



Managing Labor Productivity, part I

How integration business owners track and manage labor productivity varies from company to company. The most detail-obsessed track all manner of labor data, even going so far as to assign payroll dollars by job and type of service performed. Excessive minutiae management, in my experience.

At the other end of the management spectrum are companies that make no attempt to measure labor costs or revenues. No measures means no way to figure out how to get better.

In the *Top-Line Management System*™, we use a relatively simple methodology for measuring labor costs, output, profitability, and efficiency. This provides virtually **all the info needed** to manage and improve labor productivity.

To illustrate how this works, let's look at...

A day in the life of an installer

- Arrives work 7a, kicks around for 20 minutes or so while the owner figures out where the installer is going; truck finally loaded and ready to go by 8a
- 30 minutes travel-time to first job, arrives 8:30a.
- Completes first job and is out of there by 11:30a. A quick lunch plus another 30 minutes travel time, arrives job #2 at 12:30p.
- Works about 45 minutes before realizing they need a different router; decides to come back tomorrow. Back on the road to next job at 1:45.
- Arrives 2:05, but client is not at home to let installer in. Two phone calls and 25 minutes later, client arrives.
- Works job #3 until 3:30p, then realizes he is going into overtime for the day. It will take another hour to swing by the distributor to pick up a router, and return to the office. Owner instructs him to finish the job at another time.
- Installer clocks out at 4:30.

We need very little of the above information to put the TLM system to work.

Cost of labor

The installer earns \$25/hour. For the day, 8 hours of regular time and an hour of OT = \$237.50 gross pay. That's the TLM cost of labor for the day. Our cost for the week is, likewise, 40 hours times \$25 = \$1000 (plus overtime). It's a fixed cost that we know we're going to incur, each and every week the installer is in our employ.

To keep installers honest, we like to keep track of actual "on-site" hours for each day & job. But there is no need to distinguish between load time, lunch time, travel time, and work time. There is also no need to "burden" the hourly wage with any other direct or indirect expenses. This simplicity of approach saves a BUNCH of admin effort.

A white paper from Fast-Forward Business Coaching



Labor Output

TLM asks one simple question: “how much labor can we bill from today’s work?”

If job #1 was a quick in/out bid at \$350, that’s what we bill the client. Job #2 was a no-bill: we need to show up with the right gear to consider it legitimately billable time. For Job #3 we completed about 10% of the labor for a job bid at \$1000, so call it \$100. Total labor revenues for the day \$450.

Labor Profitability

\$237.50 cost, \$450 revenue = \$212.50 gross profit for the day. If you set up your chart of accounts to isolate labor wages and revenues, you can get this info right from your P&L – every day, every week, every month, without running ANY job-cost reports.

Labor Efficiency

We know that our cost of labor is \$25/hour, and that our average hourly charge is \$85. This allows us to calculate two other important data points, right from our P&L. Divide \$237.50 cost by \$25/hour = 9.5 payroll hours. \$450 revenue divided by \$85/hour average billing rate = 5.29 “production” hours. This equates to 56% efficiency for the day and we don’t need any time sheets to figure this out.

In part II we’ll talk about how these measures can lead to meaningful management action and improvement. (To request a free copy of part II, [click here.](#))

May you Grow & Prosper!

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