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Use Suppliers' Pricing Mistakes

Learn the 10 Supplier Errors That Can Put Dollars In Your Pocket

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Now more than ever, getting the best price from your suppliers is a vital skill. It requires clear knowledge of the markets, good negotiating skills and shrewdness about supplier strengths and weaknesses. Sometimes mistakes your suppliers make can work to your advantage. Here are 10 supplier errors that can put dollars in your pocket.

Mistake 1—Lack of Attention to Pricing

Many process and automation suppliers do not pay enough attention to pricing. They lack the pricing discipline and pricing processes that would enable them to get more money from their customers. Their lack of attention can be your gain.

Mistake 2—Weak or No Controls on Discounting

Unnecessary discounting is perhaps the largest source of profit loss for a supplier, and one of your biggest opportunities to get a better price. Some suppliers have a discount policy, but these policies are often ignored. Test your suppliers for opportunities. For example, once you have negotiated an initial price with your sales rep and are now placing regular orders, call the customer service or order entry department and tell them you need a better price. If the supplier has little or no oversight, you might get the price you want or at least more discount.

Mistake 3—Poorly Managed Strategic or Partner Accounts

Suppliers work hard to develop strategic or partner accounts. However, for many suppliers, these accounts are not partnerships, but a one-way ticket to a significant loss in profitability. Consequently, it's unfortunate, but many suppliers do not make an effort to determine if partners are fulfilling their end of this agreement. This lack of oversight can work to your advantage. For example, a partner agreement may have a discount for a certain volume of product. You may be able to order less volume than your agreement requires and still get the better price for high-volume sales. Show your desire to be strategic or partner account, and see how much faster you can reduce your costs.

Mistake 4—Suppliers Don't Know Competitors' Selling Prices

You know more about competitive selling prices than your supplier. Most suppliers have non-existent or woefully inadequate systems to track competitor market share and selling prices. At the same time, many suppliers do not want to lose business on price. Take advantage of your knowledge of competitive pricing to negotiate lower prices.

“Your sales rep can be your best friend in getting better prices, as he has little incentive to do otherwise.”

Mistake 5—Providing Line-Item Pricing

Some vendors are still providing line-item pricing for large projects and systems. They lose the pricing advantage provided by a lack of transparency. Always insist on line-item pricing. Use this opportunity to challenge every item line by line while nibbling away at the suppliers' prices.

Mistake 6—Cost-Up Pricing

The days of cost-up pricing should be over, but fortunately for you, customers can exploit this still common pricing method. Manufacturers view cost-up pricing as low risk and easy to administer. A result is that list prices often have no basis in market reality. The smart customer will identify those products that are over-priced and use these as leverage to drive lower prices across the complete product portfolio.

Mistake 7—Poorly Executed Price Increases

Challenge every price increase, particularly across-the-board increases. When a vendor puts a price increase in place, it may not need to affect you. Vendors know that only a portion of their price increase will stick. You might be able to get an exception, especially if your vendor perceives you as a valuable strategic or partner account.

Mistake 8—Poor Negotiation Skills

Suppliers and sales reps don't want your procurement organization involved in the negotiation and decision-making for your products. In addition, sales reps sometimes have comparatively poor negotiation skills if you have well-trained and motivated procurement department employees. As a result, you should take advantage of your procurement department. Make them your allies. Also, involving your procurement organization is a salesman's nightmare, but you'll sleep well knowing that you now have the initiative to get the best price.

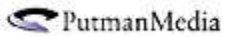
Mistake 9—Worldwide Pricing Inconsistencies

Suppliers have a difficult time understanding and managing worldwide pricing. Local offices may not coordinate account activity. As a result, there's a wide variability of prices for a supplier's product or system. This is another opportunity for you to take advantage of a supplier's lack of attention to detail. Get bids from the widest number of sales offices possible and pick the lowest price. Many

companies are plagued by their "rogue" sales office that always offers the lowest prices. Find that rogue office and get a better bottom line on your purchases.

Mistake 10—Sales Incentive Plans Based on Dollar Volume

Most sales representatives have little or no incentive to boost the profitability of a sale. Many commission plans reward only on the sales dollar volume which is booked. For example, a sales representative bids a price of \$50,000. On an incentive plan of 5% commission, the representative earns \$2,500. If the representative reduces the price to \$45,000 as a no-risk way to make a sale, the commission is reduced to \$2,250. The customer just received a 10% discount, and the representative only loses \$250. Knowing your suppliers' compensation policies can work to your advantage. Your sales rep can be your best friend in getting better prices because he has little incentive to do otherwise.



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