

What's the Right Price for Service?

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This article looks at determining the right price when buying services, and was first published by contract service consultant, Chris Arlen, President, Service Performance. It's reprinted here with permission from the author.

The Big Buying Question

If you're buying, or managing, a contract service, this is the big question. Yet it feels more like a riddle than a question. And like a riddle, the answer is simple and complex at the same time.

The Simple/Complex Answer

"The right price for service is paying for what you'll get."

It's a very disappointing answer. It's overly simple, but complex too.

Let's break it down into smaller parts to wrestle with its simple complexity. Here goes:

#1 Price is a Beginning Number

#2 Selecting Price before Service Delivery

#3 Value is What You Get

#1 Price is a Beginning Number

Price, agreed to at contract award, doesn't include the additional costs of ownership. Those invisible ones always show up over time.

If you asked a time and motion consultant, they'd quantify the time you and your staff invest, and then translate that into dollars.

These hard-to-see costs are from the time you'll spend on:

- *Contract compliance*
- *Performance management*
- *Vendor communication & coordination*
- *Accounts Payable*
- *Correcting service deficiencies and/or disruptions*
- *Mitigating impacts of sub-par service on end-users*

ACTION ITEM when determining the right price for a service

The first step is to quantify the soft costs that increase the Total Cost of Ownership. Identify those soft costs that would be constant for whichever contractor you'd choose. Then determine how that baseline may vary for each contractor. And they can vary significantly from one service contractor to another.

#2 Selecting Price before Service Delivery

When buying a service you're making the purchase decision before you know what you'll receive. Service is delivered over the life of the contract.

But you have to choose how much you're going to spend before service starts.

You're buying on good faith. You're selecting a contractor in the belief they'll:

- *Comply with contract requirements*
- *Meet your service specifications*
- *Deliver as promised*

ACTION ITEM when determining the right price for a service

The next step is to assess the contractor's mechanisms for delivering, ensuring, improving and reporting service.

In particular, how contractors would do that for your specific site(s). Not a general explanation, but a specific proposed solution.

#3 Value is What You Get

Hopefully the value received from service will be equal to, or more than, your investment, which is your Total Cost of Ownership. This is "getting what you paid for".

But it's difficult to nail down the value received from a service.

We're not talking about completing specifications or contract requirements. This is about "how did this service contribute to your company's business success"?

Sometimes you can't even tell if a service had been performed, much less if you've benefited from it.

And making the connection between a support service and its contribution to your company's success is not easy. It's not a 1-to-1 cause and effect.

Intuitively we know service contributes to a firm's success. But there are always other factors, other contributions.

For example, one can't state absolutely that exceptional janitorial service directly increased the customer company's revenue or expanded the customer's market share.

ACTION ITEM when determining the right price for a service

Challenge contractors to articulate how their service will have a positive impact on your business results. Get explicit descriptions of value.

Not just how well the service is performing as seen in Key Performance Indicators (KPIs). But ask them to make the connection to your firm's success. Then create KPIs to track those as well as the service KPIs.