**Labor Management**

For Contracting Success

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Labor Utilization for Contracting Success

Maximizing Profits through Labor Management

**Contracting is a labor game.**

Labor productivity is almost linear with profitability in contracting! The more productive the labor is in a company, the more profitable a company will be. If that sounds like an over simplification of contracting…it is…but not by much!

Certainly there are numerous facets to being a successful contracting company as evidenced by:

**Selling Practices**

**Hiring Talented & Competent Personnel**

**Marketing & Lead Generation Practices**

**Controlling Overhead Expenses and Operating Practices**

**Business and Financial Acumen**

**To name a few:**

We have seen, and we have written extensively on, the 10 areas any contracting company MUST DO to be successful. Labor management or labor utilization is a major player in the top ten below:

1. Financial Structure – Information to Operate
2. Lead Generation - Creating Enough Leads
3. Sales Process - Ability to Sell Well off Leads
4. Pricing Properly
5. Control of Labor Costs
6. Hiring & Training the Proper Talent
7. Management of Service Operations
8. Development of Service Agreements
9. Having a computer system that provides data
10. Leadership Skills of the Owner/Managers

To maintain long-term success, any contracting company MUST focus on these fundamentals. They must organize their business practices around the details that lie beneath each header, starting in the order of priority above.

In this material, we deal specifically with Labor Management, Utilization, and control. It is a true fundamental in operating a 20% of better pre-tax profitability company, and is a MUST DO for all companies engaged in growth, and the goal of improving profits.

Profit Killer:

How productive (or unproductive) the labor is within a company.

It matters NOT whether you are:

* A commercial contractor in any commercial market segment, doing design build, replacement or track work
* Residential add-on/replacement focused
* Or a mostly new construction based as a business

Labor productivity and utilization are key element to making money in contracting, and it can further be detailed that the factors listed above play a significant role in how well/poorly a company does at utilizing its labor capacity.

Look closely at a company that lacks leads or work posted on the company job boards, and you will likely find “Labor Drag” where the field labor force may drag out the hours on a project because the labor force sees the job boards – they KNOW if you are busy or not and have to feed their families! Never happens right?

Profit Maximizer:

Companies that understand how to effectively utilize their labor seem to identify other gaps that hold them back as a part of the labor utilization process.

**Bad labor control** comes from bad information – or no information from accounting.

**Bad labor control** comes from poor leadership practices – no controls by leaders.

**Bad labor control** comes from poor job management processes – lack of defined tasks.

**Bad labor control** comes from field labor running the jobs – Fox guarding henhouse.

**Bad labor control** comes when compensation rewards hours, not productivity.

**Bad labor control** comes from lack of, or poor communication of what is expected.

There is a lot of bad in our world! Why? Many are afraid of labor leaving in a tight labor market. Many just don’t understand “**LABOR DRAG**” is killing the company profitability.

*Recognition is the first step to change. Evaluation is the second step. Execution last!*

If you as a contractor understand that there are benchmarks to operating the contracting business, and realize these benchmarks are check points for you to evaluate how well you perform against the TOP PERFORMING companies in the industry by market segment, then all that remains is to create the highest level of gross profit dollars per man day for your company.

When you start evaluating the labor utilization, these benchmarks allow the “Other” gaps in your company to stick out like Rudolph’s Red Nose!

**Labor Management and utilization can be mastered, but it does take discipline.**

The balance of this article deals with the subjects:

* Knowing and using the Benchmarks for Labor.
* How to plan your labor usage in a company.
* How to maximize your gross profit dollars per man-day.
* When do you hire additional labor capacity versus paying overtime?
* Labor tracking, measurements, and controls.
* Using pay plans & rewards to influence labor productivity.

No company is averse to the market conditions, or factors such as economic changes, terrorist attacks, climate patterns, or weird weather such as 40 days of rain in a row during mid-summer, but a solid understanding of how to manage your labor based on the following principles:

Key Operating Principles

Key Leadership Disciplines

Pricing Practices

Testing, Hiring, & Training Practices

Job Management Practices

Crew Assignments

Labor Plan & a Forecast

Sales Flexibility and Sales Process

Productivity Pay Plans

1. **Leadership Skills – interpersonal skills**
2. **Understanding Benchmarks**
3. **Financial Measurement Capabilities/Tracking**
4. **GUTS and FORTITUDE to operate change, and adapt**
5. **Training processes**

Reading and learning about these principles is the first step, and they can help sustain your profitability better during these more difficult conditions, and lead to record profitability during the good years.

