

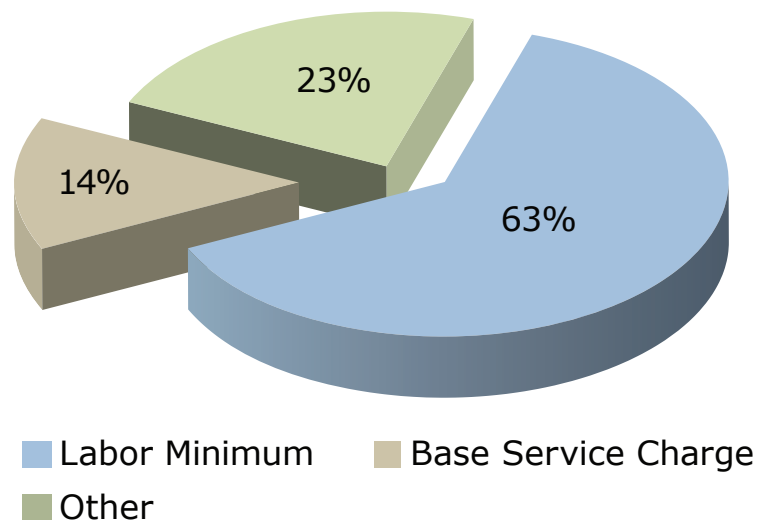
Labor Minimums

Background of the Base Service Charge model

Beginning in Xactimate version 2002, Xactware introduced a powerful new design which allowed estimators to separate and manage the cost of drive-time and mobilization for each tradesperson in a separate Base Service Charge. Splitting these costs out into a separate charge which can be modified individually allows estimators to easily and accurately account for labor cost differences between large and small jobs¹. For contractors involved in the repair, service, or remodeling industries, the ability to independently manage these costs can play a large role in whether the contractor is profitable and competitive in price.

Since its inception, application and use of Base Service Charges have been widely varied; from those who leave the Base Service Charge at its default value vs. those who factor the default value into the individual unit price (as a portion of each tradesperson's daily productivity) vs. those who turn off the Base Service Charge completely.

While each of the different uses is justifiable, the existence of the three choices has created some additional complexity in researching prices within the marketplace. For example, when a contractor or service provider is unable to include a separate base service charge in their estimate, prices which they quote Xactware will tend to increase to compensate for those costs. The end result is that the Base Service Charge model is becoming obsolete as most contractors and service providers are starting to include the drive-time and mobilization expenses in their estimates using different models.



Common Industry Method for Pricing Small Repairs

Given the shift noted above, Xactware recently conducted a study regarding the most common or preferred method for estimating small repairs. The study involved more than 1,600 respondents and included general and trade contractors, service providers, as well as independent and staff adjusters. More than 500 of the respondents were not users of Xactware products.

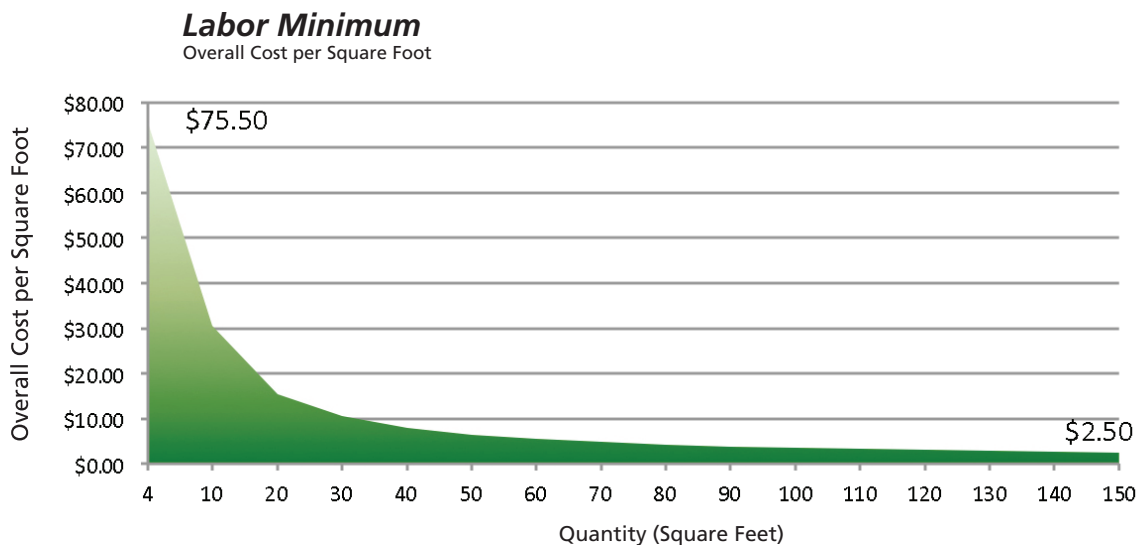
While the responses varied, the overwhelming majority (63%) priced their estimates subject to a minimum charge for labor. Meaning, they used a combination of standard unit prices (drywall per square foot, roofing per square, etc.) or a time-and-material formula, but made sure that the labor portion of the estimate met a certain minimum number of hours or cost to cover the known drive-time, setup time and applicable administrative costs as well as time needed to perform the repair. Those who use a Service Charge were limited primarily to those trades in the mechanical industry (electrical, HVAC, plumbing). The remaining players reported using a combination of methods from standard unit prices, job-specific bids, or hourly rates.

