THEBENCHMARK

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Mid-sized battle pricing pressures

It's hard to make money these days, but it's particularly challenging for mid-sized companies — those in the $1 million to $5 million annual revenue range. Aggressive pricing by players large and small is squeezing the middle, where overhead usually is a larger percentage of revenue.

Addressing this pricing/overhead problem is a matter of survival for some. For the rest, it's at least a matter of reassessing their business plans. Survival and success for the rest of this year and next for mid-sized companies requires focus, tenacity and no small amount of courage to implement changes.

How tough is it? This year, commercial maintenance contract retention has declined from typical 90% rates to 80% and lower in many markets. In the past few weeks alone, I've witnessed commercial maintenance jobs going for half of last year's prices. And in the residential design-build segment, mid-sized jobs — once everyone's bread-and-butter — have disappeared, leaving a few large jobs and several small ones. This has caused budget shortfalls of up to 25% in revenue.

As demand dries up and supply increases, prices drop. Commercial customers seem willing to "try anyone" who can provide a low price — triggering surprise cancellation notices that upset cash flow. Residential customers are seeking multiple bids and negotiating everything, lengthening sales cycles and reducing margins.

To survive, landscape companies must play defense and offense equally aggressively. While cost cutting is key, it's often only a short-term fix. Besides, most companies already are lean in staffing, which is the primary overhead cost.

Defend your livelihood

Get in front of your commercial maintenance customers to understand their budget pressures and propose contract adjustments in services and frequency of delivery to address price concerns. Then pick your battles where you need to rebid to retain the work.

You might need to "buy" some jobs just to keep them. And you will need to let some go to save your margins.

On the residential side, accelerate your design and closing processes to tighten selling cycles. Too many jobs are lost when customers have time to entertain multiple bids. Focus sales staff on making price concessions early in the process to get signatures and deposits.

Score big in the mid-market

In commercial maintenance, go after mid-size jobs. Few are effectively and consistently calling on this part of the market — and it's large.

Leave the large jobs to the low bidders for now. Ramp up your sales staff's new-appointment activity. Double your estimating capacity by using part-time and production staff for measurement and data input.

Go after the middle of the residential market as well.

Mid-market homeowners are easy to find by ZIP code. Use monthly direct mail and flyer campaigns with coupons and specific offers for maintenance projects for fall and winter, promoting value purchasing instead of pleasure purchasing. Examples include lawn renovations, drainage fixes, tree removal and irrigation improvements.

In an economy like this, when the customer owns the power to drive pricing, winning new sales while retaining key business is important — not only financially, but also for morale.

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