



The Cost of Cheap

by

Martyn Lewis

Market-Partners Inc.

There is an undeniable trend across the purchasing departments of corporate America towards selecting the suppliers that can offer required goods and services at the cheapest price. However there is often a cost of buying cheap. Rather than simply react to this trend by offering ever increasing discounts, it is the role of the sales professional to discover and quantify the true cost of buying cheap to their customers.

At the age of seventeen I purchased my first car. A friend convinced me to spend £65 on an aging Wolseley (transl. \$200 for an old Chevy) and I can clearly recall that the car had not aged terribly well. The most important point to me though was that this was what I could afford - and I was finally mobile.

Prior to my acquisition it had swapped many pounds of sheet metal for many pounds of rust. And once in my possession it seemed that every week various parts of the car would fail to do what they were supposed to do. The brakes would fail to brake, the windshield wipers would fail to wipe, the shock absorbers wouldn't absorb, and the tires wore at an alarming rate. In fact it seemed that the car was simply a collection of parts each with its own aging maladies and idiosyncrasies.

Due to my limited funds each of these challenges to my mobility would be met in a similar fashion; I would spend countless hours bent over or lying under the vehicle armed with the few tools I could beg or borrow in an effort of find, fix, or replace the offending part. In so doing I became well known to the local junkyard owner and his pack of underfed and overly-aggressive dogs – big dogs. I would scavenge the carcasses of cars similar to mine - many it seemed on first glance to be in better shape than my own specimen - to find the required parts to get me up and running once again. However not surprisingly these parts were rarely better than the bits that had failed on my own car but of course compared to buying new and genuine replacement parts they were a bargain.



I was definitely buying cheap - but at what cost? The countless hours I spent continually fixing my car were on my own time which in those naïve and innocent days I valued at zero. But over the time I owned that car I wonder if I had been able to invest in new tires or new shock absorbers, it would have been on the whole less expensive. I think so.

Now in recent years there has been an undeniable trend across the purchasing departments of corporate America to ensure that no more is spent on the acquisition of products and services than is absolutely necessary. This has become a subject of great concern to many of the sales forces we work with. It seems that their life has been reduced to ever increasing discounts, more ferocious competition, and greater commoditization. In many cases we are now seeing organizations purchasing various goods using a “reverse auction”. Often implemented over the internet, suppliers engage in an auction where they bid each other down to reach the “last man standing” - the supplier with the lowest price - who wins the business.

I don't believe that there is anything wrong with this if all of the suppliers and their associated offerings are equal. But I also believe that this should be a rare occurrence. It is the role of the sales person to understand this and highlight the actual reality to their customers – most supplies and suppliers are not equal.

If there is really nothing different between your offering and your competitors' then your customers have every right to simply demand the lowest price. But is everything about your offering exactly the same as your competitors? Does it really make no difference to your customer if they buy from you or your competitors? Well in most cases there obviously are differences and also somewhat obviously many purchasing departments are looking to create a form of competition to ensure that they buy at the lowest price. But what is the cost of buying cheap?

I was talking to a friend in the building industry and he was complaining that for a certain type of fixture they now have to order twice the number they require because so many break upon installation. It therefore seems strange that within that same organization someone is being rewarded for finding a supplier that offered seemingly the same fixture for 25% less than they were paying before. By sourcing from this alternative supplier with the cheaper fixtures the company actually ended up paying more.

Now that's a pretty straightforward example and seemingly simple to remedy, but the cost of cheap is often much more subtle. What about the company ordering electronic components? On the surface there may appear to be several suppliers that can provide the same semiconductors. Behind the scenes though, the engineers use software packages in the design of their products and these applications are often specific to the component manufacturer. Switching to a seemingly identical yet cheaper supplier has the hidden cost of acquiring different engineering software. That hidden cost can then manifest itself in several ways such as component incompatibility, inaccurate documentation, and having to train engineers to effectively use the new software.



It is the role of the sales person to create or discover the unique value that they can bring to their customers. To create this uniqueness the sales person must have a clear understanding of what their customers need and value, and then be able to marshal the resources, talent, and creativity of their own company to provide an offering that is not only able to deliver upon these needs, but be able to offer that value in a some unique way. If all the sales person can offer is a catalog of products that the competition also supplies, then the ability to differentiate is lost and it surely will come down to price.

Whatever the benefit may be it must then be quantified in a meaningful and credible way to that specific customer. We may think that some aspect of our offering is of great value but if the customer does not perceive that value, then it doesn't exist. To be successful in beating the commoditization curve, the value you are offering also needs to be unique to your offer. If your competitors are offering the same or similar, then there is no differentiation.

So ask yourself. Does the unique value in your offering decrease costs? Does it save time? Will it enable your customer to reach new markets? Will it provide them with the ability to better meet their strategic goals?

Consider for example a supplier who knows their customer's business inside and out. They know that when they receive an order for a specific product configuration their customer may be better with a slightly modified solution. A quick phone call and a short discussion regarding the different solutions would result in a superior situation. What is that worth compared to the supplier that would simply ship as ordered?

Unfortunately many companies and the people in them tend to have overly optimistic views about how their market offerings are both differentiated in the marketplace and offer clear value to their customer. They also tend to underrate the offerings of their competitors. This leads to a healthy world in some ways; after all who would want to work for a company that is merely an also-ran. In other ways though this leads to frustration when they do not attain the results they think they deserve from their sales and marketing investments.

Many of the organizations we work with are shocked when we report back to them what their own customers shared with us regarding the harsh reality of unclear value, yet very clear competition. Interestingly enough though, we have rarely worked with a company that could not differentiate itself and offer unique value through a carefully crafted sales approach - a sales approach that discovers what their customer uniquely values, and then demonstrates a clear and professional methodology in delivering upon that value.

Companies have every right to buy from the cheapest supplier and you should expect them to do so. However it is the primary role of the sales person to understand the situation and be able to highlight how their own solution can provide greater value than the competition.