
Understanding the Mind of Purchasing

Articulating the thoughts, psychology and context of global procurement and purchasing professionals regarding software purchasing.

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Introduction

This paper is a result of many discussions and research with purchasing and procurement professionals from a variety of Fortune 500 and 100 organizations and industries including: Consumer Packaged Goods, Food & Beverage, Pharmaceutical, Health & Beauty, Technology and Retail. Further, the results of this research and subsequent suggestions and strategies are focused primarily on the procurement or purchasing of Software and Technology Services, but the overriding principals but can be applied to all business offerings.

The Mission of Purchasing

When I started out to explore what made Purchasing and Procurement people tick, I approached the research from the perspective of ultimately leveraging and sharing the results to help create a more productive engagement for sales, business development and negotiation professionals when engaging with our colleagues in purchasing. As we know from the business side, Purchasing can be shall we say difficult and has scuttled many a finely crafted deal. On the other side, Purchasing feels they have an unfounded reputation of being difficult. Which they are. But underneath the seemingly evil machinations of purchasing folks, my research found startling results.

Much to my surprise, the research showed that they are real people like you and me. They have real world challenges, pressures and are tasked with not so unreasonable objectives. In fact, some are down right pleasant when you take away the negotiation and pricing components of the conversation. Which leads me to the key premise of this paper. To act as the emissary of wisdom in understanding Purchasing folk. To ease the anguish and help those who suffer under the torment of purchasing and procurement. But more importantly, to help you better understand the mind of purchasing and leverage tactical suggestions to help you better engage with Purchasing. The first and most important revelation in this research was to learn that they are focused primarily on two things and two things only. And no, its not the lowest cost bidder. Besides, that would only be one thing.

Purchasing is universally focused on:

- **Cost Avoidance** – Avoiding any unforeseen, unplanned, or “avoidable” expense or cost now or in the future to the organization.

And

- **Cost Savings/Reduction** - Saving the organization money on a purchase OR the reduction of cost associated with an existing or ongoing purchase.

Understanding this right out of the gate will help you understand their foundational perspective, context and ultimately what makes them tick.

Ah, but I can hear you already asking, what about ROI to the organization? Isn't that important? I thought you said cost savings was important? Here are several interesting nuggets of knowledge derived from the research to help answer your questions.

- Purchasing is not focused on ROI. ROI is a business issue and is addressed by the business/project champion, owner and/or executive.
- ROI from the purchasing perspective is not relevant because purchasing does not always go with the lowest cost bidder. They are focused on Cost Avoidance and Cost Savings/Reduction.
- ROI from the purchasing perspective is viewed as tactical not strategic or global which is what purchasing focuses on.
- Purchasing is skeptical of ROI particularly around Software due to its intangible qualities and inability to truly derive a demonstrable ROI metric..

But before you throw away all of your ROI calculations and the detailed business analysis, you should know that while ROI is not truly relevant to purchasing focus, they do like to see that their organization can or does get ROI from your offering and that buys trust and good will, but make no mistake. It plays no role in their decision making process.

So, the big question then becomes, what does purchasing focus on and look at? Good question. The research overwhelmingly showed from the study group that the points and questions below are what they ask themselves and what they ask the interested parties i.e. business sponsor when engaged in a purchasing activity:

- Purchasing focuses on the magnitude of the purchase i.e. dollar amount, number of users, regions/global, long and short term effect on the business, overall cost, etc.
- What is a fair market price for the goods or service i.e. what did other similar business pay, what public information is available to support the pricing, will the price go up over the term, what other locations will use the good or services, etc. This certainly falls into the risk avoidance category.
- Does the business owner need to negotiate a lower rate? Even if they said they agreed to the pricing to the sales person's face?
- Has the business owner looked at the whole picture and asked all the right questions?
- Does the business owner know if they are getting a "fair or good deal" i.e. don't take the sales person's answer for a yes.

Again, you will see from these questions that the focus is clearly on cost reduction and avoidance. I have been asked many times and especially by those who subscribe to MIT's Delta Model, does customer bonding or relationship building with Purchasing help? Yes and no. But not as much as you would think in so far as the their decision making process goes.

Bonding or building a mutually solid relationship as in other cases is always a good thing. It builds trust, it builds a sense of report and if utilized properly, it can build efficiency. How? Lets say you working with Purchasing and you have established a positive relationship with the purchase person. They are more inclined to listen your position, trust your word and expedite the purchasing process. Now, the all to familiar alternative is not to have a solid relationship and your dealings with Purchasing becomes a painful death match to the end. Hopefully, you will see that bonding and establishing a positive relationship with all touch points in the organization that you interact, is far more effective than the alternative. Especially when it comes to Purchasing.

