BUSINESS FORUM

A Simple Profit-Sharing System

by Scot Simpson

My company recently framed two triplexes right next to each other. While I was busy with the joists on one building, I could hear one of my employees on the other triplex yelling, "You're as slow as subfloor glue in winter! Come on, man — I want to make a bonus on this job." I had to smile, because the team spirit in that statement was a result of what I call the Simpson Sharing System — a motivational scheme I have developed over the last 16 years.

I'm a framing contractor, and my company works on everything from houses to light-commercial buildings. We do best on the 10- to 50-unit apartment jobs. I typically have eight to ten framers, but it varies widely.

When I first started doing apartments, I realized that there were two basic types of pay structures: piecework and hourly wages. I quickly learned that most pieceworkers were fast but sloppy and that most hourly workers did quality work but were slow. Since I wanted both speed and quality, I at first decided (and the crew agreed) that we would be paid for the amount of work produced each week. For each job, I deducted all overhead from the contract, leaving an amount I called the wage base. Then each week I would estimate the percentage of work we had done and multiply that percentage by the wage base. The total amount would then be divided up among the crew on the basis of their wage rate and hours worked. It was easier to make the calculations than to explain them, but there were problems with the way this arrangement played out. It was difficult to estimate accurately the percentage of work finished, and it was hard to listen to the crew's complaints about weeks when our paychecks were less than they would have been on a straight hourly basis.

Fixed Wage Plus Bonus

We worked under this system for a couple of years until I switched to what we use today. I still deduct overhead from the contract to come up with a wage base. The difference is that each framer gets paid a fixed wage rate each week plus a bonus if there is any money left over in the wage base at the end of the job. The bonus money is split based on the number of hours each person worked and his or her hourly wage. We usually make a bonus, but it doesn't always happen.

Figure 1 is the top half of an "Expense Analysis" worksheet from the last job we did. It shows the calculations I used to back out all nonlabor costs. These include any materials, office overhead, and tools (shown as "Co. @ 6%"), plus profit or return on investment (listed as "R.O.I. @ 1%"). One additional item, listed as "Lead/Office @ 1%," allows for 1/2% each for the lead man and the office help (but only if we make a bonus on the job). I subtract this total "Fixed Expense" from the job contract amount to find the "Income Base" — the total amount of money left to cover labor for the job.

Figure 2 shows the bottom of the worksheet, which is where I keep a weekly running account of the job. The second column shows the actual amount of labor money spent in each week; I record this every Thursday night when I do payroll. The third column is a cumulative total; and the fourth column shows the amount of money left in the contract (the contract amount minus the amount in the "Total" column).

The last column, called "Weeks Left," shows how many more weeks we can work on the job and still break even. (To figure the weeks left, I just figure the cost of a 40-hour week for the full crew, then divide it into the weekly running balance.) Every Friday when I hand out the checks, I tell the crew how many weeks we have left to finish the job. We talk about how many weeks we think it will actually take, then we set our goal.

I used to use a "percent complete" calculation to estimate how much money was left in the budget, but it wasn't as helpful. Not only was it difficult to estimate the progress as a percentage, but the plain fact was that even if the "percent complete" showed we were ahead of schedule, the important number was how much money we actually had left in the contract to finish the job. By translating this into weeks, I can give my crew a progress estimate that's easy to understand — and easy to use to set a goal.

Expense Analysis

Contract Amount	27,439.00
Materials	2,387.29
Overhead ($103/week)	824.00
Co. @ 6%	1,646.34
R.O.I. @ 1%	274.39
Lead/Office @ 1%	274.39
Van	500.00
Fixed Expense	5,906.41
Income Base	21,532.59

Figure 1. *Before each job, the author backs fixed expenses out of the contract to come up with a labor-only figure, called the "Income Base."*

Divvying Up the Loot

At the end of the job, I use a "Balance Analysis" worksheet (Figure 3) to split up any bonus that is left. Each framer's share is based on the wages that he earned on the job as a percentage of the Income Base from the Expense Analysis. The balance from the running total for the job is multiplied by this percentage to determine each framer's gross share of the savings. I then multiply the gross amount by .88 to account for deductions that cover the employer's share of social security and unemployment compensation.

Pros and Cons

Every system has its advantages and disadvantages. On the positive side, I like my sharing system for the following reasons:

• ***Work becomes a team effort.*** Everyone's bonus is dependent on everyone else's productivity, so all employees are concerned with one another's performance. And everyone looks for ways to work more efficiently.

• ***The crew and I get weekly feedback on productivity.*** This is good for both short- and long-term analysis.

• ***The system creates reward and penalty options.*** At one time, for example, poor attendance was hurting our bonuses. We discussed it as a crew and we decided that any day a framer had an unexcused absence, his bonus would be reduced. It hasn't eliminated absenteeism, but it is a fair solution to the problem.

Running Labor Total

Date	Wage Cost	Total	Balance	Weeks Left
Railing deduct	(500.00)			
1/17/1996	863.69			
1/24/1996	2,371.85			
1/31/1996	2,051.72			
2/7/1996	3,013.78	7,801.04	13,731.55	3.77
2/14/1996	2,953.57	10,754.61	10,777.98	2.96
2/21/1996	2,813.71	13,568.32	7,964.27	2.18
2/28/1996	2,482.72	16,051.04	5,481.55	1.50
3/6/1996	1,803.69	17,854.73	3,677.86	
Extras	405.00		4,082.86	

Figure 2. *Labor costs are tracked weekly as the job progresses. The author and his crew use the number of "Weeks Left" to set productivity goals.*

Balance Analysis

Framer	Total Wages	% of Base	Gross Share	Net Earnings
SS	2,849.24	0.16	651.54	573.35
GW	2,868.33	0.16	655.90	577.20
CW	2,502.05	0.14	572.15	503.49
CL	2,321.47	0.13	530.85	467.15
JW	2,492.64	0.14	569.99	501.60
TP	2,118.90	0.12	484.53	426.39
BJ	1,302.45	0.07	297.83	262.09
TM	1,399.65	0.08	320.06	281.65
Totals	17,854.73			3,592.92

Figure 3. *When a job comes in under budget, each framer earns a bonus based on his or her base wage and the amount of time spent on the job. The gross share is adjusted downward by labor burden costs.*

On the downside:

• ***Booking time increases.*** It usually takes me from one to four hours to do payroll, depending on the number of jobs we have going and setup time for any new jobs. About 10 to 20 minutes of that time is spent figuring out the employer's wage cost. It takes another 15 minutes at the beginning of each job to set up the Expense Analysis, and 30 to 45 minutes at the end of the job to fill out the Balance Analysis. Plus, there's an additional 45 minutes to an hour to write the bonus checks.

• ***Books must be current.*** Especially near the end of the job, the crew is continually checking on how we're doing. This is an advantage, too, because I am continually using these figures to analyze what makes it take longer to do things than I think it should.

• ***Losses.*** To stay competitive, I am always bidding tight. Since I don't allow for loss recovery in my overhead deductions, I take it out of future bonuses. It hasn't happened enough to be a problem, and I never take more than 50% of the bonus of any job. ■

Scot Simpson, owner of SS Framing, bangs nails beside his crew on framing projects in Edmonds, Wash.