GANG-NAIL GUIDELINES No.102

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INFORMED DECISIONS

Understanding your 'real costs' is one of the critical elements to the long term survival of any truss plant, however the use of automated and computerised machinery has, for many, complicated the matter.

The type and quantity of automated equipment used in truss plants today varies greatly between truss plants and typically includes cutting stations, pressing stations, material handling right through to truss removal.

This investment not only results in increased output but also significantly reduces labour and overheads costs.

How these new and improved levels of efficiency have impacted on the profitability and competitiveness of the business needs to be measured.

So how can you do this? The first step is to **establish your real costs!**

Fortunately there is one consistent item that has not changed over the years, and that is the basic unit of truss production. An EqA (the standard A type truss work unit) is still and EqA!
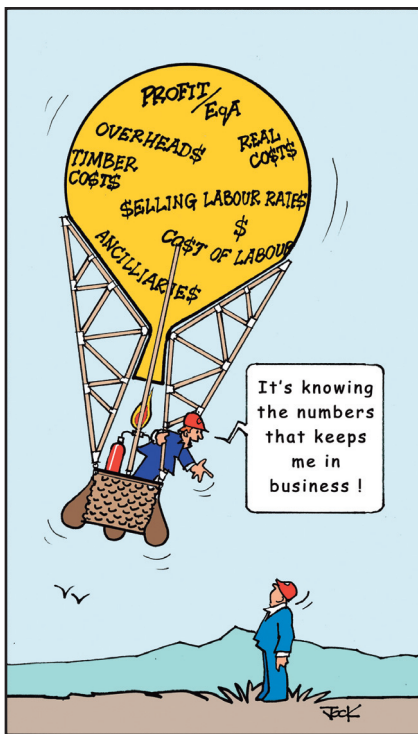
By maintaining accurate records of production output measured in EqA, we can determine the labour and overhead costs as a rate in $/EqA, commonly called the "labour rate".

The method to calculate the labour rate is well documented by Tom Donahue in Guideline No.39. The labour rate ($/EqA) is simply calculated by dividing the total costs of labour and overheads by the total EqA per day.

Once the labour rate is accurately established it can then be used for costing by the truss design software.

This is combined with other costs, including timber and ancillaries to provide the accurate total cost of the job. The cost breakdowns generated provide very useful information for market

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evaluations and are particularly useful when making decisions on competitive pricing issues.

The following example illustrates how cost breakdowns can be used to determine the impact of accepting a job at a lower price.

Costing comparison example:

After submitting your quotation, you are told by your client that your price is $800 more than you competitors.

Your quoted price:	$12,000
Competitor's job price:	$11,200
Your job cost breakdown Timber	$ 4,600
Plates	$ 433
Ancillaries/Delivery	$ 862
Job EqA units	370 EqA
EqA Sell rate	$16.50
$ / EqA selling price	= $16.50 x 370
	= $ 6,105
Total	*$12,000*

To determine whether there is sufficient margin in the job if you decide to match the competitor's price, subtract the cost of your timber, plates, ancillaries and delivery from your competitor's price:

Competitor's job price	$11,200
Timber	$4,600
Plates	$433
Ancills/Delivery	$862
	$ 5,895
	-$5,895
	$5,305

The result of this equation ($ 5,305) represents the labour, overhead cost and profit for the job.

The selling labour rate ($/EqA) for the job can now be determined:

$$\$5,305/370 = \textbf{\$14.34 / EqA}$$

The selling labour rate can now be applied to your "cost" labour rate to determine the result of matching the price.

Your "cost" labour rate: $13.00/EqA

Note: It is important that you calculate this labour rate regularly to ensure it accurately represents your current factory and labour costs.

Competitor's selling labour rate	$14.34
Your "cost" labour rate:	- $13.00
Profit/EqA	*$1.34*

The profit for the job is calculated by multiplying the Profit/EqA by the job EqA units.

$$\$1.34 \times 370 = \textbf{\$495.80}$$

From the above example it is evident that accepting this job at this price will result in a reduced margin but will not be below cost. So now you can ascertain whether or not the job 'is worth taking on.'

It's your call - but whatever the decision, now it's an informed one!