But that only gets you so far. In our quest and research to better understand these mysterious purchasing brethren, their perspectives, the questions they ask, and how they apply them, you must also explore and familiarize yourself with the sophisticated weapons they bring to bare on unsuspecting defenseless business and sales folks. Meaning you.

Like all good business warriors, the arsenal purchasing can bring to bare can be awe inspiring if you are not prepared. More importantly, knowing how purchasing will use these weapons will help you in your quest for a positive and productive engagement.

Weapons of the trade.

Purchasing groups use a variety of tools to conduct their trade and depending on the size of the battle i.e. business deal, will determine what tool they will use to crush you. The vast majority of participants and organizations in this research study broke down their purchasing battle space (deal sizes) into the following: <\$500K and >\$500K. Depending on the size of your deal, they will engage in different behavior and activity. They are as follows:

For purchases UNDER \$500K they will use:

- General research on pricing and market data to insure your pricing is in line.
- Q&A with the business owners/division - need assessment i.e. negotiate or ask the questions only.
- Cost avoidance or reduction analysis and budget management.
- Perhaps force or suggest RFI, RFP, RFQ as part of their market research
- Contract terms review. Ensure all bases are covered.
- High-level internal review of similar agreements or existing agreements with your company to explore economies of scale, further cost savings, etc.

As I am sure you would agree, fairly basic and reasonable actions. Yes, they can be a disruptor to getting your deal done, but reasonable none the less.

For purchases OVER \$500K they bring out the big guns:

- Detailed research on pricing and market data to determine fair market value.
- Almost always an RFP, RFI, RFQ, Case Study, etc.
- Q & A with business owners/division-needs assessment i.e. does purchasing need to negotiate, ask question to determine if all the right questions are being asked by the business i.e. risk avoidance.
- Detailed analysis of cost avoidance or cost reduction analysis and budget management study
- Discussions and research using ICM-Caucus- International Consortium of Purchasing Professionals a web based system containing purchasing statistics, large company purchases, standards, etc. This allows them to cross reference similar deals, deals you did with other companies and more.
- Peer discussions with other divisions, locations or with vendors to determine fair market value, terms and other deal centric issues.
- Engagement and discussion with industry analysts like Forrester, Gartner and AMR.
- Detail analysis of what other competitors paid for your goods and services through press releases, Google, Nexus Lexus, etc.

When your deal hits the magic \$500K mark or more, you can expect many of these tools to be utilized by Purchasing to ensure they are mitigating risk or reducing cost. Either way, you can run but you cant hide. So what do you do?

Well, now that you are armed with knowledge of your adversary's tools of battle, its time to touch on intelligence. We in the business function of sales, business development and negotiation must know as much as we can so we can be prepared for the inevitable. Purchasing engagement. But understanding the nuance information is extremely important in understanding Purchasing people and why they do what they do. It also gives you valuable context into their world. Understanding nuanced intelligence like what makes them tick, what motivates them, what goes on behind the purchasing curtain, are all potent antidotes to their venomous attacks on your innocent mutually beneficial proposal with exceptionally high ROI. Right? However, what has never been revealed before until now, and will provide you invaluable knowledge and context, is understanding what are they measured on. Departmentally, personally and divisionally.

The following points are the holy grail of understanding Purchasing folks career and personal motivation. Please pay attention as this may save your life or career.

Are purchasing folks personally measured? If so, how?

First, yes. They are measured on their personal performance. But what does that really mean? The research showed that they are typically measured on the following:

- Divisional, department, corporate cost savings and targets (Avoidance - Reductions). How much money did they save or how much risk did they avoid for the company. Yes, they have targets to try and reach.
- No surprise, Purchasing folks are personally measured on the amount of cost avoidance and savings/reduction to the company
- Did they negotiate solid agreements, price, licensing, etc.
- Mid-Long term management and control of pricing during the term of the relationship across all portions they are responsible for as well as your business relationship and that of others they are engaged in.
- Account management. How did they manage the “ABC Throgspending Spamware filter” contract.
- Speed - Vendor processing and management i.e. the efficiency and speed in which they process transactions. This was a big one. As you can imagine. The Purchasing person you deal with may also purchase pencils, paper towels, toilet paper, CD and physical media, AS WELL AS Enterprise software.

The key point here is that like the rest of us, they are obligated to perform and are measured on their performance. Not much different than us. So lets take a quick moment to review. 1: They are focused on cost savings and risk avoidance. 2: They are subject to various management and performance issues and pressures both personally and organizationally. 3: Based on the size your deal, they will engage a variety of solutions to avoid risk or save cost. Preferably both. 4: They will ask the hard questions of both the business group and the vendor to ensure all issues are covered off. To avoid risk or save cost.

