

## **J.R. Huston Enterprises, Inc.**

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From Chapter 18 of HTPLIP titled Flat Rate Pricing

MS Excel Figures (attached)

- Figure 18-1 Flat rate for flats of annual color
- Figure 18-2 Flat rate for irrigation spray head
- Figure 18-1 Flat rate for tree stump grinding

Key terms

- Curb time
- Enhancements
- Flat rate
- Flat rate pricing
- Hurdle amount
- Maintenance extras
- Rate card
- Show-up fee
- Standards
- Trip charge

**PURPOSE:** To introduce you to the concept of flat rate pricing and to explain how flat rate prices are calculated

### **INTRODUCTION**

**F**lat rate pricing is used prevalently in the plumbing and auto repair industries. Basically, it's a form of pricing that attempts to simplify the pricing process by charging an all-inclusive

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**flat rate** for a particular product or service. The flat rate includes labor, materials and any equipment needed to perform the task. Essentially, you're providing the client with a "grocery" list of sorts from which to choose services and products.

\*\*\*\* **Main point:** The flat rate includes labor, materials and any equipment needed to perform the task. Essentially, you're providing the client with a "grocery" list of sorts from which to choose services and products. \*\*\*\*

\*\*\*\***How it works – start**\*\*\*\*

Last fall I had my furnace repaired. The technician arrived and identified the problem. He then pulled out a list that contained virtually all the potential repair services and products he might have to perform in the field. It took him no time at all to calculate a price for the needed work. Because the bill exceeded a minimum **hurdle amount**, the **trip charge** was waived. Otherwise, I'd have had to pay a \$65 show-up fee.

The auto repair industry does something very similar. Once the problem is diagnosed, a service representative pulls out a list of services and products and quotes a fee for the respective item. What you don't see is a comprehensive manual produced by each automobile manufacturer, listing all repairs and services by model year. This manual contains **standards** or benchmark labor hours and the materials required to perform the task in question. Service providers then attach their labor rates and material prices to these standards in order to calculate the price for each task or service.

The producers of these standards and manuals are wise enough to only provide labor hours and material lists in them. They realize that G&A overhead, labor costs and burden all vary from one repair shop to the next. They therefore don't provide labor rates and material pricing.

The *Means Site Work & Cost Data Manual* and the *Kerr's Cost Data Manual for Landscape Construction* attempt to provide a similar tool for the landscape industry. Unlike the manuals provided for the auto industry, these landscape manuals provide prices for labor and materials which include G&A overhead and labor burden..

\*\*\*\***How it works – end**\*\*\*\*

### Calculating Flat Rates

Calculating flat rates is a rather simple process. Basically, they're unit prices similar to those calculated in other chapters. However, two items tend to complicate it. The first is the need to have a "trip" charge or **show-up fee**, where the non-site time for the day is covered and paid for by the client.

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Under normal circumstances, a typical service requires a minimum of a half-hour of non-site time, to load/unload the truck and drive to the client's site. The second item that complicates the flat rate pricing process is labor-only work. Irrigation service technicians often have to troubleshoot problems, adjust heads and/or track valves. In this case, in order to cover labor-only costs, a predetermined labor rate is required.

We'll cover three scenarios involving flat rate pricing for the Green Industry. With some slight variations to our models, you should be able to calculate flat rate prices for your products and services, and I'd encourage you to consider publishing a **rate card** listing them. This rate card may be for internal company purposes only. The important thing is to have your flat rates written down so you can remember them.

### **Flat rates for maintenance extras and enhancements**

Calculating flat rates for **maintenance extras** or **enhancements** is probably the easiest of our scenarios, whether it be for the commercial or residential market. The process is greatly simplified because the crews performing the work are usually on site on a regular basis. Or a full-time enhancement crew may perform all this work. Let's calculate a flat rate price for installed flats of annual color. See Figure 18.1 as we discuss our scenario.

