

There are no free steak knives!



A conversation with a clerk in a HR department looking to ‘buy’ some training for a staff member and the passing of English actor, George Cole in August 2015 started me thinking.

The defining role in Cole’s long career was playing ‘Arfur Daley’, the devious ‘spiv’ in the long running TV series Minder¹. ‘Arfur’ always had a deal on offer that was too good to refuse – the deals were rarely outright crooked, but the buyer rarely ended up in front and ‘Arfur’ regularly needed the help of his ‘minder’ to get out of trouble. As with many good situation comedies, the ‘Arfur’ character was only a slight exaggeration of many of the ‘sharp operators’ living and working in and around the South and East of London in the 1960s and 70s.

The recent ‘real world’ conversation with the HR clerk, not to mention watching many of the TV shopping channels suggests the ‘Arfur Daley’ approach to creating a deal that is too good to refuse is still very much part of modern business. The reason for this article is to help project team members tasked with purchasing goods for their project directly, or recommending the ‘preferred supplier’, to cut through the communication hype to see the real value in a proposition. **There really is no such thing as a ‘free’ set of steak knives!**

The basic starting point for making the best buying decision is remembering there are only two elements that really matter, acquiring the goods or services you need and the price you pay.

To make the best ‘buying decision’ the first thing is to be really clear about what you need. Defining the appropriate quality and quantity for tangible goods is quite easy; it’s much more difficult to work out what represents a good training option or the best value consultancy service.

Then there’s the price! What’s the best deal a \$600 product with a special discount for you of 25% provided you order today, or its \$500 competitor with a ‘trade discount’ of only 10%?

Then one of your colleagues suggests talking to a local business, their ‘rack price’ is \$440, but they do not offer discounts – is this a better option?? What matters (assuming all of the other factors are equal) is the final price you will pay, not the discount; it’s fairly easy to work out once you learn to ignore the spin.

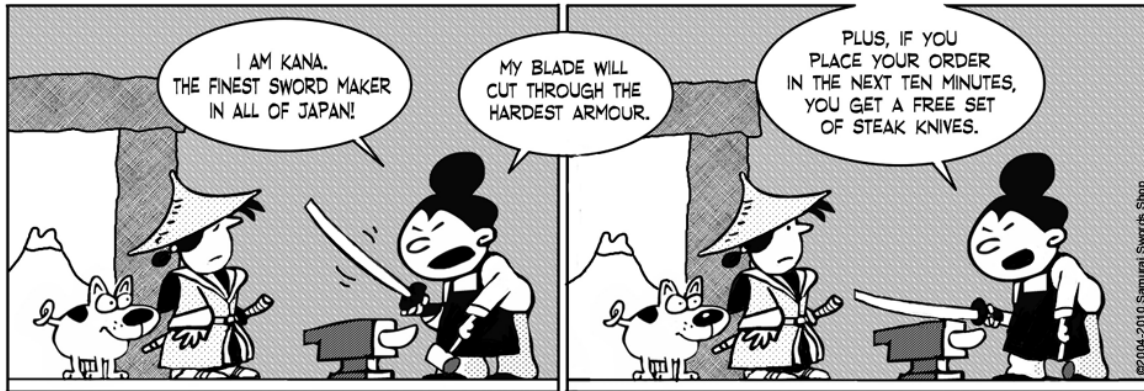
\$600 less 25% = \$450

\$500 less 10% = \$450

\$440 less 00% = \$440 talk to your local business.

Moving beyond price, the inducements on offer to make you buy from a particular business are many and varied; the challenge is applying discipline to your decision making process. The problem with most of the ‘fantastic free offers’ and ‘no-cost extras’ is that they are only valuable if you actually need them and can make use them.

¹ To see Arfur at work: https://www.youtube.com/watch?v=01dXHwMMY_E



The thing to remember is all of the ‘free’ offers are priced into the cost of the goods or services you are buying. We used to run training courses and advertise every trainee receives a ‘free copy of the *PMBOK® Guide*’. Similarly, most organisations who run training courses (including us) advertise that every trainee receives *free* access to on-line revision tools or practice questions.

We know ‘*free*’ is a very powerful selling word and our trainees get their ‘free book’ – there’s no additional costs charged, but when we are working out the price of the course the \$70 we pay to land a copy of the PMBOK in Australia, and the \$60 we pay for the on-line licence is included, along with the ‘free coffee’ and all of the other expenses we have to cover before we can start making a profit. The course price includes all of our costs plus a profit margin – if it did not, we would be bankrupt in a very short timeframe².

