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# Disadvantages of Certain Prime Vendor Agreements

**Buyers should beware of restrictive prime vendor agreements (PVA) with broad line distributors (BLD) that:**

1) Restrict their ability to buy what they want from whom they want, or
2) Require them to purchase a certain percentage of their products from the vendor

Customer audits show that this leads to higher total food cost due to less competition, as explained below.

**Restrictive prime vendor agreements eliminate the benefits of free market competition**

-BLD want these restrictions to drive other vendors out of the account to lower competition.
-BLD often lose business in food categories where there is competition by line item from specialists that have a competitive advantage. As a result, many BLD tell customers that they will get a large rebate or lower price on other items if they buy all the items on the PO from them, or agree to some arbitrary percentage requirement.

**We think it is important to remind food buyers of the following:**

**1) Food buyers can still get the same net prices and rebates from a BLD without these restrictions on purchasing freedom, if they demand it.**

-It is a "buyer's market". There is a long line of other BLD that would offer the same net pricing or rebates regardless if purchases are 40% or 80% (all rebates are self funded anyway).
-It is not a "sellers market" that would allow a BLD to tie their customer's hands in this fashion with these restrictions.
-There are many examples of this throughout the foodservice industry. There are also examples of buyers that have given in to these restrictions, and their food cost and quality have suffered due to a lack of competition by line item.

**2) Nothing lowers prices like free market line item competition, the foundation of our economy**

**a)** But there is no price competition in a restrictive PVA, after the initial look. The BLD has no incentive to provide the best individual "line item" price on every invoice because there is no competition.
**b)** The BLD gets the sale whether their price is high or low. Line item price competition among more than one vendor, on a regular basis, is the ONLY way to achieve cost minimization. Most PVAs over 50% usually have a very short life because the buyer's total cost increases compared to when food buyers are empowered to make vendors compete. The PVA may still exist, but there are no percentage restrictions.

**3) "Cost plus" PVAs are impossible to verify and prime vendors do not use their true cost**

**a)** Some agreements are on a "cost plus" basis, where the vendor tells the customer they will work on a certain % over cost if the customer buys a certain % of their products from them.
**b)** But BLD do not use their true net cost and the food buyer never knows the vendors true cost. This can be attested by anyone in the distributor or manufacturer level of the foodservice industry. PVAs make their money on rebates from the manufacturers that are added to their invoice price for the purpose of sheltering it from customers. An item that is said to be 6% over cost may in fact be 16% over true net cost. This is especially true on meat, poultry and seafood products where vendor costs are determined by published market prices that change weekly.
**c)** PVA's often include the following language in small print: "Delivered cost has no association with the actual cost of goods".
**d)** This concept is the same as the car dealer that says they will sell a car for $100 over cost. The car distributor's invoice that shows their "cost" is meaningless; they are getting money back from the car manufacturer. "Audit privileges" are really meaningless too.

**4) Rebates and off invoice price deductions are funded by the customer**

**a)** Rebates are simply off invoice deductions that are paid later. They are available anyway if the customer negotiates, but are often used as smoke and mirrors to make it appear the buyer is getting a great deal.
**b)** Receiving the best NET price is most important, but with no regular competition this cannot be assured.

**5) There is no economic basis to justify lower prices "ONLY IF" a buyer agrees to a restrictive PVA, as long as POs exceed the point of diminishing return.**

**a)** The point of diminishing return is the level at which no matter how much more money you spend your costs cannot decrease any further.

**b)** The point of diminishing returns is usually reached below 50% of customer purchases, unless the customer is very small. There is no additional reduction in truck route costs, deliverymen costs, or salesman costs regardless if purchases are 40% or 80% for most customers.

**6) Other disadvantages of a restrictive PVA**

**a)** Service levels may suffer due to no competition.

**b)** BLD may charge more on items not ordered in case quantities or special order items.

**c)** Over time sales reps may become less attentive to buyers needs due to no competition.

**d)** It is easy to hide price increases due to the number of items bought.

**e)** The buyer is often asked to sign a long term agreement.

**"Just say no" to a PVA that restricts your purchasing freedom!**

**The only way to minimize cost and maximize quality is through free market competition.**