

BUYING (SELLING) INPUTS IN THE CURRENT BUSINESS CLIMATE

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Grain farmers are facing significantly lower prices and incomes in 2015 compared to previous years which have resulted in intense pressure to lower costs by aggressive negotiation on land rents and purchased inputs. Much of this negotiation has focused on price--farmers are asking/expecting price reductions, but suppliers of fertilizer seed and chemicals in particular are hesitant to adjust prices down. In many cases suppliers have laid in inventories at costs that provide little flexibility to reduce prices without dramatically compressing margins.

Certainly price is a critical component of the purchase decision by farmers and the selling strategy of suppliers. But there is much more to the input purchase decision – information, service, trust, availability for example.

More specifically, critical components of any input purchase decision are:

- 1.) Product performance – effectiveness of the product in enhancing or protecting output (yield, rate of gain,) and evidence/documentation supporting the performance claims.
- 2.) Product price – net price including transportation/shipping charges and any service fees.
- 3.) Quantity/volume discount – any price discounts or service fee reductions that depend on quantity purchased or packaging/ bundling with the purchase of other inputs.
- 4.) Storage, delivery time and conditions – when and how the product will be delivered, storage arrangements, and penalties and/or back-up if delays occur.
- 5.) Local contact- name and contact information (cell phone, email, etc) of the specific person to contact if problems occur in fulfilling the purchase agreement or in the efficacy of the product.
- 6.) Application services – cost and performance specifications including timing of any application or other services.
- 7.) Financing terms – financing or credit terms offered including cash discounts, interest rates, repayment terms and the approval process.
- 8.) Warranty – performance guarantees and terms of reimbursement for non-performance including documentation requirements and party responsible for servicing warranty claims.
- 9.) Technical documentation – product performance documentation and details of product specification including quality characteristics.

- 10.) Compliant response time/process- procedure for filing complaints concerning product service efficacy or effectiveness including process and time delays in response/resolution.
- 11.) Technical support - availability of technical support to answer questions concerning product performance and efficacy including process to contact technical support personnel.
- 12.) Information services- availability and provider of any information or data analysis services including fees charged for such services and contact person.
- 13.) Brand – specification of manufacturer, performance reliability data, characteristics of substitutes.
- 14.) Training – training that will be provided to staff, educational materials, support for regulatory compliance.
- 15.) Proposal response time – required response times for the supplier to provide needed information and format in which the supplier should provide it.

One way to more systemically think about the critical components of the purchase decision (or selling strategy for suppliers) is to use a specification sheet. Figure 1 illustrates a Specification Sheet on which a buyer may summarize the information they need to obtain from suppliers on 15 critical components of the buying/selling transaction.

It can be helpful to decide in advance how important each of these 15 components are for the purchase decision. For example, in financially challenging times, product performance may be far more important than technical documentation. Some components may be mission critical, while others may have a negligible impact on the decision. By giving a weight to each component of the decision a buyer will have a better basis for comparison.

Each alternative supplier can then be rated on the 15 critical components, and their scores for each component can be tallied. Figure 2 illustrates how a weighted specification analysis tool could be used to evaluate and compare alternative prospective suppliers.

It's important to remember that solid relationships with suppliers may provide benefits beyond identifiable components of a single purchase. A strong relationship may open the door for cost savings in other parts of the business. For example, a supplier may have less bargaining room for a single product than they do if more than one product is purchased.

Other considerations include the urgency of the immediate need, the importance of price transparency, and future needs. The need for a quick response may limit the ability to compare multiple suppliers, because takes time to gather information, answer questions, and make comparisons. A buyer may want to consider how wide the potential list of suppliers should be. Sometimes it's helpful to have a frank discussion with suppliers to understand the cost

structure behind an offer. This conversation may lead to creative methods for reducing supplier cost that could be translated into savings for the buyer. Direct delivery to a convenient site could be an example of this. Finally, a buyer should consider their own future needs. A purchase that drives margins so low that the supplier can't survive could lead to less flexibility and more expensive purchases in the future.

Figure 1: Specification Sheet

Farm Name: _____
 Supplier Name: _____
 Address: _____
 Address: _____

Contact Name: _____
 Phone: _____
 Date: _____

1. Product Performance	
2. Price	
3. Quantity or Volume Discount	
4. Delivery Time and Conditions	
5. Local Contact	
6. Application Services	
7. Financing Terms	
8. Warranty	
9. Technical Documentation	
10. Complain Response Time	
11. Technical Support	
12. Information services	
13. Brand	
14. Training	
15. Proposal Response Time	

Instructions: For each component, identify the specifications desired.

Figure 2: Weighted Specification Analysis Tool

Component	Weight	Supplier 1		Supplier 2		Supplier 3	
		Rating	Score	Rating	Score	Rating	Score
Product Performance							
Price							
Quantity or Volume Discounts							
Delivery Time and Conditions							
Local Contacts							
Application Services							
Financing Terms							
Warranty							
Technical Documentation							
Complaint Response Time							
Technical Support							
Information Services							
Brand							
Training							
Proposal Response Time							
Total							

Instructions:

1. On a scale of 1-10 (10 high), record the importance of each component
2. Working across the page, component by component, compare each supplier on the component, rating each on a scale of 1-10 (10 high)
3. Multiply each rating by the weight for that row, in order to determine the component score
4. Add up component scores to determine totals for each supplier and compare the totals.