*Operational Excellence (EXECUTION) requires a commitment to CHANGE.*

Section 1

Knowing and Using the Benchmarks for Labor

Benchmarks can be like “FOUND” gold!

It is hard to have enough of them because they are so valuable. For years the contracting industry relied on data from mix groups, or banks, or other services that simply were not accurate due to the uncommon methods businesses used to track their accounting and performance. Many lied about their records when asked, so why trust that?

Consolidation came along and changed many things, and one of the chief benefits was a common accounting platform to judge great operating companies in ALL market segments:

**Commercial Service & Replacement**

**Add-On Replacement**

**Service Repairs**

**New Home Construction Trak**

**Commercial Trak**

**Indoor Quality**

**Maintenance**

**Custom New Home**

We now have benchmarks that span across many performance areas (Check on the Web Site under benchmarks) and specifically the labor benchmarks.

The labor benchmarks by market segment allow any company to understand what their company looks like against PROVEN 20% PRETAX Operating Profit models.

Not one company, but many such companies all pointing to the same figures, with common accounting so there is ZERO doubt about what the number SHOULD BE!

POWERFUL STUFF!

So the very first step in labor management is, understanding what these benchmarks are, what they mean, and how they relate to your very own company.

*Knowledge is power for sure*

*But do you have the will power to execute OPERATIONAL EXCELLENCE?*

Knowing the way and following the way are very different paths, so once you know the benchmark, and you see a gap in your company, what are you prepared to do to change or adapt the operational labor practices that got you there?

Here are some of the unburdened labor benchmarks as a percentage of sales in the department:

**Demand Service**

**Maintenance**

**Trak New Home**

**Custom New Home**

**Add-on Replacement**

**22% of Labor Only Sales**

**34% of Sales**

**17% of Sales**

**27% of Sales**

**9% of less of AOR Sales**

What you do with these is to evaluate your company performance against these unburdened figures, and then move to the next step which is “ASK”

* Why are we where we are?
* What are our business processes that we use that creates these numbers?
* If I don’t like the way my numbers stack-up – what can I Change?
* When do I plan on changing the process?
* What is the Plan to Change the Process?

**Example 1** Hourly pay versus performance-based-pay – not an easy change but maybe one to consider to align compensation rewards with your goals of maximizing gross profit dollars per man-day.

**Example 2** Labor control on the job site – who manages the job and what are the job standards for completion based on an estimate?

*You have to know what you want before you can change.*

*It also pays to understand how to change as well.*

Section 2

Planning Labor Usage – Labor Utilization

The vast majority of contractors do not “PLAN” their labor. They react to the job board as it comes into them daily.

* The phone rings, we sell a job, up goes the job schedule and we react!
* Many times we DO NOT communicate – the job goes up and we say nothing to anyone about the work, the labor requirements, or we say too little.

It works this way. At least most of the time! You **WILL NOT** however see any company making 20% pre-tax doing it this way.

Why?

These companies understand the principle of “PLANNING” their labor ahead of the sales curve, and in fact, doing some sales forecasting – yes that’s right, I said it.

**Sales Forecasting - A sales forecast requires at least SOME communication**

Great companies do this to estimate what “Probably will” occur and figure out their labor needs based on two factors:

1. The current labor backlog.
2. The sales run rate – what can be expected (Forecast).

In the page following is an example of a labor-planning template you can find on the web-site, and of course use to execute this discipline in any market segment.

That is not to say this is the ONLY way – it’s not. However, if you are not planning for your labor, and controlling it as well, then this can be a starting point.

**We plan our labor weekly – just like we pay them – just like they work!**

Each week/day we meet for 1 hour – no more or less with this agenda:

* Discuss dashboard- sales and KPI’s, successes.
* Discuss the lead situation.
* Discuss the labor costs from payroll and how it relates to the last week’s job plan.
* Discuss a forecast – short and sweet.
* Decide what the “Heck” we are going to do – it is never perfect (too much or too little).

More formally:

1. How many sales do we have booked and what labor is required.
2. What is our run rate projection – any potential leads/sales/jobs.
3. What are our labor hours available based on vacations, weather catastrophes, sick days, holidays, “PLANNED OVERTIME” and subcontracts. Pretty simple really.

It takes us about 60 minutes to review this data, look at leads, sales, and discuss what we want to do in the way of marketing to fill any gaps. Or, on really lousy weeks, sending home some labor hours so we can afford to pay the electric bill.

