

# PRODUCTION REPORTING: USING JOB COST DATA TO IMPROVE PROFIT POTENTIALS

By Chad Ode

**A**sk any contractor (especially a labor-intensive contractor) what the greatest impact on a job's bottom line is, and chances are the answer will be the same: labor productivity. Compared to other construction cost items, such as materials and equipment, no other job cost comes close to providing such rewards or risks.

As a result, contractors want to see labor production reports. They want answers to specific job questions, including the following:

- What is the quantity completed per man-hour?
- What is the actual versus estimated production rate?
- What is the projected cost for completing the project based on average production to date?

Unfortunately, many contractors simply do not have access to detailed production reporting. Without a sophisticated job cost accounting system, which is capable of storing data by job and calculating production formulas, the manual creation of productivity reports can be a greater waste of time than any unproductive labor crew.

## FINDING THE TRUE PRODUCTION RATE

When contractors estimate the cost of a job, their labor figures are generally determined by what they believe their labor force can complete per man-hour. If a job requires 1,000 feet of pipe installation, for example, a contractor may estimate it will take 100 man-hours to complete the work. The estimated production rate, therefore, is 10 feet per man-hour.

Of course, few jobs are that simple. More often they involve many different field activities, different labor crews, and different pay scales (to name a few), all of which can affect a contractor's production rates. For example, imagine a contractor is halfway through a job and finds that he is way behind schedule. Can he identify which field activity is behind? Does he know which crew is underperforming? If so, the job could be saved.

Using payroll and field data, a good job costing program can provide contractors with specific, real-time production reporting. But that's not the only advantage. When contractors can apply their past production reports to bids on similar jobs, their estimates are bound to be more accurate, and their profits higher. What's more, historical production reports help contractors identify their strengths and weaknesses. This means they can bid

more aggressively on certain field activities, or even back away on some areas due to low production rates.

## WHAT KIND OF PRODUCTION REPORTS SHOULD CONTRACTORS USE?

Just as no two contracting companies are alike, no two contractors will likely require the same types of production reporting. The kind of jobs a contractor does, its labor force, and many other factors will determine how a company will want to see its production numbers—and how often. A good construction-specific accounting program, therefore, should offer flexible reporting options. At a minimum, contractors should be able to produce the following reports:

- **Labor Productivity Report.** For every activity or phase, this report shows the number of units completed per man-hour.
- **Labor Unit Cost Report.** This report shows current labor costs per unit (for every foot of pipe laid, for example). The costs can include labor costs only or labor and burden together.
- **Unit Cost Report.** Similar to the labor unit cost report, this report includes all current costs per unit of measure (labor costs, material costs, equipment costs, etc.).
- **Projected Cost Analysis.** This report shows, based on current costs per unit completed, what the projected final overall cost will be for a specific activity, as well as how many units are still needed for completion.

Retrieving such reports from a job cost accounting system should be as easy as 1-2-3:

1. A contractor simply needs to enter estimated costs, hours, and units for each field activity into the system.
2. All costs are entered as they occur.
3. The contractor enters the quantities (or units) completed against that job.

With a good job cost accounting system, and just those three pieces of information, contractors have immediate access to numerous production reports. That means no more guessing on where a job stands, and no more guessing on productivity rates for similar job bids. Best of all, by removing the guesswork on labor productivity, the rewards go directly to bottom line profits. ♦

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