***Managing costs: Cheapest price, or VFM?***

We often see coat management as going for the cheapest supplier. That’s why businesses put contracts out to tender: to get to the lowest price from suppliers.

And sometimes the cheapest option is the best value for money, but – as we know in our private lives – often it isn’t. We’ve all known domestic examples when we’ve gone for the cheapest; it hasn’t been good enough (for whatever reason), and we’ve had to go out and buy a better one. It would have been cheaper in the long run to go for the more expensive option in the first place!

We absolutely must look for VFM (value for money) when we’re spending the company’s money, but that doesn’t always mean the cheapest.

Let’s look at some examples.

**The low headline price**

Ryanair have some very attractive airfares on offer. Too good to be true! And when we add up the true cost, they are too good to be true. If you’re flying with a family, and want to sit together you have to reserve seats. With 2 children that’s £40 for the flights out and back. You want to take a suitcase: £25 each way please! In fact, anything you want costs extra! Even taking everything into account they’re still good value, but the true cost is way more than the headline cost.

**The low tender**

Tendering brings problems of its own. If we tender, and get a supplier offering us a very low price, we know they’ll have to make their profit somewhere. Every time we change our mind about any detail in the spec, they’ll charge us more. When we tender, the ball is in our court, and we can choose whichever supplier we want. Once we accept a tender and want to change the spec, the supplier now has the power. We have no choice but to go to them, and they can charge us whatever they want for the changes. And – because they have to make a profit somewhere on the tender – charge us they will.

The overall project may end up being considerably more expensive than we first thought!

**A good project spec**

This relates to tendering as well. If we do put services out to tender, and want to get good value for money, we need to be very clear about what the service does and doesn’t include. Mistakes here can be very expensive afterwards.

**The full cost**

Many businesses have policies about only travelling standard class by rail, never first class. I can see the sense of that: first class travel is expensive. But on a long journey, what about the value of the employees’ time? 3 hours each way in a first class seat with room and privacy to work, compared to 3 hours wasted in a cramped standard class coach with screaming children? How does that balance up in terms of value for money?

**An alternative: cost awareness**

Cost awareness and a VFM mindset doesn’t just look for the cheapest price, it asks “What will we use this for, and how will we ensure we get VFM?”

That might involve booking the train ticket online, earlier, and deciding that the (now smaller) premium for first class is more than outweighed by the potential 3 hours useful work each way.

It could mean ignoring the cheapest tenders, and going for a moderately more expensive one that we believe will give better VFM in the longer term.

It could mean thinking ‘What would I do if I was spending my own money’? “Well if it was my own money I wouldn’t be travelling 3 hours each way for a 2 hour meeting. So why am I doing this with my employer’s money?” If it’s because there’s a £2m contract at stake, it seems a reasonable journey. If it’s an internal meeting that could be done by phone or by video-conferencing, do we need to make the journey? The question about ‘What if it was my own money’ can be useful, but isn’t always – it needs applying with care.

**So how’s this relevant to you?**

In your workplace is there a culture of “Get the cheapest”, or of “Get VFM?” If it’s the former, you may be wasting money.

Is there a culture of cost awareness? If not, you’ll be wasting money.

Is there a culture of “It’s only expenses, it doesn’t matter”? If so, you’re definitely wasting money!

If you’re a budgetholder, the money being wasted is coming out of your budget, so it’s making it harder for you to hit your budget.

It affects you, what are you going to do about changing the culture in your team?