



Getting the Renewal Right: How to Get the Right Renewals

Purpose of Getting the Renewal Right

- Learn strategies for getting contract renewals
- Provide basics on getting a renewal with a fair price adjustment
- Enable you to keep up with costs increases
- Help you to make a fair and reasonable profit.

The Takeaways from this Module:

- How to get renewals & ways to make these business relationships last
- Tactics & strategies to get the renewal with the price adjustment needed.
- Provide some helpful tools to make the renewal process go easier.

Does this Sound Good?

Get a 3%-5% increase on all of your recurring agreements?

Do this with no added costs? Without a salesperson?

So Why are We Afraid of Renewals?

The renewal of an agreement can often be a challenging and scary time for a contractor.

- What if I ask for an increase and they just automatically put the project out to "bid"?
- Am I unnecessarily putting the agreement at risk?
- Am I making enough money on this project?
- If I'm making a good profit should I be asking for an increase?
- How can I get all of this done? Who has the time for all of this?
- Who should be responsible for the renewals?
- Have I left money on the table? Priced too low?

Let the Renewal Begin: The Basics

Agreement should provide opportunity to adjust price at contract period ending

The price could in fact go up or down as several factors could come into play.

Examples:

- Scope of work changes: Add or Delete
- Cost Savings
- Increase in Costs

The most common cost increases:

#1: Cost of your workforce. The cost for the workforce still remains the highest cost for a service provider and should be considered carefully, very carefully

Other related costs both direct and indirect

- price for gas
- chemicals
- salt and related costs for snow
- dump fees
- equipment

Indirect salaries can also be considered as a potential rising cost.



Lesson #1: Know the Key Ingredients for Success

Relationships – Performance – Competitiveness – Profit

Relationships

In the long run relationships rule!

People will make the majority of their decisions based on a solid positive, personal and professional RELATIONSHIPS

Relationships will be based on trust, likability, capability and competence.

Do they like you and believe you have their best interest in mind?

We have even seen where relationships overrode the actual performance.

Always be trying to build a positive, personal and professional relationship.

Relationships Rule!

Performance

Even relationships can wear thin when the performance is lacking and is not consistent

Losing jobs due to lack of performance is truly not a good thing.

Relationships alone earn you the right to continue doing business with your customer.

You need to perform consistently and meet and exceed your customer's expectations.

Competitiveness

- If the relationship and performance are going well, you still need to be competitive
- Not every decision is based on price
- You will need to be within 10%-15% of the right competition with your pricing.
- Customers will do business with you for a long time provided you deliver value, deliver the work consistently and have built a trusting and personal relationship.

Profit

- Ok finally you must make a profit, yes, a profit a fair and reasonable profit.
- Never forget the fact that ultimately your business is in business to make a profit.

So, with these key ingredients, relationships, performance, competitively priced and profit in mind we will now build your renewal program.

Lesson #2 Review the Agreement/ Contract Verbiage

- The renewal process should be considered **before** the start of work.
- Start with how the renewal works within the specifications or in the agreement
- Take a GOOD look at the agreement/ contract.
- The process for renewals should be spelled out and in writing.

Here are a few things to consider when entering an agreement:

- Is the renewal process spelled out in the agreement?
- When does the agreement renew?
- What is the process for renewing?
- Are they automatic?
- Is there an agreed amount that they will be increased like a CPI: Consumer Price Index? This could be in the range of 2%-4%
- Is there a time limit like 3 or 5 years and the price is to remain the same or changed? If so by how much? And when?

Most agreements have a 30-day cancellation clause

Examples:

The answer here is to not give your client any good reasons to leave you!

Ask Yourselfes

- How is the renewal of an agreement handled within the terms of your agreement/ contract currently?
- What needs to be changed with your contract agreement?
- Do you need to add some verbiage to your agreement?
- As part of the contract proposal process do you normally look for how the renewals are handled?
- BEFORE signing an agreement from another party and on their document do you review the renewal portion?
- Does the agreement make sense and provide an opportunity for you to adjust your pricing on an annual basis provided you to submit solid justification?

Tools: Sample Agreements

Lesson #3: Setting the Table for the Renewal

The Renewal Process Starts the Day You Start the Agreement

Track Costs Accurately

Often, we make the wrong renewal decision based on inaccurate info.

Track costs particularly with the time to complete the job to the level the client expects.

The most common mistake: time recorded on time sheets not accurate

Usual Scenario: Make the Boss Happy!

KNOW YOUR COSTS! This is the absolute most critical part of the renewal process.

