

# Lowest Price or Best Value

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There is a lot of talk these days of 'Best Practise and Benchmarking' and no one is going to argue about continual improvement in manufacturing processes and quality systems, but what about purchase management? Where is it written that the best purchase is the cheapest purchase? Who says that lowest price is best value?

Unfortunately this philosophy seems to be endemic these days particularly amongst some of the larger organisations and certainly amongst public bodies. Nothing could be further from the truth however – lowest price does not represent best value. What value do you place on quality, service, trust and the confidence these attributes engender?

Laser cutting is a business like many others. It is competitive and subject to the same rules of engagement as any other business you care to mention. Hey, but let's think about this, how many businesses can you name where annual investment can be as much as twenty per cent of turnover. That is a staggering figure and one that has to be considered very carefully when calculating working rates.

There is a danger that, in attempting to fill order books during spells of low market activity machine time is sold at rates that customers can ill afford to pass up, but who is gaining from such folly? The customer will gain in the short term, he may make a little extra on the job in hand, or it may be that the job he under quoted suddenly becomes profitable. In the long term, however, he will probably be let down on service, because the supplier will always put more profitable work first or he will be let down on quality because the job is rushed in an attempt to minimise losses. He will probably also have ruined a very good and often long established trading relationship. How likely is the supplier to put himself out to help a customer who is continually putting him under pressure to reduce prices?

The subcontractor will gain work which will fill his machines and may, if he is lucky, cover his overheads, but how is he going to fund a replacement machine when his becomes outdated and uneconomic.

No one is against competition, business thrives on it but crazy sales tactics by some companies are going to kill the industry if they don't, quickly, come to their senses. We can all accept that we are not going to win every contract and that we may lose out by 1,2,3,5 or maybe 10 percent. That's alright – we'll just try harder next time, look at the job more closely and sharpen our pencils. But it is becoming increasingly common to lose jobs by much bigger margins than that. We have encountered situations recently where we have lost long established contracts to competitors offering rates 25-40 per cent below our (already discounted) rates. Why can't these people see that by quoting realistic rates they can either make more profit in the hours they are working or make the same profit and take a couple of days extra off each week.

In the short term these tactics are likely to keep some companies busy on unprofitable work leaving the better work for those who are serious about promoting the industry. However, in the long term they are likely to lead to expectations of vastly reduced rates across the market place causing a lack of investment funds to carry us forward. If this is allowed to happen it will lead to a downward spiral where it will be impossible to get prices back to a realistic level until many companies have gone out of business. No one wants that, there are no benefits for anyone there but there are plenty of benefits to be had by being realistic now.

Laser cutting is getting cheaper, technology is seeing to that but we have to maintain levels to a degree where the industry can go forward to take advantage of the technology being presented to us. Technology

doesn't come cheap –but neither does redundancy!

The culture of lowest cost wins is one that is going to be difficult to change, although there are some oases of reality, but we really do have to make a stand to ensure that we do not sell ourselves out.

We have a duty to provide the best possible service and quality, to create trust and to build relationships with our customers. All of this contributes towards best value, but comes at a cost. A realistic cost but not, necessarily, the lowest cost.

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