Knowing this will definitely help you prepare more effectively for your run in with Purchasing. But wait, there's even more! You don't think I would simply share the results of the research alone without giving you a strategy to succeed and make purchasing your friend do you? Of course not.

So, what can we do to better engage and succeed with purchasing?

First you need to remember that they can be our friends. Like all selling, customer bonding is important in all business relationships. As such, its important to remember that relationships sell. The more comfortable you can make them feel and trust you can build, the easier the transaction process will flow. It doesn't mean they wont give you a hard time, challenge your proposal, ask the hard questions, but you are more inclined to get things done faster and get the benefit of the doubt.

Second, like other business touch points, purchasing prefers to be engaged upfront versus at the end when everyone needs the deal done. They are very busy. If you drop a complex software deal on their lap that will require a lot of work, you will pay the piper. They don't like surprises. Remember risk avoidance?

Third, the more a product or service is a known commodity the harder it is to sell at higher rates. i.e. Oracle, SAP, IBM, etc. These solutions and their high profile sales are all widely known and the general pricing paid by similar clients is equally known in the market. Its very hard to keep to higher pricing when you discounted it for others. The client will always find out. Remember Google?

Fourth, if you are a niche player, there is more hope for you. As a niche player, its more difficult to have pricing discussions/negotiations due to the fact that there is limited information available in the open market and is harder to establish or dispute a price or even fair market value. Being a commodity is no fun.

Fifth, de-mystify the intangible. Be clear, concise, and present all cases to reduce their concerns around risk avoidance and cost reduction. Software and its services can be conceived by purchasing as an intangible. Use plain English to explain the techno jargon. Not everyone understands technobable. Caution – in speaking in plain English, be careful not to undue your niche position or unique value proposition in the process.

Simply be clear and concise. This is no time to spin up a sales pitch. They will see right through it and in a flash, your deal just got cut by 50% out of spite.

Sixth, have your stuff in a pile. Prepare, consult, discuss, build champions and then prepare again. When its time to discuss and negotiate pricing its important to ask the following of both the purchasing and business executive(s):

- Is the project budgeted? If so, where is the budget coming from? If you don't know this, you have failed your mission.
- What is the buying process? Who are the key signatures? Who needs to be involved? Who is the key decision maker?
- Can it be billed in dollars, Euros or pounds?
- What are the tax implications to my business, if any?
- Do we have an existing relationship, MSA, Term Sheet or other legal vehicle that would lock us in on pricing, terms, etc.?
- Is it fixed bid?
- Are you truly looking for the lowest price bidder? Seriously. Are you?
- Do you anticipate any other business units coming on line in the future?
- How big do you expect this to grow? What happens if it does grow or shrinks or loses sponsorship?
- Do you require performance guarantees? If so, what and why? Be sure that if you have to have them, discuss mutual guarantees or "outside your control" clauses.
- Is their need for a Validated, Non-Validated, Regulated environment?
- Will we have to deal with a different location, dept., or corp. purchasing group now or in the future?
- Is there an outside third party involved that we may have to deal with like Bain Consulting, Deloitte, BSG, IMG, etc.?
- Make sure all of your pricing is prepared in a clear, concise and easily understandable fashion. If your mother cant understand it, its to complex. Redo. Purchasing doesn't have time to learn your complex pricing matrix.
- Have ALL deliverables and schedules been prepared in a clear, concise, and easily understandable fashion. Remember, Purchasing is under tremendous pressure to execute transactions. If you slow them down, they get angry.
- Present any discounts, included or freebee's in a clear, concise and easily understandable fashion. See above.
- Present any gotcha's in a clear format. They are not dumb and deal with thousands of vendors and will catch any sneaky tricks. This to will make them angry.
- Present your proposal as if it were honorable, which I am sure it is, heavily discounted and is at least less but certainly lower than what you offered others. Right?
- Make their job easier. The less work you force them to do, the quicker they will move it through the process and approval and most importantly, they will be much more willing to work with you in the future without making you pay for it in blood.

Final Thoughts

I know this is heavy stuff. Who knew right? But remember, at the end of the day, Purchasing people are actually very nice folks who provide a valuable service to their company and are simply just misunderstood. They don't go to an evil Purchasing school with specialized training in making life miserable of us. At least none in the study admitted to that. But by understanding the mind of purchasing better we can respond versus react. This is extremely important. The distinction between Respond versus React is huge. Responding is proactive, positive and value driven. React is negative, reactionary, confused, and unprepared. Be responsive. By applying the results of this study we can close our deal successfully and deliver mutual value to all parties.

