Simple Job-Costing

By Tom Peterson

As our businesses grow, most of us recognize the necessity and the challenge of making the transition from tradesperson to business person. Industry studies show a significant failure rate among small contractors within the first five years of operation. If we expect to survive, we need to develop and sharpen some basic business tools.

Chief among these tools, in my opinion, is job-costing, a straightforward accounting procedure that tells you how your estimates stack up against your actual job costs. Some may disagree, pointing to marketing, sales, staffing, and production as key components of a successful contracting business. However, even the best marketing and sales, backed up by the best production staff, will flop if the numbers aren't working. The key to putting your numbers to work is job-costing.

I'm aware that many small contractors avoid job-costing simply because they feel overwhelmed by it. Believing that they need to master a complex and detailed list of cost categories, many give up before they even begin. But in the company I work for, which focuses exclusively on remodeling, we've found that even a quick and simple system for tracking job costs is far better than no system at all.

We started off doing job-costing by hand, but now use a spreadsheet. Regardless whether you do it by hand or computer, the key is simplicity. Because it's very easy to set up and modify, and because the calculations are carried out automatically, I highly recommend the electronic spreadsheet approach (see "Spreadsheet Basics," 6/98).

Simple Cost Categories

A primary obstacle to collecting detailed cost information is getting field staff to break down their labor hours into a detailed list of job categories. Workers find it cumbersome if they have to stop and record time spent on site prep, for example, before they move on to demolition, disposal, or framing. They may simply neglect to note the transition from one phase of work to another, then rely on memory or guesswork at a later date, which downgrades the accuracy of the data. Our jobs are too limited in scope to require this kind of detail, so we avoid the problem altogether by dividing our job-cost categories into just four elements: labor, materials, subs, and trash. Using this approach, people in the field only have to enter hours by job name, rather than by the distinct tasks on each job.

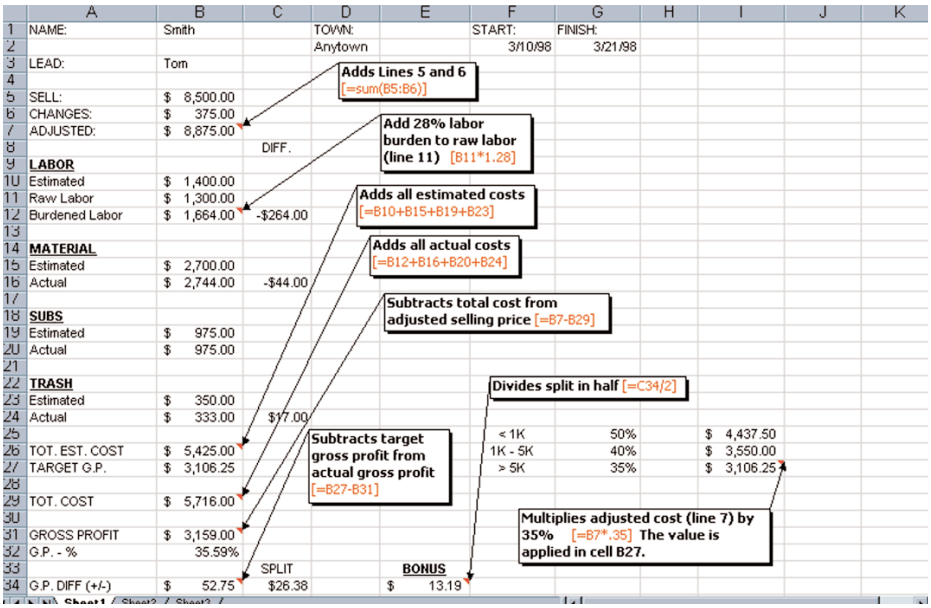

Figure 1. The author enters estimated costs into a customized spreadsheet at the beginning of each job. Key cells hold mathematical formulas (in red in comment boxes), which automatically carry out calculations.

