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## When to cut a deal, and when to run

By STEVE LADURANTAYE

*Reducing prices can help keep customers and create goodwill. But it can also damage your business*

When times were good, Scott Wentworth's clients thought little of spending \$150,000 to spruce up their properties with outdoor kitchens, hot tubs and babbling pools.

Mr. Wentworth, a landscape architect and owner of Scott Wentworth Landscape Group in Kingston, specializes in large residential projects, and the rolling hills of nearby Prince Edward County have become a refuge for retiring city folks looking for a simpler life in the country.

The newly retired are still snapping up picturesque country homes, but as the recession deepens Mr. Wentworth has noticed that their expectations, if not their tastes, have diminished considerably. So instead of pitching pricey projects that would see his customers have their dream yards by the end of the summer, he's showing them how to spread the cost over several seasons.

"Instead of doing everything in one swoop, we do the project over three to five years," Mr. Wentworth says. "What we're hearing is people still want to move ahead, but don't necessarily have the money right now. But from a business perspective, that's actually fine because it's a wonderful thing to have projects that phase in work."

Pricing is always a key proposition for small businesses but never more so than during a recession, when customers are looking for more but often want to pay less. While flexibility is essential, owners are left wondering whether they will ever be able to charge full price again if they offer deep discounts, and whether taking a loss now is worth it for hanging on to customers in the future.

Extending the timeline on a project is a classic example of how a small business owner can keep customers happy without having to lower prices or standards, says Mark Satov, president of Toronto's Satov Consultants, a management consultancy in Toronto.

"You want to add value before you start taking away the price," he says. "You don't want to create the impression that you're willing to do more with less - it feeds long-term price erosion."

Hacking prices can also send the message that you are not in good financial shape, which can hurt if you're looking to take market share from competitors or keep margins relatively firm in the face of the recession.

Using his own consultancy as an example, Mr. Satov figures he has enough money in the bank to ride out the recession, and feels in his case it's better to protect the "brand image" than offer discounts.

Not all firms have that cushion, of course, and Mr. Satov says all business owners should be sitting down and sketching out a realistic survival plan.

Before prices can be cut, business owners need to understand where they can permanently reduce their own costs - and at what price they absolutely need to walk away from a deal, regardless of the customer's importance.

"It has to be planned in advance," he says. "Create scenarios, and know when you have to walk away. You don't want to be making these decisions based on last-minute negotiations. Every dollar you take out of your marginal costs is a dollar that can be passed along to clients without hurting your business."

These negotiations are much easier for a product-based company to deal with than a service company, says Brock Smith, a professor of marketing and entrepreneurship at the University of Victoria, since those who make products have a set production cost.

"For consultants, there's less of a clean line that you can't go below," he says.

"Especially if you're on your own, you need to be careful not to price yourself out; you need to look at what the market will bear, and what your time is worth. It's a very difficult decision."

Prof. Smith suggests the key question for small business owners grappling with pricing issues is, "How much better am I doing than my competitors?"

Any business in a competitive field will ultimately have to cave to customer pressure to some degree, or face closing its doors. "Another side of this is you have to ask whether you want to be in the business or not, when it's so easy for customers to shop around and find someone else who can do it for 30-per-cent less," he says. "There's bound to be shakeout in the consultant business, because not everyone will be able to withstand a recession."

Don Sherritt has worked through two serious recessions in his time as a consultant, and he also favours extending the terms of a contract rather than slashing prices to keep customers happy.

But as a realist, the managing director of Vancouver's Western Management Consultants says he's likely to drop rates for important customers, if they ask. "I was talking to a senior executive at a human resources firm and she said they were contacting all of their suppliers - consultants, lawyers, accountants - and asking them to reduce their fees," Mr. Sherritt says. "In our business, we'd have to look at that very seriously, because in almost every situation it's in the long-term best interest of a supplier to ensure the success of their largest clients."

This is where small businesses can turn short-term business relationships into long-term opportunities, says Simon Parker, an associate professor of entrepreneurship at the Richard Ivey School of Business at the University of Western Ontario in London.

"There may be opportunities to tailor strategic reductions in price tailored toward clients who really are facing huge competitive pressures themselves," he says.

"You don't want to offer reductions to companies that don't really need them, but some of your partners may be in very tight financial restraints."

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## **COLLECTING CASH**

Business owners who are doing more yet charging their customers less could feel tempted to ask them to fork out the cash sooner than usual. But 30 days is *not* the new 90 days when it comes to accounts receivable.

"More than ever, it is important to collect. But this is really delicate - the last thing you want to do during the credit crunch is alienate anyone," says Simon Parker, an associate professor of entrepreneurship at the University of Western Ontario's Richard Ivey School of Business.

Rather than assume every customer is about to miss a payment, a small business owner should carefully gauge the financial health of his or her customers. If you're close to the brink, better to work out a payment plan than accelerate deadlines, he says.

"Any firms that have been relaxed about receivables had better start looking at this in great detail, and taking measured steps to squeeze the most they can out of this cash cycle," he says. "It's like what your bank says to you if you can't make a mortgage payment - don't panic, talk to us. This is an era of negotiation. Small businesses should try to be much more attentive and pro-active."

*Steve Ladurantaye*

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## **Five tips for pricing**

1. **KNOW WHAT DRIVES** marginal costs, and be ready to make concessions based on that, not on what your gut tells you.
2. **KNOW YOUR GOAL.** Are you trying to conserve cash, or steal market share from competitors? If image is essential, hold firm on prices.
3. **WHEN NEGOTIATING,** remember that size isn't everything, especially if you can save a large customer money, or deliver value that others can't.
4. **NEVER LET THEM** see you sweat. Don't show desperation that can be used as leverage by your negotiating partner.
5. **ADD VALUE** before taking away price.

*Steve Ladurantaye*

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## **The series so far**

This is the third of four articles about survival strategies for tough times.

**Jan. 28:** Keeping an eye on your rivals

**Last week:** Delighting your customers

**Today:** Getting your pricing right

**Feb. 18:** Providing the right

product and selection mix

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