

# THE FIVE FACTORS THAT SHAPE HOW WE BUY

June 2018

Buyer's Toolkit

Effective buying requires skill, one that enables us to determine exactly how we should buy in any given situation.

As part of this we must consider where we might buy from, our needs and wants, and the most effective way to satisfy these. We must also consider the relationship with our suppliers and how a contract will be established. When put together these considerations form our buying approach and below are five key factors to consider when determining how we will buy.

## I. VALUE

Whilst buying is often considered as being the exchange of goods or services for money, what lies at its heart is the exchange of value. For most transactions, currency is the medium of this value exchange, enabling us to assign monetary value to our purchases. However, for us to really understand how to be good at buying and to ensure we gain all the value we need from a deal, we must reflect on buying as a value exchange. The greater the value, the more we have at stake - and so the more we need to protect ourselves, preserve our cash flow and, where possible, maximize the value for single or mutual benefit.

## 2. RISK, COMPLEXITY AND DIFFICULTY

The second factor that shapes how we buy is concerned with understanding the risk and complexity, together with the difficulty we might encounter when buying. To illustrate this, think about when you go to a store to buy your groceries. This doesn't tend to be risky, difficult or particularly complex. However, if your organization was setting out to buy a nuclear submarine for instance, you could expect things to be very different!

Associated risks might include the item itself, the risk of doing a bad deal or failing to make the necessary provision which could expose us to further risks. We want to avoid delivery failure, not buying the correct item to the required standard and not allowing for effective buyer and seller interaction. Whilst some purchases are simple, others can

be more complex and so require specialist procurement approaches to manage the associated risks, complexity and difficulty. Once we compare these factors with the value we could acquire, we can start to relate to a number of different buying approaches. See Figure 1 below for some examples.

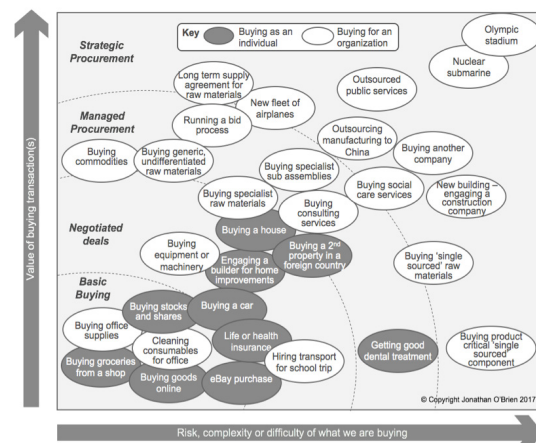


Figure 1: Purchasing risk factors vs value derived from buying transaction(s)

## 3. CHOICE

Our personal values and beliefs can often influence our purchasing choices. We can decide how much we want to pay and whether we even want to buy it at all. As we've discussed, buying is about the exchange of value, it is the way this exchange is made and the choices available that lead to the importance of choice within buying. Ignoring this factor can have significant negative consequences.

Within organizations we have choices too. Every buying scenario is different with a range of possibilities, for instance how we buy may be determined by our understanding of the market, our suppliers' future needs, and how important specific suppliers are to us in the short and long term. Buying choices might also be aligned with or driven by corporate goals, values or policy.

There are four key approaches for effective buying, depending on the scenario: Cut-throat, Leverage, Mainstream and Altruistic, and these are discussed below.

- **Cut-throat** – Cut-throat buying occurs where one party can exercise power over the other and drive the deal to the extreme, securing the best outcome purely on their terms. Whilst this type of buying can deliver short term wins to maximize return, it can drive selfish and dishonest behaviour; often leading to failure as it can be difficult to retain support, and maintain an effective buying relationship (Granovetter, 1985). This type of buying approach tends to be outside of professional buying as it is unsustainable and can threaten supply.
- **Leverage** - In the world of professional buying we often find ourselves in a position of power, buying a product in a mass market full of providers competing for business. Leveraging our power and playing 'buying hardball' in these situations can be the most appropriate approach.
- **Mainstream** - Mainstream buying exists where the supplier holds the power, buying choices are limited or where power is balanced between buyer and seller. Whilst we cannot leverage an outcome on our terms, we seek to secure the best price with the most value, self-managing any risks.
- **Altruistic** - Altruistic buying involves a conscious decision by organizations or individuals to go beyond traditional buying, to be motivated by sociological concerns such as fairness, honesty, equality and trust. Buying sustainably is becoming increasingly visible with many of us choosing to pay more for a product for greater good rather than just needs satisfaction. For example, buying Fairtrade to ensure farmers get a better deal, allowing them to invest and grow. Whilst there is a debt in this type of transaction, there isn't an expectation to be repaid, rather it can instill in the seller a sense of loyalty and of wanting to do their very best to repay the support.

To become an effective buyer, we must recognize and understand the strength of our buying position and the choices available, and then determine the appropriate buying approach depending on supply base circumstances.

## 4. RELATIONSHIP

More often than we might think, a relationship exists with the seller whenever we make a purchase. This can include a social exchange, discussion, agreement of specification or even a negotiation, and can be very obvious or not at all. Sellers will always seek to build a relationship with us, from instilling a sense of brand loyalty, to more personal human interactions. This is because good relationships build familiarity, confidence and trust, which ultimately helps the seller to sell and keeps the buyer interested.

Relationships are essential in professional buying. Complex, strategic, high-value and high-risk buying demands even more of a relationship, one that enables collaborative and joint working. To understand how to buy well we must know and decide what type of relationship is useful and appropriate, and when to nurture and manage this to our advantage.

## 5. CONTRACT

Whether we realize it or not, there is always a contract with the supplier for the goods and services that we buy. One for simple everyday transactions which often doesn't cross our mind as we pick up a pint of milk, or when we tick to agree the terms and conditions to complete an online purchase. There is little or no formality and we knowingly enter into an agreement to buy as this is the only way to get what we want. In contrast, when the value of goods or services is much higher, or the risk and complexity of the purchase greater, a formal contract for the exchange will be agreed and often negotiated by both parties. If we are to be good at buying, an understanding of contracts and how they are established is absolutely crucial.

The above five considerations will help you begin to determine the most suitable approach for different buying situations, identify what you might need to do to support your buying approach and the procedures and considerations to remain compliant, minimize risk and ultimately shape how you buy now and for the future.

Adapted from 'The Buyer's Toolkit' book by Jonathan O'Brien (published by Kogan Page). Learn more about effective buying, and save 20%, when buying The Buyer's Toolkit with code WLGPP20 at [www.koganpage.com/buyer-toolkit](http://www.koganpage.com/buyer-toolkit).

This article was first published on [www.publicspendforum.net](http://www.publicspendforum.net) in February 2018.

## REFERENCES

Granovetter, M (1985), Economic Action and Social Structure: The Problem of Embeddedness, *The American Journal of Sociology*, Vol 91, No 3, Nov 1985, pp481-510.

positivepurchasing.com

Copyright © 2018 Positive Purchasing Ltd trading as Positive | All rights reserved

If you want to publish this article or sections of it please contact us at [team@positivepurchasing.com](mailto:team@positivepurchasing.com) or phone +44 (0) 33 00 94 0000