

 PLAN2
PROFIT

A GUIDE HOW TO

ESTIMATE
LABOUR
COSTS

VOLUME

2

 HAFFHOUR
HANDBOOK

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Welcome!

One of the biggest expenses that a business incurs in its day-to-day operation is that of labour – the cost of hiring, training and employee staffing.

Either you or the Manager you hire has to be a demon when it comes to labour. Your employees want hours; and you don't want to pay them if there isn't business enough to warrant paying them.

The tug of war will continue, and **if you don't stay on top of things you will have costs running out of control**, and that is not a good situation to find yourself in.

Turnover will also kill you, and as an example, after you've spent a week training someone, they up and leave – isn't that a treat?

We have to get started now as there are **only 29 minutes left**.

As before, we have broken this Handbook into steps, so you can build your knowledge base gradually. **We are using the example of a small retail outlet, okay?**

Here we go.

“Oh ya, we'll tell you now that this isn't about a whole bunch of ultra-dry H/R stuff like Health and Safety and Job Specifications.”

Step 1. Scheduling

You have to be able to envision how busy you are going to be on any given day, so you can schedule the right number of employees to service those customers.

Employees are needed to serve customers; so, it is your job to put together schedules to meet the customer demands. The person who draws up schedules has a monumental job:

- He has to look after you and your concerns of keeping labour costs in line, so he has to make sure to not bring in staff too early or hang on to them too late.
- He has to ensure that there is enough staff in the house to serve the customers that are there and put a strong sales team together for the busier days.
- As well, he has to look after the multitude of demands that employees put on him or her. Janice needs the weekend off to go to a wedding, and Billy has a dentist's appointment on Wednesday. Gladys can work Friday but she isn't up-to-speed yet, so you have to find someone else to cover that shift.

Talk about a headache. Be prepared for numerous versions because there will be innumerable changes.

Look at the **sample schedule worksheet titled Schedules and Labour Costs Worksheet** (we include with this Handbook) to get a sense of how tough it is; and understand how it was filled out to meet expected customer counts that change from midweek levels to weekend levels.

- A. The first schedule you have to draw up is for the supervisors and that could include you. You always have to have someone there that is in charge; so, you have to have management shifts every day - unless you plan on working 18 hours a day, 7 days a week, and I don't recommend that.

B. The next schedule is for Clerks. There are 3 different shifts:

1. Open
2. Swing, afternoon and into the evening
3. Close, until the store shuts down

Early in the week you need fewer clerks on the floor, but as the week goes on and business improves, the number of employees per shift should increase to handle the escalation in customer traffic.

C. The Warehouse Schedule is like the Managers' Schedule as you essentially need a back of house worker every day

So now you can understand how a typical schedule is drawn up and you have an example you can refer to.

The next step is to draw up your own schedules. We'll step away for a moment while you do that.

We're back.

Step 2. Labour Cost

1. Total all the hours you have estimated by employee position for a week, and then multiply that number by an estimated average wage for each position. We are using basic wage numbers so you can understand easily what we are doing.

You can work out the average wage by adding up all the different wage scales within a department and dividing it by the number of people working in the department. It won't be exact but will be a good estimate.

Check the worksheet -

190 clerk hours in a week x \$15.00 per hour = \$2850.

56 warehouse hours in a week x \$16.00 per hour = \$896.

And so it goes department by department.

When the management, front staff, and back staff wages are all added together, you arrive at a sub-total of labour for a week at \$5546.

Benefits for holiday pay and other statutory deductions will add approximately 10% to your payroll costs. The total of the labour sub-total plus statutory benefits gives you your total labour for a week at \$6100.60

Sub Total	\$5546.00
Benefits @ 10%	<u>\$ 55460</u>
Total Labour	\$6100.60

2. You then divide your total labour by your sales projections for a week (\$20,000) to get your estimated labour cost percentage (30.5%).

Or

$$\$6100.60 / \$20,000 \times 100\% = 30.5\%$$

You can use that percentage to build your budget for labour the rest of the year.

If on a typical week your labour estimate is say 30% - then use 30% for each month. (In time you will have actual costs)

Your staff demands will increase as your revenue escalates. The more customers you have the more clerks and warehouse workers you need to serve them.

Monthly Revenue @ \$80,000 Labour @ 30% = \$24,000

Monthly Revenue @ \$100,000 Labour @ 30% = \$30,000

Step 3. Recruiting and Hiring

I talked earlier about how frustrating it was to hire and train someone only to have them leave a week later.

