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Rev date: 7-16-2004

Format: MS Word

Topic: Time and Materials (T&M) Pricing

HTPLIP: From chapter 19 of How to Price Landscape & Irrigation Projects

MS Excel Figure worksheets (attached)

- Figure 19-1 Crew time and materials rate

Key terms

- Curb-time rates
- Portal-to-portal rates
- Time and materials

PURPOSE: To explain the process of calculating time and materials prices

INTRODUCTION

A carpenter's adage

“Measure once, cut twice. Measure twice, cut once.” So it is with **time and materials** (T&M) pricing. Preparation in two areas is essential. First, you have to calculate your prices accurately for every contingency. I often spend many hours with clients calculating T&M prices. Second, you have to market and “sell” not only your prices but the process. You have to not only negotiate the prices, but you must also educate your client in the process. Otherwise, you’re opening yourself up to a possible disaster. Calculating the prices is the easy part. Managing the customer’s expectations is the tough one.

**** **Main point:** “Measure once, cut twice. Measure twice, cut once.” So it is with **time and materials** (T&M) pricing. ****

******How it works – start******

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A contractor in the Northeast had me help him develop T&M prices for a large multi-million-dollar residential installation project. Basic labor was priced at \$25 per man-hour. All G&A overhead was calculated in this hourly rate. We also put together some basic unit prices. Sod installed was priced at \$.65 per square foot. The sod cost \$.20 per square foot, with \$.45 for soil prep and installation. The project had a 5,000-square-foot courtyard my client was going to prep, grade and install sod on. There was also a 16-acre horse corral on which the contractor was going to do some light prep work and then seed it.

The courtyard went from brown dirt one day to beautiful green crimson sod the next. The owners were so impressed they asked the contractor if he could sod the 16-acre horse corral. His reply was, "Yes. The cost would be \$.65 per square foot plus \$25 per man-hour. When can we start?" This contractor was prepared. This job actually helped him to retire early and move, with his family, to another part of the country.

Another contractor was not so prepared, at first. He called me in a panic one day and asked me to help him readjust some T&M pricing he'd been using for another very large residential project, which ended up well over \$4 million.

The three-man crew was using some rather large pieces of equipment to move and place boulders. The initial billing rate was \$125 per man-hour or \$1,250 per man per day, including the equipment. This was fine until the crew had to water plants and trees, when \$125 per man-hour was a bit excessive for holding a hose and spraying water over the countryside.

The owner and general contractor were withholding a \$500,000 progress billing from my client, until he went back and recalculated his T&M rates and then applied them retroactively to the whole job. Needless to say, my client was anxious to get paid, keep the job and make everybody happy.

My client had excellent records for the whole project. I recalculated all the T&M rates, with and without the large equipment. My client and I then went back and readjusted all previous billings. He then had to "sell" the new pricing to both the owner and the GC. Fortunately, the old total was not very different from the new one. My client got paid and went on to finish a very beautiful project.

Another contractor, who called me one day, wasn't so lucky. He'd done close to \$10 million of T&M installation work for a very wealthy residential client over an eight-year period. Apparently, one of his competitors was jealous of his relationship with this client. The other landscaper got the ear of the client and convinced him he'd been overcharged during the previous eight years. The client had his attorney send the landscaper a letter demanding a re-evaluation of all his previous charges, and a refund. This is when I got the initial phone call.

I told the contractor I could help him calculate and validate T&M rates for the previous eight years of work. We could then make any adjustments as we deemed necessary. However, it

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was going to be a bureaucratic nightmare, as this project would take hundreds of hours and cost thousands of dollars. To top it off, what do you think the chances were of salvaging the relationship with this client who'd provided over ten million dollars of work?

****How it works – end****

Materials pricing

I recommend charging for repair materials, independent of labor rates. For commercial customers, you'd normally add a minimum margin of 20 percent to invoice cost. While not necessarily accurate, you could justify the 20 percent by calling it 10 percent for G&A overhead and 10 percent for net profit. Residential markets will usually allow you to charge retail prices for materials.

Subcontractor pricing

The going margin I see around the country applied to subcontractor costs ranges between 10 and 20 percent. Rarely is it higher or lower, and 15 percent is a pretty good benchmark. You could market the 15 percent by saying five percent was for G&A overhead and 10 percent for net profit. However, you have to think about your market when adding a margin to subcontractors.

A client in Pennsylvania called me a number of years ago. He was bidding a large commercial project with a \$100,000 soil prep and jute netting subcontractor on it. The landscaping part of the job was only about \$36,000. My client asked me what I thought he should add on to the subcontractor cost. He said he was thinking of adding 15 percent. His rationale was that five percent was for G&A overhead and 10 percent was for net profit.

I asked him if the subcontractor was reputable, and if he'd need much supervision on this job. My client said he'd done lots of work with him, and that he needed little or no supervision. He added that when it came time for the subcontractor to do his work, all my client would have to do was make a telephone call and then send an invoice to the general contractor when the work was completed. I told my client it appeared he wanted to charge \$15,000 ($\$100,000 \times .15$) to make a phone call and send an invoice. He chuckled and said, "I guess so." I asked him if he thought he could charge \$15,000 to do that and, if so, I'd make the call and split the \$15,000 with him. We both laughed.

