

CHOOSING THE RIGHT BUYING APPROACH

Understanding the six different approaches to buying and the implications each holds

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Buyer's Toolkit

Everyone has a choice about how they buy. Within companies, this could be determined by marketplace understanding, suppliers, future needs, or how important a supplier is now and in the future.

However, to understand what level of “buying power” you may have, it’s important to understand what type of buyer you are.

CUTTHROAT BUYING

The rawest form, cutthroat buying is where one party exercises its power over the other, driving the deal to the extreme, purely on their terms. This approach tends to be driven by decisions made at an individual level and is influenced by economic concerns or perhaps by personal gain.

Whilst cutthroat buying can deliver short-term wins, people who adopt this approach tend to fail because they struggle to win or retain support. It’s typically a once only, one-sided approach which can work against us – increasing the risk of jeopardizing supply and creating an unsustainable situation.

LEVERAGE BUYING

If we are in a position of power and buying a generic product, in a mass market with many providers vying for our business, then playing ‘buying hardball’ and leveraging our power may be the right approach.

A powerful retailer might be able to demand a low price from a small producer in a developing country to secure a short-term gain, but it may be unsustainable if the producer is unable to invest in the equipment needed for the medium term. Is this cutthroat buying or good leverage buying and how far should we go? This is increasingly the subject of debate in companies and has led to an emergence of buying policies and changes in practice in recent years.

EFFECTIVE BUYING

This is about understanding our position and the power we might have before we buy. There is a range of mainstream buying scenarios where we find ourselves either in a position where the supplier holds all the power, and our choice or alternatives are limited, or where the power between us and the seller is reasonably balanced. Sellers work hard to place themselves in a strong position and maximize this strength, even if they may actually be trying to hide a weak position.

MAINSTREAM BUYING

Here, our choice of how we buy is driven by what we need to do to ensure we get everything we need and want and that security of supply is assured. Whilst we might not hold the power to leverage an outcome completely on our terms, our aim is to secure the best or right price with as much additional value as possible whilst understanding and making provision to manage any risk that might exist. As such, good buying here will typically look beyond a single transaction and seek to agree arrangements over the medium term.

COLLABORATIVE BUYING

At the high end of normal professional buying, short-term economic concerns are replaced with joint working in the pursuit of long term goals that benefit both buyer and seller. Known as collaborative buying it has become highly important to organizations which have looked to establish relationships with strategic suppliers who could provide innovation or take over running core functions of the business. Here, how we buy looks very different and is more focused on how the right operations and relationships can exist between parties.

ALTRUISTIC BUYING

This is where the buyer is motivated by concerns such as fairness, honesty, equality, trust, altruism and common interest which combined, drive the buying decisions.

This type of buying by individuals is growing and there seems to be a correlation between increasing disposable income and the choice to pay more for something that goes a step further than just satisfy the need. A good example of this is choosing to pay more for a Fairtrade product because we want to ensure the producers get a better deal.

At a company level, altruistic buying underpins the modern sustainable buying or CSR movement. One company I know buys huge volumes of tea, but rather than buy it from a public tea auction, it deliberately bids higher than market price for the tea from specific plantations. This ensures that producers receive a premium price to enable them to invest and grow.

Increasingly, having more choice is an important consideration in determining our buying approach. It is therefore important to understand what choices we have available to us to determine what type of buyer we will be, and therefore where our strengths lie.

Adapted from 'The Buyer's Toolkit' by Jonathan O'Brien (published by Kogan Page). Learn more about effective buying, and save 20%, when buying The Buyer's Toolkit with code PLGTBT20 at www.koganpage.com/buyer-toolkit.

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