



Market Knowledge

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Using Yield Management Principals in Pricing

When was the last time you tried to book a hotel room at Disneyland during a school break or a ticket to a tropical destination during the winter holidays? Chances are it was more expensive than normal. That's the simple law of supply and demand at work.

Airlines and hotels use sophisticated yield management systems to control inventories and pricing to maximize revenue on a fixed supply. In pricing and marketing your contracting business, you should put the same principals to work so you can maximize your revenue.

Like the travel industry, your business is both affected by seasonal changes and has a fixed capacity of work that can be done at once. You have a certain number of employees, trucks and supervisors to deploy each day into the marketplace. Of course, you can work overtime or hire temporary help, but there's only so much you can get done. You also want to get the maximum value from each hour of available time. There's no profit in paying employees to sit around the shop or in letting the skid steer loader collect dust in the yard.

So should you follow the airlines and raise prices when the phone is ringing off the hook during the first busy weeks of spring? Probably not. You risk alienating regular clients and creating an impression you are overpriced in the market. Instead, use this concept as a means to think of ways to price and market your services to balance demand and maximize revenue.

One option is to add surcharges or extra fees when you are truly stepping away from your normal services. For example, almost every customer understands they will pay a minor additional fee when you work overtime or travel a long distance to a job. Like the business traveler willing to pay full fare to fly on today's flight, a customer who absolutely needs you there now will probably be willing to pay a little extra.

A second opportunity is when you are bidding work. If a customer says "I like your proposal, but it's not in the budget right now," inform them about your off-season discount. That's the small discount you are willing to give if you can schedule their project during the off-season (say October or November) when few if any homeowners are looking to install new landscaping or a sprinkler system. Shifting work from the busy season to the off-season will smooth your workload and keep your crews busier into the colder months.

Conversely, when fall rolls around— customers may say ask if they can postpone the project until next spring. Make sure your pricing includes the flexibility to offer a special so the work can be completed before winter.



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A third way to use yield management methods is to call customers in the fall who said “no” last season or earlier in the year. Ask if they would consider having their outdoor work completed in the colder months for a substantial discount. This is the equivalent of bargain airfares for flights in February, there’s always someone looking for a better deal.

So next time you’re looking to reduce the spring rush or add some work in the cold months, think about a pricing strategy that will shift demand and maximize your profits.

About the Author:

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