Did you catch that last phrase – sending home the field labor when there is little or no work for the company? Is this a fair practice? Should we be compassionate?

What we tend to do is ALLOW the “Labor Drag” because we are afraid of losing our labor capacity. Below are some ways to deal with this issue listed in the site:

* Sales and Discounting Strategy to maintain revenue stream during slower periods
* Planning our labor usage
* Pay for performance so work can be accommodated more quickly
* Production foresight – planning labor capacity and usage
* Having a strong maintenance agreement base to level demand curve
* Having a strong IAQ platform ties to maintenance

All these factors actually help us keep labor busy. When we do not follow these factors we get caught sometimes with no work in slower periods.

Review the template on the following page and see if you can follow the assumptions, and where there is yellow – these are data entry points for using the tool!



You can find these labor planning templates on the site in various market segments.

* Commercial – for various commercial segments and cross over
* Replacement – service, maintenance, cut-in returns
* New Home – tract, custom, design build

These are all very different markets, and you can use these tools to plan your labor hours and labor to sales forecast – especially during the slower periods.

Since labor crosses over into a wide range of markets, such as service crossing into replacement (AOR) you can estimate using hours.

For planning purposes you can also use the history of your payroll.

This makes it incredibly important to be departmentalized, so your labor flows through the payroll recording and accounting system by “WHERE” the labor was performed and NOT BY JOB CLASS!

**Step 1.** Define your markets for labor management and adapt the planning template.

**Step 2.** Determine the number of crews in your labor pool for each market.

**Step 3**. Determine the average job selling price and estimated labor hours.

**Step 4**. Lay in your specific company modification factors – weather – vacation. This allows you to plan for potential changes, and adapt instead of reacting.

**Step 5**. You will need to know your committed labor hours for jobs in progress.

**Step 6**. Estimate any new sales and the labor hours to meet those sales.

**Step 7**. Finally – estimate if you need any modifications now – overtime you plan. You would. Also be choosey now, who you may want to work any overtime. Or as you can see, you may decide to hire additional labor based on a forecast you just completed.

This planning and forecast process does NOT take much time. It is a tool we use in a once a week production meeting to review the job boards, and more importantly get a strong handle on Who is doing What, When, Why and at WHAT cost – we then get to talk about the How!

As you can see, the labor planning tool allows visible evidence as to labor to sales percentage, so we get an immediate and clear knowledge of our labor benchmark!

Section 3

Maximizing Your GP$ per Man-Day

Well, if you can just cut to the chase – this is it. How do we pay the bills?

Gross Profit dollars that’s how!

When we evaluate the whole contracting business, the single phrase that really sums up all the things we as contractors TRY HRAD to do is set-up business practices to get the company Gross Profit Dollars as high as we can by:

1. **Selling Well – meaning enough work at good pricing levels**
2. **Pricing Properly**
3. **Having half-way decent financial tracking to measure results**
4. **Hiring, Training, Scheduling & Managing Labor properly**
5. **Buying Well for parts and equipment**
6. **Managing the job – recovering materials unused**

Let us start with the idea of defining GP$ per Man-Day or Man-Hour.

Example #1

GP$ per Man-Day or Man-Hour

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sales** |  |  | **4000** | **6000** |
| Cost of Sales |  |  |  |  |
|  | Direct Labor | 300 |  | 300 |
|  | Direct Labor | 100 |  | 100 |
|  | Materials | 200 |  | 200 |
|  | Equipment | 1000 |  | 1500 |
|  | Permits | 100 |  | 100 |
|  | Warranty Reserve | 100 |  | 100 |
|  | Financing Buy-downs/Rebates | 50 |  | 50 |
|  | Commissions | 50 |  | 150 |
|  | Subcontracts | 100 |  | 100 |
| **Total Cost of Sales** |  |  | **2000** | **2600** |
| Gross Profit $ |  |  | **2000** | **3400** |
| Gross Margin Percentage |  |  | 50% | 56.7% |
| Overhead |  |  | 1200 | 1200 |
| EBIT (Earnings Before Interest & Taxes) |  |  | 800 | 2200 |
| Labor Hours (Man Days) |  |  | 16(16/8=2) | 16(16/8=2) |
| **Gross Profit $ per Man-Day** |  |  | **1000/day** | **1700/day** |

Which job do you want?

The key statistics are in bold in the example above.

