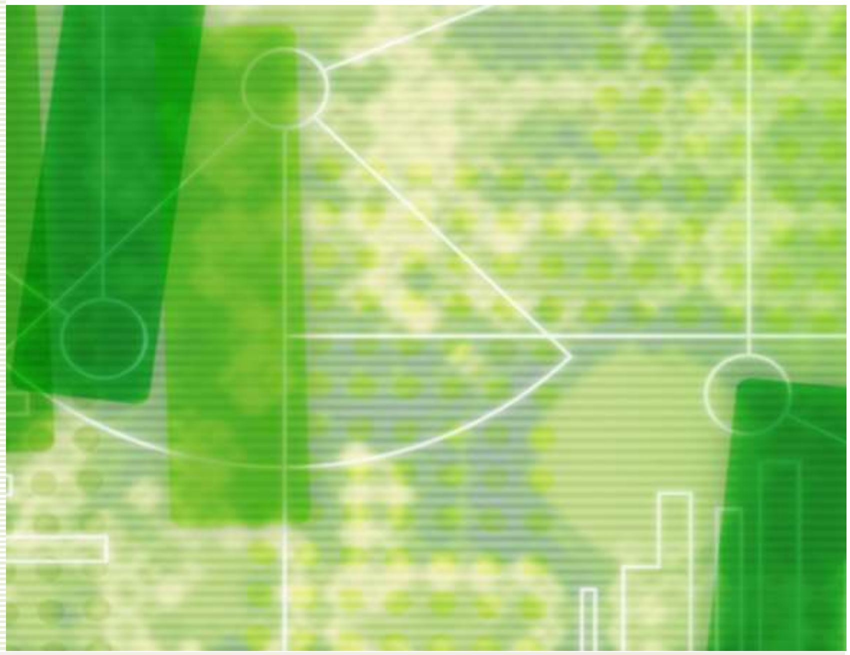
The

Buyer

In All of Us



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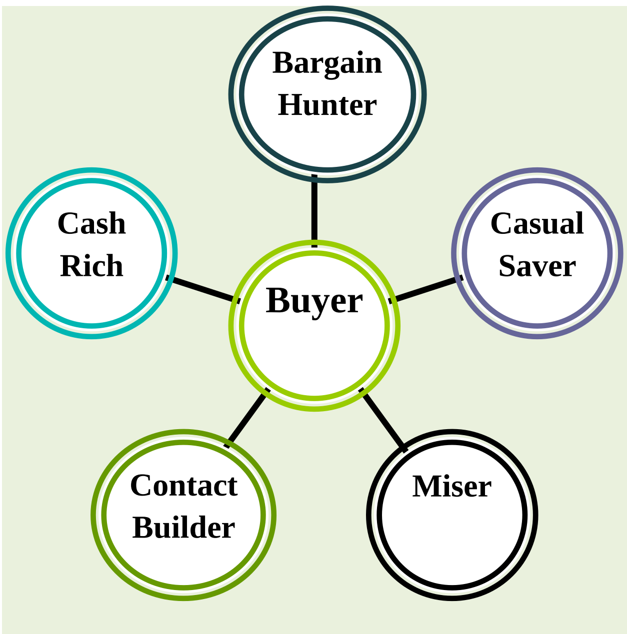
What type of buyer does your personality, circumstances, and experiences make you for your organization?

The Buyer in All of Us

It is interesting to look at the business world in the perspective of how we function in our personal lives; seeing the differences and similarities with which activities are accomplished. Sometimes we behave in business as we do in our personal lives and sometimes we behave the opposite, especially when we are dealing with someone else's money. These purchasing profiles and the defining characteristics can mirror each other or be very different depending on the person.



There are generally five different types of buyers: the bargain hunter, the casual saver, the miser, the traditionalist or contact builder, and the cash rich. Each of these types of buyers has pros and cons to it and many people share traits with more than one type. We will go into detail about each one of these types and analyze the positives and negatives of each. As with any situation, each positive trait can become a problem if taken too far, and with each negative there are ways to improve. No matter which category of buyer a person fits into, there are ways to improve buying habits.

