



Understanding Your Business: The Key To Buying Smart

RFP Part III: Are You Willing To Invest?

BY LISA KIANOFF, CPA, CITP

It wasn't unusual for Sonny Riceman to get a morning call from Bob Jones, one of the major suppliers for his chain of Far Eastern Foods Stores. What was odd this time was the question: "You up for a round of golf this afternoon?" asked Jones, who was known more for long work hours than leisure afternoons. Riceman wasn't amused.

His Far Eastern Foods company bought a lot of rice and cooking oils from Jones, a local distributor of international foods. Recently, he upped his orders for noodles and flavored teas, and they sold well. But he wasn't happy about unsold cases of cookies that were expiring quickly.

"We had the same problem," said Jones. "Then I discovered too many cooks spoil the broth. Now I've fixed the problem, and that's why this golf game is on me. You interested?"

Riceman commented, "I have no time to take off work. Would this have something to do with that company you paid to follow your people around?"

Jones was quick to reply, "It does. So let's plan for a twilight round after work. See you at 6:30 on the first tee."

It was three months ago when Jones mentioned that company as he reviewed responses to his RFP (Request for Proposal) for replacing his old accounting software (as we covered in this column in the June and July issues). Jones figured the RFP was the way to go when he read that the City of Birmingham saved millions on a street paving project when a hungry contractor bid half of what was expected. Even the Air Force used the RFP to replace their aging fleet of refueling tankers.

Jones tasked his assistant operations manager, Bret, with developing the RFP. Bret talked to accounting and purchasing, sales and the warehouse to identify the

"features and functionalities" they wanted. Being technical, the RFP also included questions about systems and remote access.

Four companies responded, including one that quoted \$10,000 below any other and a company that asked Jones to pay \$2,500 for a "Feasibility Evaluation." That suggestion landed them on the bottom of the pile. But, after two of the others did "generic demos," Jones was feeling like the Air Force generals who ordered "a cooling off period" after the winning bid was announced when



some in Congress questioned if the specs effectively represented all the military's needs.

The RFP had narrowed the field of who met the specs to take Jones' 28-year-old distribution company to the next level, but he was skeptical that any of them understood enough about his pricing needs and date-sensitive inventory to deliver the right solution. He accepted that most choices could handle 80 to 90 percent of his routine business needs "out of the box,"

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but agreed to the “Feasibility Evaluation” after acknowledging it would be beneficial if the consultant saw first-hand how his team dealt with the 10 to 20 percent that was unique and vitally important.

► THEY CAME. THEY SAW. THEY ENLIGHTENED.

There was still an hour of sunshine left when Jones and Riceman met at the first tee.

“OK, you paid \$2,500 for this company’s consultant to watch your business from the inside. What did you find out?” asked Riceman.

“That our mutual friend Bo, my sales rep who handles your account, charged my credit card for an overnight shipment from L.A. of the herbal teas you ordered for delivery in September. It seems that the teas in inventory had expired so we couldn’t ship them. That was my first eye opener,” said Jones, relating what the consultant shared as they reviewed the results of the Feasibility Evaluation. “On top of that, it was not the first time something like this had happened.”

Riceman’s first hit went right down the fairway. He smiled, at both the shot and how Jones had taken care of him when he didn’t even know it.

“Then I learned what we quote customers sometimes depends on who talks to them,” Jones continued. “Our pricing is complex, but it’s meant to give best pricing to long-term, loyal clients like you. It turns out each of our “cooks” — sales, client service,

the warehouse and accounting — had different versions of our prices. Not all lists got updated for price changes so every person had a slightly different recipe for pricing. Like I said, ‘too many cooks spoil the broth,’ so now it’s one chef working with our new system handling all our pricing needs and automatically applying the right price based on our criteria.”

Jones’ first drive landed squarely in a sand trap.

“That’s appropriate!” sighed Jones. “I was about to tell you how I felt trapped dealing with the spoilage from expired foods. We write off about 5 percent of our inventory each year; that’s over \$25,000 on items with short shelf lives.” He explained that the consultant learned a lot by focusing on the warehouse, purchasing and sales. The Feasibility Evaluation report described new processes and tools that would dramatically reduce the amount of spoilage and its cost to the company.

Riceman stopped. “That’s a big problem for me also. What did they tell you?”

“Too many cooks,” said Jones. “Our old system told us how many of an item was in stock, but it didn’t track expirations. The warehouse deals with large quantities, and it wasn’t easy for them to identify the older goods to ship first. Our sales reps, like Bo, committed goods to customers they thought were in stock, only to find some of the goods were actually expired and unsellable. Purchasing thought they had stock and, when they found out otherwise, then came the credit card charges to cover rush shipping.”

For Jones, the solution included

a system that handled lot numbers for all inventory items with expiration dates tied to the lot. Now the warehouse has the information to ship oldest goods first, so spoilage is much less of an issue. It also eliminates the last-minute scrambling to deal with shortages.

Jones and Riceman had made it to the fifth hole when they agreed there wasn’t enough sunlight left to continue the game.

“This reminds me how much I was in the dark about some of these critical areas of our business,” said Jones as he told Riceman the rest of the results from the Feasibility Evaluation.

“It was definitely a different way to buy,” said Jones. “When I bought an accounting system 15 years ago, I made my business conform to its limitations. Now, we’re setting up the system to address my business needs and, since the consultant was exposed to my critical business issues, he knew enough to correctly estimate the project. In the end, I believe the Feasibility Evaluation saved me money.”

The moral of the story: The RFP can only take you so far if you want to buy smart. The next time you face a sizeable business decision, would you be willing to invest to take the next step? ■

This concludes the three-part series on New Ideas for Successful Buying. To review the earlier columns in this series, go to www.CPATechAdvisor.com/go/2347 and www.CPATechAdvisor.com/go/2405.