*Two jobs*

*Maybe even the same job*

*Real life - with two varying contracting estimates*

Contractor # 1: Define your markets for labor management and adapt the planning template.

Contractor # 2: Determine the number of crews in your labor pool for each market.

Contractor # 2: Determine the average job selling price and estimated labor hours.

* You notice the principle – the gross profit per man days improve based on the fact that labor is essentially the same but we have increased our price and margin dollars.
* You will also notice in the example that some of the direct cost of sales increased while some did not, which is real life.
* Recognize margin percentage is almost meaningless in contracting – we sell labor – and dollars pay the bills – so it’s the dollars that count!

Let’s look at another example before we get into the “How” we increase the GP$ per man-day! Specifically, a job that changes based on YOUR choices – meaning our labor utilization is full, or near full, and we have already sold much of our labor capacity. Imagine we are in a busy time or season.

**What we SELL is labor.**

**What we do is provide customers total comfort solutions!**

What that means is simple:

The first job we needed the work – it was our slow time – but how about how we price and estimate, and sell during busy times?

Example #2

The CUT – In Versus the Change – Out

Choosing Your Mix of Work

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sales** |  |  | **4000** | **4000** |
| Cost of Sales |  |  |  |  |
|  | Direct Labor | 300 |  | 300 |
|  | Direct Labor | 100 |  | 100 |
|  | Materials | 200 |  | 200 |
|  | Equipment | 1000 |  | 1000 |
|  | Permits | 100 |  | 100 |
|  | Warranty Reserve | 100 |  | 100 |
|  | Financing Buy-downs/Rebates | 50 |  | 50 |
|  | Commissions | 50 |  | 50 |
|  | Subcontracts | 100 |  | 100 |
| **Total Cost of Sales** |  |  | **2000** | **2000** |
| Gross Profit $ |  |  | **2000** | **2000** |
| Gross Margin Percentage |  |  | 50% | 50% |
| Overhead |  |  | 1200 | 1200 |
| EBIT (Earnings Before Interest & Taxes) |  |  | 800 | 800 |
| Labor Hours (Man Days) |  |  | 24(24/8=3) | 16(16/8=2) |
| **Gross Profit $ per Man-Day** |  |  | **733/day** | **1000/day** |

So in this instance our job is not the same, but in fact the sale price was the same. What the difference is comes down to labor. Job # 1 is a cut-in where we have extra labor hours on the job due to duct modifications that are necessary to good quality work.

The second job is a simple change out, and though we did not sell at the higher price, you can see the preferred job is the one with $ 1,000 per man-day.

This principle extends to service and maintenance as well. Although we prefer to review gross profit dollars per man-hour in service and maintenance, along with the other Key performance Indicators or Benchmarks that tie back to service as well.

So the real question is; how do we maximize our gross profit dollars per man-day?

Easy question – tough disciplines – answer – follow these rules!

Example #3

Is lower margin % work beneficial? Answer – it depends!

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sales** |  |  | **4000** | **4800 discounted from 6,000** |
| Cost of Sales |  |  |  |  |
|  | Direct Labor | 300 |  | 300 |
|  | Direct Labor | 100 |  | 100 |
|  | Materials | 200 |  | 200 |
|  | Equipment | 1000 |  | 1500 |
|  | Permits | 100 |  | 100 |
|  | Warranty Reserve | 100 |  | 100 |
|  | Financing Buy-downs/Rebates | 50 |  | 50 |
|  | Commissions | 50 |  | 150 |
|  | Subcontracts | 100 |  | 100 |
| **Total Cost of Sales** |  |  | **2000** | **2600** |
| Gross Profit $ |  |  | **2000** | **2200** |
| Gross Margin Percentage |  |  | 50% | 45.8% |
| Overhead |  |  | 1200 | 1200 |
| EBIT (Earnings Before Interest & Taxes) |  |  | 800 | 1000 |
| Labor Hours (Man Days) |  |  | 16(16/8=2) | 16(16/8=2) |
| **Gross Profit $ per Man-Day** |  |  | **1000/day** | **1100/day** |

Once again, job # 2 at $4800 produces a lower margin percentage job, but a higher GP$ production in the $4800 sale price minus cost of sales of $2600. Though we are no doubt installing a higher-grade piece of equipment, this typical example is a discounted high-end piece of equipment producing $2200 gross profit dollars, as opposed to a standard piece of equipment producing $2000 in gross profit.

