

Quicker, Better, Wiser

Improve Your Purchasing Process – Now

By Gene Marks, Reprinted from May 20, 2008

Small-business owners overpay for lots of stuff. Healthy economies mask those mistakes; recessions aggravate them like old wounds.

Why do we overpay? The real reason (though most of us won't admit it): "Many business owners are resistant to changing the purchasing process," says Mark Braverman of Alliance Cost Containment, a consulting firm based in Louisville, Ky. "People say, 'I'm too busy right now.' It's really up to the business owner to determine how committed he or she is to maximizing profits."

There you have it: All of us could be doing something to shrink line items like freight, utilities, telecommunications, sanitation, even office supplies – but we don't. It's not that we're getting gouged by vendors, or that we're poor negotiators. It's that we're too set in our ways (or maybe just too lazy) to make a change.

It's understandable. Change is hard. We don't like to upset our vendors (especially those we pay late). Nagging them for the lowest price creates tension. Disrupting the flow of materials can be catastrophic. Swapping out vendors invites all sorts of quality problems, procedural snafus and personnel clashes.

But guess what? If we muster up just a little courage and commitment, we could reap some serious rewards.

Just ask Mark Wuertz, vice president of finance for \$40 million (sales) hotel and restaurant operator Bennett Enterprises in Perryburg, Ohio. "We realized a while ago that our region was already in a recession," he says. "We could no longer maintain margins by raising prices. We had to find a way to lower costs."

Wuertz hired Alliance to help him. He didn't just examine what products and services Bennett was buying; he also thought hard about how the company went about buying them.

Together, the two companies analyzed historical spending. They benchmarked what they were paying for products and services with hundreds of vendors in Alliance's database.

Next, they replaced and consolidated vendors. "We had three divisions that were all purchasing independently," says Wuertz. "A number of our vendors didn't realize how big we really were."

Wuertz focused on squeezing telecommunications costs by eliminating seldom-used equipment. And he hired an experienced third-party natural gas broker to chip away at his utility bill.

On the process side, Wuertz dug deep.

First, he discovered that his company wasn't spending enough time evaluating purchasing decisions. Certain vendors were on "automatic pilot" because they had been doing business with Bennett for many years. Instead, Bennett began soliciting multiple bids and reviewing agreements periodically to ensure the company was getting a fair shake. Alliance handled the comparison shopping that Bennett didn't have the time to commit.

Result: Wuertz expects to save \$75,000 this year, or about 1.25% of Bennett's \$6 million in selling, general and administrative expenses annually. Cost-cutters like Alliance generally take about half the documented savings in the first year for their troubles – but the ongoing savings are gravy.

Those fees may be worth every penny. But if entrepreneurs can muster the courage to improve their purchasing departments on their own, the savings are often right there for the taking. With inflation heating up and recession nigh, those extra dollars couldn't come at a better time.

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Highlighting added for emphasis.