

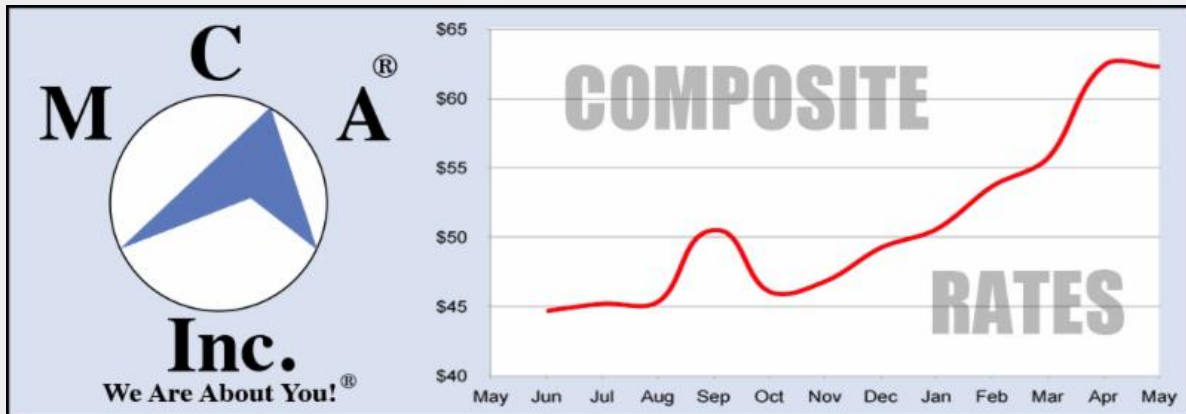
Inc.

We are about you!®

363 E. Grand Blanc Road
Grand Blanc, MI 48439
Tel: (810) 232-9797
Fax: (810) 232-9746
www.mca.net

We make your company more productive by applying: Lean Engineering, Manufacturing, and Service Processes

Making Productivity Visible to Everyone®



Composite Crew Rate

Issue 5 January 2015

Do you want to win more work? Improve your competitiveness by reducing labor costs, without reducing wages. How can you reduce labor costs without reducing wages? You have two knobs to turn: improving productivity, and reducing composite rate.



If you were to ask the project manager running a job, "What is your composite crew rate?" most would give you a blank stare or say, "you need to talk to accounting." To most contractors the composite rate is just another trick of the bean counters' and that you need an engineering degree to calculate it. The composite crew rate is important to everybody involved on a job, whether they know it or not. As a foreman, this demonstrates to the project manager and owners how efficient you are managing your crew.

Anyone can get "good guys", but it's managing the system productivity of "any guys" that is the defining mark of a great supervisor and leader. As a project manager,

this reflects to the owner how effectively you are running your job. As an owner, this shows how effective and efficient your employees are. There are several ways owners, accountants, project managers, and foreman can look at and use the composite crew rate.

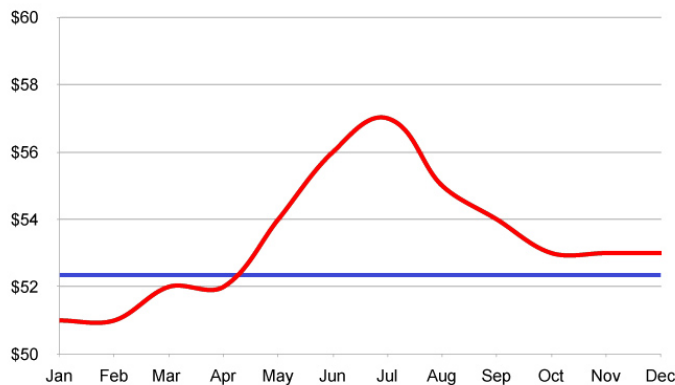
If you have a closed job, you can look at how effective your labor was on the job by comparing the original estimate to the final numbers. Depending on the duration of the project, one can trend the composite rate on a monthly or weekly basis. This can give you a look back and see when problems arose on the project by the increase in the composite crew rate; this increase is reflecting a decline in the efficiency of the workers on site. The problem here is, this job is over and any chance to resolve these issues has long since passed. If we set up the composite crew rate at the start of a job, and track it on a monthly or bi-monthly basis. Foremen, project managers, and the owners can see how the biggest variable, labor costs are affecting the job, and have the opportunity to investigate what is responsible for the increase in labor costs.

Even now users of our JPAC[®] program track their average composite rate and current composite rate, with their projects productivity differential on a weekly basis. This enables everyone involved to visually track how efficiently the project is progressing. Identifying and correcting the variations in the productivity differential and composite rate are essential to avoid cost overruns and ensure a project comes in profitable.

We can set up the composite crew rate by totaling the number of workers by job classification, multiplied by the fully loaded labor rate for each job classification. Total the labor cost, and then divide it by the total number of workers. For example, on our next project we start the job with 2 apprentices at \$28 an hour, 5 journeymen on site at \$98 an hour, and 1 foreman on site at \$114 an hour. We would

calculate the composite rate by $(2 * \$28) + (5 * \$98) + (1 * \$114) = \660 per hour, then divide the \$660 by the total number of workers on site 8, gives us \$82.50 per hour.

It is important to remember, that as the job progresses we want to remove any overtime incurred, and just track the straight time labor costs. Depending on the company, size, and duration of the job, the project manager and foremen can track the composite rate themselves or have the accounting department generate a report on a predetermined time schedule of the fully loaded straight time labor, and the straight time labor hours incurred on the job. Simply by following the trend of composite crew rate the project manager and foremen can monitor the efficiency of the crews on the project. This is especially important at the foremen level; they become an owner's first line of defense in ensuring a profitable outcome on the project. Since they are on the project and see exactly how things are being done, this gives them an identifier of

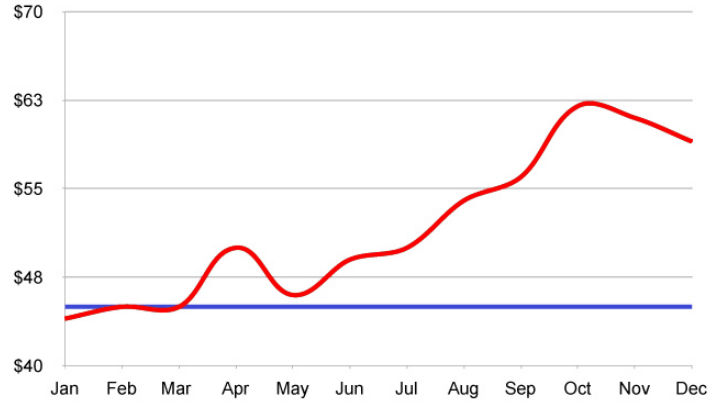


Sample of Composite Rate Trending

obstacles arising on a project.

Now we are going to look at changing the composite crew mix, and its effects on the composite crew rate. In the previous example we were going to have 8 workers on site 2 apprentices, 5 journeymen, and 1 foreman. Lets' say we change the composition of the crew on the job site to 4 apprentices, 3 journeymen, and 1 foreman. By

changing the crew mix we now have a composite crew rate of \$65.00 per hour, this translates into a \$17.50 an hour savings. If the job was estimated to be 10,000 hours, the reduction in labor costs would be \$175,000 over the duration of the job. This savings can then directly be seen in the bottom line at the end of the job.



Sample of Composite Rate Trending

Contact us with any questions [click here](#).

Sincerely,

The MCA, Inc. Team

Copyright © 2015. All Rights Reserved.