With better understanding of the types of buyers out there, an organization can not only tailor their own buying habits for a better overall value, but also target a broader consumer base. The better the understanding of buying habits across the board, the better equipped a company is when dealing with the different types of buyers.

No matter what type of buyer a company employs, there are ways to improve the process for the betterment of the organization, whether through relationship building or awareness of the broader market. Knowing what buyer supports an organization can help that company's targeted advertising and marketing, helping to make the process more efficient and less costly.

The Bargain Hunter

Sue is what we call a thrifty coupon cutter. She is on a fixed income since she lost her job and has had to take another, which makes less income. Since many of Sue's expenses, especially those relating to her two children, are difficult to adjust, Sue must do everything she can to cut her expenses until she can grow her income back to a level she was accustomed to. Sue searches through the paper for coupons, pays attention to special discounts, and will even shop at multiple stores to get the items she needs at the best price available. These efforts take time and an investment from Sue, but it is worth it for her in a situation where the money is tight.

Many businesses are not unlike Sue. For one reason or another, their revenue stream may have taken a hit due to losing a major customer, having a major expense that has depleted capital, or from rising supplier costs. In these situations, companies must review their expenses and determine, as Sue did, where they can cut costs until they can return the company's revenue to previous levels.

Cut the luxuries – The first step to take is to review those areas of expense that aren't necessary. In Sue's case, the cable TV package and restaurant meals were the first to go because they were luxuries and not necessary for her family to survive the reduced income situation. Many companies often follow this same strategy and will cut those "luxury" expenses that their company can live without.

Look for discounts – The second step is looking for discounts on the services and products that cannot be cut. In Sue's case she found e-coupon sites, clipped coupons, and registered for discount programs from the places she shopped most. Many businesses will do the same thing, looking for suppliers who are offering deals on new business. However, changing suppliers or products introduces unknown variables in the equation that should be examined before deciding on full switches. Trying or testing a product or supplier first is a crucial part of this process.

Discover new sources – There may be times when it makes sense to split spend among more than one supplier so that the best deals on the items can be realized. This can require more effort managing multiple vendors, but like it did for Sue, the time investment may be worth the savings when multiple suppliers constantly compete for the business, with no one vendor guaranteed to keep the business by default.

Discount shoppers must invest more time, but circumstances often require this in order to get the needed savings to run a business. Keeping watch of the market and being familiar with multiple sources of supply is a big key to this model.

The Casual Saver

Dave is the casual saver. He and his family are living just past "paycheck to paycheck", with a little bit of savings, but enough to pay all of the bills and still have some money left over. Dave's income covers all of the expenses of his family's lifestyle, while being able to improve its quality slowly over time. When Dave shops, he doesn't turn away savings if a discount is offered, but he doesn't actively seek savings out. He has enough to get by and is better than average about creating a cushion for his family if things got rough, but is not prepared for something major to happen. He is comfortable.

Quick decisions – Businesses that take Dave's approach to sourcing frequently put contracts into effect quickly. These companies will never refuse a better deal from their incumbents and are not apt to change suppliers easily. Doing so would require "fixing something that ain't broke" and may create a situation where the product or service is not as good and money is wasted. Like Dave, these companies may not actively pursue savings, but they don't like wasting money. When the product or service is not mission critical, companies are likely to try new offerings if they are cheaper and come with a history of similar quality in the industry.

Missed Opportunities – When companies stay with the status quo and do not actively search for something better in the way of service, quality, or pricing, opportunities are missed for a company to get a better product or price. For Example, Dave needs landscaping services and has the current company he has used for years fit into his monthly budget. When he throws away the flyer for a new landscaping company in town, he does not know that this company is already doing better work for his neighbors at 2/3 the cost. Dave has a budget and the incumbent fits in that budget and does good work. How many companies everyday have incumbents that don't even get considered for change because they fit the budget and do "good enough" work?

