

Member Communication Experience

The Art Of Construction Project Labor Forecasting

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Sandbagging.

It's interesting how a simple, throwaway word has become a universal descriptor for the way many construction organizations view job cost forecasting. In fact, you can go to a foreign country and hear construction vernacular that appears to be mainstream. (I'm talking to my Canadian friends here – punchlists and deficiency lists are the same thing.) But if you use the phrase “sandbagging,” there will be a mild shoulder shrug, a sigh, and an uncomfortable silence. For instance, how does a line item on a labor budget repeatedly get hours charged to it, only to have zero progress? Furthermore, how does a project demonstrate 10 - 11 months of “on-budget” reporting, only to see the entire profitability crumble like a house of cards in the final month? That must be one heck of a punchlist, err, deficiency list.

For all of the advancements in job cost reporting software, there still remains a wild card: the human element. Project managers, jobsite managers, job cost accountants, and chief financial officers have wrestled over accurate job cost reporting for millennia. I am sure there is still labor code for foundation walls on the great pyramids of Egypt that is showing at 99%. This may sound like a flippant response to serious problems; make no mistake that the inaccuracies of job cost reporting throughout the construction industry are worrisome in that they destroy profitability, erode trust in organizations and partners and, ultimately, have the ability to bankrupt construction businesses.



Consider these rules when conducting routine spot checks of your job cost system or, more importantly, the reporting process – which serves as one of the most important “pulse checks” of your business.

RULE 1: THE OCEAN VS. THE TEASPOON VS. GOLDBLOCKS

Overcompensating is a common phenomenon in the industry. If people aren't reporting to the right units, let's make one labor unit and call it LABOR.

“But we lack granularity and can't demonstrate progress.” Fine, we'll go the other direction and have 10,000 labor codes. As the pendulum swings, so does our ability to create realism in reporting. The “Goldilocks” number of codes will vary, but a

labor budget should ultimately be built in the same way the jobsite will build the project.

RULE 2: BUDGET CREATION IN A VACUUM

If you have ever heard, “Well, I could’ve told you there weren’t enough hours in that labor budget,” you probably did not have enough field input in the budget creation. Simply dumping the estimate into your job cost management system is a surefire way to create more distance between the office and the jobsite.

RULE 3: USE THE RIGHT CURRENCY

Consider this statement: You have \$101,456 in the budget for labor for the 16 columns you are building. “Sure, I can do some reverse calculus, estimate what I think a crew of five makes on an hourly basis, subtract our labor burden, carry the one ...”

For anyone squeamish about the jobsite seeing dollars, it is probably high time to realize that the currency of the jobsite is hours and units of production. Telling the jobsite they have 1,500 hours to form 16 columns is not only realistic but also hedges against that nagging fear that your job cost reports are landing in the office of your competition.

RULE 4: REPORTS THAT DON’T USE DOT-MATRIX PRINTERS

Sure, this rule is a reference to a throwback age when printers spit out pages of green-bar reports with those fancy spool circles. (Point of consideration – should we be worried that airlines still use these same printers?) Be less concerned about the printer and more concerned about the 25 columns of data (married to the 10,000 labor codes) with such terms as “variance.”

Here comes the rub – some reports show the variance as a positive number (which is bad), and some show it as a negative number (which is good, like golf). And then we tell the jobsite, negative is good here, but not on profit. Our jobsite leaders are smart, but sometimes, we let our systems create inept reports that cause more frustration than the paper they are printed on.

RULE 5: RULES OF ENGAGEMENT

How can two identical jobs, with two identical sets of labor codes, with two different jobsite leaders at the exact same

stage, have completely different forecasts? One could be using special rose-colored glasses when reporting their progress.

For instance, without clear “Claiming the Unit” rules, one jobsite leader could say they are 99% complete, while another takes a more conservative approach. This isn’t about who is right, but about what is consistently reported upon. Firms should have rules that establish when a unit is claimed on a cost report.

RULE 6: CONSISTENT REVIEWS

The litany of job cost management systems in the market have allowed for greater transparency of job cost progress and real-time reporting. Now, think how you would answer this question: “When was the last time the jobsite leader reviewed the labor budget?” They have access to the system, so we think they are feverishly reviewing the budget weekly – only to find out they don’t even know their password to the system.

Look, I have a scale in my bathroom that I walk by every day, ignorantly blissful about not knowing where I measure out. There has to be an internal system to the organization that brings project teams together to review each line item on a routine basis to generate conversation.

RULE 7: THE BLAME GAME

Transparency sounds great until the first argument spawns.

“You never hit the budget!”

“Well, you never put in the right number of hours to do the work!”

“You don’t work hard enough on the jobsite!”

“Guess what, I’ll put my hours WHEREVER you want me to put them.”

Sounds a little like a domestic argument, but this plays out often on projects. Rather than digging into root causes – weather, permitting, unforeseen conditions, etc. – it quickly becomes personal, and the reporting process leads to a dereliction of duty on all sides. First, it is called estimating, not accurating. Second, the jobsite has one of the most challenging jobs, and complicating that job with insults and insecurity will go nowhere.

RULE 8: SANDBAGGING

You didn't think I forgot, did you?

Project managers have engaged in this time-honored tradition to protect a “honeypot” of money that they think is their money. They may use it for hiding hiccups on projects, making problems with customers go away, or using portions in horse trading. The challenge is finding the right balance – that “freebie” for a customer can also become a sticky conversation with a customer that should probably be a change order, but it is much easier to become an illusionist and make it go away.

How many dollars are lost annually because managers fail to manage? Now multiply this by the number of managers you have internally to determine the variability you might experience across your work-in-progress report monthly.

These rules are hardly complicated, but the games/tricks being played began as innocent hacks to manage the lifeblood of the firm – the labor budget. However, the greatest firms have measures in place to create job cost integrity, establish realism in the budget, and provide forecasts that allow for action to take place.

“The greatest trick the devil ever pulled was convincing the world he didn't exist.” Verbal Kint (or Keyser Söze?) of “The Usual Suspects” may have been a project manager and he just didn't know it. 



About the Author

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