

Hit Your Pricing Target



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Contractors have gotten into a rut of pricing low to win jobs. Now they struggle to find prices that work for both their customers and their bottom lines.

All Bob Stewart, owner of RHS LawnCare in Winston-Salem, North Carolina, wants is to price fairly for the quality work he's providing.

Stewart was running a \$100,000-plus, successful, one-man business in Virginia, near Washington, D.C., where he could charge roughly \$40 to maintain each residential lawn. Life was good.

In 2012, he had to move to North Carolina for family reasons. There, he encountered an economy struggling more than the one he left. He now charges \$25 to \$30 per lawn just to get residential maintenance work. He's also finding that growing his customer base in this new location is taking more time than he expected.

"Now a days, it's a price war going into any job," he says, pointing out that he's lost a job for as little as a \$2 price difference. "And, to be honest, I'd rather have 10 customers at \$25 a piece than no customers at \$40 a piece."

Tommy Aiello has never seen his high-end clientele in Hobe Sound and Vero Beach, Florida, "freak out." That is until 2008/2009. "When the stock market crashed, even the wealthy said no to mulch and annuals," says the owner of [Aiello Landscape](#). "They were panicking." Until 2012, "it was break-even mode," he says. "We got into the habit of bidding cheap. We got caught up in the need to get the job so we didn't have to lay anybody off. We're still asking ourselves, 'Why did we do that?'"

Further north and on the commercial side of maintenance, Steve Rak II, president at [Southwest Landscape Management](#) in Columbia Station, Ohio, had to lower prices 10 to 20 percent a couple of years ago. Next year, he hopes

prices will only be 5 percent down from where they were before the 2008-2009 recession. Even so, he regularly asks himself, "Will I ever get those prices back? I don't think so."

After some property manager clients told him his prices seemed low this year, Rak hired a business consultant to help him figure out what his prices should be. "I just can't keep dropping prices," he says. "We need someone to come in and help us with that."

The never-ending price war continues to plague the owners of landscape contractors of all sizes across the country, regardless of customer or service segment. As each owner finds different ways to battle pricing challenges and maintain business, they continue to question what they can do to help them achieve numbers that are above break-even.



The power of negotiation

Rak isn't the only one saying prices may never return to pre-recession days.

When asked if prices will ever climb back to their glory days, industry consultant Rick Cuddihe of Lafayette Consulting, confirms, "It's never going to be what it used to be."

"My clients tell me that in 2006, landscape contractors were living fat and happy," he explains "They didn't necessarily have to be good at the business end of things; they just threw additional people at the work and got it done. Back then, the typical contractor wanted to do design/build and construction and hardscape work because they were creating something from nothing. When the economy went downhill, building stopped, and a lot of those contractors switched to maintenance and weren't very good at it. A downward spiral on pricing happened. And that's where we are now."

Competition for work escalated, along with bidding wars. *Turf* magazine research concurs with this assessment. When asked to name their biggest pricing challenge, 41 percent of landscape professionals said competitive pricing is to blame for their pricing troubles.

"Pricing was definitely pushed down during the downturn," explains Gib Durden, vice president of business development with [HighGrove Partners](#) in Austell, Georgia. "Everybody was going low bid and pressuring you to reduce your prices. In some cases, they even asked for a 5 percent reduction or they would bid the work out."

Rak's commercial maintenance prices went from \$38 an hour to \$33 per hour. "Some guys in the area are charging as low as \$28 an hour," he says.

Enter negotiation, and lots of it, as contractors learned to come to pricing agreements with their customers.

"We go back and forth and back and forth and come to an agreement that is usually lower than what I would like but higher than what they would like,"

Stewart explains. "It takes lots of negotiation."

HighGrove Partners' commercial maintenance prices were 5 to 10 percent down, but are now back up to only a couple of percentage points down from pre-recession days. The company tries to keep communication lines open with its clients, Durden explains.

"If rents are increasing, they are getting more money in, and that's when we know we can have that conversation with them where we can talk about the costs of doing business," he adds.



Offsetting low prices

To make up for the drop in his core maintenance services, Rak is raising prices on ancillary services in his market in northeast Ohio. For instance, he boosted prices for his enhancement services from \$40 to \$45 per hour to \$50 per hour. "They are selling like crazy," Rak says. "The commercial market is doing more enhancements now, so that's helped."

Increasing the variety of work on a property also helped offset low routine maintenance contracts for HighGrove Partners. "Spending is coming back," Durden says. "Enhancements weren't huge before, but then property managers realized they put a Band-Aid on things for too long and now they have to spend some money to get the property back into shape. There are more dollars being spent now because of that."

"Tree work or enhancements or seasonal color or additional mulch or irrigation repair work – those things aren't getting bid out," adds Durden. "All commercial properties have capital improvement dollars, but it's a matter of getting in front of the right folks and having them realize if they don't use it they are going to lose it. We can help them spend those dollars and increase curb appeal, and that increases occupancy."

While this strategy is working for some contractors, Cuddihe doesn't believe this is a long-term solution for conquering low prices. "Everyone wants to charge more for ancillary services," he says. "If everyone is doing it though, everyone can't be getting those prices."