Get Lots of Photos, Lots and Lots!

Photo document your progress on the job from the start up and along the way

Beware of Customer Amnesia or a change in Customer

Try for shots of different locations on the job sites.

Take shots over a year period say quarterly from the exact angle.

It's amazing what a good service provider can accomplish.

True Story: The Mall Renewal "Slides"

Don't be a Nickel and Dimer

Keep a tab on these little nuances and track how much they cost you

Track the Freebies

Keep track the freebies or adjustments made without any price adjustment:

Bill them with a NO CHARGE at the bottom.

Be careful here as this could just aggravate many customers.

Jump on the Opportunities

When there is an obvious addition to the agreement adjust while the adjusting is good!

Add new landscape add to the monthly maintenance.

Oops We Forgot or Missed Something!

We may just need to live and learn and forge forward.

If it's a deal buster, then try for a graceful departure

This maneuver could send a bad message to the business community so be careful.

Document the job as you go through the first year

Start Ups Can be Costly, But Don't Let Them Cost You the Job

Look at costs after say 60-90 days and evaluate the job from there.

Don't have start-up cost over influence your calculations

Start-up costs can be part of marketing and building the relationship and trust

Offer Solutions Regularly – Get them to say no!

Change Happens! Beware and Be Prepared

Remember: "You can't make money on a job you don't have" Harvester Bill

Lesson #4: Stand Back and Take a Good Look

Before getting an agreement renewed take time and go through the following considerations.

Where do we start?

Start with a Review of ALL of Your Existing Monthly Billed Accounts

Review at least once per year and or within 60 days of a renewal date

Determine your renewal strategy.

List of all of your customers in descending order from largest to the smallest billing

Sort the Winners and Losers

Now Form Your Game plan

Ask Yourselfes

Why do we want to keep jobs?

- It costs a lot to get a new job (6 to 7 times) in time and money
- We are making money
- The job is easy, and we have it under control
- We like the client they like us
- They are easy to do business with and pay us on time!
- The job is a good marketing tool
- We are getting lots of extras and add on sales
- The customer has more where this came from and we want more!

Remember: "You can't make money on a job you don't have!" Harvester Bill

Now think about: Reasons we should no longer "hold" onto a job

- It takes up too much of your time and supervision time
- Causing bad morale, they don't appreciate us and at times are abusive
- We just can't seem to make them happy we have tried everything, and we just can't make them happy
- We have to constantly fight for our money with Accounts Receivable
- The expectations have elevated, and the price has not
- Low Gross Margins

Often the renewal process can be a way to "weed" out the customers you no longer wish to do business with and especially if you are not making enough money.

Lesson #5: Exhaust the Cost Side First

Before we run out and ask for an increase, exhausted the cost side FIRST.

We have given many ideas in this area with our Getting Gross: How to make More Gross Margin Module. In the Harvest Way Academy

What are the direct costs in Labor + Burden (payroll taxes, Workers Comp Insurance, General Liability, Health Insurance, Retirement) + Material cost associated directly to this job?

Always remember to KYC- KYC- KYC or in other terms Know Your Costs!

After you subtract your direct costs from the revenue from this targeted project you will know what your gross margin level is at. You will now need to determine if this Gross Margin is what you need to cover its fair share of overhead.

If after all the cost side considerations have been exhausted and you are performing in an efficient manner, then the next step to consider is the revenue generation side of the business.

Some commonly missed costs are:

- Travel time
- Loading and unloading time
- Mistakes with timecards: especially with smaller jobs, or guys just write down the hours from the schedule and not the actual hours
- There are also some indirect costs that should be considered: Dump fees, Gas, Equipment, Supervision
- Lost opportunity, this job ties us up so we can't go get better more profitable work

Suggestions:

Verify the Direct Costs are ACCURATE

Do actual hours match up with the timecard/tracking?

Note: When Adding Costs – Something Has to Happen....

- Add more workload to the crew to offset
- Do the work more efficiently
- Get other revenue on the job – ancillary services; extras
- Get an increase

Find the root cause of the lower GM

- HAWs have increased with base or tax rates, ACA, Workers Comp
- Underestimated the number of HAWs to do the work
- Didn't mark up the Cost sufficiently
- Didn't perform or execute the work efficiently

Lesson #6 Consider the Revenue Side of the Equation

After exhausting the cost side move to the revenue side

How can you increase revenue to arrive at the desired Gross Margin?

Increases in revenue can be achieved in several ways:

- Landscape Enhancements
- Add on Services
- Price increases /adjustment to existing maintenance contracts

So, let's review these 3 areas and what can be done to increase the revenue.