Finally, I want to leave you with some parting wisdom in dealing with Purchasing. Remember, just because the business owner says ok or nods their head up and down indicating the pricing "seems good, etc, it may not be the case. They may simply be uncomfortable saying no in front of you. That's when they call in purchasing. Don't assume they agree with the pricing. Probe and build consensus. OR, they may in fact be comfortable with the pricing but asks Purchasing to get 10% more off the price if they can so the business owner doesn't look like the bad guy and potentially jeopardize the relationship. Get Purchasing engaged in the beginning. Not at the end where they can do the most damage to your deal. OR, the business owner needs to get the pricing down 20% more to fit their budget but they are uncomfortable telling you this so they ask Purchasing to engage. Again, probe. Ask questions; engage Purchasing up front to get this out of the way before you try to wrap up the deal.

Furthermore, consider these suggestions and remember that Purchasing will ask lots of questions both of you and their client - the business unit, to determine if all bases are covered and they feel like their client – their organization, is getting the best deal they can.

Speed is critical for purchasing. They have thousands of vendors to work through. If you make their jobs easier, they will be appreciative and you will earn their respect. Which means they wont or will be less likely to bust your chops next round.

Remember, as a business development, sales or negotiator, facilitate an easy purchase from a process standpoint. This is greatly appreciated by purchasing. Especially if the purchasing group that is purchasing your stuff has never done this type of purchase before. You could actually look like a hero!

Focus on building a relationship with the business owner, purchasing lead and IT. You will make the whole process easier for all parties. Relationships sell and your job is to build relationships and sell.

If you negotiate or offer things like: Prepayment discounts, volume or sliding volume discounts, or other tangible value in the purchasing process you have a better chance of success. It's a win win for all. Remember build value.

Your client may and/or will challenge the entire deal and process. Especially, if they sense risk. Don't let them negotiate and challenge you into a position of weakness or confusion. This is what these guys do for a living and they can turn you in circles in a heartbeat where you no longer understand your own pricing! Be prepared and you all win! Go in unprepared and your toast.

In some cases even if you use all of this knowledge and wisdom, you may still get a real "special" person in Purchasing. They are out there. So be prepared. They may be in fact looking for the lowest cost bidder. Not always, but you never know. Don't let yourself be put in that position. Show demonstrable value, know your value proposition in terms of both the business and purchasing. Use the above points to neutralize or at worst minimize any "special" issues or personality issues.

Finally, this stuff is hard. No one ever said sales, business development or negotiation was easy. There are lots of touch points all with competing interests both internally and at the client with budgets, other projects, and politics. It is your job to navigate the challenges and succeed. You do that by being prepared, listening to the client, truly understanding their needs and objectives, being clear and concise (no 50 slide presos), know your process, value proposition and think like your client....from all perspectives. If you do, and you use these tools and research results knowledge, you and your client will be better for it.

About the Author

Frederick is the Executive Director and CEO of iAIR | The Institute For Advanced Innovation Research. He is a seasoned senior business executive, technologist, and visionary with over 25 years experience in the global technology, strategic management, consulting, integrated marketing, innovation, media and interactive business industries.

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In addition to his executive background, Frederick also serves as the Program Chair for Strategic Technology & Innovation at the University of Advancing Technology, sits on the University of Advanced Technology Advisory Board, and served as Adjunct Professor of Strategic Management, Advanced Executive MBA Program for Norwich University. He is a member of and contributor to the Management Round Table, The Institute of Management Consultants, IEEE, Harvard Law School - Program on Negotiation, MIT Enterprise Forum, APS - American Physical Society - American Physics, United States Naval Institute, IGDA (International Game Developers Association) Intellectual Property Rights Committee, as well as a member of the Council of Communications Advisers, Media and Entertainment.

His experience in VC, M&A and PE has included raising venture funding of over \$30M and M&A activity of over \$36M. Frederick earned a BS in International Business and an MBA from Weston Reserve University and conducted graduate work at MIT Sloan School of Management and Harvard Law School. He is currently working towards his PhD in Behavioral and Policy Sciences with a specialty in Innovation from Atlantic International University. He also holds executive certificates from Harvard Law School and MIT Sloan School of Management (Massachusetts Institute of Technology). Mr. Frederick is also an EMMY nominated and multi-award winning composer, sound designer and producer having won the Chick Corea Jazz Masters Scholarship to Berklee College of Music. He is also a proud veteran of the United States Navy.

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BLOG: <http://www.instituteair.wordpress.com>

Sources & Notes:

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For more information on MIT's Delta Model, you may wish to review The Delta Project: Discovering New Sources of Profitability in a Networked Economy by Arnolde C. Hax, and Dean L. Wilde. Published 2001 by Palgrave Publishing. - http://www.amazon.com/gp/reader/0312240465/ref=sib_dp_pt#reader-link

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