

Getting the Best Deal from All Your Vendors

There's waste in your operating budget that can be recovered ...if you know where to look and how to free it up. The waste is being caused by overpaying for equipment and services. From my experience, it's not just a couple of dollars either. My clients are shocked to discover they were wasting hundreds of thousands (sometime millions) of hard dollars.

Although my expertise lies within one industry, the concepts we use to enhance the value you receive from a vendor works for any industry, product or service. "Enhancing value" means lowering the hard dollar cost for products or services while maintaining or improving vendor service support levels. When I initially meet with prospective clients, the idea of being able to reduce copy, print and fax costs, while at the same time improving vendor performance is usually met with some level of skepticism. Statements are made like: "we already have the best deal possible, or I have a great relationship with my vendor, I know they are giving us the best deal possible."

Actually, the only way to really know if you are receiving the best possible value from your current vendor(s) is to obtain several pricing and service benchmarks (also known as "data points") to measure against your current costs and service levels.

What Are Your Options?

At this point in my initial discussion with prospective clients, I am usually asked "can't I just renegotiate with my current vendor(s)"? You can, but what will that really tell you? Just because your current vendor makes cost and/or service concessions, you will still not have any other data points to evaluate the value you are receiving. I explain in another article titled "Why Partnering with Vendors Does Not Work" that the opposing motives you and your vendor have prevent you from getting the best value, without additional leg work.

Sometimes I am told "I can issue my own Request for Proposal (RFP) and lower my costs myself. This will save the cost of your fee." That statement is correct, but the question to ask is; what is my true net return? To evaluate your true net return, you first have to determine the dollar amount you are sure that internal efforts can reduce your current hard dollar costs by.

Hopefully your procurement department has a record of their results from other similar projects. If you do not have an internal track record make sure to evaluate the probability that their internal result estimates are realistic. What previous experience in that specific industry lends credibility to their estimates? Make sure you have an understanding of the service levels being provided by your current vendor(s) and that you can accurately describe what service criteria you need moving forward.

You also need to look at the labor costs needed to acclimate yourself to the industry for this project. Any industry is constantly changing to (hopefully) improve its products and services. From the last time your organization immersed itself in research of this industry, many details have changed. You must allow time for your procurement team to update themselves on the industry and vendor pool, as well as implementing the RFP itself. An estimate of over one hundred labor hours is not uncommon for the average project.

Next, ask a performance-based consultant (for your target industry/cost area) what they believe your cost reduction potential is. Subtract their fee from the savings estimate and compare this to what you think you can achieve internally minus your internal project labor costs.

It will be important for you to determine how accurate the consultant's projections are. You have already evaluated how realistic your internal projections are. Now ask what verifiable track record does the consultant have to assure you their cost reduction projection is accurate? Does the consultant provide a written guarantee of their projected performance and/or do they have verifiable references? The best performance guarantee is one that ensures results and if the results are not delivered, the service fee is waived.

A good performance-based consultant is similar in many respects to a medical specialist. Unlike the general practitioner who needs to know a little about all of the human body, the specialist focuses on a small area and is the unequivocal expert in that area. Your internal resources have to know a little about a lot of product/services that you purchase and use to operate your business. General practitioner experience will allow a comparison of bid responses and/or proposals, but it will not allow you to know if you are receiving the best value possible. The general practitioner will not have "industry insider" data points that the specialist already knows and uses to ensure you receive the best possible value.

Find out if any of your internal resources have been inside the industry being evaluated, on the vendor side of the table, for at least five years. The best previous work experience, to help your internal team's analysis, will be from those that have held positions in sales, executive management (CEO, COO, and CFO) or as a business owner within your targeted industry.

Now complete a side-by-side comparison of the pros and cons, as well as projected results for implementing an RFP using internal resources versus using a cost reduction consultant. Is the project being evaluated the area where you can realize your highest ROI? It will not be in your best interest to head down the path of an internal RFP if the net results (all cost considered) are better with an outsourced project or if this project would prevent you from completing another project with higher return.

It is important to note that you will not have the luxury of obtaining data points through a formal bid or gathering proposals and then implement a project with a consultant. Vendors do have a limit before they blacklist your organization as not being a serious buyer. You essentially have one shot when engaging an industry to reevaluate your costs, so chart your actions carefully.

At this point in the process you can determine the true cost of the value enhancement project. Your choices are: 1) do nothing, 2) implement the project internally and 3) engage a performance-based consultant. The true cost compares doing nothing to your internal efforts minus labor costs with the amount that a performance-based consultant projects, minus their fee. Is there a cost for doing nothing? If not, move on your next highest expense category. If so, what is the best course to take to maximize the value you receive from vendors?

In summary, we have discussed the key steps you must take to ensure you receive the best possible value from your vendors. Look at your largest expense areas first and work down through all the expense categories you feel are significant for your organization. The steps listed above will remain the same, regardless of industry. You have to determine if your internal resources have the industry knowledge, track record, and labor resources to implement and complete a specific "value enhancement" project.

After completing each of the steps outlined above and assessing the probable outcomes, you will have a reliable method to use to evaluate whether to engage outside assistance or use your internal resources to reduce your costs and enhancing vendor performance. Remember, only by using multiple data points (obtained from "inside" the industry) to compare with your current cost and service levels are you assured that you are truly receiving the best possible value from your vendors.

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David has over 18 years experience as a sales representative within the copier industry combined with 5 years experience as a dealership principal. You can download additional free articles containing cost reduction ideas at <http://www.bottomlineadv.com> inside the resources tab, send an e-mail with questions or contact David at 888.400.3600.

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