



Purchasing

by Louis A. Quagliana

Tips to remember and mistakes to avoid when purchasing

*Another great article from The Rooms Chronicle, the #1 journal for hotel rooms management! ***Important notice: This article is copyrighted by The Rooms Chronicle and may not be reproduced without permission of the publisher.*** College of Hospitality and Tourism Management, Niagara University, P.O. Box 2036, Niagara University, NY 14109-2036. Phone: 866-Read TRC. E-mail: editor@roomschronicle.com*

Notice: The ideas, opinions, recommendations, and interpretations presented herein are those of the author(s). The College of Hospitality and Tourism Management, Niagara University/The Rooms Chronicle assume no responsibility for the validity of claims in items reported.

Whether it is for a 60-room limited-service property or a 1,500-room, full-service resort, all managers will inevitably face the challenge of procuring goods. As an agent dedicated to protecting the financial interests of the owner or operator, it is essential to produce the greatest output or service and to reduce costs to achieve a healthy bottom line. A strong purchasing program can effectively save money for the hotel and accomplish this goal. This article outlines many mistakes to avoid and tips to remember when purchasing goods for a lodging property.

Size does matter

The size of the hotel, either as a stand-alone property or collectively as part of a larger ownership or management portfolio, is the starting point for effective purchasing decisions. Remember that many pricing structures are based on volume.

Be realistic when negotiating prices for anything from bedding to linens and carpets to curtains. A 2,000-room resort will have a much higher usage rate and will be able to command much lower prices than the 300-room hotel just down the street. Realistically estimating one's buying leverage will save the buyer and the seller time and negotiation troubles as well as the possibility of lost goodwill or good faith.

If intent on saving money on linens for example, the prudent manager should consider purchasing twice the supply now to obtain a lower price today, as opposed to purchasing two orders six months apart and paying a higher price. This could save a large amount of money, but there are drawbacks to this tactic. A larger sum of capital is required to buy the linens now, and if it is tied up in linen inventory on the shelf, the hotel may not be able to commit the money to other needs or projects. The ultimate decision depends on what management values most: the savings derived from one large order or realizing the benefits of other investments that can be made with the funds.

Credibility counts

During the bidding process be truthful about the hotel's estimated usage. If the property is expecting to replace 100 mattresses in the next year do not tell suppliers that the estimated usage will be 125 or 150 mattresses. The deceiving hotel manager may find himself enjoying a large savings today but the long-term consequences will eventually bring a greater negative impact than the short-term economic benefit. The manager's credibility will likely become questionable and his hotel's purchasing reputation could be tarnished with that supplier.

Keep in mind that there are only a relatively small handful of hotel suppliers and institutional vendors in each market. And contrary to the assumed laws of competition, suppliers do talk to each other and share feedback regarding questionable accounts. Yes, the first year will be good while the hotel revels in its purchasing prowess. However, the vendor who feels that he was taken advantage of by an unscrupulous client will quietly increase that hotel's prices for supplies in the future, thus decreasing their bank account.

Rebates and purchasing promotions

If a purchasing manager is able to negotiate a custom price for a product, such as in-room coffee makers, he should not assume that the hotel will also be able to collect manufacturer's rebates and thus make the final acquisition price even

lower. Many times, by buying certain products at the right time, a hotel can collect points towards future purchases. These points may not be available on already low negotiated prices. When faced with this situation, the manager must determine what is most important to the hotel: a lower price now or a greater discount later. The price will only go so low; it may go low in different promotions, but there is a bottom price.

Communicate clearly

Effective communication is a key to success in every aspect of business and can be especially helpful in purchasing. Consider purchasing custom printed letterhead as well as purchase specification forms and bid request fax sheets. Make sure the hotel's purchasing policies, payment terms, and receiving hours are clearly outlined on these forms that will be used during the bid process. This is important for several reasons.

First, exact purchase specifications and purchase quantity are necessary to enable competing suppliers to be able to fairly and accurately bid on the exact same product. Also, this information will assist each vendor in determining if they can fulfill the order according to the terms dictated. Without this information, problems invariably arise as one vendor may be bidding to supply the hotel with high-grade paper while another may be submitting a bid to supply lower grade paper.

More significant than the probable price spread, the hotel may actually receive a different product than that which it intended to acquire. This will require additional time, labor and expense be expended by both the hotel and the vendor to handle the refused goods, process the credit for refused merchandise, and to fulfill the original order as intended. More than likely, the vendor may actually lose money on the transaction in order to keep the hotel satisfied by providing the higher quality goods. A pattern of refusals by the hotel or misfulfillment by the vendor will inevitably lead to hard feeling by both parties.

It's about business

Finally, remember why the hotel is in business. The basic purpose of any business, including the hotel, is to make money by earning a profit through transactions. Now, remember why the hotel's suppliers are in business: to make money and earn a profit. Both parties need each other in order to survive; and both need strong communication and understanding from each other in order to grow their company.

Work towards strengthening the hotel-vendor relationship by asking suppliers for their ideas and opinions. They want their clients to succeed and most are more than willing to help them increase business and profits. Keep in mind, the more the hotel succeeds, the more the supplier will flourish. The hotel and its vendors are not competitors; so work together, be honest, and communicate effectively, and both sides will be stronger in the end.

(Louis Quagliana is the assistant director of purchasing for The Waldorf=Astoria in New York City, the 1415-room flagship hotel of the Hilton Hotel Company. E-mail: louis_quagliana@hilton.com.)