



LANDSCAPERS SURRENDER TO LOW* PRICES

** As much as 50% lower*

IN 2006, TERRY Delany was bidding commercial mowing services at \$40 an hour, and winning the work 85% of the time.

Business was good.

Then the president of Fayetteville, AR-based GroundServ noticed his close ratio starting to slow in 2007 and again in 2008. Taking a closer look, he found his competitors had already lowered their prices — first to \$30 an hour and then to \$27 an hour.

And they were winning the work — based solely on price.

To remain competitive today, Delany bids these same jobs at \$25 an hour and closes sales less than 50% of the time.

As the pricing situation worsened, Delany did what every boat does when it finds out it's sinking — “started throwing stuff overboard,” he says. “We cut positions, froze pay, eliminated paid holidays and vacations.”

The company also boosted productivity to make up for profit loss. Installing \$50-per-truck GPS units to improve routing saved \$500 per month in fuel instantly.

Efficiencies helped, but what really saved the company from going out of business was forgetting about something he couldn't control: mowing prices. Instead, he focused on offering new services to his client base — services with less competitive pressure that he could price to generate profit.

As a result, his landscape company AAA Lawns became GroundServ, a commercial property maintenance company. And while mowing, which actually generates a negative profit percentage (-5%), gets Delany in clients' doors, new services like parking lot striping and stop sign installation bring in as much as 30% in profit. Now, instead of looking at tumbling below \$1 million, GroundServ is well on its





How to put away the white flag and drive profit

BY NICOLE WISNIEWSKI
EDITOR-IN-CHIEF

way to hitting \$2 million in revenue next year.

Delany isn't alone. In many markets across the U.S., landscape contractors are battling the pricing game more than they've ever had to in the past. According to a *Landscape Management* survey, underpricing competitors ranked as the No. 2 factor negatively affecting business growth this year — less than a quarter of a point away from tying with the prolonged recession as the No. 1 factor. Speaking of the recession, 80% of small business owners expect it to continue into 2011, according to a recent U.S. Bank Small Business Survey.

And over the next six months, landscape businesses say their No. 1 priority is maintaining current business and sources of revenue. This has taken priority over things like innovation.

Even in *Landscape Management's* recent LM150 survey and report, the largest contractors in the country repeatedly touted lower prices and profits as challenges negatively affecting growth this year. When asked to rank his top three challenges, Chris Senske's responses were all very closely related to one thing: "sales, sales, sales," says the president of Senske Lawn & Tree Care, Kennewick, WA. "One: Creating new profitable sales in an environment of extreme downward pricing pressure. Two: Retain customers who are being bombarded with low price offers. And, three: Manage operating costs and lower overhead to be more competitive in all parts of our business."

The weak economy continues to put downward pressure on pricing in all industries. According to Bill Dunkelberg, chief economist for the National Federation of Independent Business, June is the 19th consecutive month in which more business owners reported cutting average prices rather than raising them. "Widespread price cutting contributes to the high percentage reporting declining sales revenue," he explains, adding that only a net 11% of owners raised prices this year. In fact, the U.S. Bank Small Business



Survey cited poor sales as the biggest challenge facing business today.

And few customers wake up in the morning eager to pay higher prices either. A recent Gallup poll shows consumer spending this summer as being unchanged compared to last summer's decreased buying habits, suggesting they are getting settled into what Gallup and other economists are calling "the new normal."

"There's no question about it — price has come down; in many cases it's half of what it was five years ago," says industry consultant Phil Harwood. "There's a new reality. And contractors have to stop whining and find a way to make money now."

"It's not going back to what it was," agrees Donnie Garritano, president of Las Vegas-based D&K Landscape. "We have to accept it and adjust."

Contractors are taking lessons from Green Industry professionals who've

figured it out, as well as others outside the industry who are thinking differently, to revive price — and, more importantly — profit.

STRATEGY

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SOMETHING NEW.

Landscape business owners can get a lesson in pricing at least once a week with their trip to the local gas station, says Anne Graham, managing director of the Legendary Value Institute and a business lecturer at the University of British Columbia. There "you probably check the price per gallon often, but you might not check how much the chips cost in the store," she says.