Since they are both equal in labor hours and overhead remains a constant based on the job, it is wiser to accept the higher GP$ per man-day job at a discounted figure.

Take a look at the basic rules for maximizing GP$ per man-day.

The Rules:

1. Seasonally adjust your prices – stop worrying about customers who will complain because their neighbor received a better deal! Some might but it will be a small minority. Get over it. Seasonal pricing is more normal than abnormal.
2. Price your jobs on the basis of gross profit dollars per man-day as a starting point. Get rid of engineering jobs. Use a positioning style pricing/options framework and offer customers options with pre-established cookbook prices.
3. Use a positioning strategy and establish a cookbook price manual.
4. Choose products that position your gross profit dollars per man-day and not just from one supplier of equipment. There is NO LAW stating you must have one product line offered across all areas. Low end, middle, and high end all can be very different products. Most vendors are not maximum competitive in EVERY category, so choose products that fit YOUR strategy not THEIR strategy.
5. Buy well from your suppliers – contractors typically do not do a quality job of buying from suppliers. Read the articles on better materials acquisition and negotiation processes.
6. Discount the high end products and do it with a strategy to sell more high-end jobs at labor hours for installation that are about the same as the low end job. Consumers offered a special deal on high end products will often spend a few extra dollars. Your equipment and materials costs do not change in terms of dollars, but the percentage will climb some. The real issue is to know how to do this in slower periods to fill up your job board.
7. Know the company breakeven. Understanding your breakeven is critical to the success of a GP$ per man-day strategy. Financial understanding is an important factor, and breakeven allows us to be as aggressive as we CAN BE without losing money. As opposed to just being aggressive? Establish your fiscal year in line with your seasonal demand curve, and review breakeven off a fiscal year.
8. Learn to sell high end products you carry – features, benefits, materials to support the sales process. Training and practice are also keys to this kind of change to higher end selling success!
9. Develop a strong maintenance lead generation program and generate a minimum 1000 maintenance agreements per million. The lead generation function from maintenance needs to be cultivated. It is not automatic just because you sold maintenance agreements. Technicians need training and support and compensation to make this lead generation a 1 to15 ratio.

Refer to the chart on the following page for GP$ per man-day on positioning.



What are we to learn here?

Year 1 the company performed 150 jobs and produced a total of $ 382,740 gross profit dollars

Year 2 the company performed 150 jobs once again for a total of $453,929 gross profit dollars

**A mix change to sell a few more Premium and Deluxe systems, a few less low-end, and you add over $70,000 dollars to profits. Notice the labor hours and the gross profit dollars per man-day by type of job.**

The notion of creating a positioning cookbook is far from new. But like flat rate pricing for service many simply cannot get past the way they have always done it. Change is hard isn’t it?

Section #4

When do you add labor capacity?

**As little as you can manage.** Labor drives overhead. The more labor hours you add to your company, the more your overhead is likely to climb.Here is why:

Fixed overhead like Rent, Utilities, your salary, admin salaries, and certain yearlong expenses such as yellow pages remain constant no matter whether we sell a unit or we sell nothing.

Other overhead expenses we call variable overhead change regularly based on what we actually sell and install. These are expenses such as:

* Gasoline
* Vehicle expenses
* Maintenance expenses
* Office Supplies
* Many Marketing Expenses to create sales leads

And as we talk about these factors, the less productive we are in field labor – the more we see clearly how our support expenses grow as a percentage of our sales. We have too many people, or hours supporting in many cases, to few jobs, and so we get out of balance in our office support to field ratio. This has the same affect and acts to raise overhead in our employee related category of overhead expenses. Too many staff and too few sales equals higher costs not just as an employee- but because people use things and spend money.

**So when do we add additional labor – without hurting profitability?**

**When do we add additional staff or support?**

**When does it make sense?**

**When is it more profitable to add labor instead of paying overtime?**

It really is a simple set of answers. You add additional labor when you have these two factors in place:

1. When you have enough backlog to more than keep your existing field labor crews busy and are paying overtime hours beyond 50% of the time.

Overtime is not all bad. It only is bad if it is happening to you without you having already received your gross profit dollars per man-day. You really don’t want to spend too much extra labor cost in overtime if you HAVE NOT already covered your GP$ per man-day.

Once we have secured enough jobs, GP$ per man-day and are seeing an increase in need for production, we look at number 2 below.

