

## ASKING FOR DISCOUNTS FROM SUPPLIERS

BY JASON BADER, PRINCIPAL - THE DISTRIBUTION TEAM



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DISTRIBUTION  
TEAM

The original article, Improving Gross Margins...Without Harassing Your Suppliers, was one of the most well read articles I have produced in my 8 years with the Distribution Team. I have received more emails over the last couple of months concerning this subject. Thank you. Apparently I struck a chord.

Many of the readers loved the ideas, but also asked how to strategically ask for discounts from suppliers. I think there is a balance here. It is really a matter of perception. Asking all the time tends to get annoying. After some time, you will be penalized for it. It won't be something overt, like lesser discounts; but you will find that you are last to be told about promotions and new product launches. Sales people may quit asking to ride with your team. Sales leads might find their way to your competition. These are subtle penalties to make you less competitive in the market.

If you want to ask for discounts, and I believe that you can, be smart about it. What do most of your competitors ask for? They look for an extra nickel or dime on the high volume attractive products. Let's be realistic here. What happens to that discount? Does it improve the profitability of the overall line? Of course not, it gets thrown out on the street and we have effectively just dropped the average selling price for everyone. The customer may win, but everyone else loses.

Rather than following the other lemmings off the cliff, differentiate yourself from the pack. Don't ask for discounts on the super high movers – look for discounts in the next group down the popularity scale. Here is how I would do it.

In the original article, I talked about velocity based pricing based on the popularity of the product within a line. The first 5 – 7% of a line is the most visible and we tend to price to meet or beat competition. The next 10% of the items, based on hits, would be where I start looking for candidates. Scan these items and look for a SKU that doesn't normally hit the promotional sheet with this manufacturer. In fact, it may be an item that the rep rarely talks about. Ask for a modest discount on this item. Greed is not your friend here. Pick a few strategic items from each of your top suppliers. Pretty soon, you will have a solid list.

If you want to make money with this, and frankly not upset pricing in the marketplace, do not let your salespeople use the additional discount you just negotiated. In fact, they should not even see it reduce the cost of goods sold. The quickest way to get a supplier to nix future discount deals like this is to let it hit the street. Other competitors will get wind of the deal and your supplier will be in hot water. Protect this privilege and keep it tight to the vest.

I would encourage you to sit down with your CFO, controller or spouse (whoever does the financials) and find a way to track the additional margin dollars gained by this strategic request program. If you feel real guilty about keeping these discounts from your sales team, kick them a bonus at the end of the year. I suspect that pool will be large enough to share.

Remember, this is one of those subtle programs that can be ruined by being greedy. Be ready to change out a few items each year. Keep it in perspective

and be sure to tell the rep how this program benefits the continued relationship. Sometimes you need to just spell it out. Improved margins in a line will enhance the return on investment. Our company supports those product lines that give us the best return on investment. If you can't dazzle 'em with brilliance, baffle 'em with ....