Instead of raising prices across the board, which usually aggravates customers into seeking competitive bids — in her example, driving to the gas

station across the street — raising less visible prices on services or products not every customer buys every time they do business with you (maybe a 1% or 2% or 5% increase) can add up to a big difference in the bottom line. In her gas station scenario, the bag of chips is an example of a product sold at a price that's rarely argued.

That, in essence, was Delany's pricing strategy. He had to do something. "My commercial customers started freaking out — the cuts they were making were ridiculous," he explains, sharing the story of one commercial property owner who cut services and started doing the work himself to save money. On top of that, the competition was getting fierce. "One of my loyal customers showed me five other bids priced lower than mine. I asked him why he requested five other bids, and he said he didn't — they just came in.

"The old theory was if you were



SPRINTER

a larger company you could compete with smaller companies because you have the advantage of efficiencies,” he adds. “That’s out the window now. When people charge \$15 or \$20 an hour, it can’t cover any overhead.”

Delany realized if prices continued to plummet, business would suffer to the point of possible demise. “We weren’t making money mowing, so we had to find something we could make money doing,” he says.

So he started focusing on ancillary services his commercial customers wanted and not all his competitors offered, including tree services, window washing, parking lot striping and sign installation. “I took a good look at my customer base,” he says. “Every commercial site has a parking lot. They already paid people to stripe, sweep and seal it — why not us?”

The services are even applicable for real estate management company

clients who want foreclosed home landscapes fixed up. GroundServ can pressure wash the house, fix up the landscape, clean windows, seal driveways and even sub out handyman work for things like broken windows. And despite pricing pressure, Delany found customers still craved a one-stop shop. “And now that real estate manager has to make only one call vs. three,” he says.

In his company reinvention, a name change and new website were essential. “It was hard for us to tout parking lot striping services as AAA Lawns,” Delany says. “We’re not just a landscape company anymore.”

Garritano is approaching today’s pricing situation in a similar fashion for one area of his business. After a successful design, estimate and proposal for a \$650,000 park project 10 years ago — what he calls the “biggest achievement of his career” — Garritano has always had a soft spot for designing parks

“We weren’t making money mowing, so we had to find something we could make money doing.”

— TERRY DELANY,
GroundServ



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and playgrounds. And with the huge trend in the importance of exercise and outdoor play for children, playgrounds have become integrated zones where children and adults can play together and interact. "They are being designed and created today as more of a destination where people want to go," he explains. "The playground is evolving

and the landscape structure has spearheaded the entire movement."

So not only did he become a designer and installer of these types of environments, he also became a distributor of play structures, park equipment, rubberized surfacing and site furnishings under the business Creative Play. This now makes up 33% of his business.

Garritano went from a 70%/30% construction/maintenance mix, with 80% of the construction and 95% of the maintenance coming from commercial clients in 2008 to 33% construction, 33% maintenance and 33% Creative Play and an 85%/15% commercial/residential mix. While construction work is bringing in a gross profit margin of 0% to -10% today, maintenance still holds its own at 25% profit (down from 35% but still profitable).

"If I didn't cut out commercial construction and push the playground side of my business, I don't know if I'd be talking to you right now," Garritano says. "Construction is a service that's really struggling. Some local landscape business owners are spending entire life savings to keep companies afloat. What I learned is you have to spend resources on the biggest opportunities — not the biggest problems. Instead of chasing the problems and throwing money at them, we decided to chase the opportunities. We decided to look outside the box."

Being proactive and recognizing opportunities is the game contractors must play today, Harwood agrees. "Ten years ago, contractors were making a killing on landscape maintenance and design/build," he says. "But as customers got smarter and competition grew, the premium profits were sucked out of the whole environment. The strategy now is to control costs, retain contracts, add services and try to get a premium price on those additional services."

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Only **11%** of companies raised prices this year.



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STRATEGY

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REVIVE SOMETHING OLD. The current popular strategy has many owners sailing off in search of “blue oceans” — market spaces where allegedly no

one else is fishing. What Garritano and Delany have found certainly fit that mold. But Cespedes recommends another strategy to revive profit. “Avoiding competition is always nice work if you can get it,” he says. But firms can also emulate “Odysseus — the sailor who sought prosperity closer to home — in the pricing opportunities inherent

in their current business mix.”

Garritano did this with his landscape services by repackaging them into a current customer niche or emotion, hoping to transcend the price issue. So far, it’s working.