False Sense of Security – The Casual Saver company's approach to sourcing is precariously balanced on one very fallible position; the revenue won't decrease and the expenses won't increase. Everything about the Casual Saver works as long as the revenue stays ahead of expenses, even if at a slightly higher rate. This creates a false sense of security because most businesses will eventually run into a decrease in revenue or outgrow a building that requires increased expenses or a capital investment. When a company misses opportunities to save extra cash they are creating a situation where they must become the Discount Shopper and possibly have to cut resources that no company ever wants to.

Casual Savers miss opportunities that are readily available because they are fooled into a false sense of security created by a situation that could change at any time. By investing just a bit more time pressing their incumbents or seeking new product/service alternatives they could get returns of that investment of more than 10X.

The Miser

Bob is the Miser. He and his family make a good living. They earn, they save, they spend, and generally have enough cash at any one time to weather the needs and emergencies life throws at them. In spite of having a healthy bank account, Bob hates to overspend for anything. “I didn’t get rich by blowing my money on overpriced items,” is his favorite saying and his purchasing habits model that. Bob will find every deal even if it means driving twice the distance he normally would to save even a little bit of money. At times he drives his family crazy with his “penny-pinching” ways, as even when on vacation Bob questions every cent and never believes that the first price he sees is the final price he can get.

Great savings – Companies that operate like Bob are known for achieving terrific savings and great contracts for their business. By reviewing and scrutinizing every penny the company spends, there are few times when these companies would feel that their suppliers are getting the better of them. If it means switching a supplier they have done business with for 20 years to save an extra 3%, they will do that. Businesses like this, however, generally expect to get the same quality of better from their new suppliers. They are the “want their cake and eat it to” buyers.

Strained Relationships –Most procurement professionals will tell you that a cost-only mentality will eventually lead to major problems down the road. Companies that take this approach develop two types of strained relationships; externally with the vendor and internally with operations. Suppliers who see that their customer only cares about low prices, no matter what, tend to deliver just that. They won’t deliver value-added services and typically won’t go above and beyond for their customers. This can cause strains with the operations of a company because they are trying to conduct business and need their suppliers to service them, deliver on time, and help when a crisis comes. This can cause resentment internally and lead to bigger issues.

Juice Worth the Squeeze – The Miser purchasing behavior looks to save money anyway possible. No project is too small and every penny is worth pursuing. In theory, this is a good practice until it creates situations that cost the company more time and resources than the savings achieved. Each category and project should be examined from a spend, complexity, and potential savings perspective to understand its priority; whether the “juice” potential is worth the “squeeze” effort. Every spend should be reviewed, but priority should be put in place before executing projects.

Misers have the potential to get great savings for their companies but sometimes at the cost of valuable internal and external relationships. Understanding the priority of projects and working with the suppliers to achieve more than just price reduction can ensure all goals are met.

The Traditionalist (aka The Contact Builder)

Janet loves the people at the places she shops. They are like a second family to her and she thinks of them as part of her social circle. When Janet shops she doesn't just buy, she builds relationships with the store owners and workers. Janet isn't rich, by any means, but the relationships she has built over the years are very important to her and even when new less expensive competitors come into town she refuses to leave her favorite stores and shops. Loyalty is important to her even if the shop owners sometimes take advantage of her.

The Extra Mile – When companies take Janet's approach, they often experience great customer service from their suppliers. This can be expected for a few reasons. First, many companies appreciate loyalty from their customers and try to reward in kind where they can, especially when the customer gets into a crisis. Secondly, they know that they can count on the customer's business and want to ensure they do not lose that business to one of the aforementioned "less expensive competitors." Their reminder to their customers frequently is "We may not be the cheapest, but we're the best!"

Taking Advantage – The downside to being a loyal customer like Janet is that some businesses can take advantage of that relationship and loyalty. They understand that the customer likes their company and doesn't want to go elsewhere and that they appreciate the little extras the supplier provides. Because of this, many suppliers in this position don't mind passing on little increases in price every year even though their costs may not be increasing along with them. The customer may notice the increases, but usually not enough to outweigh their loyalty to the company and they will often justify the increases by thinking of the extras the suppliers gives them, even when those extras don't come close to equaling the increases being passed along.

