The Business Side of the Sheet Metal Business

Presented to Second Year Sheet Metal Apprentices
Why This Program?

- Created by SMACNA National
- Targeted towards Non-Management employees
- Emphasizes the need to be competitive and cost conscious
- True costs of operating a Sheet Metal business
- Actual Local wages and fringes
- Not an estimating seminar
- Class participation a MUST!
Part 1: Getting Started

- Participant Survey
- The Scenario
- Company Structure
- Individual Bids
- Marketing & Contract Options
Part 2: The Basics

- Actual Payroll Labor Costs
- Other Job Costs
- Overheads
  - Shop
  - Administrative
- Total Labor Costs + Overheads

St. Louis Local 36
<table>
<thead>
<tr>
<th></th>
<th>JOURNEYMAN</th>
<th>65% APPRENTICE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Union Wage:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wage</td>
<td>$30.12</td>
<td>$19.58</td>
</tr>
<tr>
<td>Vacation</td>
<td>+ 3.01</td>
<td>+ 0.98</td>
</tr>
<tr>
<td><strong>Total Wage</strong></td>
<td>$33.13</td>
<td>$20.56</td>
</tr>
<tr>
<td><strong>Union Benefits:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health &amp; Welfare</td>
<td>$7.64</td>
<td>$4.97</td>
</tr>
<tr>
<td>Local Pension</td>
<td>+ 6.55</td>
<td>+ 4.26</td>
</tr>
<tr>
<td>National Pension</td>
<td>+ 1.00</td>
<td>+ 0.65</td>
</tr>
<tr>
<td>SASMI</td>
<td>+ 1.46</td>
<td>+ 0.93</td>
</tr>
<tr>
<td>Other Funds</td>
<td>+ 1.47</td>
<td>+ 1.44</td>
</tr>
<tr>
<td><strong>Total Hourly Benefit Package</strong></td>
<td>$18.12</td>
<td>$12.25</td>
</tr>
<tr>
<td><strong>Social Security (FICA):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Wage</td>
<td>$33.13</td>
<td>$20.56</td>
</tr>
<tr>
<td>X 7.65%</td>
<td>$2.53</td>
<td>$1.57</td>
</tr>
<tr>
<td><strong>Unemployment Insurance:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Wage</td>
<td>$33.13</td>
<td>$20.56</td>
</tr>
<tr>
<td>X 6.50%</td>
<td>$2.15</td>
<td>$1.34</td>
</tr>
</tbody>
</table>
What does Workers’ Compensation take care of?

- Standard Labor Class Rates
- EMR: Experience Mod Rating
- Why manage the EMR?

Our cost page 12
Other Direct Job Costs

- Bonds
- Permits
- Subcontractors
- Rentals
- Drayage
Guarantee to honor Bid Price and to provide P&P bond

- Usually 5% of bid price
- Typically no cost to obtain
- Default penalty: 5% of the bid price
Performance & Payment Bonds

- Protect OWNER from CONTRACTOR’S:
  - Failure to complete a project
  - Failure to pay vendors, subcontractors or labor costs (wages & fringes)

- Premium cost: 1% - 2% of contract value

- Paid by OWNER; included in the bid

St. Louis Local 36
Shop Overhead

- Develop Hourly Costs for S/M Shop
- Depreciation = Cost/Useful Life
- Equipment Cost = $138,000
- Useful Life = 5 Years
- Annual Cost = $27,600
- Cost per Hour = Cost/Manhours
- Hourly Cost = $6.90

St. Louis Local 36
[Automation]

- Investing to compete - $70,000
- New Equip Cost = $208,000
- New shop cost/yr = $41,600
- Expected savings 35% of time
- 4,000 mnhours x 35% = 1,400 hrs
- Hourly labor cost = $56.30

St. Louis Local 36
Old Cost = $27,600 + 4,000 hrs x $56.30

Old Cost = $252,800

New Cost = $41,600 + 2,600 hrs x $56.30

New Cost = $187,980

Yearly Savings = $64,820
General & Administrative Overhead

- Salaries, benefits, vehicles, building, office, insurance, professional, other costs
- Interest expense
- Total Cost = $380,000 annually
- Cost per hour (10 employees)
- Hourly cost = $19.00
- **Field Labor** - $56.30 + $19.00
  - $75.30/hour

- **Shop Labor** = $56.30 + $25.90
  - $82.20/hour
Total Costs without Profit

= $16,276.80
Profit

- After all expenses are paid
- Necessary for growth and investment
- SMACNA Financial Survey
- National Average = 3.1% before taxes

St. Louis Local 36
Financial Speak

- **Balance Sheet**
  - Assets, Liabilities & Net Worth

- **Largest Asset?**

- **Is Net Worth always positive?**

- **Income Statement**
  - Monthly and Annual Scorecard

St. Louis Local 36
AN OPERATIONS EXERCISE
Please Participate!

St. Louis Local 36
Puzzle Photos Here
What did we learn?

Planning & Job Scheduling
Be in the lead
Plan before executing
Efficient use of resources
Plan for safety
Easier and more enjoyable
Customers’ perception
Change Orders

- An *authorized* order to perform revisions to design or needs

- Document: logs, signed tickets

- Unwanted and inevitable
  - Interrupt job flow, increase management time, decrease morale

- Full cost recovery is contentious

- 25% added hours on average

St. Louis Local 36
• Insert table
Non-Union vs. Union Labor Cost
- $34.27 vs. $56.30 per hour
- Union is 1.6 times more costly

What’s our response?
- Training and craftsmanship, planning for efficiency, safety
Conclusions

- **Awareness**
  - Cost & Competition
  - The Management Side
  - Profitability perception change
  - Failure is simpler than it appears

- **We’re in this together to retain and recapture work.**