Minimum Charges vs. Service Charges

The key distinction between a labor minimum and a service charge is that the minimum charge includes time (labor) needed to actually perform the work while the service charge does not. Service charges, as defined, include only the drive-time and mobilization fees which are applied in many cases regardless of the amount of work being done. Minimum charges on the other hand, are no longer needed as the amount of labor required to perform the task exceeds the required minimum hours or cost.

When used, both methods however follow a similar cost improvement curve. The following chart shows an example of a total charge (less any general overhead, profit, or sales tax, etc.) per square foot of drywall when using a labor minimum charge. Although the adjustment for the labor minimum charge is shown in the estimate as a separate line item, when it is spread over an ever-increasing quantity of square footage (in this case), the total charge per square foot decreases.

In the following examples, assume (for the sake of ease) that the market price of ½" drywall with a certain finish is \$1.00 / sq ft, and that price is distributed evenly at \$.50 labor and \$.50 material. Further, assume the typical reported labor minimum charge for a drywall repair in the market is \$300. In this case, the following charges would apply (not including General O&P, sales tax, etc.):



As shown, since the labor charge per square foot (\$.50) did not meet the reported minimum charge (\$300) for the quantity of drywall estimated, a "minimum adjustment" to labor was included. When the total charge (material and labor) is then divided by the square footage of the repair, the overall charge per square foot decreases as the quantity increases.

Quantity	Material	Labor	Labor Minimum		Total	Overall \$ per square foot
			Price	Adjustment		
4	\$2.00	\$2.00	\$300.00	\$298.00	\$302.00	\$75.50
50	\$25.00	\$25.00	\$300.00	\$275.00	\$325.00	\$6.50
100	\$50.00	\$50.00	\$300.00	\$250.00	\$350.00	\$3.50
150	\$75.00	\$75.00	\$300.00	\$225.00	\$375.00	\$2.50

The actual line item price for the drywall remains static (\$1.00); it is the additional labor "minimum adjustment" line item which continues to decrease in price as the quantity of drywall increases. In this example, the Labor Minimum charge adjustment will continue to decrease until the labor cost within all line item costs to which it applies meets or exceeds \$300.

Xactimate version 28

Beginning in version 28 (available in 2013) Xactimate will include tools which allow users to manage and automatically apply labor minimum charges within an estimate. Xactware's published building cost data will automatically include labor minimum charges based on market research performed with local and regional tradespersons, contractors, and service providers.

Within each estimate, users will have the opportunity to view the labor minimums being applied within an estimate, and make changes when needed, such as turning a minimum charge off ² or modifying the price to meet the specific requirements of their company or the job being estimated.

While not yet automated (as they will be in version 28), the currently available versions of Xactimate provide for the inclusion and management of minimum charges as line items selected from the price list. Until the release of Xactimate version 28, and as always, Xactware's published pricing information will continue to reflect the most recent market surveys performed in each area. Should the Base Service Charge model become obsolete (i.e. estimators stop quoting prices which are reflective of an additional base service charge), Xactware's reported pricing information will be adjusted to reflect the change.

End Notes

¹ For additional information on the details related to this design and its purpose, see the whitepaper titled "Labor Efficiencies Update" on the eServiceCenter support website at: <http://eservice.xactware.com/esc/pdf/labor-efficiencies-20111011.pdf>

² Minimum charges would typically be turned off when it is known that a single tradesperson is performing the task(s) normally associated with two or more tradespeople, and during the same visit to the job. For example – when replacing vinyl floor covering in a bathroom the toilet must be detached and reset. If the flooring installer will remove and replace the vinyl floor and detach and reset the toilet (and it's allowed by state and/or union regulations), the estimator would consider turning off the Labor Minimum Charge for the plumber, etc.