

How to reduce labor costs in the construction industry

Controlling labor costs is among the most important mandates of construction management professionals. Keep reading for tips on how to reduce labor costs while maintaining productivity in construction.

How to reduce labor costs in construction

1. CONDUCT BETTER COST ESTIMATES

Poor construction labor cost management often begins with poor estimating. That's because inaccurate estimates leave construction management professionals unable to allocate resources effectively, leaving them scrambling to account for over or under-allocation down the line.

There are many ways to avoid this and ensure the integrity of your construction cost estimating process, these strategies include:

Choosing the correct construction cost estimating method

There are several frameworks for estimating construction costs, including:

- Unit cost estimating: Determining your costs per unit of deliverable (i.e. square foot or single unit in a subdivision) then extrapolating this data for the entire project.
- Production function estimating: Using pre-defined formulas (usually via construction estimating software) to extrapolate from known labor and material costs.

- Stick estimating: Attempting to list every foreseeable expense associated with the project (useful for estimating costs on smaller projects, ineffective for much larger endeavors).
- Empirical cost inference estimating: Using regression analysis to associate changes in costs to specific variables.

Knowing which framework makes sense for your company (which may also differ by project) is crucial for arriving at more accurate estimates.

Knowing reasonable daily wage rates based on the type of work.

Construction labor costs, of course, vary depending on the type of labor being conducted. Knowing reasonable rates for the types of labor your construction company seeks is an essential part of estimating prior to requesting quotes from subcontractors.

Identifying risk factors that may impact your estimate's accuracy

No labor cost estimate is without its potential shortcomings. What separates good and bad construction labor cost management is being able to identify and account for those shortcomings before they are incurred.

If the supply of a particular type of labor is constrained, for example, a good construction labor cost estimate should account for the costs associated with replacing scarce workers mid-project (i.e. due to an existing worker's injury or attrition).

2. KNOW YOUR EXISTING WORKFORCE'S CAPACITY

How much work can your current team of laborers take on? How does that compare to the amount of work they're currently doing? Knowing the answers to these questions is essential for ensuring you plan resource allocation and procurement more efficiently.

For example, an issue that might arise as a consequence of falling short in this area might be that you take on a project that would stretch your current workforce thin. You might then have to scramble and expand your workforce at an inopportune time, resulting in higher costs.

It also helps to know what skills and qualifications your workers possess. Many construction workers are multi-disciplinary. Employing these workers and utilizing their broad skillsets (as opposed to relying solely on specialized workers) can reduce your company's administrative labor costs.

3. PREVENT BURNOUT AND HIGH TURNOVER RATES

Burnout is a significant threat to any company's workforce. This is especially true in the construction industry since workers need to be focused in order to not only complete their duties but also stay safe.

Consequently, preventing burnout is a crucial part of managing labor costs in construction effectively. A healthy team will deliver results, call in sick less, and generally be a better asset to your company.

Limiting turnover is another important consideration when controlling labor costs. Replacing workers, carry their own unforeseen costs including the administrative overheads.

Keep in mind, those figures simply represent the administrative costs associated with finding a replacement and onboarding them. They don't account for the opportunities you might lose as a result of having a vacancy for extended periods of time.

The point? Reducing unnecessary turnover is an essential part of trying to control labor costs in construction.

4. DON'T LET UNPRODUCTIVE WORKERS LINGER, HOWEVER

While limiting turnover is important, sometimes the cost of keeping an employee around outweighs the benefits. This is certainly the case with unproductive workers that deliver poor quality work (or deliver inconsistently).

Replacing these workers isn't the only solution worth considering, especially if the problem seems rooted more deeply in your organization and its processes. Addressing unproductivity in some way or another is certainly an important part of controlling labor costs in construction.

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5. USE DEDICATED CONSTRUCTION LABOR MANAGEMENT SOFTWARE

Gone are the days when construction management professionals could maintain a competitive edge using unspecialized software such as spreadsheets to track attendance, labor costs and resource management. Today, there are several labor management software applications (including [Bettamint](#)) designed specifically to help construction professionals allocate resources more efficiently.

Click here to read case studies from companies using dedicated labor management software regarding how it benefits them.