

Getting the Renewal Right

**Does this Sound Good?**

Take a look at all of the recurring monthly agreements you currently have in place. Now ask yourselves wouldn’t it be nice if you could get a 3%-5% increase on all of these?

You bet it would!

Think about it, with no added costs and without a sales person you could possibly add 3% to 5% on a monthly basis to your revenue stream all by orchestrating an affective contract renewal program. Interested? You bet you are so let’s begin to build a solid renewal program.

**Purpose of Getting the Renewal Right**

The intent of this lesson is to share strategies for getting contract renewals for service providers who have recurring contract/agreements. We will go over some basics that will provide you with some sound fundamentals on getting a renewal with a fair price adjustment that will enable you to make a fair and reasonable profit.

Still sounding good? You bet!

**Let the Renewal Begin: The Basics**

Ultimately the renewal of an agreement should provide the opportunity for the service provider to adjust the price in accordance with associated cost increases that have been incurred and/or are needed to perform to the expected level of service spelled out in the specifications and or to meet the customer’s expectations.

The price could in fact go up or down as several factors could come into play. Like scope of work changes requiring more workforce and materials or in some cases in a cost savings effort requiring less workforce and materials.

The most common cost increases occur with the cost of your workforce. Since the workforce cost is your greatest cost any increase in this cost usually will impact your gross margin on the job. Other related costs both direct and indirect that seem to change, as in go up, include the price for gas, chemicals, salt and related costs for snow, dump fees and even equipment. Indirect salaries can also be considered as a potential rising cost.

However the cost for the workforce still remains the highest cost for a service provider and should be considered carefully.

**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” in the competitive market?
* 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?

**The Takeaways from this Lesson:**

Provide answers to the questions from above

Give some sound advice on renewals & ways to make these business relationships last

Share some good tactics & strategies to get the renewal w/ the price adjustment needed.

We will also provide some helpful tools to make the renewal process go easier.

Lesson #1: Know the Key Ingredients for Success

There is a quite a bit to be considered to retain and continue to work with customers year after year. And clearly the longer a positive relationship lasts the better it should get for all those involved. Before we go too far with this lesson it is important to understand some key ingredients to a renewal and for a professional relationship to really work for that matter.

The renewal of an agreement or the extension of a professional relationship over a period of time will be dependent primarily on these key areas:

**Relationships**

In the long run relationships rule! And this is also the case for getting a renewal. People will largely make the majority of their decisions based on a solid positive, personal and professional RELATIONSHIP. Certainly you will need to have the other components we mention here in play but RELATIONSHIPS are probably the most important and influential. These 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. How many times have you gone after a job that looked pretty bad and yet the customer did not want to make a change because they liked the person doing the job and the performance really became secondary? Or how many jobs have you lost that were in excellent condition yet the new property manager likes their guy and you lost out because of the lack of relationship.

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

Relationships Rule!

**Performance**

Of course even relationships can wear thin when the performance is lacking and is not consistently delivered. Now I have certainly lost jobs because of lack of the right relationship but losing it due to lack of performance is truly not a good thing. So just relying on relationships and relationships alone won’t necessarily earn you the right to continue doing business with your customer.

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

**Competiveness**

If you have the relationship and the performance going well you still need to be reasonably competitive with your pricing. Not every decision is based on price but 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! As much fun as you may be having building a relationship, delivering consistently and being priced within 15% of the better competition you still MUST make 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

Before we go through the strategies of getting a renewal we should look at the renewal process from the very start and that’s before the agreement goes into place.

The renewal process should be considered ***before*** the start of work.

Start off with an understanding of how the renewal works in writing or within the specifications or as part of the agreement or contract.

Take a look at the agreement/ contract.

Is the contract /agreement you are entering into your contract/agreement or the customer’s contract/agreement?

Either way 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?

Those companies who do use long-term maintenance contracts often will build in automatic renewal clauses, which means that the terms of a contract are seldom renegotiated until the customer raises a concern, cancels the contract or requests an additional service.

With most agreements there is usually a 30-day cancellation clause built in that can be exercised by either party. Don’t get too wound up here as this is pretty common and is there for either party just in case there is good reason to cancel.

You might consider a cancelation cost if there were abnormal costs involved, like large equipment purchases, or deferred payment over a longer period of time for something like a clean up charge.

Examples: ……………

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

Ask Yourselves

* 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

**Track costs Accurately**:

Often we make the wrong renewal decision based on inaccurate info. Make sure we track the costs particularly with the time to complete the job to the level the client expects.

The most common mistake we see is the time recorded on time sheets usually just match the scheduled time the crews were given by their supervisors. They don’t necessarily match the ACTUAL time it takes to do the job and that can work either way with TOO MUCH time or too LITTLE time needed. Without a doubt this area is the absolute most critical part of the renewal process. KNOW YOUR COSTS!

