

Nobody ever got fired for buying IBM

Do you remember the ad - "Nobody ever got fired for buying IBM". This ad played off one of the most potent motivations in organisational decision-making – the need for the buyer to reduce the risk of purchase.

There are three basic purchasing situations –

- The straight re-buy
- The modified re-buy
- The new task buy

As the name suggests, the first of these situations involves the purchaser re-ordering the same product from the same supplier. If the customer is happy with the existing supplier, it's tough for an "out" supplier to get a foot in the door because it involves the purchaser in taking an unnecessary risk. And the more vital the product being supplied, the higher that risk. The temptation for an "out" supplier is to offer their identical alternative at a better price. And the customer's likely response? Threaten the "in" supplier with defection unless the "out" supplier's price is matched. Result - "In" supplier caves in; price equilibrium in the market is disturbed – otherwise the status quo remains unchanged. I know – it's happened to me a few times!

Buying business rarely if ever works. Price on occasions is a good tactic but usually a poor strategy.

With the modified re-buy, the playing field still favours the "in" supplier but the slope is not quite so adverse for the "out" supplier. But given equal ability to meet the modified needs of the buyer, the "in" supplier is always going to pose less of a risk.

The new task buy reflects the situation where the buyer is purchasing a product or service for the first time – maybe it's an accounting software package or the conversion of a manual assembly job to robotics. Here the risk is extremely high and the strategy of selecting the "in" supplier is not available.

No matter which of the above situations is involved, there is always risk to the purchaser in selecting an "out" supplier. The risk is of two distinct types –

- The risk that the product or service will not perform to expectations, and
- the consequences if the above is the case

Take a car fitted with ABS braking and airbags. The former is an active safety system that reduces the chances of an accident; the latter a passive safety system that reduces the consequences of a crash should the ABS fail to prevent an accident.

Now the purchaser will have various options under his control to cope with both these types of risk but in the long term would far rather reduce the risk of the product not performing to expectations than reduce the consequences of such a failure. The best option is ABS and airbags but if you can't have both, purchasers would prefer to reduce the perceived risk of non-performance rather than generous compensation should it occur.

However, suppliers also have strategies under their control that will reduce the customer's risk and these are as follows -

A - Strategies that reduce the risk of performance not meeting expectations (ABS)

- Establish clearly what those expectations are
- Provide complete information on product/service
- Provide access to existing users of your company's product
- Provide endorsements by independent experts
- Provide information on conformance to ABS, ISO or Industry performance standards
- Provide product for evaluation
- Provide installation, testing and commissioning services
- Provide users with comprehensive training

B - Strategies that reduce the consequences of performance not meeting expectations (airbags)

- Don't bid for 100% of available business
- Offer make-good guarantees
- Offer trial prices or free product on sale or return
- Offer post sale technical support at no additional charge for period of time
- Offer "escape clauses" if sale subject to contract
- Accept penalty clauses for non-performance
- Offer leasing deals as an alternative to outright purchase

Now the next bit is really important!

Paradoxically, although the purchaser's priority is for ABS after purchase, in the pre-purchase phase, my experience is that "airbag strategies" (B) are often the initiatives that swing things in your favour. At this stage, the prospective customer is asking – what are the worst things that can happen if my expectations are not met?

Let me give you three real life examples.

A new supplier of a commodity chemical product realised that if it was to establish itself in Australia, it needed to sell product to one of the largest users that had plants in three states. This company currently bought all its

requirements from the other supplier. It was a classical straight re-buy situation where resistance to change is greatest. The new supplier's overtures met with limited success until the supplier suggested that the prospective customer only buy product from it for one of their plants. If the product and the supplier met the buyer's expectations, the other plants would change over. This tactic dramatically reduced the customer's perceived risks of purchase. In fact, there was almost greater risk in *not* taking up this offer.

Within two years, the customer was buying its total requirements from the new supplier.

The second example came from a student of mine who told me that he had been asked to purchase a replacement fax machine. This is a typical modified re-buy. He phoned various suppliers including the current one and all bar one spruiked the features of their machines and provided brochures and arranged for a rep to see him. The exception was one supplier who said- "tell you what – why don't we supply you with a fax machine that we think suits your requirements. We'll give it to you for a month – if you like it, we'll invoice you; if you don't, we'll take it back ". Guess which machine they bought? This strategy effectively reduced the purchaser's perceived "airbag" risk to zero. If the fax didn't perform to expectations, it wouldn't cost the purchaser anything.

Providing some benefit that the purchaser perceives as being free or complimentary is a powerful incentive to purchase. Take this last example of an IT systems provider. This provider charges more than the competition for its IT systems but all technical service for the first year is provided free of charge. Again this is a strategy to reduce risk of the airbag type.

A working understanding of the psychology of buyer behaviour provides the explanation to the emphasis placed by the purchaser on "airbag" risk reduction before purchase and "ABS" risk reduction post purchase. Only bidding for a portion of a client's business or providing a trial period or offering free service are things that the purchaser can verify. In contrast, despite the best "ABS" strategies, the purchaser can only ascertain whether the claims made for the product and supplier live up to expectations after the purchase has been made. In a sense the "ABS" strategies put the supplier on the short list but it's the "airbag" strategies that tip the purchasing decision in your favour. If you're not IBM, these strategies counter the purchaser's own, chief amongst which are to stay with the existing supplier or buy from the best known suppliers or purchase the best-known brands.

Sometimes the best strategy is simply not to bid for business as this last anecdote illustrates. I was working as a Business Development Manager at the time and was almost burnt at the stake for making the heretical statement at a sales meeting that I could see no advantage to us in attempting to oust our major competitor from a group of four or five smallish customers. The issue had arisen because we had learnt that our competitor was not performing to the customers' expectations. I was asked to explain this proposed act of marketing cowardice.

This group of customers was much more important to our competitor than they were to us; we had enough difficulty servicing our existing customers without adding to the burden. The more problems our competitor had servicing their customers, the less time and resources they had to think about meddling with any of ours. Furthermore, the customers were much closer to our competitor's plant than they were to ours so even if we did steal the business, the chances were that the competitor would eventually get it back again.

This episode occurred early on in my tenure in this position and I could see my peers grappling with the paradox of a Business Development Manager who appeared not interested in developing business. But as Pyrrhus observed, "one more such victory and we are lost".

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