



THE COST OF LABOR

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By Charles Vander Kooi

I have told more than 70,000 contractors across North America that I have yet to meet the contractor I can't make profitable if he or she will focus on just two things: the control of labor and overhead (see January 1998 issue of Lawn & Landscape, p. 87). Sad to say, most contractors focus on something else: getting work and expanding.

A major bonding company—an insurance company that guarantees a contract will be performed at the original bid price even if the contractor goes bankrupt—did a survey of contractors who had declared bankruptcy to see why they went bankrupt. Do you know how many contractors they found who had gone broke due to a lack of work? NONE! Do you know how many contractors they found who had gone bankrupt because they had taken on too much work too fast and for too cheap? LOTS OF THEM! A contractor's primary focus must be on the control of labor and overhead.

RISKY BUSINESS

The labor portion of any estimate is the greatest risk in estimating. I have never stayed up nights worrying if I had enough for materials in a bid. If you can't take off material from a drawing, get out of town. I have never stayed up nights worrying about the subcontractors. If I know what the subcontractors have included and if I have covered what they have excluded, I can sign them up and get them to do their work. Equipment follows labor, so if labor is right, then my equipment will be right. However, I have stayed awake many a night worrying if I had enough or too much labor in an estimate.

When I deal with labor on an estimate, I never deal in dollars and cents. Rather, I use production hours. Production hours are the most stable way of estimating labor for the long term.

I do not want to determine that I can plant a shrub for \$1.50 or a tree for \$18 in labor costs. Rather, I want to determine how many hours it will take to produce a planted shrub or tree. If I can plant five shrubs per hour and I have 50 to plant, I will need 10 production hours to plant the shrubs. If it takes me an hour and 30 minutes to plant a tree and I have six trees to plant, it will take nine production hours to plant the trees.

I deal in production hours for three reasons. First, the dollars-and-cents labor costs become antiquated very quickly. You can show me labor for a job you did yesterday, but as soon as you give anyone a raise on that crew, your costs will be antiquated. If you had a foreman with five low-priced laborers—who lower your labor costs per hour—doing the work on one job, but on the next job that same foreman has only two low-priced laborers, your costs will be antiquated. I know how many production hours are necessary to form and pour and finish small concrete slabs. I have been using those same production rates for three years. Workers form and pour and finish small concrete slabs the same way that they did 20 years ago. Do you think that labor costs are the same today as they were 20 years ago? Of course not. What has changed? The cost of the labor per hour. I can use the same production rates and be current on my labor costs by multiplying the production hours by today's average wage.

The second reason I use production hours is that it is easier to vary production hours than to vary dollars-and-cents labor costs. For example, I can plant one tree every hour and 30 minutes if I can get a truck with the tree on it near the hole. I have 10 trees to plant, and five I can get near with a truck. I will need to tractor five others into another area and carry them at least the last 50 feet. It will take an extra 30 minutes on those five trees. I can vary my final production hours by figuring 15 hours to plant in normal conditions and another 2 1/2 hours for the five that are not normal. Total: 17 1/2 production hours.

The final reason that I use production hours is because field people think production. Let's say that you have done a bid based on dollars-and-cents labor costs and you have arrived at a total labor cost of \$900 to do some planting. If you go to your foreman and tell him to get that truckload of plants planted for \$900, what will he say? "What do you mean by \$900? Who is paid what?"

But, if you have arrived at your labor costs by production hours multiplied by the average wage and you have calculated 80 production hours, then you can tell the foreman that with a four-man crew working 10 hours a day, he has two days to do the job. Does your foreman understand that kind of a goal? Of course he does, because that's the way the field people think: How many people are you giving me, and when do I have to be done?

TOO LATE TO COST

I love job costing, but the problem with job costing is that when you finally get the figures, the job is over. I have clients who know how much material needs to be installed in one day to stay on schedule. Based on the production hours in the estimate to install that material, they can determine how large a crew to send out to the job to finish the work in one day. They can check

on that job in the middle of the day and quickly see what has been installed and the hours used to see if that job is on target.

If the crew does not get all the material installed in a day, it is obvious to everyone that they are overrunning the estimate. However, this kind of labor control only happens when a contractor deals with labor on an estimate in production hours, not in dollars-and-cents labor costs. Once I have arrived at the production hours for a certain type of work, I multiply those hours by the average wage for that crew. To find the average wage for bid purposes, I put together an average crew with their different hourly wages. These wages totaled will tell you the cost of that crew for one hour's work. Then you divide that amount by the number of people on the crew to arrive at the average wage.

Next, add a factor for overtime to that hourly cost. For example, if you are working your crews 50 hours per week, you are paying them time and a half for 55 hours per week. That means you are paying for five hours of time each week from which you are receiving no production. In order to compensate, you will need to add 10 percent to the crew's average wage. (Five hours is 10 percent of 50 hours.)

To this figure, I also add a "fudge factor." This number compensates for the difference between how long you think something will take and how long it really takes.

Say your foreman comes in and says he can't find the key to the skid loader. The crew looks in the ashtrays of the trucks and in their pockets. After 15 minutes with four people looking, the crew finds the key. It was in the ignition of the skid loader. The crew tries to start the skid loader, but it won't turn over. They've run the battery dead. Someone is sent to get the jumper cables out of a truck, but someone else has taken the jumper cables. The foreman sends someone to the nearest discount store to get jumper cables. (Sound like one of your jobs?) The crew hooks up the jumper cables, but the skid loader still will not start. The gas tank is empty. Someone goes to the company truck to get the extra five-gallon can of gas, but someone else forgot to fill it up after they used it, so someone else heads off to a gas station. Four people just spent an hour to get the skid loader started. Where is that in your bid?

Or, here is my favorite. Rain clouds move over your job and it begins to sprinkle. However, there is blue sky all around. Your foreman looks up to see all the blue sky and determines that the storm will not last long. Then he says the worst thing he can say, "Let's get in the truck and wait it out." He was right, the storm only lasted half an hour, and they were going to get out and go back to work, but their favorite song came on the radio. It's another 10 minutes before they get out of the truck and go back to work. Where is that time on your bid?

I suggest that if you know your crew's production rates and are very comfortable with them, you will add a 5 percent fudge factor to the average wage. If you feel moderately comfortable with them, add 10 percent. If you have never estimated in production hours before—and you will be trying to determine them as you estimate—add 15 percent until you get more comfortable with the process.

PASS THE FUDGE

Now, it is very important to add this fudge factor to the wage and not the net hours. The reason is because I want to hide the fudge factor from two different groups of people. The first is the owner or manager. Let's say you have a bid with 1,000 production hours and you would add 10 percent, or 100 hours, for the fudge factor. As you begin to think about the job, you might say, "I want this job. I need this job." With these thoughts in mind, what might you take out of that bid? The 100 hours of fudge factor. You get the job. How long does it take to do the job? One thousand one hundred hours. Crews are still going to misplace the key to the skid loader, have trouble starting it and run to get jumper cables and gas. It is still going to rain and workers will still sit in the trucks. I know contractors, if they can see those fudge factors hours, they are going to mess with them.

The other group of people that I want to hide the fudge factor from is field people. Can you imagine telling a foreman that he has 1,000 hours to do a job, but you have also added 100 hours of wasted time and mistakes. They will say, "No problem. I'll take care of those 100 hours."

The author is president of Vander Kooi & Associates, Littleton, Colorado. He can be reached at 303-697-6467.