Of course, if you can charge \$15,000 for the call and invoice, by all means do so. However, this contractor realized that, in this case, \$5,000 would probably be sufficient.

Think cost, but also think market!

Equipment

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Chapters 9 and 45 cover equipment costing and pricing very well. You should allow the market to help you out in a T&M situation as it often “predisposes” various pricing levels. If at all possible, you should attempt to charge equipment rental rates for the equipment you own. Treat rented equipment as you would a materials or subcontractor cost and mark it up accordingly.

You should provide prices for every piece of motorized equipment that will show up on the job site. Often, my clients will use daily, weekly or even monthly rates for trucks, tractors, skid steers, etc. I’d treat portable toilets, dumpsters, storage containers, etc. the same as general rental equipment.

Don’t forget to charge for the crew truck. I often build the cost for the crew truck into the labor rate. You should also charge for delivery trucks and trucks making dump runs. For these, I like to charge a minimum of four hours per day or engine running time, whichever is greater.

I think it’s usually best to charge for the supervisor’s truck in the rate for the supervisor.

Labor (curb-time and portal-to-portal rates)

Every hour you pay for should be passed on to the client in a T&M situation. This is why crew day rates can be very helpful when doing T&M work. **Curb-time rates** are applied to on-site time. **Portal-to-portal rates** apply to every hour of the payroll day.

For instance, if you were charging \$400 per crew member for a 10-hour day and the crew was on site for eight hours of curb time, the curb-time rate would be \$50 per man-hour ($\$400 \div 8$ curb man-hours = \$50). However, the portal-to-portal rate would be \$40 ($\$400 \div 10$ total man-hours = \$40).

Drive time or non-site time can be handled one of three ways:

- It can be included in the hourly rate charged to the client. The client is, therefore, charged an hourly rate based on curb time.
- The client is charged for actual drive time to the job site. Essentially, the clock begins to run once the crew clocks in or leaves the yard and stops when the job is completed. This method has some inherent problems if the driver starts from a location other than the yard, gets stuck in traffic, or has to make other stops along the way.

Instead, an average time could be allocated to the job, but this puts you into the third method.

- You can charge a show-up fee that includes drive time plus a certain amount of time on the job (i.e., the first 15 to 30 minutes). Time after that is charged at a set hourly rate.

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When negotiating T&M labor rates, use the terms portal-to-portal and curb time. No one knows what they mean and you'll appear much smarter than you actually are.

It's usually wise to have multiple rates. For instance, you might have labor rates as follows:

- Basic laborer \$30 per hour portal-to-portal
- Leadman \$35 per hour portal-to-portal
- Foreman or crew leader \$45 per hour portal-to-portal
- Supervisor \$55 per hour portal-to-portal with truck

Don't forget yourself. If you step on the job site, you should be charging for your time. Get your clients in the habit of reaching for their wallets or checkbooks whenever they see you. Your attorney does it this way. Why should it be different for you and your clients?

Rate cards

I encourage my clients to print a rate card with all their rates on it. This card may be for internal use only. Or you might give it to clients. In either case, it will save you time and the embarrassment of not knowing what you charge. You can attach your rate card to contracts or hand it out as needed. In any case, it will make you look more professional.

A simple illustration

Figure 19.1 illustrates how I cost out the T&M rate for a three-man crew with a crew truck for a 10-hour day. The crew average wage, labor burden, overtime factors, etc. are as indicated in the figure.

****** Figure 19.1 Crew Time and Materials Rate ******

This crew needs to bill out \$1,200 per day. This includes the crew truck, all G&A overhead and net profit. The curb-time rate calculates out at a little under \$44 and the portal-to-portal rate at just over \$39. I'd round these to \$45 and \$40, respectively.

SUMMARY

Time and materials (T&M) or cost plus billings can be an excellent way to perform work. However, you must do your homework. You need to know your rates cold. Once you've calculated your rates, the job's not over. You must communicate effectively with your client and manage client expectations. You're constantly negotiating on a T&M project. Develop and keep a rate card with you at all times. It will save you a lot of aggravation.

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Don't hesitate to get help or a second opinion when calculating your T&M rates. Remember the carpenter's adage, "Measure once, cut twice. Measure twice, cut once."

ACTION POINT

Calculate your T&M rates, both curb-time and portal-to-portal, for your various field personnel using the techniques mentioned here. Be sure to include the cost for the crew truck or van. Establish daily revenue goals not including materials. Compare the revenue goals that you calculate to ones actually achieved by your crews.

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.

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This article was adapted from James Huston's books, *How to Price Landscape & Irrigation Projects* and *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 them at jrhei@jrhuston.biz, or visit the J.R. Huston Enterprise web site at www.jrhuston.biz.