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Adapting Your Prices to the Recession

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PRICE



Like many small businesses in the building industry, Southeast Painting and Waterproofing in Orlando has overhauled its pricing structure to adapt to changing economic conditions.

Fortunately, the business is seeing some flexibility. Take supply prices from vendors, for example.

“You can always request a pricing review,” says Gregory Smith, vice president of business development for Southeast Painting and Waterproofing, which specializes in the commercial real estate market. “Some vendors will reduce prices up to 10 percent with little push back.”

For certain, this economy has presented many challenges that business owners are struggling with. And part of the solution will inevitably result in owners re-evaluating pricing structure — from estimating jobs to spending on supplies and equipment. While reducing job pricing estimates isn't necessarily a pleasant option, at least the tactic appears to be getting the desired results: More than 60 percent of consumers recently surveyed are planning to take advantage of pricing deals to get a home improvement project completed for 2009, and most plan to hire a professional to get the job done, according to Angie's List, an Indianapolis-based provider of consumer reviews.

That said, every owner considering a revision of price structure needs a game plan. Here are steps that experts say should be taken:

With respect to job pricing, consider an 'all customers are not created equal' approach

While small business owners often seek uniformity with customers, the reality is that this simply may not be a winning strategy in times like this. The customers who have the greatest liquidity/cash flow—those that can pay the most up front—should be afforded the most favorable discount terms. And while you still may need to cut pricing for other customers, you shouldn't allow the same reductions for those who are late in paying you as opposed to those who pay in advance.

“You need to use your pricing to protect yourself from those who exploit you,” says business advisor Andy Birol, author of *The Five Catalysts of Seven Figure Growth*. “Create collection terms for poor payment just as you would offer good terms for fast payment.”

Resist the temptation to get into a price-slashing war

These are troubled times. Your competition may very well be slashing prices to levels that make you gasp, and you may be losing a few customers to these competitors. If you attempt to match or beat your competitors' lower prices, you'll only end up doing possibly irreparable harm to your business.

“Your first instinct will be to drastically lower prices and, as a result, reduce your quality and services to make up for the difference,” says James Nuzzo, a construction-industry small business veteran who now runs the Newport, R.I.-based Red Rock Consulting Group, Inc. “You may get a quick infusion of cash, but this strategy will only dig you in deeper in the long run. You'll end up with low or negative margins. And somewhere down the line, your products and services will be performing at a reduced level.”

Even if cutting prices is inevitable, there are many other values that you can bring to the customer that distinguish what you provide, therefore justifying prices that are just a bit higher. “If you want to be the smartest company on the block, you can focus more attention on customers now, particularly those who are on the fence about going to a lower-priced competitor,” Nuzzo says. “Reel them in by increasing your direct-marketing communications, developing loyalty incentive programs, adding more value to your products and services and ensuring your employees understand what great customer service means and how to deliver it to customers.”

Engage vendors in some give and take

Smith says there are a number of ways to reduce supply/equipment costs from vendors, as they too are facing the same challenges and need to make adjustments to keep cash flowing into the books. “You could tell them that you're expanding your vendor list to include second-tier vendors,” he says. “That will definitely get your main suppliers to reconsider your new ‘price point’ needs.

And don't discount vendor loyalty. If you're not on a loyalty ‘cash back’ program, ask to be considered for one. I did this with two of our vendors this past year and was pleasantly surprised to get us accepted into a program to get a check equal to 6 percent of our annual gross purchases.”

Tech software programs can help

Software programs out there specifically made for the building industry allow owners to evaluate pricing structure. Construction Partner is one. Patty Harder, a Seattle-based construction-industry consultant, says these programs are superior to more generic ones that don't specifically apply to the industry. "They can be implemented very cost-effectively and can be up and running in a few days," Harder says. "They automate accounting processes, which helps control cash flow, and address pricing policy needs as well. These programs also feature tools to integrate purchasing decisions with estimating and job cost reporting."
