

# Your Sales People Do What?

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I was recently speaking with a leading regional builder who mentioned that, in their company, the sales representatives set the lot premiums within their own neighborhoods. We didn't have time to discuss the situation in detail, but the more I thought about it, the more arguments I found opposing this philosophy. Here they are, in decreasing order of importance:

1. Setting lot premiums is a strategic decision, and should be done by company personnel who totally understand the strategic goals and philosophies of the company. Lot premiums are an integral part of overall product pricing, and deserve serious management attention. They can turn potential buyers off if not well thought out, establish a better basis for negotiation, anchor the values of your neighborhoods and have a host of other emotional and psychological effects on your previous and potential customers.
2. The actual factors which determine the appropriate premium range are quite numerous and their relative importance varies by market, subdivision and targeted customer demographics. Size, orientation, grade, trees, amenities, location on a street (corner, cul de sac, subdivision entrance, etc) are just some of these characteristics. Lot premium pricing, like all pricing, requires market knowledge, technical expertise and an ability to fairly and objectively assess the total value of various combinations of these characteristics.
3. Sales personnel have a vested interest in selling houses, and whether consciously or unconsciously, are not inclined to do anything that will slow or deter sales. Thus, they have an inherent bias against asking for the maximum lot premium attainable. This is not a rap against sales people or an indictment of their philosophy. Rather, it is a real world assessment of how people act in their own self interest. It is unrealistic to ask someone to voluntarily add an additional two, three, or even ten thousand dollars to a lot premium, when that addition makes it harder to sell and puts their commission at risk.
4. Setting premiums is as much an art as a science. It requires experience, specialized training, a significant commitment of time and a learned understanding of buyer psychology. Simply put, there is a right way to do it and a wrong way, and many so called "pricing experts" consistently get it wrong. Expecting typical sales people to successfully accomplish this task is not only unrealistic, but it is unfair to them and to the builder.

Both total revenue and absorption rates for any given subdivision can be significantly affected by pricing policies in general and lot premium decisions in particular. I cannot count the number of times I have discussed with builders how the last lots left were always the worst lots. Typically, this is an indication of poor lot pricing. To delegate this important function to the project sales staff makes absolutely no sense. Instead, your company must build a balanced team capable of properly understanding and executing the lot pricing function. The team must understand the concepts of anchoring, uniqueness, creating urgency and psychology of loss, all of which have a role in lot pricing. Anything less is unacceptable.