**Get Lots of Photos, Lots and Lots!**

Photo document your progress on the job. I am amazed at the amount of customer amnesia that occurs when asked “do you remember what this place looked like when we arrived?” Sound familiar? That's why taking a lot of photos is important. 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”**

Each year about 45-60 days before our annual contract renewal came along I would set up a lunch appointment with the Mall’s leadership team of around 4 people to review the contract and the renewal for the next year. I would bring in dozens of photos/ slides to show them the improvements we had made from the start of the contract and from the last year we had spent on the job.

So after 5 years of this I walked into the annual review armed with my slide projector and over 300 slides. The head person asked, “Are those the slides again? “ and when answered yes indeed they were they offered me a 5% increase right then and there and I would have to by lunch for everyone! DEAL and of we went to a great lunch on me!

That increase represented $350 per month or $4,200 per year so we had a very nice lunch that day.

Now certainly the relationship was excellent, the job quality was top notch, they had a fair price and we were making money on the job. So when well executed and delivered the renewal process can be quite rewarding!

**Don’t be a Nickel and Dimer**

When there are nuances with the job that arise determine if this makes sense to adjust the price or not: you do not want to come across as petty or a penny pinching nickel / dimer asking for an extra or price increase for this or that. Keep a tab on these little nuances and track how much they cost you as you may want to have these for negotiation time.

**Track the Freebies**

Keep track the freebies or adjustments made without any price adjustment: this will be fuel for your renewal In some cases you may want to send out an invoice to show the value of these and with a NO CHARGE at the bottom. This way you can total these up at the end of the year to show what you did not charge them for and how much it was worth. Be careful here as this could just aggravate many customers.

**Jump on the Opportunities**

When there is an obvious addition to the agreement especially if it requested by the customer; adjust while the adjusting is good! They want a new landscape around the building, charge for the extra and add to the monthly maintenance.

**Oops We Forgot or Missed Something!**

We all make mistakes right? Maybe we didn’t count the sq ft correctly, missed some areas that are included, miss-read the specifications yikes. Unless it is of a huge nature and could jeopardize your company’s financials we may just need to live and learn and forge forward. Sometimes we can let the customer know about it but unfortunately they believed you and awarded you the job! If it’s a deal buster then perhaps you could gracefully leave and let them go with the second choice. This maneuver could send a pretty 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 it Cost You the Job**

When we first start a job we usually spend more time getting it started than we thought. Our guys get a little lost, the sales person promised a little too much, a task or two was harder and more time consuming than we had expected etc. Try not to let this dictate your entire strategy for the renewal. We suggest take a look at your costs after say 60-90 days and evaluate the job from there. This way you cannot have this start up cost over influence your calculations for getting the job from that point on. Always be thinking what you want to be charging from that point on which brings a fair GM. As in the job moving forward from where you are at now. I used to say the start up costs (if I didn’t make too much) were part of marketing and building the relationship and trust of a customer for many years to come.

Remember: “ You can’t make money on a job you don’t have” Harvester Bill

Lesson #4: Stand Back and Take a Good Look

Often we are fixated on keeping a contract for various reasons including gross margin contribution to overhead, marketing, keeping morale high, leads to other sales etc. Before you leap into getting an agreement renewed take some time and really go through the following considerations.

**Where do we start?**

One of the first steps for getting renewals is to determine where to start and with which jobs. So before you go chasing after the renewal make certain that you really want this project especially if it’s at the right price.

**Start with a Review of Your existing Monthly Billed Accounts**

Each of your customers should be reviewed at least once per year and or within 60 days of a renewal date to determine your renewal strategy.

We suggest you put a list of all of your customers on a spreadsheet and list them in descending order from largest to the smallest in dollar volume

**Sort the Winners and Losers**

**Form Your Game plan**

Ask Yourselves

**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

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 we really need to make certain we have exhausted the cost side FIRST. We have given many ideas in this area with our Getting Gross: How to make More Gross Margin Module. So please refer to this lesson.

Basically when we refer to the cost side we are talking about the direct costs that this job is costing you as 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 it’s 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 time cards: 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 time cards/tracking?

Lesson #6 Consider the Revenue Side of the Equation

So you have exhausted the cost side for the recurring portion of the agreement and now you will need to move to the revenue side to see ways you can increase revenue in order 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!

This would be revenue generated from extra work or enhancements that are not normally included in the maintenance agreement.

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

Add on services would include:

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

When considering whether or not to try for 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

Ok we have tried raising our GM by lowering our costs and 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. I like the word adjustment versus increase, it just sounds better doesn’t?

**Select the Jobs Needing a Price Adjustment**

If you haven’t been getting renewals on an annual basis for whatever reason you should start having a regular review of all of your jobs either on a predetermined basis or when the contract year is about to come to an end say 60-to 90 days in advance.

I usually start with the largest jobs first and review their gross margins they are making over the past year. So 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 a fair share say 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.

“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**

For Commercial Projects: The best answer is BUDGET TIME usually 2-3 months BEFORE their fiscal year or if the contract year does not match up with their fiscal year you should a=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**

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

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**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**

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**Have options available: maybe even a scope of work change**

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

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**Start higher than where you are willing to move to**

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**Know your walk away point**

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**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%**

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**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**

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

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

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

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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 x 4% = $1040

Year 2: $1040 x 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 to get 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 todays 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.