Estimate vs. Actual Cost

As soon as the job begins, we take our calculated costs for material, labor, subcontracts, and trash disposal, and enter them into the spreadsheet as the estimated job cost (see Figure 1). The remodeling jobs we take on are typically of short duration, so we tend to tally all of the actual costs after the job is completed. Because we're only using four categories, data entry takes just a few minutes. Our template shows us the total estimated cost, target gross profit, estimated versus actual costs in each category, total actual cost, and actual gross profit.

We also have an incentive program for our lead carpenters that is tied to profit, whereby any amount earned in excess of the target gross profit is divided evenly between the company and the lead on that job. We share all of the information in the job-cost spreadsheet with our lead carpenters, which they like because it gives them an objective perspective on their own production rates. This, in turn, shows them their vital role in the financial health of the company, and helps keep them motivated.

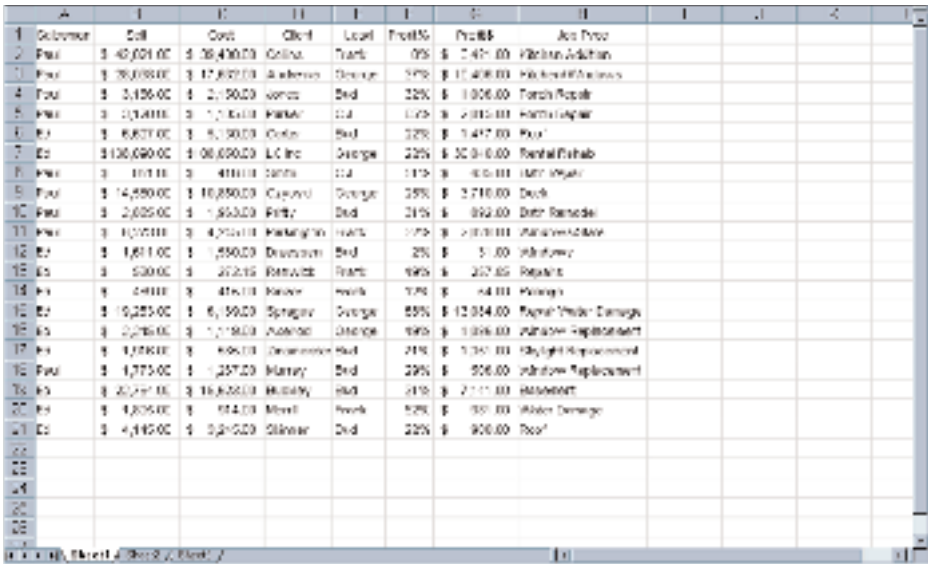

Figure 2. To compare job profitability by job type, lead, dollar volume, or percentage of selling price, the author first enters dollar amounts into columns B and C. A formula in the "Profit$" column (G) subtracts the actual cost from the selling price (B-C). Column F divides profits by the selling price (G/B) to give profit as a percentage.

Applying the Data

On occasion, we found we had a need for more detailed information. For example, when we had a heavy backlog of jobs but were experiencing a cash crunch, we theorized about the cause. By stacking the data from individual jobs into a spreadsheet that allowed us to view all of our jobs at once, we could compare apples to apples, and pinpoint specific discrepancies between pricing and production (Figure 2). Our job-cost data enabled us to make critical adjustments to our operations that we couldn't have justified without having the numbers on hand.

These simple forms allow us to closely monitor our company's financial health. Every time a job is completed, we gain new insights into our prices and processes. The data tells us what types of jobs are most profitable for us. It tells us who our most productive crews are. It lets me, as primary estimator, know if the numbers I'm using during the estimating phase are holding up in the "real" world. If they're not, I'm able to find out quickly and make the appropriate adjustments.

If knowledge is power, then the information contained in a simple job-cost spreadsheet is perhaps the most powerful tool to help put (and keep) your business on track.

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