Lesson #7: Go for the Enhancements/ Extras!

Revenue generated from extra work not normally included with maintenance revenue

Landscape Enhancement opportunities exist on most jobs and can include:

- Irrigation-repair, retrofit, upgrades
- Plant Health Care- deep root fertilization, pest control
- Planting- flowers, retrofitting older site locations, sustainable planting
- Sub-contracting out specialized services like hardscape, tree care, snow etc.

Lesson #8: Try for Add-On Services as an Extra

Add on services would include:

- Tree pruning and care
- Plant Health Care
- Water management
- Sweeping
- Interiorscapes
- Snow

When considering an increase see what the potential for extras and add on sales are on the project and how willing is the customer to spend money on upgrade projects.

Remember, potential for extra work sales and actually getting these sales are two different things.

If we are unable to get the extra billings and the future with add on services is bleak, then the next option is to get an increase on the base monthly price.

As in asking for a renewal or increase. I like using the words "price adjustment" rather than raise or increase.

Lesson #9 Go for the Increase/ Adjustment on the Renewal

We have tried raising our GM by lowering our costs

We have tried raising the revenue from extras and add on sales.

If neither of these strategies get you to where you want to be

We now need to go in for the price “adjustment” on the monthly contract.

Here are some tips to best position you for the adjustment/ increase

Select the Jobs Needing a Price Adjustment

Regular review of all of your jobs: predetermined basis or 60-to 90 days in advance.

Start with the largest jobs first and review their gross margins – most recent trajectory

Start off with the larger ones and work your way through your jobs and determine which ones you want to work on and start formulating your game plan.

Rate the jobs A, B, C with regards of profitability, potential, desirability to keep etc.

Usually there are 10%-15% that are not that desirable and should be either cancelled or you might want to ask for a significant increase to make the GM you deserve.

Lose the Losers

IF they are very weak with paying their bills then you probably want to have them do business with your competitors! Lose them, lose them professionally but lose them NOW

Beware of collateral damage

“The customer is always right, but you may not have the right customer” Harvester Bill

Go after the under performers that are the weak customers or less desirable

So, on the first series of renewals maybe go after the weaker or C jobs that are financially low performing jobs and get the right adjustment or maybe it’s just time to move on with these as well.

Next systematically go through your remaining A and B jobs

Determine the order and sequencing of what jobs you will seek an adjustment. Maybe start with the lowest GM jobs first and work your way through with what order you will go after these price adjustments.

Don’t go after all of the jobs at once

You don’t know what jobs will renew and which ones won’t so pick out a “batch” and go after renewals in smaller groups. This way you can adjust your strategy as you begin to learn what jobs have renewed or perhaps canceled.

Know the best time to go after an Increase

Commercial Projects: BUDGET TIME usually 2-3 months BEFORE their fiscal year

If contract year does not match up with their fiscal year you should start prepping 60-90 days out from the renewal date.

For Residential Projects: -----

Have the relationship in good shape

Decide who is the best person for this assignment

Have the job in good shape

Verify performance in the 85-90 range with Quality Counts standard

Verify the Job is in good shape what does it look like?

Know their process

Know the customer's budget/fiscal year

Try to have agreement period match up to best play into their budget

Know your customer's financial condition

Know your costs, know your costs, and know your costs

Was there any added scope of work to the job?

Have there been added scope without added revenue? Like sweeping, blowing off the parking lot, added sq. footage, conversion to higher cost to maintain material like seasonal flowers? Special plantings? and "editing" the stragglers.

Know your minimum acceptable gross margin level

Have options available: maybe even a scope of work change

Set the plate verbally; share with them what you are thinking

Start higher than where you are willing to move to

Know your walk away point

Consider a "price adjustment" year one and then go for a multiple year agreement with CPI adjustments or a pre-defined increase such as 3% or 5%

Have backup info/examples on specific cost increases

Labor up 25% due to minimum wage increase, Affordable Care Act, Workers Comp insurance, gas up 30% etc. You should have some specific cost examples for their job that are site specific

Get a verbal approval

After you have reviewed all of this with the customer and received a verbal understanding, then send in request

Craft a well-written letter to confirm

Where applicable, try to get the agreement period to match up with the customer's fiscal year

Don't just send out renewals with increases without some preliminary verbal and preferred face-to-face discussion

Build some great renewal letters if you can't get a face-to-face or phone discussion

Lesson #10: Consider Moving On

If after all your efforts to get to the desired gross margin have proven fruitless and your price adjustment is not accepted, then it may be necessary to make a change in customer.

