

CHECKING YOUR LABOR COSTS

Prof. James Aylsworth, University of Illinois

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It is widely recognized that wages in the common labor market have been increasing for many years. What has not been so widely recognized is that the total labor cost is much more than the basic wage. The minimum wage now is \$1.60 for greenhouse workers. But the hourly wage rate is no longer a true reflection of the labor costs of operating a business. Labor-management agreements today place even greater emphasis on fringe benefits. In 1929, a Dept. of Commerce study indicated that the non-wage benefits amounted to slightly over 1% of the labor bill. But in 1949, this was up to 15.4% of the total bill. The trend is that these fringe benefits will continue to increase. These studies do not include the cost of supervision or the cost of keeping the labor records, making out payroll and other costs incurred with having labor. In order for a manager to properly evaluate his business operation, he must know the total cost of labor.

Every employer knows that he must make certain legal payments such as social security and workmen's compensation on top of the basic wage. This amounts to an additional 4.4% above the basic wage rate. Then, too, what firm can hire a full-time employee without a paid vacation, paid holidays, and that bug-a-boo of all efficiently run operations, the so-called coffee break once or twice a day.

When a manager calculates the cost of labor, he should include all the costs that he incurs in getting an hour of labor from an employee. This includes not only the basic wage but also the "fringe benefits", the nonproductive time, and the office time to keep labor records, make labor reports, etc.

Since most of these fringe benefits and coffee breaks are necessary to keeping good help, the employer would be the last person to eliminate them completely. However, it is important to you as manager, to realize that the labor that you have been paying \$1.60 per hour may be costing you more like \$2.25.

We have found in a preliminary study at the University of Ill. that the basic wage rate is only 70% of the total labor cost. So if you are paying the minimum wage of \$1.60, and charging the operation less than \$2.25 per hour, you are probably not making any money on labor.

Why is this so? As an employer, you furnish the tools, the place of business, all the equipment, sometimes including the laundry or uniforms. You also provide for a coffee break, a place to hold a coffee break, you pay for the employees vacation, pay for the legal holidays, you contribute to social security, workmen's compensation, life insurance and other agreed upon cash benefits. You provide time for the employee to put on gloves, replace and get additional tools when they are changing jobs, all of which is non-productive time. A portion of the office space is used to keep labor records, office time is used to make out the payroll and other labor records. You also provide a portion of your time or a foreman, to supervise and instruct the workers in doing their jobs.

The following worksheet has been prepared to help your own labor cost.

1. Base rate: Use a weighted average if the workers are not at the same rate.
2. Vacation: 4% of the base rate allows for 2 weeks


vacation. If your workers get more or less vacation, raise or lower this figure.

3. Paid holidays: 2% of the base rate allows for 6 holidays: New Years, Memorial Day, Independence Day, Labor Day, Thanksgiving, and Christmas. If the workers get more or less time off, then adjust this figure.
4. Break time: 6% of the base rate allows for 30 minutes of official break time per day.
5. Social Security: (employer share only) 4.8% set by the government.
6. Insurance, hospitalization, etc. (employer share only) 1% of the base rate, if you have this type of a program.
7. Non-productive time: 6% of the base rate allows for 30 minutes of lost time per day (this may be too low).
8. Record keeping: 2% of the base rate allows for the time to keep records as well as paying for the additional books and other records.
9. Supervisory time: 20% of the base rate allows for a foreman or 1/2 of the manager's time if it is a small firm.

TOTAL: The total figure is what the labor is really costing you on a per hour basis. So when figuring a cost of production or when bidding on a job, you must recover this amount before you begin to make any profit on labor time.

$$\text{EFFICIENCY} = \frac{\text{base rate}}{\text{total wage}} = \frac{\quad}{\quad}$$

If your efficiency is above 70% you are doing pretty well but if you are much below 70% you had better sharpen your pencils and check your efficiency.



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