Cuddihe believes the solution to low prices resides in increased productivity. "Look at the efficiency of your operation," he says. "Labor is your most expensive cost. Maybe a job can be done with three people instead of four."

"Look at a company like [The Brickman Group](#), which is known for the efficiency of its maintenance crews," he adds. "I bet at 7 a.m. each morning, an employee who works for Brickman in San Diego and an employee who works for Brickman outside of Boston are doing the same thing. They do their jobs efficiently, and this justifies their prices."

"Before the economy tipped, most landscape service providers made decent profits and had little reason to delve into reducing costs, increasing

efficiency and boosting employee productivity,” Cuddihe points out. “That was then. Now successful landscape professionals are continually striving to increase profitability by improving the efficiency of their entire operation and getting more work from their employees. Over the past five years, successful and profitable landscape contractors have eliminated middle and unproductive management positions.”

Plus, the perception of a well-run company goes a long way with customers, Cuddihe insists. “Clients don’t want to do business with companies they perceive as inefficient or with employees who seem unproductive while on their property,” he says. “Perception is reality, and pricing concerns are amplified by the appearance of sloppy work habits. Contractors have a much better opportunity to get a price increase if their clients see them as well run and efficient in performing work.”

“Understand that low-cost providers are not going to go away,” Rak adds. “This means that as a business owner you are going to have to learn to accept the new normal in our industry. This is a hard pill to swallow; I know because I live with it every day, but it can be done. It requires learning new ways to run your business, becoming more efficient, working on your budget, possibly hiring a consultant or finding someone who will mentor you. I have done all of the above and had great results, but still have a lot of work to do.”

Fear of losing the work

So why is the industry in this mess in the first place? First, there is an assumption that low prices will mean more business.

“There is a fear that business will be lost,” says Tom Finley, director of [SCORE’s Manitowoc](#) branch in a [recent Green Bay Press Gazette article](#). “Starting with a higher price than the client anticipated is scary. Raising prices in an ongoing business is even scarier.”

Aiello thinks fear kept him from bidding jobs at a better price. “We were breaking even so long, we got in that habit of even bidding small jobs too low,” he says. “We were afraid and got in this unfortunate rhythm of low bidding.”

After breaking even for five years, his goal now is to “not take on any break-even jobs,” he says. “Now, we’re keeping busy with renovation and enhancement work with our high-end gardening clients. We may not be getting as much bid work as we used to, but that’s OK. I’d rather do \$1 million a year and make 10 percent than do \$10 million a year and make only 1 percent.”

While lowering prices may, in fact, bring more business, “the relationship between an increase in volume and drop in price is seldom linear,” explains Tina Dettman-Bielefeldt, co-owner of [DB Commercial Real Estate](#) in Green Bay, Wisconsin, and district director for SCORE, Wisconsin, in a recent *Green Bay Press Gazette* article. “And the impact on the bottom line will likely be negative. When a business is struggling, it is a mistake to assume automatically that it’s due to pricing.”

Overall, 55 percent of landscape contractors answering the *Turf* survey reported they maintained their prices for 2014, while 44 percent said they were able to raise them. Only 1 percent reported having to reduce prices this year. For those who raised prices, the majority fell in the 3 to 5 percent increase category, followed closely by the 1 to 3 percent increase category.

Offer something more

Many experts suggest that the best way to determine the right price to charge for a service is to understand break-even costs.

"It's a matter of knowing your break-even cost and setting a goal for your earnings as a starting point," Finley says. "As part of the break-even analysis, you separate fixed costs that don't change at any volume or price (rent, utilities, etc.) from variable costs (direct product or service expenses, such as materials and labor). If you put these into a spreadsheet, it can facilitate a variety of 'what-ifs.'"

Aiello says contractors who want to win the pricing game "can't know their numbers enough. We adjust our overhead and profit every year based on our previous year's financials to determine our pricing."

But after going through this process, most entrepreneurs will find they can't win the price war against major competitors with lower-priced, volume-based businesses. That's where the value proposition comes into play, says Finley.

Why The Price Objection Is Never Valid

In the history of recorded time, no customer has ever said, 'Your price is too high,' and meant it.

by Chuck Reeves

Even though it is the most frequent objection that salespeople hear, the price objection is never valid. So, when the customer says, "Your price is too high," what are they really trying to say? It can be one of a number of things, such as:

- "I don't perceive the value to be higher than the cost."
- "I don't see any difference in your offering and your competitor's."
- "I don't think my problem is as expensive as your solution."

The word price does not appear in any of these responses.

There are two ways to sell: value-added selling and commodity selling. With commodity selling, the customer assumes all offerings are the same, and so the sale defaults to the vendor with the lowest price. In value-added selling, the customer perceives there is a difference between the offerings and makes their buying decision on cost, not price.

They will perceive this differentiation when the sales professional has done

their job.

The only relationship that exists between cost and price is an inverse relationship. The item with the lowest price tag typically costs the most. As an example, you can purchase a shirt for \$40 or you can purchase a shirt for \$8—which costs the most? The price difference is obvious but which one will last longer, look better, feel better, etc.?

