily exceeding 10% of the purchase price. Suppliers often don't recognize this as an opportunity to justify a price premium of five to ten percent or more vs. a new supplier.

Mistake 5: Thinking *Reverse Auction award decisions are based only on price*. In most Reverse Auction events price is not the only factor that customers consider. If the customer doesn't publish in the Event that the "Lowest Bidder Wins" than in most cases factors other than price are used in the award decision. Suppliers are often intimidated by the process, not thinking of the risks that customers face when changing suppliers. Suppliers that only sell on price are bound to lose.

Mistake 6: *Not acting quickly to pass on commodity driven cost increases*. If you are selling a product that has a cost structure that is significantly impacted by the cost of commodities then you need to act quickly on pursuing price in the rising market. Procurement professional will be more receptive to you passing on the commodity increase while the markets are still high and especially if they can pass it onto their customer. Once the markets fall price increases will be resisted.

Mistake 7: *Not capturing price by using your ability to help manage your customer's risk*. You might be able to help the customer manage his risk through material hedging, managing inventory, exchange currency, etc. For example: The supplier sells copper fittings. The customer is concerned about future price increases due to the volatility of copper prices. You can get a premium price if you can help mitigate the risk by providing a fixed price that relies on your ability to hedge your copper purchases.

Mistake 8: *A misguided view of strategic partnerships*. Be assured that procurement won't view your partnership as an entitlement for higher prices. The greatest benefit to the supplier is a stronger position to retain and keep the business by "locking in" customers over time. You have worked hard and battled to be named as a strategic partner but now is not the time to rest. That partnership provides you an opening to create strong relationships with procurement, operations, engineering and quality. Creating those relationships will pay big benefits when your competition tries to unseat you. Having these open doors will enable you to identify opportunities to create a value position that is difficult to counter. Driving lower cost transactions, assisting with kanban systems, demand modeling, and helping with product design are all opportunities for risk mitigation while creating value that is hard for an outsider to understand and compete.

Mistake 9: *Expressing a weak financial (supplier) position* in attempt to gain price. Procurement will view this as a desperate move. The result may be that the customer qualifies and moves to a new supplier in the background because of risk mitigation.

Mistake 10: *Not getting involved in the customer's New Product Development*. You as the supplier often better understand how to design a component for manufacturability and align it with your manufacturing process. By helping the customer design in standard products or designs with characteristics that align with your manufacturing capabilities you can create a win-win relationship. Aligning your manufacturing

capability with customer needs gives you the ability to be more responsive to the customer while creating a strong environment to retain price.

Jerold Bernstein

President

Value Pricing Group

Bernstein@valuepg.com

www.valuepg.com

636.386.8064