Beyond Your Own Backyard – Blind loyalty can be a dangerous thing especially when, as mentioned above, suppliers begin to take advantage of the loyalty. It can also be detrimental to a company because of the missed opportunities for better service at even better prices. Because Janet never even looks at stores outside of her favorites, she will never know what other companies could offer her. The sad truth is that so many organizations operate the same way. They won't leave what they know, so they will never know what they could have had.

Traditionalists operate under the best of intentions. Unlike the Misers, they are not interested in savings nearly as much as they are in solidifying their relationships with vendors. They usually will get great customer service, but are in frequent danger of being taken advantage of by those same vendors over time.

The Cash Rich (Fat, Dumb, and Happy)

John is a very successful person. He does extremely well and, because of some great ideas he's sold, is making more money than he can spend. The more he spends, the more he seems to make. When he goes to a restaurant or to a store, he barely glances at the prices because he knows he has plenty of money in the bank. If he wants something or wants to take a trip, he just spends the money and does it. If John saves money throughout this, he barely notices it because he gets the things he needs and wants whenever he feels like it. He thinks that he is well-insulated to the emergencies that may come and believes he will always have enough.

No Time to Save – There may not be too many businesses in the position that John is in, but there are some. These companies are ones that are and have done very well, growing faster than they can sometimes handle and increasing their revenue year after year. Their resources are completely focused on the growth of their fortunate business, so they have little time to invest in doing the things to save money now. In their minds, it is tough to justify spending time on a process to save a million dollars when they could invest that same time to grow their profits by ten million. They know there may be a time when they have to save and cut costs, but that time is not today. This can lead to issues down the road if they do not have the infrastructure in place to transition to a new way of business.

The Crash "Down the road" – There always seems to be an end to the growth "down the road" followed by a time that requires expense reduction. If cost-controlling processes, tools, and partnerships are not established when the company is growing it is difficult to turn those on when expenses must be cut. In many of these cases this involves cutting blindly from the #1 expense; headcount. As we saw during the turmoil of the auto industry, staff was greatly reduced, plants were closed, and jobs lost in order to combat lost revenue. Having processes in place that are operating, even at a minimal effort, provides a system that can be ramped up to help later if needed.

Trickle Down Effect – As many people in John's life will attest, when the controller of the money is unconcerned about how that money is spent, those around him tend not to either. John's wife, children, employees, and friends have the tendency to spend John's money just as easily as he does. In the business world, this translates to employees who travel without trying to get the deals, paying extra money to fly on a certain airline, or staying in a specific hotel because they want the miles or points. It can also mean that managers and executives may spend too much money enjoying the benefits of strong growth without the consideration that the growth and extra cash may someday go away.

Growth is a great thing as is rewarding those people who got it that way. The best approach to dealing with growth and increased revenue, however, is to put the programs in place to prepare for a time in the future when it goes away. By putting savings processes and policies in place when things are good, even if you don't put a huge time investment into it, you can be prepared for leaner times.

Regardless of what type of personal buyer or corporate buyer you are, or even if you are a combination of any of the five, the goal should still be to prepare and create savings and value where you have the resources to do it. Some companies will have more time and resources to invest and others, due to circumstances, will make the time and resources to do it. There are ways to improve buying habits, not matter the type of buyer. Through better understanding of the types of buyers, the better equipped a company is when trying to make better decisions. By analyzing the kind of buyer a company has now, the better the buying will be in the future, allowing for a more rounded and beneficial process.

Paying close attention now to how and where money in a company is spent, the better prepared that company will be if it should ever need to make spending adjustments. The best way to prevent future problems is by being proactive and seeing where problems may lie in the future. Looking for potential problems now could potentially make the difference whether a company survives hard times or not.

By noticing the kind of buyer your company has, the better a company can watch spend and know that the best possible process is in place. This is one big way a company can become more grounded, create better relationships, and know they are saving money in the best way they can.