

## **Value and Price**

By Ronald A. McKenzie

*This is an ongoing story of encounters between the King, everyone's favorite owner; his architect, Slide Rule; and his contractor, Igor. Characters are inspired in part by Gary Larson's Far Side.*

Igor, from Moat Designs Ltd., was totally depressed.

"Igor, why are you so depressed?" inquired Slide Rule, who heads up Building Blocks Inc.

"The work is not coming in. I'm taking projects at cost just to keep people on the payroll."

The King, who had just walked up and heard the conversation, nodded his head in sympathy. "You must be losing money?"

"I'm losing money and I'm trying to generate change orders to make a profit. Even though I have work, I'm getting deeper in debt. I need to make more money on the bottom line."

"Move the line," responded Slide with a smile at his clever and obvious solution.

The King looked at Slide. "You're an idiot." The King rested his hand on Igor's shoulder. "I think I can help."

Igor brightened. "Your majesty. You pay me what I'm worth. It's my other clients who don't pay me what I need to charge."

“Then you need to educate them. You need to communicate price and value relationships. Particularly you, Slide. You lose money on everything you touch.”

“We are all ears,” Slide said. Igor nodded his head in agreement.

“Well first, let me recite something to you written by John Ruskin. He said the following: ‘It is unwise to pay too much, but it is worse to pay too little. When you pay too much, you lose a little—that is all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing you bought it to do. The common law of business balance prohibits paying a little and getting a lot—it cannot be done! If you deal with the lowest bidder, it is well to add something for the risk you run; and if you do that, you will have enough to pay for something better.’”

“That’s really deep,” Igor said.

“But it makes sense,” the King said excitedly. “Think about it, ‘It is unwise to pay too much, but it is worse to pay too little.’ Now that really sums it up. In construction, everything is by the lowest bidder. Then everything goes crazy when someone starts to lose money because they missed something on the bid. Then they start pointing fingers at each other. It’s a nightmare.”

Igor was listening intently, and then spoke showing his frustration at not being paid for what he is worth. “You’re right. The old adversarial roles start to kick in when someone starts to realize they’re going to lose money. Everyone starts to look for ways to cut corners and transfer some of the loss to the other subcontractors.”

“And the beat goes on ...,” the King said.

“What?”

“Never mind. It’s an expression. Then Ruskin says, ‘When you pay too much, you lose a little—that is all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing you bought it to do.’ How many times have we seen that scenario played out?”

“Many times, your Honor. Are you suggesting we communicate this to our clients?”

“Yes, by all means. They need to understand there is a distinct difference between value and price.”

“You get what you paid for is another way of saying the same thing,” Slide said.

“Yes, true. Very good, Slide,” the King said, and then continued with his wisdom. “And then ... get this ... Ruskin says, ‘The common law of business balance prohibits paying a little and getting a lot—it cannot be done!’ I ask you, when was the last time you paid a little and got a lot? Never. It doesn’t work that way. And yet in construction, that’s what happens.”

“Who promotes that kind of thinking?” Slide asked.

“It’s human nature to pay as little as you can for what ever service or product you want. But it’s the smart businessperson that knows that paying the right price means he will, in the end, get a lot more for his money. Just listen to his last statement: ‘If you deal with the lowest bidder, it is well to add something for the risk you run; and if you do that, you will have enough to pay for something better.’”

“How many times has someone had to dip deeper in their pocket to fix something that has just been fixed? That is why in the private sector corporations will throw out the high and the low bid and look at the middle grouping. This is done on the theory that the high and low bidder is the one with the biggest mistakes.”

“So, what’s the next step?” Igor asked.

“Yes, the infamous next step. What you need to do is to prepare some material that is used in your proposal to both directly and subliminally communicate value and price. It might go something like this: ‘The pricing of Moat Designs Ltd. is based upon experience. We are neither the lowest price nor the highest price. Our pricing is determined to insure that we can provide exactly what we say we are going to provide without any ‘change order’ games or buying out the cheapest subcontractor and then forcing them to perform with threat of lawsuit. In the end, you save money for we get the job done, and historically, under budget with a cost savings coming back to you. We’re open book; you know everything. There are no secrets; we are your partner and we are here to make you successful. Think of us as your in-house construction company. We are rewarded for fairness and professionalism and take our responsibilities seriously.’”

“Your Majesty,” Igor said. “I have only one question.”

“I will be happy to answer.”

“Will you go to the next meeting with me?”

*With the exception of an occasional guest appearance by the author, any similarity to actual events or people living or dead is purely coincidental.*

--

Ronald A. McKenzie is director of business development for ARCON Associates Inc., a Chicago-area full-service architectural firm. He has made nationwide presentations of the subject of thought leadership relative to strategic planning.

--

This article originally appeared in the January 2010 issue of Metal Architecture.  
Reprinted by permission of Modern Trade Communications Inc.