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HTPLIP: From chapter 24 of How to Price Landscape & Irrigation Projects

MS Excel worksheet Figures (attached)

- Figure 24-1 Irrigation service work pricing

MS Word Figures (attached)

- None

Key terms

Global positioning system (GPS)

PURPOSE: To explain the process of pricing irrigation service work

INTRODUCTION

Irrigation service work for small jobs lasting less than a day or two can be some of the most lucrative work you perform, if you price it correctly. However, there are potential pitfalls to be aware of when it comes to pricing your irrigation service work. They are: 1) covering drive-time labor (and other non-site time labor: loading the trucks at the yard, picking up materials, etc.) and the service truck; and 2) establishing daily billable goals for individuals and/or crews performing the work.

**** **Main point:** However, there are potential pitfalls to be aware of when it comes to pricing your irrigation service work. ****

You can also use the methods outlined here to calculate time and material (T&M) rates for other types of work. Substituting *your* costs for materials, labor, labor burden, G&A overhead, etc., in place of the ones used in the examples, will allow you to develop accurate labor rates to use in T&M situations. Your pricing will probably be close to that established in the examples. However, you should take the time to complete these exercises, using *your* costs in order to ensure that *your* rates are accurate.

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**** How it works- start ****

A few winters ago, I met with an irrigation contractor in New England. He wanted to calculate his rates for his service work. At the time, he was charging \$40 per hour for service repairs. After a fairly thorough analysis of costs and the market, we determined that he needed to charge \$50 per man-hour. This was a 25 percent increase, which he thought was a pretty hefty increase. However, he implemented it.

Six months later I revisited him and asked if he'd lost any customers as a result. He told me not only had he not lost any customers, but that only two of them had even mentioned the increase.

This contractor provided excellent service to his customers but was underpricing his work. As a result of the analysis I did for his company, which I'm going to share with you, he put an extra \$23,000 in his pocket in the first six months of his season.

**** How it works- end****

PRICING IRRIGATION REPAIR/SERVICE WORK

Before you start developing your labor rates, you need to address how to handle the pricing of the materials used for repairs and non-site time (e.g., drive time, load time, picking up materials time, etc.). I recommend charging for repair materials independent of labor rates.

Most contractors charge clients the manufacturer's list price for irrigation materials used in T&M service work. Sometimes, list prices will be lowered for commercial customers. However, I recommend marking up materials a minimum of 20-25 percent above actual invoice cost. Residential irrigation markets will usually allow you to mark up materials 40-50 percent above invoice cost, which should bring your pricing for materials very close to the "list" or retail price residential customers would have to pay on the open market.

Off-site labor time (drive, load, and picking up materials time, etc.) can be handled one of three ways:

1. It can be included in the hourly "curb-time" rate charged to the client. Curb time is the actual time a technician or crew is on the job site. It starts when they arrive at the site (curb) and ends when they leave. Hence, the term "curb time" is used. You calculate the curb-time rate by dividing the total price (including all costs except for materials, and net profit) for an average day of service work by the average amount of on-site (curb time) labor hours. In our example in Figure 24.1, the price of \$534 is divided by eight hours of curb time. The resultant curb-time rate is \$66.72 per curb-time man-hour, which I'd round up to at least \$67. I'd charge \$67 per curb-time man-hour if that was the way that I charged for irrigation service work.

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****Figure 24.1 Irrigation Service Work Pricing ****

2. The client is charged for actual off-site time (primarily drive time to the job site). This is often referred to as “portal to portal” billing. Essentially, the clock begins to run once the driver leaves the yard and stops when the job is completed, or in some cases when the driver returns to the yard. This method has some inherent problems, especially if the driver starts from a location other than the yard, gets stuck in traffic, or has to make other stops along the way. In our example, the portal-to-portal price is \$53.38 per man-hour, which I’d round this up to at least \$54 if not \$55 or \$60.

An average amount of off-site time could be allocated to the job instead, but this puts you into the third method.

3. You can charge a show-up or “trip charge” fee that includes drive time and other non-site time, plus a certain amount of time on the job (e.g., the first 30 minutes on site). Time after that is normally charged at a pre-determined rate, and in 15-minute increments or part thereof.

In our example, I’d charge \$55 to show up, knowing the average job was 20 minutes from your office/yard and required approximately 10 minutes of additional off-site time for loading the truck, etc. The trip-charge rate would include these 30 minutes, plus the first 30 minutes of time on the job. Additional time on the job would be charged out at \$13.75 per 15-minute increment or part thereof.

Let’s look at Figure 24.1 and the scenario that follows to see how we determined these rates.

