BESTPRACTICES

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What to consider when pricing

Most very successful companies spend a lot of time on the strategy of how to price work to grow their companies profitably. Every proposal is an opportunity. There is usually a cost associated with generating that opportunity, such as a sales call, advertising, marketing cost, etc., and there is also the cost of estimating and putting the proposal together and making the presentation. Every unsuccessful proposal is a lost opportunity.

All is not lost, however, if you can convert knowledge gained through the proposal process into useful intelligence relative to market pricing and positioning for future opportunities. After a failed proposal, continue to probe. Find out what didn't work. Use that to improve new opportunities.

In most cases, price plays a role. But there can be other factors — proposing a higher service level than the customer could afford. You need to consider that ahead of time and prepare a contingency. You have to ask yourself:

› Did I spend enough time up front probing the potential customer?

› Did I look realistically at what the customer was likely to make the decision upon?

› Was the person soliciting the proposal even the decision maker?

At our firm, we believe the marketplace ultimately sets the pricing. Therefore, we do not recommend the overhead recovery pricing technique. Customers don't care what your overhead is; they want to pay a competitive rate for the service. As a contractor, you must engineer your company to be profitable within the market pricing.

Understanding market pricing is critical to establishing a presence in a market. All too often, new contractors fall prey to the temptation to simply take what the market gives them. But taking only what the market gives you prevents you from building density, which is necessary to build an efficient operation.

Pricing tips

Here are some suggestions to get started:

› **Develop an awareness of market segmentation and the ability to pay of various market segments.** In many markets, prices are determined by price per door. For example: Apartments frequently have price structures within their rental rates that allow them to pay $6 to $8 per door for landscape maintenance services. Factor that into your pricing. This may mean a very basic service level, such as METS (mow, edge, trim and sweep), as opposed to a full-service contract.

› **Consider "break-in" pricing at viable accounts.** This pricing strategy is used to help break into a segment or with a certain owner who might handle multiple properties. If you've determined there is opportunity in the segment or with the property owner, you might consider pricing at a lower rate to get your foot in the door. Gradually raise your prices from that point for future work.

› **Be sensitive to a prospect's or segment's current financial limitations.** For example, for a commercial building with a high vacancy rate, offer low pricing that increases when financial conditions improve.

› **Develop an aggressive pricing strategy to develop density.** This can eventually result in improved margins once the optimum density level is achieved. An example would be trying to capture most of the properties in a business park. If you could have a work crew spend all day in a single business park, it gives you a significant price advantage: less travel time, less set-up time and simpler supervision.

› **Price aggressively to achieve a dilution of fixed overheads.** Adding a large book of business, even at a low margin, may add to your bottom-line. If you were doing $750,000 in annual sales and had an opportunity to add $250,000 in new sales, you might be able to do it out of your current facility, without adding overhead staff or support personnel.

Spending more quality time on the strategy of how you position your company to be successful in the selling process can pay huge dividends.