



Pricing Not Competitive? Here's Three Things You Can Do

Business Development Best Practices Series

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"Our pricing just isn't competitive."

Regardless of whether you work at a small or large firm, the chances you've heard this statement are pretty high.

What do you do if your pricing simply isn't competitive? In this article, we'll look at three potential solutions.

But first, let's talk about competitive pricing.

The Price Game

Let's face facts. There is no other way to look at it.

Pricing is an element of that game. There is a lot of nuance to competitive pricing.

It's not uncommon for people in the proposal game to have been involved in opportunities that were lost by millions of dollars. Some have been involved in contracts won where they "outbid" competitors who routinely bid half their price.

There are many elements that have an influence over your price including who estimated the job, their perception of the scope, their staffing plan, assumptions made/not made, the competitive environment, the client, historical performance, and even your firm's current financial situation.

What If You're Consistently Being Outbid?

If you are consistently outbid by competitors there could be a host of reasons. Foolishly, most people assume the winner just "bought the job" and is doing the work at a loss.

That's very unlikely. The following scenarios are much more common.

1. They have a better understanding of the scope or budget and bid accordingly.
2. They are staffing the job with cheaper people.
3. They can do the work more efficiently than you.

4. They have a more accurate (or less accurate) estimate.
5. Their firm had lower overhead.
6. They are willing to take on more risk.

Most of these things are impossible to combat. But there are a few fundamental tactics you can use to provide more competitive pricing.

Here are three tactics.

1. Play A Different Game

If a client's procurement practices force your firm to work at a loss, why are you working with that client?

This is a tricky question because you need a solid understanding of what constitutes a loss for your business. You'll need to understand how your business operates.

Let's say you own a consulting business (like architecture or engineering). If it costs you \$1M a year to run your business, bidding a year-long contract at \$1.2M is not a loss.

If it costs you \$1M a year to run your business and you have \$900K in backlog for the year ... if you can take on a \$300K, one year, assignment with your existing staff ... you're not operating at a loss ... even if you would have normally bid it at \$500K.

That's why some bids become a "business decision."

But if a client is truly forcing you to operate at a loss, fire that client. Find clients who will pay your fees.

If you have major league fees, don't play in the minor leagues. You've got to play a different game.

2. Staff It Differently

Whenever you put together a price, you should consider how you'll staff the job. It's unwise to leave pricing until the end.

Putting together a competitive price might mean placing specific staff on the assignment/contract.

Some clients weigh price heavily. Heck, if

price is 20% of the score...it's near impossible to win if your price is 30% higher than everybody else.

You must walk the line between showing the right qualifications and providing a price that is competitive.

If price is a selection factor, you must think about price when putting together your team.

3. Bid The (Real) Scope

If you've submitted more than a couple of proposals, you probably know that the scope identified in a Requests for Proposal does not always align with what the customer really wants.

Gaining a superior understanding of what the client truly wants might give you an opportunity to submit two prices: One that reflects the written scope and another (alternative price) that reflects the "real scope." More than a few firms have won big contracts by doing this.

This tactic could also prove useful if you have superior knowledge of the client's budget. If the client wants to design a skyscraper, but only has the budget for a strip mall...give him/her a price for both.

Keep in mind that the RFP may become part of the contract. If you provide alternative pricing, you need to make sure the scope identified in the contract is consistent with your price. Don't sign a contract obligating you to design a skyscraper if your price was for a strip mall.

I can't stress this enough, understanding what the client truly wants and can actually afford is a competitive advantage.

Remember, Procurement Is A Game

You got to play it like a game. You've got to be strategic. You've got to take smart risks.

If you are consistently being outbid, you are not playing the game very well. It's time to do something different.

Start with the three pricing tactics above.

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