Sales is a science, not an art. As such, successful selling follows a process. In quality terminology, this is known as standard work. Even though every salesperson is different and every customer is different, there are still measurable steps your salespeople can follow that will drive the sales process away from price and toward value.

There are five principles behind a successful value-added sale. As a memory aid, these steps follow the letters in the word P.L.U.S.H. When used effectively, you can overcome or even eliminate the price objection. What would it be worth to you to never hear the price objection again?

P – POSITIONING

Begin by talking to the right person. Identify the person or department that will benefit most from what you are selling and sell to them. Find the right person and then ask the right questions.

L – LISTEN

It is amazing what people will tell you. It is amazing what people will give you if you just ask. The secret to successful selling is the ability to ask the right questions the right way in order to determine the customer's real buying criteria.

Most customers do not know what they want. They will buy something that is not the best solution for them and they do so based on their limited understanding of what they are buying. Can you keep up with all of the changes that are happening in your market, industry, competitor's organization or technology? What makes you think your customer is keeping up?

It's virtually impossible for the human mind to ignore a question. When you use questions, you will engage your customer's subconscious mind and make an impression. Stop talking, ask questions and listen.

U – UNIQUE

What makes your product, service or organization unique? If someone asked you what made your product or service different, what would you say? If you were to use words like quality, service, people, etc., you would actually be commoditizing yourself. How many of your competitors are using those same words?

Even though your service or quality levels are measurably higher than those of your competitors, using the same words they are using dilutes the value of the differentiation. What makes you different? Ask your existing customers.

S- SOLUTION

Every trained salesperson has learned some aspect of solution selling. It is the backbone of most sales processes. In value-added selling, sales professionals take it to the next level. They begin by asking some version of a common question: "What are the top three problems facing your business right now?"

Seasoned salespeople have learned that the customer will rarely tell them what the problems are, even when they try. They will answer with something like, "Our sales are down," "Our attrition is too high," "Our manufacturing costs are up." None of these is a problem.

They are all symptoms. Something is driving their sales down and their attrition and costs up. The value-added sales professional understands this.

The next step is to qualify the problem by asking the customer how and when the problem manifests itself. Then, the sales professional asks what the cost is for each manifestation. By the time this line of interest is complete, the salesperson and the customer will have a clear understanding of what the real problem is and what it is costing. When the salesperson quotes their price, it is in comparison with the real cost of the problem it will solve.

H – HELP

Helping means doing everything the customer asks, and then some—and getting credit for it. Known as the "extra mile," it is probably something your organization is already doing. Your customer may not appreciate your extra efforts because they do not know you are doing it. Brag about yourself.

To overcome or eliminate the price objection, make sure you are talking to the right person, asking the right questions in order to show which of your specific differentiations are most viable for them. Then justify your higher price by quantifying your value. Keep your customer and earn referrals by going the extra mile.

Chuck Reaves helps companies raise their prices and volumes simultaneously through innovative processes, tools and training. With his innovative presentations on sales and motivation he has inspired hundreds of people to pursue and achieve their dreams. Along with pioneering many advanced sales tools and processes, Chuck's achievements include Vistage's 'Impact Speaker of the Year' honors and being named the top salesperson for AT&T. For more information about Chuck Reaves, visit www.chuckreaves.com.

A value proposition is a business or marketing statement that summarizes why a consumer should buy a product or use a service. Lower pricing may attract some customers, but building a satisfied and loyal customer base depends on offering something more.

"Anything truly unique can propel growth in the marketplace," Finley says.

"It will often allow a company to exact a premium price for products or services. If you determine what customers need and focus on and find a way to provide it, you will have a unique position that can be exploited. What drives customers to a business? Satisfied customers."

Landscape professionals answering the *Turf* survey ranked perception of value as their second biggest pricing challenge.

Some larger contractors may be getting away with their lower price points by offering fewer services in their contracts, Cuddihe points out. So, when competing, make sure you're bidding apples to apples, he advises. For instance, some larger providers may not offer hardscape maintenance in addition to turf maintenance. This brings an opportunity for clients who want more.

"If the client wants their hardscapes maintained, then this is an opportunity for the contractor to show the client why that increased cost makes sense because it alleviates a headache for them," Cuddihe explains. "It shows value. Most lost business comes from competitors quoting lower prices and the current service provider having been unsuccessful in presenting a value of service proposition before losing the contract. Successful landscape contractors stick close to their client's mindset in terms of their satisfaction and try to identify concerns in advance of losing the client."

Of course, sometimes no amount of negotiation, proper pricing, value proposition or any other strategy makes a landscape contractor-customer relationship the right fit. "If the job turns out to be more hours and lower prices, it makes sense to walk away," Durden says. "Not every job will be perfect for you."

Throughout this pricing process, as contractors refine their businesses, what they learn will definitely transform them, say contractors who've been through this before. "I started this business 25 years ago and have been through two economic downturns," Rak says. "It's never easy, and it always requires learning new ways of doing things. Sometimes you come out stronger on the other side."