

## **CEO Tip of the Month: "Purchasing is the Key to Success" –A Myth.**

by Guido Quelle

How often, and in how many countless meetings, have we already heard it? "Purchasing is the key to success." –a platitude that, despite its constant repetition, becomes neither more correct nor more palatable.

Growth does not come from Purchasing; it comes from Sales. And no matter how many sophisticated Purchasing concepts, Purchasing department structures, Purchasing processes, Shared Service Centers or negotiation techniques you introduce, nothing's going to change that fact. A company that doesn't sell anything doesn't need to purchase anything; a company with no Sales intelligence doesn't need Purchasing, Marketing, Accounting, Controlling, or a Senior Management. Turn out the lights, lock the doors; it's time to call it quits. That's what business looks like without Sales to promote growth.

The argument that good Purchasing can cure all ills is above all preached in those companies where price pressures are dominant. The higher the (subjectively felt or actual) price pressures, the more passionately this argument is made. But that doesn't make it any more true, because companies that can only generate growth from Purchasing, i.e., by using lower purchase prices, are evidently incapable of marketing and selling their products for suitable prices; in essence, a higher level of Purchasing expertise is used to compensate for a lack of Sales intelligence. Statements to the effect that we're all working in a highly competitive environment and can't simply raise our prices, but instead have to drop them, are more often than not simply a poor excuse. They also ignore the fact that, though customers certainly can at times react adversely to price hikes or companies who don't lower their prices when their competitors do, the very same customers can be open for true innovations. But where are these innovations?

Purchasing is significantly easier than selling. Those who do the purchasing are in a position of power; they can put their negotiation skills to full use and play with contingencies. The classic example: the grocery retailer that consistently plays hardball—until at some point a key vendor decides they've had enough and quits supplying them, with dramatic consequences. In contrast, those doing the selling are always faced with the following: In B2B negotiations, they sit across the table from purchasers, who make the most of their position as customers and are well aware that they can simply change vendors whenever they choose. Salespeople have to establish a relationship, and usually have to find a suitable mix of price, product and services if their goal is to find a deal everyone will be satisfied with.

The prospects aren't any rosier in B2C business, where price-comparison search engines deliver a high degree of transparency. But what would happen if companies put more emphasis on aspects like convenience, ease of use, additional services, and security? What if, for example, when faced with a customer's (=a purchaser's) statement: "I can get this TV 100 euros cheaper online," instead of responding with, "We have to pay for our staff, rent and electricity, and that all costs money," the sales staff at the local electronics store said: "Okay, but if you just spend another 50 euros on your purchase, we can deliver the TV, mount it on the wall if you like, connect it to your Dolby surround-sound system, measure the placement for your speakers and program the TV so you can enjoy it right away."?

Of course, despite the undisputed importance of Sales, we shouldn't forget that good purchase prices are also essential if you want to stay competitive, especially in the commodities field. And some of our client projects also focus on professionalizing their Purchasing, as many Purchasing departments squander a great deal of potential. In order for it to work, Purchasing also calls for an efficient structure and solid negotiating skills. But steady growth? This type of growth comes from the top, the very first lines of the profit-and-loss statement; and those are delivered by Sales.

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