For instance, after discovering his client base really responded to landscape detailing or clean-up work based on an annual charity crew-for-a-day giveaway he sponsored, he packaged the quarterly service that includes trimming, edging, lawn care and irrigation system check and adjustment into something he calls “Seasonal Gardener.” It’s positioned for the customer who doesn’t want to pay for regular, monthly services but does want occasional help on the bigger cleanup tasks.

Also, in Las Vegas, distressed commercial properties with high vacancy and low occupancy continue to rise. So Garritano created a monthly service called PropertyGard where his crews perform full detailing on these sites. “We help them preserve the integrity of the site and still stick within their budget since they can’t afford high monthly maintenance bills,” he says. “This cuts their regular prices for weekly service 30% to 40%.”

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— DONNIE GARRITANO, D&K Landscape



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Garritano's theory is if you create a service that is priced based on customers' changing needs at a rate that generates profit, making it worthwhile, then it should sell and drive business growth. "Despite the recession, I still see people driving Mercedes — not everyone wants to drive junkers," he says. "I still

see people going to the grocery store and buying something besides the white-labeled generic products. No one wants to feel they have to eat beans and hotdogs every day. People are still buying quality."

What's changed is how they are defining value, the proper definition of which is a perception of the combina-

tion of price and quality. Rafi Mohammed, a pricing expert and author of the book *The Art of Pricing*, says value is not just a matter of being cheap. "I think the word is misused, and when people talk about value, they think about it in terms of giving people the lowest price," he explains. "From a consumer's standpoint, it's about an evaluation between what they get and what the price is."

A recent example is the introduction of Subway's \$5 foot-long sub sandwich, which was created as an answer to McDonald's and Wendy's \$1 value menus. Even Subway couldn't have predicted the \$5 deal would be so successful, redefining value in that market. The lesson, Mohammed says: while price is a very important part of the equation, so is what you're offering.

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A GOOD DEAL.

"As Harvard Business School professor Gerald Zaltman told me,

'Price is typically a number, but there is nothing more subjective,'" explains Ellen Ruppel Shell in her new book *Cheap: The High Cost of Discount Culture*. "Some numbers trigger in our minds the flashing light of 'good deal,' while others send signals of 'rip-off?'"

"Looking deep inside the human brain, neuroscientists have discovered the very anticipation of a 'bargain' sets our neural networks a quiver," she continues. "The manipulation of price can confuse us, block the thinking part of our brain and ignite the impulsive, primitive side, the part that leads us to make poor decisions based on bad assumptions. Ever wonder why you'll drive 5 miles out of your way to save a buck on ... a tank of gas?"

And "in a market awash in increasingly similar — even identical — goods, price is the ultimate arbiter; the lower, the better," she says.

Contractors have discovered the magic of a discount, too. But the trick is to package it with something that

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“There’s no question about it — price has come down. *There’s a new reality.* Contractors have to stop whining and find a way to make money now.”

— PHIL HARWOOD,
Pro-Motion
Consulting



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helps the company retain business and, ultimately, grow. Denver’s Swingle Lawn, Tree & Landscape Care raised its prepayment discount for residential lawn care customers from 3% to 5% this year. Not only did it help their cash flow, President John Gibson explains, but it also increased their customer retention by 3% to the highest rate the company has seen in 10-plus years.

Rebates are also a good way to deflect discount requests and save margins from being squeezed, according to Graham. “The next time someone asks for 10% or 15% off, tell them you’d like to offer them a rebate once they reach a certain threshold of business with you,” she says. “Encourage them to make you a one-stop shop. If you can provide things they’ve been buying from your competitors, offer to bundle those services and give them a price rebate. Rebates are great because they get paid out after the

fact, they don’t affect your cash flow and the truth is: not everyone requests them. They are also very easy to discontinue. By contrast, if you take away a discount, people get really upset.”

While a better prepayment discount is proving successful for Swingle Tree, in most cases, the company is maintaining prices — having to take lower margins by not raising prices and boosting efficiencies internally to try and make up that difference.

But the reality is the business’ profit margins, in some divisions, are still down 40% to 60% from their peak seven years ago. And Gibson asks, “is there no getting back to where we were. We have to define what’s acceptable going forward.”

What is acceptable? In accordance with the sentiments of many contractors in today’s tough economic climate, Gibson admits: “We’re still trying to figure that out.” **LM**

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