1. When you have achieved the benchmarks for labor to sales, and the ratio of inside support to outside field labor, you are not maximizing your profitability.

So long as you have the capability in # 1 to maintain the level of work, then it becomes time to add crews. You pick up a new builder, you secure a commercial contract, you create additional leads from maintenance – whatever the stimulus – you have to review the labor forecast, and the benchmarks to justify adding additional labor.

If you cannot guarantee the work is stable, or will be recurring, it is generally a better principle of business to pay the overtime.

It is very difficult to remove personnel once they are hired.

You may spend a few more dollars in labor and the labor to sales ratio will climb slightly, but financially if you have already reached a GP $ per man-day target for a month – then you will be adding “INCREMENTAL” margin dollars without driving additional overhead, and that will add profitability to your bottom line.

Section #5

**Labor tracking and measurements for labor control.**

Labor control ties together hand-in-and with the benchmarks. Once we have labor targets against sales, we can as a company, focus on meeting those targets. Here are a few common questions regarding labor control:

**Often times we are reminded that tracking can cost money!**

**Who is going to DO all this tracking? NOT ME.**

**Doesn’t tracking add administration?**

**The answer is no!**

It is a choice of what work your company and staff is actually doing. A system of labor tracking is necessary, so you know by department (examples- service, replacement, new home, commercial tract, and commercial l service) the labor to sales ratios. It is work that needs to become a priority.

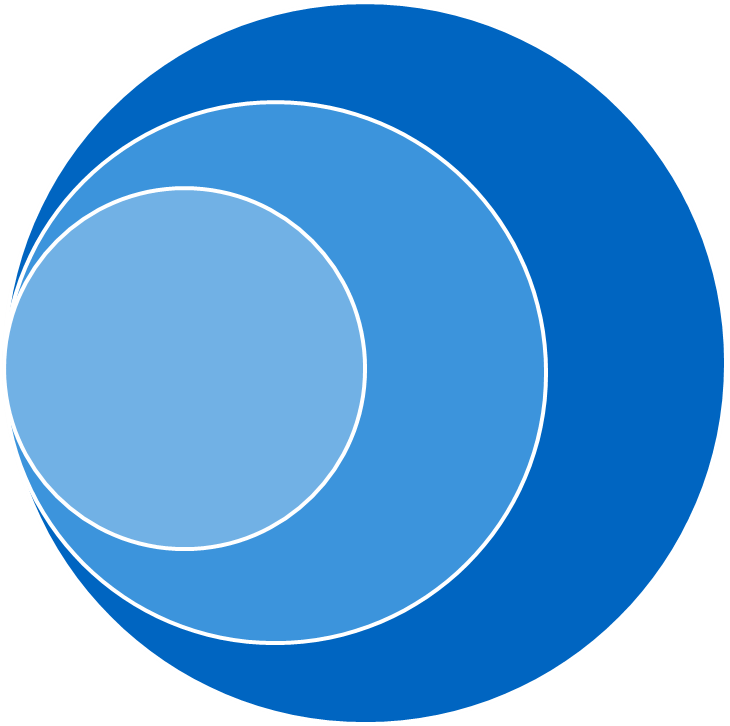
**If labor is the most prized possession we have**

**And labor also is a profit killer when not managed properly**

**How can we NOT WANT TO KNOW what labor is producing?**

Next to sales and proper pricing all else is secondary.

If we think about our leadership principles and prioritization, it falls out like this:



Must Do Work

Need To Do

Work

Nice To Do Work

1. Lead Creation

2. Selling Process

3. Financial Structure

4. Pricing

5. Labor Controls

The MUST DO’s are critical to your success. Great marketing is only great for profitability if you can take the Oranges and

make Orange Juice.

Knowing how to manage your most precious commodity is paramount.

How?

Here are some rules for implementing labor control and then you can review a sample labor control system, which resides on the site along with a few templates for your customization if your application software does not already accomplish this task.

