

# WHITE PAPER:

# **Job Costing Best Practices**

# **for Systems Integrators**

## Introduction

In the construction industry, precise job costing is crucial for managing project budgets, improving profitability, and delivering successful outcomes. With projects often involving complex layers of labor, materials, equipment, and subcontractors, effective job costing enables construction companies to stay competitive and financially stable.

This white paper focuses on construction-specific job costing best practices to help system integrators optimize their processes, improve cost control, and achieve better project outcomes.

## Understanding Construction Job Costing

Construction job costing involves tracking all costs related to a specific project and comparing these costs to the project's budget. All direct cost that can be attributed a project should be tracked, such as: Labor (e.g., on-site workers, foremen)

- ☑ Materials (e.g., cable, zip ties, anchors, clamps, connectors)
- ☑ Equipment purchases
- ☑ Subcontractor fees
- ☑ Shipping and Handling
- ☑ Labor Burden:
  - PTO, Tax, Benefits, Etc
  - Non-utilization
  - Uniform, Vehicle, Training
  - Management of field resources

Some may consider labor burden as indirect, however, you must consider the cost it takes to have a field resource employed and deployed to the field to perform revenue generating work. Labor burden allows you to shift some of your below the line cost to above the line cost and attribute it directly to the job.

Effective job costing in construction ensures accurate bidding, tight cost control, and informed decision-making throughout the project lifecycle.

# Challenges in Construction Job Costing

The construction industry faces unique challenges in job costing, such as:

- ✓ **Frequent Scope Changes:** Adjustments to project plans can lead to untracked cost variances.
- ✓ **Complex Labor Management:** Tracking expensive labor hours across multiple sites and roles is difficult without robust systems. This includes field labor and office labor.
- ✓ **Material Cost Fluctuations:** Changes in material prices can disrupt budgets.
- ✓ **Overhead Allocation:** Determining how to fairly distribute indirect costs across multiple jobs can be tricky.
- ✓ **Labor Burden Allocation:** Determining the correct labor burden to fairly and accurately cost labor against jobs.
- ✓ **Integration Gaps:** Many contractors use disconnected systems for payroll, accounting, and project management, leading to inefficiencies.

## Construction Job Costing Best Practices

### 1. Use Specialized Construction Software

Invest in job costing software tailored to your industry. These platforms offer features like:

- ✓ Real-time cost tracking
- ✓ An accounting backend
- ✓ Mobile access for field teams
- ✓ Project-specific reporting
- ✓ Effective change control management (Change Orders)
- ✓ Automatic Revenue Recognition

### 2. Establish a Detailed Budget Breakdown

Create a detailed budget at the start of each project, broken down into categories such as:

- ✓ Labor
- ✓ Materials
- ✓ Equipment
- ✓ Subcontractors
- ✓ Warranty

This granular approach makes it easier to track costs against the budget.

### 3. Estimate your labor by different skills

In fulfilling the job scope, you will have multiple different skills and work involved in a single job:

- ✓ Project Management
- ✓ Rough In Tech
- ✓ Engineer
- ✓ Drafting
- ✓ Finish Tech
- ✓ Training

Establish Price and Cost for each different skill and estimate accordingly.



## 4. Monitor Labor Costs Closely

Labor costs often account for a significant portion of construction budgets. To control these costs:

- ☑ Use time-tracking tools to record hours worked and productivity by each team member.
- ☑ Align labor costs with specific tasks, skill or phases of the project.
- ☑ Analyze labor productivity to identify inefficiencies.

## 5. Track Material Costs in Real Time

Material costs can fluctuate throughout the project. Implement systems to:

- ☑ Record material purchases against the job immediately.
- ☑ Compare planned vs. actual material usage to identify waste or overages.
- ☑ Monitor supplier pricing to anticipate potential cost increases.
- ☑ Centralize purchasing to optimize your purchasing power.

## 6. Allocate Overhead Fairly

Develop a standardized approach for overhead allocation, such as:

- ☑ Allocating based on fully burdened direct labor hours.
- ☑ Assign labor burden to hourly rate and skill

This ensures projects carry their fair share of indirect costs without distorting profitability.

## 7. Regularly Review Job Cost Reports

Set up weekly or biweekly reviews of job cost reports. These reviews should:

- ☑ Compare actual costs to budgeted amounts.
- ☑ Identify areas of concern, such as cost overruns or underbilling.
- ☑ Snapshot labor plans vs execution to optimize labor capacity.
- ☑ Enable timely adjustments to stay within budget.

## 8. Manage Change Orders Effectively

In construction, change orders are inevitable. To manage these efficiently:

- ☑ Update budgets and cost tracking immediately after a change order is approved.
- ☑ Communicate changes clearly with stakeholders to prevent disputes.
- ☑ Document all associated costs, including labor, materials, and delays.

## 9. Monitor your project level cash flow

When proposing your project, review your billing/invoicing terms to ensure you do not run into cash crunch. With the number of projects you could be running simultaneously, you will need a steady cashflow to fund the projects:

- ☑ Have accurate Revenue Recognition practice. i.e. % Cost Complete
- ☑ Track your Over/Under billing
- ☑ Work with Project Managers and Customer to determine billing opportunities

## 10. Conduct Post-Project Analyses

After project completion, perform a detailed review to:

- ☑ Compare estimated costs to actual costs.
- ☑ Identify trends, such as consistent underestimation in specific areas.
- ☑ Refine future estimating and costing processes.

### Technology's Role in Construction Job Costing

Technology is a game-changer for construction job costing. Look for solutions that offer:

- ☑ Real-time time tracking, centralized procurement, labor planning and full accounting.
- ☑ Field accessibility for real-time data entry and updates.
- ☑ Customizable dashboards for performance tracking.

Q360 allows systems integrators to streamline their processes, reduce errors, and gain deeper insights into project costs and margins.

## Case Study: Streamlining Job Costing in a Mid-Sized Construction Firm

**Challenge:** A mid-sized construction firm faced consistent budget overruns due to poor tracking of labor and material costs.

### Solution:

- ☑ Implemented a construction-specific job costing software with mobile capabilities for field teams.
- ☑ Standardized overhead allocation based on project size and duration.
- ☑ Established weekly job cost review meetings with project managers.

### Outcome:

- ☑ Reduced budget overruns by 25%.
- ☑ Improved labor productivity by identifying and addressing inefficiencies.
- ☑ Enhanced the accuracy of estimates for future projects.

## Conclusion: Take Control with OneDashboard

Accurate job costing is critical for the success of construction projects. By adopting the best practices outlined in this paper, systems integrators can improve cost control, enhance project profitability, to gain a competitive edge to help build a better business.

Investing in technology, training, and consistent processes ensures that job costing becomes a powerful tool for driving financial success in construction.

## For More Information

**Contact Solutions360** at [answers@solutions360.com](mailto:answers@solutions360.com) or **1-800-450-7748**, to learn how we can help streamline your construction job costing and improve your project profitability.