- Before giving notice make certain that there will be no collateral damage to other customers or other departments within the company. If there is some connection with sister departments make certain that the department leaders are made aware of the situation.
- Make certain all account receivable issues are dealt with prior to leaving.
- If there are better seasons to get off the job, then consider departure prior to higher cost periods arriving. This is usually prior to spring and summer when the highest costs are incurred.
- Always leave the job professionally and with adequate notice.
- Provide referrals to take over account when appropriate.
- Conduct turnover process with customer and perform all documentation and photographs.
- Try for an exit letter signing, if not possible send final inspection letter.
- Always leave in a professional manner.
- You never know what will happen and whom you may deal with in the future.

Maybe you can refer them to your competitors!

Common Pushbacks and What to About Them

- We can't afford an increase right now
- We have already submitted the budgeted number
- I have a competitor with a lot lower price
- Let me think about this

Tips:

Use the word agreement vs. contract it is more comfortable to deal with and it doesn't sound too legalistic. The word Contract denotes that there is too much legal jargon involved.

On the other hand, make sure your agreements are within the legal

What message are you sending to your customer if you seldom or never ask for a renewal and increase? Maybe the message is: You are making too much money!

Once you have a real good idea of what it costs you to perform a contract, usually after the first year, you should go for a multiple year contract with automatic increases

The advantage to your customer is the ability to do long range budgets and forecasting

The advantage to you is you know within a reasonable degree of certainty you will have a job and won't have to go through the renewal process every year

Beware of the Unit Price Adjustment: The model home scenario

Hold Price until their new budget allows for an increase

Annualize the Adjustment

If there has been no increase for several years show the annualized rate you are asking for with your price adjustment

Example: Current price \$1,000 with no increase for 5 years

You ask for a \$200/month adjustment/ increase a 20% increase, right? Wrong! You haven't had an adjustment for 5 years so take \$200 divide by 5 equals \$40 average per year which calculates out less than 4% ANNUALIZED

If you were to start at \$1,000 and have gotten a 4% increase over the past 4 years here is where you would be

Year 1: $\$1000 \times 4\% = \1040

Year 2: $\$1040 \times 4\% =$

Year 3

Year 4

Year 5

Then show that this adjustment is only to get reasonably caught up and from this point forward you would like for a CPI adjustment per year

Comparison to Others in the Market Place

If asked if you know anyone you would recommend getting a comparison in pricing be ready to give 2-3 referrals to companies who price work out similarly to you. Know your better customers.

Tools:

- Sample Agreement
- Specifications
- Renewal Wording
- Renewal Letters
- Renewal Check List

Renewal Check List

Relationship

- What is our relationship level? And what is the current status?
- Who has the best relationship with this customer?
- What do we know about the customer? Their organization?
- What is the renewal process from the customer's perspective?
- When was the last renewal? What was the outcome?

Performance: Quality of Work

- What is the current level of Quality being performed? As we perceive it and as the client perceives it
- What extra work projects are in the sales funnel? What is the likelihood of approval?

Competitively Priced

- How does our price compare to the fair market value in today's market condition?
- Who is the competition that might be involved?
- What is their Unique Proposition and their relationship with the client?

Profit

- What is the GM on this job with combined revenue?
- What is the GM with the maintenance revenue alone?
- What is the GM on the extras?
- Are we making money to the expected level for a job of this size?
- Have we exhausted all of our Gross Margin tactics to make the most Gross Margin and while also making the customer happy?
- Are there any other revenue generating opportunities? How likely?
- What is status on AR?
- Can we look at other levels of service that would cost less?
- What is the "walk away" point here?

Any Other Reasons to Keep? Ditch?

- Are there any other opportunities this relationship might help or harm?
- If we cancel or leave what impact would this have on other customer?
- Can we make these folks happy? Or can't we make happy
- Does this job lead us to other work?
- With no referrals and with no profit, it's no fun

Renewal Examples/ Case Studies

Getting a request from an existing customer for a price

Yikes! Now your customer has taken the offense and wants a “quote” from you so they can either negotiate with you or shop your price with others

This may be a company policy or part of the CCR: Covenants – Codes- Restrictions or _____ requirements for an HOA or just fiscally smart to shop and compare the market value with your pricing. Often this is done on a time frame say of 3 years or 5 years.

Any way you look at it you are now on DEFENSE and need to take some positive proactive positioning.

First, I would ask is this a surprise? If so why?

Ok now let's put some strategies together here.