1. Become departmental in your financial statements so you understand what labor dollars are flowing off of what sale by department. This is important to maintain an accurate picture of labor to sales figures.
2. Educate your accounting department, or your accountant, to establish the principles of benchmarks.
3. Make the change in your operational forms to become able as a company to allow your men to easily account for WHERE they spent their time each day. Many field employees will be assigned a department for payroll purposes, but that is NOT REALITY. If they cross over into areas they are not assigned to such as service to replacement to help do an add-on, the labor hours get assigned to the add-on department. Plain and simple.
4. The forms are service tickets, materials requisitions, maintenance agreement forms, your time card ticket, and purchase orders. All need to be assigned departmental codes so labor gets assigned properly.
5. Train and mandate the field labor account for their labor hours and time cards the new way and don’t just assume 1 session is enough – it is changing a behavior pattern and it will take some time. Stay on it. It is MUST DO work for a leader!
6. Use a simple system. Complexity breeds frustration. See the templates.
7. Track the labor weekly by technician and installer. Use a simple template like the one on the following page.
8. Track the labor to sales, the run rate for sales, the overtime spent in labor and get excited about talking about it once a week so communication happens and changes are made, or compliments are passed out for excellent performance.
9. A company should consider aligning their pay plans. Organizing their pay to reward productivity by the hour, or the day, instead of rewarding the field labor force based on hours worked. We can work an awful lot of hours without necessarily generating billings – and the word non-billable time creeps out into the discussion. Having pay plans that line-up well and reward people for production, creates incentives to have more production.

*You can reference the following page to see what a labor tracking system looks like, and on the site there are templates for each segment of service or installation.*

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTHLY SERVICE LABOR TRACKER | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Working Days this Month | | **26** |  |  | **Labor Budget for Month of** | **September** |  |  |  |  |  |
| Working Days so far: | | **18** |  |  |  | $ 35,000.00 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Monthly Summary by Week:** | | Labor Total |  |  | **Month To date** |  |  |  |  |  |  |
| Week Ending | 2-Sep | $ 8,000.00 |  |  | Revenue | $ 107,000.00 |  |  |  |  |  |
| Week Ending | 9-Sep | $ 8,000.00 |  |  | Labor Total | $ 26,000.00 |  |  |  |  |  |
| Week Ending | 16-Sep | $ 10,000.00 |  |  | Labor Ratio | 24.3% |  |  |  |  |  |
| Week Ending | 23-Sep | $ - |  |  |  |  |  |  |  |  |  |
| Week Ending | 30-Sep | $ - |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | **Weekly Revenue** |  |  |  |  |  |  |
| Month to Date Totals | | $ 26,000.00 |  |  | Week Ending | Week End Revenue |  |  |  |  |  |
| **Run Rates:** |  | **$ 37,555.56** |  |  | 2-Sep | $ 35,000.00 |  |  |  |  |  |
|  |  |  |  |  | 9-Sep | $ 38,000.00 |  |  |  |  |  |
|  | **Monthly Payroll** |  |  |  | 16-Sep | $ 34,000.00 |  |  |  |  |  |
| Week Ending | REG | OT | **Total** |  | 23-Sep | $ - |  |  |  |  |  |
| 2-Sep | $ 7,000.00 | $ 1,000.00 | **$ 8,000.00** |  | 30-Sep | $ - |  |  |  |  |  |
| 9-Sep | $ 7,000.00 | $ 1,000.00 | **$ 8,000.00** |  | Total | $ 107,000.00 |  |  |  |  |  |
| 16-Sep | $ 8,000.00 | $ 2,000.00 | **$ 10,000.00** |  |  |  |  |  |  |  |  |
| 23-Sep | $ - | $ - | **$ -** |  | **Revenue Run Rate** | **$ 154,555.56** |  |  |  |  |  |
| 30-Sep | $ - | $ - | **$ -** |  |  |  |  |  |  |  |  |
| **Total** | **$ 22,000.00** | **$ 4,000.00** | $ 26,000.00 |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **% of Overtime to Total Labor hours - Weekly** | | | **15.38%** |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Monthly Revenue Goal |  | Revenue Needed to Reach Monthly Goal | |  | Daily Revenue Projection to reach Monthly Goal | |  |  |  |  |  |
| $ 145,000.00 |  | $ 38,000.00 |  |  | $ 4,750.00 |  |  |  |  |  |  |

**Service, installation, new home, no matter the department. A company needs to keep an eye on labor to sales ratio. Even the labor to gross profit dollar ratio, (which is a subject for a different article) is a meaningful number to understand. It requires you to understand the need to measure it, and then actually measure it. What gets measured gets done.**

Section #5

Using Pay Plans to Influence Labor Productivity

Pay plans are often misunderstood! Why? Many business leaders believe incorrectly that pay is the major motivating factor in behavioral modification.

