Surviving the 'Undercutters'

Contractors fight lowballers in a battle for core business.

TAKE-AWAYS

2010 Price Setbacks

1. Bidding low just to get the job.
2. Sacrificing profit.

2011 Price Goals

1. Making internal cuts and driving efficiency to reduce price and maintain profit.
2. Offering ancillary services where price slashing isn't as great to make up for losses in core business.

What's the biggest obstacle to growth today for the average landscape contractor?

Certainly, the prolonged recession comes to mind for most contractors, as that tops *Landscape Management* readers' list of top success blockers. But a mere fraction of a percentage point behind sits lowball/underpricing competitors. Giuseppe Baldi calls them "the undercutters."

"We've had customers tell me they can find someone to do it for $20 so why should they pay us $30?" says the landscape maintenance manager of Arlington, TX's Baldi Gardens.

"Competitors get scared and want to give stuff away," explains Todd Dilley, general manager of Minneapolis, MN's The Lawn Ranger. "They think they need business at any cost, so we've lost business to people driving the price down too much, and it's just not worth us doing the job for so little."

Dilley's had to lower prices 5% though they've been trying to resist price wars. He's hoping to hold steady and increase prices 2% to 3% next year.

Nationally, August was the 21st consecutive month in which more owners reported cutting average selling prices rather than raising them, according to National Federation of Independent Business's September Economic Trends report. Widespread price cutting contributes to the high percentage reporting declining sales revenue. Plans to raise prices were unchanged at a net seasonally adjusted 10% of owners.

On the cost side, 3% of owners cited inflation as their No. 1 problem and only 4% cited the cost of labor, so neither labor nor materials costs are pressuring owners to raise prices, NFIB's report reveals. Without pricing power and sales volume, profits are not able to recover. Only 18% of businesses reported higher profits, while 42% say profits are declining.

Competitors in Matt Griffin's region are driving pricing — and profits — down. "In our area, there are about 80 companies and really only about four of them are actual, reputable companies — the rest are fly-by-night guys," says the president of Prime Lawn/Prime Design in Kingwood, TX. "For instance, we bid $21,000 on a job and someone comes in and bids $13,000. How is that even possible? So our biggest challenge this year was how to keep our quality up, but still compete with those guys. You don't want anyone thinking your quality is poor."

How does Griffin prove quality? Past history. "We can tell them all we want that they're wasting money on going with the cheap product or the cheap company, but you have to back that up," he explains. "When you pull out 12 to 15 pages of references, you know nobody will call them all — maybe not even one. But we do pride ourselves on having that list and that knowledge." LM

TOP SUCCESS BLOCKERS

1. Prolonged recession
2. Lowball/underpricing competition
3. Rising taxes
4. **Rising fuel prices**
5. Rising health care costs
6. Continued housing market challenges
7. Poor consumer confidence

PRICE TAGS

	2009	2010
Residential mowing price/visit	$37.98	$37.53
-1.20 — *% drop in residential mowing price*		
Commercial mowing price/visit	$213.49	$203.40
-4.73 — *% drop in commercial mowing price*		
Irrigation maintenance price/hour	$67.85	$67.62
-0.34 — *% drop in irrigation maintenance price*		

SOURCE: *LANDSCAPE MANAGEMENT*

PULSE PROFILE

PACIFIC LANDSCAPE MANAGEMENT

'I DON'T WANT TO BE WALMART FIGHTING THE DOLLAR STORE.'

In Bob Grover's eyes, the industry "is teetering on the edge of becoming a commodity.

"We fight hard not to act like we're becoming a commodity," says the president of Hillsboro, OR's $6 million Pacific Landscape Management. "I see our customer base acting that way though — just thinking they'll bid out the work every year and see who is most aggressive."

Bob Grover

For Grover, this is discouraging as pricing for his 100% commercial client base has decreased 5% to 10%. "The day this industry becomes a total commodity, I don't want to be involved," he says. "I don't want to be Walmart fighting the Dollar Store."

Instead of whining, though, Grover is looking for ways to improve efficiencies so he can cut prices in a smart way.

A question he asks himself everyday: "Can we resist becoming a commodity?"

His first step: "In our effort to cut our cost structure so we can stay competitive, we need to learn how to do so intelligently so we aren't cutting it so close that we are just becoming a low cost operator that can't perform," he says. "That's our biggest challenge. It's easy to say let's cut, cut, cut, but we need to learn to do it the right way. For instance, not assuming what the customer wants but having a conversation with them and asking them specifics so we can understand their investment perspective."

Instead of following what the low cost operator model in his area tends to do — which is bring in maintenance at a low cost and make their margins on enhancements — Grover is looking at services in which he can create market supremacy, offering something other companies don't.

Sustainability is a good example. "People want to be green but there aren't enough people who want to be green just for green's sake — that touchy-feely feeling doesn't last very long," Grover says. "It has to relate to solving a problem or saving money. And we've been a leader in sustainable practices in our area."

Weather-based irrigation has also been a successful add-on service for Pacific Landscape as a means of helping customers save money on water.

In the whole price reduction equation, Grover says "the interesting part is nobody is saying they're willing to put up with less work — so we're doing the same work for less pay."

Luckily, Pacific Landscape is finding some commercial clients who "are tired of the bid thing," he says. "We have had some success in picking up work that went to a commodity and is coming back out of it because they do have an expectation of quality. That has given us some encouragement."