- Our sprinkler technician works alone and gets paid for 10 hours a day, 50 hours per week, which means the overtime factor (OTF) is 10 percent (five hours of overtime divided by 50 hours of straight time equals a 10 percent OTF).
- Although all work is performed on a “T&M” basis with a theoretical Risk Factor of zero, I’d still calculate a 10 percent Risk Factor into this scenario to cover contingencies.
- The technician’s hourly rate is \$15.
- Labor burden is 35 percent.
- The technician drives a van that calculates out to \$8 cost per hour (CPH).
- An average job is 20 minutes from the office.
- An additional 40 to 60 minutes per day is required to load the truck, pick up materials, do

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administrative work, etc.

- You plan to perform and bill a minimum of four jobs per day.
- Materials are charged to the customer at current list prices.
- Approximately \$100 of materials (at cost) is to be installed per day.
- The G&A overhead cost per labor hour (OPH) amount has previously been calculated to be \$12.
- A combined net profit margin and contingency factor of 20 percent is to be included in the work.

Turning to Figure 24.1:

- We've put eight man-hours in our Phase I curb-time production costs.
- Phase II general conditions contain the remaining two man-hours of estimated daily load, drive, administration and materials pick-up time.
- The service van is also included in Phase II general conditions at eight hours for the day. We use eight hours because the cost per hour is calculated using an eight-hour day. You can use ten hours in your daily costs if desired.
- The total price, including all costs and 20 percent net profit, for an average day of sprinkler repair work is \$534 (which is indicated at the bottom of the Phase III calculations).

Put another way, total revenue that must be generated per day to cover all costs (including G&A overhead and providing a 20 percent net profit margin) is \$534. In other words, we must bill \$534 per day, excluding materials, to cover all costs and show a 20 percent net profit.

Let's break this down into more meaningful scenarios using the trip-charge method.

Scenario #1

You bill four jobs per day and keep the service technician busy (billable) all day. Generated revenues are:

4 (jobs) x \$55 (show-up charge).....	\$220
6 hours billed at \$55/hour.....	<u>330</u>
Total.....	\$550

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You've exceeded your goal of \$534 by \$16.

Scenario #2

You bill five jobs per day and keep the repairman billable all day.

5 (jobs) x \$55 (show-up charge).....	\$275
5 hours billed at \$55/hour.....	<u>275</u>
Total.....	\$550

You've exceeded your goal of \$534 by \$16.

Scenario #3

You bill six jobs per day and keep the repairman billable all day.

6 (jobs) x \$55 (show-up charge).....	\$330
4 hours billed at \$55/hour.....	<u>220</u>
Total.....	\$550

You've exceeded your goal of \$534 by \$16.

Each of the three scenarios produces an extra \$16 of net profit, in addition to the \$107 net profit built into the day rate. And remember, this net profit is also supplemented by the net profit on the materials each day. The difference between your cost and what you charge the customer is pure net profit.

The key is to keep your technician busy and billable all day, and to bill a minimum of \$534 per day excluding any materials. If that occurs, you're making money and any revenue billed above the \$534 is extra net profit.

You should track your irrigation service work on a daily basis. Many of my clients use **global positioning system (GPS)** software to track their service vans. At a minimum, the items that should be monitored are:

- Sales or total billable dollar amounts per day per technician.
- Labor hours and job tasks (e.g., Drive to Jones' residence, 15 minutes; repair two heads, 35 minutes; return to shop, 15 minutes; pick up irrigation materials, 20 minutes; etc.).
- Materials used and billed per job.

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Once you have historical data from which to work, go back and adjust your hourly rates and trip-charge rate, if desired.

SUMMARY

Irrigation service work and time and materials (T&M) work can and should be some of your most profitable work, if you calculate your pricing correctly. Be sure to include off-site labor time and vehicles in your prices and to set daily goals for billable production hours and revenue. Use the example to calculate your labor rates. Add a service helper if desired.

Remember, the net profit on materials is pure profit. Also remember that these pricing methods are to be used for jobs of short duration and which are fairly typical of your work. If a T&M job requires lots of extra drive time, or includes difficult job-site conditions, adjust your pricing accordingly.

If, after you calculate your T&M prices, they look too good to be true, they probably are. Go back and check your arithmetic and don't be afraid to add some extra net profit if they appear too low. Your rates should be reasonably close to market rates. The main difference is that now you have confidence in knowing how you arrived at your rates and how to adjust them if conditions change. You can also set well-defined daily production and revenue goals using them.

You can price your irrigation service with confidence, knowing all your costs are covered by your rates. You can also know with confidence that you're going to make money every time a service truck leaves your yard. And pricing with confidence is what the irrigation service business is all about.

****** Main point:** You can ... know with confidence that you're going to make money every time a service truck leaves your yard. ****

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ACTION POINT

Validate your irrigation service T&M unit prices and ensure that you set hourly and daily revenue goals for your technicians.

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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 mixes 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.

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This article was adapted from James Huston's new book and audio book, *How to Price Landscape & Irrigation Projects*, released in July 2003 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 or visit the J.R. Huston Enterprise web site at <http://www.jrhuston.biz>.