The challenge with the free extras and ‘other inclusions’ is deciding if they are of any value to you; you will be paying for them anyway. For example, you are comparing two PMP courses, one costs \$2000 and offers PMP training, the other option costs \$3000 but in addition to the PMP course includes 1 year’s free access to on-line training in Microsoft Excel, Powerpoint, Word and Publisher (the ‘Office suite’). Each course is ‘valued at \$500’. Superficially there is \$2000 in free extras making the more expensive course seem better value. But is it?? The questions you need to ask are:

1. Who can make use of the training – just the PMP candidate or anyone?
2. Do the people who can access the ‘free training’ modules actually need them? – If the training was really needed why have we not already organised it?
3. What is the real value of the extra ‘free courses’ offered? Assess this by looking at the market, you will typically find a set of trainings are offered at a significant discount to the cost of individual courses. If you can buy a full set of ‘Office training courses’ for \$800 that’s the value, not the 4 x \$500 = \$2000 advertised by the seller.
4. What is the quality of the ‘free offering’ - the quality, scope and usefulness of on-line training can have a huge range of variability.
5. What discount will the vendor offer if you opt out of the ‘free courses’ – this is usually much less than the nominal values.

The reason this type of ‘free offer’ is so common is partly the marginal costs of delivering another on-line module of training is very low (the costs are in course development not delivery), typically \$10 to \$20 per student. Partly the fact that most people never make use of the ‘free offer’ anyway – their good intentions

² We have scaled back our training over the last couple of years. Our current courses are outlined at: <https://mosaicprojects.com.au/training.php>

rarely translate into action. If 80% of the people who sign up for the more expensive offering never use the 'free training' the seller's profits are magnified.

You also need to be aware of the 'anchoring effect' – if at the start of your investigation, you were told the typical cost of a PMP course was \$4000 to \$5000, this price 'anchors' your expectations and the \$3000 price will seem like great value and the \$2000 price 'too cheap to be viable'. The 'anchoring effect' is an innate bias that changes our perceptions of value³, and the 'Arfurs' of this world know how to use it to their advantage!

All of these sales tactics can be used legitimately. From the seller's perspective, the art of offering 'free extras' is to offer things that are of genuine value to the buyer but cost you very little to deliver. From the buyer's perspective, learn to ignore the 'headline price' of the 'free extras' and consider what the final package is really worth to you – if you don't need something, its real value to you is always \$0.00!

The factors that make a real difference to most service deliveries are much harder to compare, you will generally pay more for a more experienced consultant or a 'better quality' trainer; buying this type of service on price alone is rarely the best approach – a basic rule of business is you tend to get what you pay for. This is not always true, other factors affect sellers pricing decisions, but it is a reasonable starting point. The challenge then is to set up a decision matrix that looks at the elements that really matter in your buying decisions and then make an informed decision. Some of the factors in the matrix may be measurable other such as 'cultural fit' (do we feel we can work with this person), are critically important, but entirely subjective. Different types of matrix deal with different decision-making processes⁴.

The message in this post is that before you can get to the serious decision making discussed in the last paragraph, you need to clear away the confusion of the 'special offers', 'calls to action', and 'discounts' discussed in the rest of the post.

The key steps in this process are:

1. Decide what you really need, quantity, quality and other features – write this down.
2. See what the 'market' has to offer that fulfils your requirements. Sort out the actual net price for the goods or services you have defined in point 1. Discount any special offers to their real value to you.
3. Use a selection matrix where necessary to compare the offers.
4. Negotiate the purchase.

Be disciplined and remember the 'Arfurs' of this world are always looking to make you an unbeatable offer you cannot refuse (*but its only available today, AND if you order in the next hour we will include that set of 'free steak knives' you always wanted... 😞*).....

How do you approach your buying decisions??

³ For more on **anchoring bias** see (p3):

https://www.mosaicprojects.com.au/Mag_Articles/SA1034_Are_your_stakeholders_biased.pdf

⁴ For more on **Ranking Requirements and Selecting Projects** see:

https://www.mosaicprojects.com.au/WhitePapers/WP1062_Ranking-Requirements.pdf



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