In fact, pay will be one factor in a host of potential factors, that “INFLUENCE” how people feel, but do NOT CHANGE motivation. People are motivated from within, and we as business leaders can create an effective environment for peak motivation to thrive, but you cannot and never will be able to make me get out of bed earlier unless I choose this behavior pattern

Pay is simply one element in this decision process.

* Pay me 1 million dollars tax free to cross the street – and I will be there before you finish your sentence!
* Pay me 1 million dollars to be there faster than that and I will figure out a way!
* Pay me 1 million dollars to cross that same street, but have to work the rest of my career with my old boss and the answer is you can keep your 1 million dollars. That environment was miserable, and I would not go back to it for any level of monetary compensation.

So, as with most things compensation or pay plans are relative to the work environment, and it all ties together in a package that includes:

* Approval or recognition
* Benefit package
* Inclusion of families, or family atmosphere
* Leadership & Vision – a belief in the leader and trust
* Career opportunities for advancement
* Area of the country for living

There are many more to mention here. Let’s assume for just a moment that these factors are in synergy. That you do these well.

What we now have is a question of what pay plans and reward systems in a company that establish the best potential for productive labor, and in the end bring you as a company more profits?

If you had an extra million dollars today that I could give you, would you share the $250,000 of it with me for bringing you the 1 million?

Same question as the scenario above – the 1 million to walk across the street, and surprisingly most owners are not willing to do this, or at least they do not view it this way.

*What we really just described is a gross profit incentive plan*

*A Profit Sharing plan*

*A share the wealth plan*

***We call it “Shared Success” – and it’s on the site***

The simple secret to labor productivity (Assuming the other motivating factors are in place) revolves around organizing the pay plans around these concepts:

**Step 1.** Have clear expectations – what do you want the employee to do?

**Step 2.** Define the outcomes – establish the KPI’s (Key Performance Indicators).

**Step 3**. Have clear concise goals written around the KPI’s.

**Step 4**. Establish the time lines for the KPI’s or Metrics above.

**Step 5**. Provide the training and tools, resources to achieve the goals.

**Step 6**. Regular communication and feedback – quarterly reviews are best.

**Step 7**. Share the wealth – have pay plans that are tied to successes.

*This is hard work and requires lots of thought and is NOT easy!*

*If your company is not performing at a high level it is not YOUR TECHNCIANS or field labor’s fault.*

*It’s YOU!*

Implementation is 100% harder than the idea.

This is why.

**Implementation is a killer.**

You can read the idea here that pay plans and rewards are great. We have 8 steps – and you spin around wondering how do I find the time?

Quarterly reviews- I can hear it now – are you kidding me! I don’t have time!

No – I am not kidding you.

The work you spend reviewing the employee will pay off 10 fold in less-turnover, better communication, less mistakes, better performance, and an employee who gets what you want done, the way you want it done.

*So you DO need to have performance based production pay plans.*

And you do need to make the time, but I want to explain HOW for you.

Here’s how:

1. Think of your company’s improvement as a flywheel. A flywheel will operate with teeth missing, but sporadically. Your business has teeth missing, so you still power forward, but not nearly as efficiently as you might. With all your teeth in place, the flywheel operates smoothly, efficiently, and with power!
2. You need to identify what the teeth are on the flywheel. I love this part because I no longer do contractor consulting. So I can say this. You would not hesitate a moment to buy a new truck for $30,000 because you have need for it and the revenue and margins it generates are obvious. Yet you will NOT spend 20,000 on a software package that can improve your productivity by 20%, and make you more money than the truck! The same holds true for a business coach – people like Dr. Collier, or Wayne Atkins. Proven professionals who can help you make lots more money!

Why not?

You are not looking at you’re business as a flywheel with teeth. Labor is the single commodity we have to sell and once an hour is gone – it is gone forever. It is one of the ten great teeth we discussed early in this text. So, as a company you need to consider:

1. Evaluate your company for how it manages it labor hours.
2. Determine by market segment what is produced for that labor. It is what we do as contractors.
3. You need to change the way you do business if you don’t have all the teeth on your flywheel.
4. You may need to fabricate some processes (teeth) but you have access to the solutions on the web site, or through the business coaches we discussed, or through many industry forums.
5. And finally, you need to focus on your priorities. In my 20 plus years of experience, I have found it is usually 2-3 key items that need fine-tuning to make a company’s flywheel whole and operate smoothly – not 60 or 70. You just need to pick the right 2-3.

I can almost assure you labor management is one of those items.

Use this text to consider how to investigate the labor side of the equation, and make more profitability for your company.