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Processes to Help Contractors Deal With the Skilled Labor Shortage

By Warren Hennagin and Andy S. Choi | Tuesday, March 5, 2019

From 2006 through 2011, the construction industry lost 2.3 million jobs. There are 1 million fewer residential construction industry jobs today than there were a dozen years ago. Yet 80 percent of construction companies are having a hard time finding qualified skilled labor, according to [Tradesman International](#). Qualified skilled labor should be plentiful; however many construction workers left the industry during the recession of 2007 to 2008 and never returned.

Compounding the problem is that, for many years, younger workers did not see the construction industry as a career option. Many high schools phased out shop classes, with the idea that every student needed to attend college and obtain a degree. As the construction industry is well aware, many good paying jobs do not require a college degree—they simply require traditional skills training.

In the face of labor shortages, the construction industry has started to become creative in its hiring practices. Some companies are establishing trade schools, while other are expanding their focus from the traditional male-dominated work environment to recruit females, military veterans, ex-convicts and even foster children who are aging out of the system. In particular, the industry is trying to encourage youth to return to the industry.

It may be years before these efforts pay real dividends. In the meantime, contractors are wrestling with the real effects of labor shortage, including higher labor costs (due primarily to competition for hires), project delays and budget overruns. Contractors need to make sure they do not bid for or commit to contracts that they cannot sufficiently staff. Under these circumstances, they must understand and estimate not only the standard projection of labor costs for the job, but they also must factor into their bids inefficiencies, delays from other trades and higher wages to obtain the labor when needed.

Every contractor must have a formula in place to account for these scenarios. There is no perfect science, but a factor applied to total labor cost is a start; for example, 120 percent of possible wage increases in estimating labor bid items. A formula should be established for mobilization

and de-mobilization on a job. These factors are important at bid time and must be monitored on an ongoing basis to make sure that they are sufficient throughout the job.

Many times, project gross profit decline can be pinpointed directly to certain factors on a job. Either material did not reach the jobsite on time, or labor was not managed for maximum efficiency. Contractors can budget for all of these factors and still not cover their labor costs. Efficiency is probably the hardest factor to quantify in a project estimate. Many contributing issues can lead to poor efficiency on a job, such as weather, crew mix, skill level of individual crew members and communication, to name just a few.

A cost monitoring system must be established that best fits the company's field labor model. The system should monitor labor utilization on a daily, weekly and monthly basis. It is important that, when reporting work in progress, labor differences are factored into the project estimate to complete. Some of the best-of-the-best contractors establish milestones where heavier factors are used to increase labor at the beginning of the job or at critical points during the project. As milestones are achieved, the labor burden can be decreased and more profit recognized. Without these types of monitoring systems in place, the contractor is blind and could very well end up having underestimated actual labor cost and a job that is underwater.

Cash flow issues that relate to labor cost overruns on a project will be apparent before any other issues. Since labor is generally paid weekly, if the budget is not loaded correctly, the contractor is going to experience tremendous pressure to meet weekly cash needs. Some contractors take the necessary steps to request payment that tracks the labor force required on a job, versus traditional progress billing. The best-of-the-best contractors have these controls and bidding procedures in place and will continue to do well even in a market struggling with labor shortage.



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