#### **\*\*\*\* Figure 18.1 Flat Rate for Flats of Annual Color \*\*\*\***

We want to calculate a scenario for either a half or whole day of producing the product in question. In this case, we'll use a whole day. Our two-person crew is working an eight-hour day and a 40-hour week. The crew average wage, risk factor, labor burden, etc. are as outlined in the figure. Note that the crew will be installing color for seven of the eight hours per day, at a production rate of two flats per man-hour.

Our price per flat calculates to be almost \$33. I'd probably round this up to \$35.

### **Flat rate for irrigation spray heads**

In this case, we'll calculate a scenario for a half day of installing spray heads. Our service technician is working a 10-hour day and a 50-hour week. The crew average wage, risk factor, labor burden, etc. are as outlined in Figure 18.2. I used a production rate of four heads per hour. This may be conservative, but I'd rather understate than overstate our production rate. Note that ancillary materials (the funny pipe and elbow) are also included. I even included warranty call-back time and materials.

#### **\*\*\*\* Figure 18.2 Flat Rate for Irrigation Spray Heads \*\*\*\***

Our price per head calculates to be almost \$39. Again, I'd round this up to \$40 or higher, if at all possible.

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However, we have a problem. What if you only need to replace one head and it takes you an hour to get to and from the site? Or what if you get to the site and the head is only clogged. You have no materials to charge to the customer.

This is where I think you need to include a trip charge and an hourly rate. You can always waive the trip fee if, like the plumber, the bill exceeds a predetermined “hurdle” amount. We’ll discuss the trip charge in more detail in Chapter 24.

### **Stump grinding flat rates**

Here, our arborist is working a nine-hour day and a 45-hour week. The crew average wage, risk factor, labor burden, etc. are as outlined in Figure 18.3. I used a production rate of 20 12” logs per day on three different sites. Again, this may be conservative, but I’d rather understate than overstate our production time.

#### **\*\*\*\* Figure 18.3 Flat Rate for Stump Grinding \*\*\*\***

Our price per 12” log calculates to be a little over \$33. Again, I’d round this up to \$35 or higher, if at all possible. The per-inch price is almost \$3.

Again, we have a potential problem. What if there’s only one small stump to grind? Here a minimum could apply, which you could waive if the bill exceeds a predetermined “hurdle” amount.

### **SUMMARY**

Calculating flat rates for the automobile repair and plumbing industries is much simpler than for the Green Industry. The variables within an auto repair shop or for a plumber are far fewer than those for an irrigation service technician, arborist or landscaper. They don’t have to dig through 12 inches of mud and muck to get to the problem. Nor do they have to work in the freezing rain.

While determining flat rates for the Green Industry is more difficult, it can be done. However, you must think through the possible scenarios as thoroughly as possible and account for labor-only situations. To do so, a “trip charge” is often used. A published rate card can also help, even if it’s only used for internal company purposes.

**\*\*\*\* Main point:** A published rate card can also help, even if it’s only used for internal company purposes. \*\*\*\*

### **ACTION POINT**

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If you perform these types of services, you might want to evaluate and explore the possibility of providing your customers with flat rate pricing. Use the methods outlined here but be sure to cover any contingency that you might face.

*Note:*

The costs used in our scenarios are for illustration purposes only. Your costs will vary from the ones used in these examples. The key is for you to build a typical one-day scenario for the different crew, materials and equipment you use. Round up these rates as appropriate. If your costing structure is accurate, the rates you calculate should be very close to your current ones and to those generally seen in your market.



This article was adapted from James Huston's new book, audio book and MS Excel CD, *How to Price Landscape & Irrigation Projects*, and his previous book, *Estimating for Landscape & Irrigation Contractors*. The author is president of J.R. Huston Enterprises, Inc., which specializes in construction and services management consulting to the Green Industry. Mr. Huston is a member of the American Society of Professional Estimators and he is one of only two Certified Professional Landscape Estimators in the world. For further information on the products and services offered by J.R. Huston Enterprises, call 1-800-451-5588, e-mail JRHEI at [jrhei@jrhuston.biz](mailto:jrhei@jrhuston.biz) or visit the J.R. Huston Enterprise web site at <http://www.jrhuston.biz>.