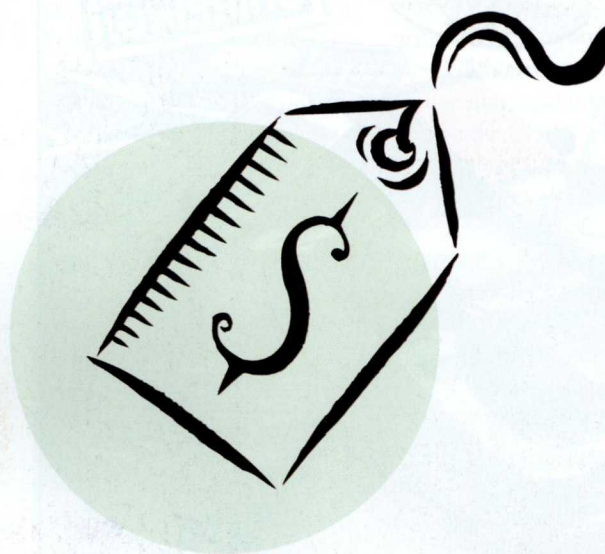


By Stephen R. Guth, C.P.M.

The New Era Of A La Carte Pricing

If your suppliers are using the ploy of a la carte pricing to pass their rising costs on to you, what key questions can you ask to help fend off unnecessary surcharges?



From airlines to hotels to office products, suppliers are increasingly using surcharges to pass their costs along to you instead of eroding their profits. Hotels are charging mandatory "resort fees" — whether you use their resort features or not. Airlines, which have removed many features from their product (think snacks), are finding ways to charge for the few features they have left, such as checked baggage. Many suppliers are taking particular advantage of the fuel crisis as a basis for surcharges. If you're approached by a supplier that is seeking to pass along some sort of surcharge to you, it makes sense to really dig into the surcharge before agreeing to it. But what questions are worth asking?

The first question you could ask might be, *What did the supplier do to mitigate costs before invoking a surcharge?* The supplier should offer some sort of rationale as to why a surcharge is even necessary in the first place. Certainly, fuel costs have risen, but it's also reasonable for customers to expect that a supplier has done everything it can to wring out costs from its logistical operations before passing along a fuel surcharge. Ask whether it sounds reasonable that you should pay for their inefficiencies.

Is there some way to circumvent the surcharge? Instead of paying a surcharge, ask the supplier whether there is some way to circumvent a surcharge. For example, the supplier may be willing to waive or lower a surcharge if you select an alternative form of transportation, such as ground transportation instead of air.

How was the surcharge calculated? If you're being asked to pay a surcharge, it's only fair that the supplier explain to you how it was calculated. Was it calculated as a percentage or flat fee? The response to your question may give you some leverage to argue that it should be calculated differently.

When will the surcharge end? Some surcharges aren't reasonable to pay on an ongoing basis. For example, if fuel costs begin to retreat, you wouldn't expect to have to continue to pay a fuel surcharge. Ask the

supplier to quantify the parameters by which the surcharge will be eliminated or at least reduced.

Is the surcharge subject to increases in the future? If so, what triggers the increase, and by how much? On the other hand, if fuel costs continue to climb, the supplier should be able to describe what will trigger an increase in a fuel surcharge. In fact, the supplier should be able to describe these triggers for any type of surcharge. It may be appropriate to ask the supplier to cap the surcharge or to increase the surcharge only when based on specific criteria (such as when fuel prices hit certain levels).

What other surcharges does the supplier anticipate? If the supplier has latched on to the ploy of levying surcharges, more surcharges may follow. To get ahead of the supplier, ask the supplier whether they plan future surcharges. If not, you may want to ask them to contractually agree on a surcharge moratorium unless otherwise agreed.

In some cases, the supplier won't have a good response to any of the questions you ask. In those cases, it makes sense to start looking for another supplier that is more responsible about managing their costs. **ISM**

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