

Who is Doing Your Purchasing and What Experience Do They Have?

Let me tell you a story about the time I first joined a certain company. At that time all their office supply needs were filled by a local office supply store. The people at the store, and the reps who called on them were very nice dependable people.

The products they carried were brand name, quality products. Delivery was free and always on time. Over the years the people in the company who ordered these types of products had developed a very nice and very loyal relationship with those at the office supply store. In many ways you might say they enjoyed the perfect customer / supplier relationship. All parties involved seemed to be very pleased.

Other sources were never considered. Why should they be? After all, they never had a problem with this supplier and they always had more important things to worry about above where they purchased their office supplies, didn't they? A comfort zone existed and purchasing of all office supplies was bought from one source, never even thought about, and buying was based solely on convenience and personal loyalty.

That was the attitude. To compound things, they had people purchasing these products that had no formal training and no qualifications to do so. This would not have mattered as much if those doing the buying had an attitude of total cost control. Since they did not, the situation that existed here was deadly to any cost control and cost reduction effort. This is exactly the situation that exists in companies large and small all over this country, regardless of what the industry happens to be.

When I came in and advised them we would be changing procedures in this area and, as a result, we would be reducing costs for the exact same products by up to 50% you can imagine the reaction. My ears were ringing as I am sure behind my back the mixture of laughter and resentment was spreading throughout the company.

The problem was that people felt I was criticizing them. They felt I was indicating that they had been doing a poor job. They resented this. They, on the other hand felt they were doing a very good job and that I was both foolish and ignorant to suggest that such savings were possible.

They were wrong on both counts. They were not doing a poor job. They were doing a job that was not part of what they were hired to do. They had no skills in this area or training. They had no incentive to do anything but whatever got the job done with the least amount of work involved so they could return to doing what their real job was.

You see, the hour or two they spent each week on purchasing related activities was an unwelcome intrusion on their main responsibilities. They received no added compensation for the function and were offered no incentive to seek the best value.

No, I was not suggesting they were doing a poor job. Any deficiencies that existed here were solely the responsibility of management who thought so little of the purchasing function that they thrust it upon people who did not want to do it and had no training in how to properly do it.

This is very typical of many businesses in this country today. What I was stating was that the job could be done better. Much better.

By now you are probably thinking what is the big deal? How much could these purchases add up to? Could my time not have been better spent on more important issues? Well, at this company annual office supply purchases exceeded \$20,000. If I could reduce these costs by only 50% I would save over \$10,000 the first year and \$100,000 over ten years. I could also make a statement to the employees about the importance of total cost control.

I knew this type of reduction could be made with very little effort since all purchases were being made out of a catalog from this local office supply store and all prices paid were list prices. I knew this meant that the company was overpaying for each and every item by up to 50%. The resentment lasted awhile as it was difficult for them to sever ties with long time sales reps, but within a year we had reduced costs in this area by over 50% without sacrificing a thing.

This was a savings of over \$10,000. At that time that company had a pretax profit ratio of 1.5%. This means that this \$10,000 savings added an amount to the bottom line that was equal to an increase in sales of over \$660,000. This would have been equal to a 25% increase in sales for them at that time. Think about this. Since the previous year's profit for that company was just over \$20,000, the savings in just this one area increased profits by 50%.

Today, these same employees have a great deal of confidence in their purchasing capabilities and find it challenging to locate the best value and exciting when they eventually get it.

I know of another company that had a secretary purchasing office supplies for them and she was purchasing all pens and pencils in a special blue color. No one ever questioned why this blue color was chosen. It turns out that the color was chosen merely because the woman doing the buying liked the color.

What was the problem? The problem was that each of these pens and pencils had to be produced as a custom item due to the color the woman ordered and as a result the cost was 5 times as much as the same pen or pencil cost in a standard color. These types of things happen day in and day out.

Most employees and, in fact, owners in small and mid-sized businesses in this country, have no formal training in cost effective purchasing, cost control, or expense reduction. It has been estimated that in over 80% of the small businesses most office supplies are purchased by secretaries or administrative assistants.

Employees who have little interest in doing the job, little or no formal training in how to do the job, no incentive to reduce costs and are most likely to look to the easiest most convenient way to do the job. Not very conducive to a program of total cost control is it? Don't let your company be among this 80%. It has also been estimated that most businesses overpay for daily and routine purchases by up to 30%. Don't let your company be one of these businesses either.

This edition of The Welch Report has been provided by Derrick Welch the author of **'In Pursuit of Profits: How to at Least Double your Profits Without Increasing Your Sales'. Including 1,000 Cost Control, Expense Reduction, and Income Producing Strategies You Can Start Using Today To Dramatically Increase Your Bottom Line.**

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