



“True Leverage”

By

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Everyone is familiar with the concept of leverage when it comes to procurement. We as buyers approach a potential supplier and make the case for lower prices due solely to the total amount we spend with the company. We have all experienced success with this approach and we have all experienced feedback that “you already buy at prices lower than much larger customers”.

When we hear this is it usually true or is the sales person merely placating us to protect his or her company’s margins and his or her commissions? I think I could successfully argue it is both. We would have to be naive to think just but merely asking for lower prices or threatening to go to another supplier our incumbent supplier would just lower the prices.

Instead, after a threat of changing suppliers, incumbent suppliers figure out how to give us the price without losing margin. The easiest of ways to do so is to lower the quality of the product or services, lower the stocked inventory to meet our orders or some other manner that ultimately affects our total cost of ownership.

We have all heard the saying that “it is who you know, not what you know” that dictates success. Often this is just sour grapes coming from people who do not understand true leverage. Successful business people do not knowingly enter into business deals that adversely affect them. Instead, they figure out how to structure win-win deals.

Many have heard me speak before about win-win versus win-lose agreements. I maintain there is only win-win or lose-lose relationships in supply agreements. Win-win agreements embrace the full meaning of true leverage.

True leverage involves leveraging the full capability of both sides of a supply agreement. The leverage points in these type agreements address the many of the following:

Suppliers	Buyers
<ul style="list-style-type: none"> ✓ Relationship ✓ Capacity ✓ Market Knowledge ✓ Product Quality ✓ Supply Chain Capability ✓ Flexibility ✓ Engineering Expertise 	<ul style="list-style-type: none"> • Total Spend Dollars • Total Committed Dollars • Long Term Market Plans • Strategic Direction • Predictability of Demand • Market Knowledge

Is your company exercising true leverage or just asking for discounts with no concessions. I know in my business, just accepting lower margins is NOT a compelling argument.