The first step in preventing this from occurring consistently is by recruiting and hiring the right people.

“How do you do that genius?” you ask. Take it easy. It’s really quite simple.

- Be different and be true to your concept. Don’t sell yourself as anything other than who you are. People will be attracted to you if they see themselves fitting in and will stay if you are truly genuine.
- Don’t place boring ads online that will end up next to the rest of the wanted ads. Rather than “clerks wanted”, take a fresh approach. The right person will appreciate it. Smart people attract smart people.
- Once you have selected a number of prospects for an interview, (and there will be lots if you are seen as different), take your time to hire the right one. Although there are times when you need someone “like yesterday” it doesn’t ever pay to “panic hire.” If you do, you’ll be back on the market looking again very soon.
- Interview candidates (the ones who look like they might fit) at least two separate times. (Note - Treat every prospective employee with dignity as they may not be your 1st choice to be a member of your team, but could be a customer one day and a good one.)
- Have a prospect talk to one of your existing staff members; as he might want to find out what sort of boss you are, and he can’t ask you that now can he?

- If the prospect passes all the tests, hire them with the understanding that they are on probation; and that you have an extensive training program. *(And you better have a good one.)*

13 minutes left

Step 4. Training

No one should ever be a trainee! If they are, the customers can never know. What idiotic corporate guy decided to put a big flag on a “first-day” employee that labelled him a loser?

A trainee badge says 2 things:

- One. The employee knows nothing.
- Two. We don’t care about our good customers because we’re going to have an untrained person rather than an experienced one look after you today. Thank you very much.

Actually, no thank you.

Give me the one with the nametag - with a real name on it. I haven’t the time or the patience to do your job and train your staff. *(Sorry about that. It’s a pet peeve of mine.)*

Take the time to train the employee.

In the case of a clerk, don’t put them on the floor until you are both confident that **their 1st customer** will think that he is **their 101st customer**. Read that statement again. *Got it?* Live by it and you’ll be successful.

Some owners spend countless hours and dollars building up a relationship with a customer and then turn that relationship over to the hands of someone who knows almost nothing. *(I’m still peeved, sorry.)*

Step #1.

The first thing you should do with a new hire is sit down with him/her and go over the **employee manual**.

If you don't have one – an employee manual that is - get one. It can be 10 pages, but it will tell the new hire about:

- Your philosophy
- Your business
- The rules and regulations
- The pay periods
- The holiday policy and such

Very important!

Step #2.

Put every employee into a **training schedule** that introduces them to all facets of the business. Sit down with them and go over the whole process ahead of time. Training shouldn't be a secret.

A new clerk, for example, has to spend time in the warehouse as they will gain a greater appreciation of the total business.

Step #3.

Give them a **product list to take home**; and give them a copy of the **product specifications** so they understand how everything is made.

Step #4.

Have them **work the door** as a greeter to learn how the business flows.

Step #5.

Introduce them to **the sales process**, so they learn how to make sales and how to upsell and cross sell.

Step #6.

Next have them **work the POS** to learn where all the buttons are. Have them ring in sales for the other clerks; and let the clerks train the trainee.

Step #7.

Lastly, have them come in and “dummy” sell another clerk until they have it down.

Practice makes perfect and it is better that they learn by serving staff in closed hours rather customers when you are open.

The whole process is important.

Essentially the training is a job description for real. Rather than having an employee read what they will be doing - they are actually doing it. *Why?*

You want a “**new hire**” to approach his or her new job with a clear mind. They should only be thinking:

“What does this customer in front of me right now think is outstanding service?”

Everything else is secondary. (Re-read that thing about a clear mind)

The only way to get them in that mode is to ensure that:

- ✓ They feel comfortable with everything they have to do.
- ✓ They know what the current sales are.
- ✓ They know the prices for everything.

- ✓ They know what is playing at the local theatre, and whether the local sports' team is still in the playoff hunt. Playoffs? Playoffs?

By taking the time to train a new employee, the trainee will gain insight into your business and will understand how serious you are about both the business and about them.

Step 5. Evaluation

Every employee should know where he or she stands on:

- What they need to work on *and*
- What they do well.

An employee evaluation should never be an exercise in bashing. Make sure you **let them know how important you view their contribution.** *Take a personal interest in them as well, as they are people who have lives other than at work.*

- You do this by giving them ongoing evaluations **not** waiting to sit down with them but once a year.
- Ask them for feedback.
- Ask if they have any friends or associates looking for employment. Current employees are your greatest source of new talent.
- Ask them if they have supervisory or management aspirations. Let them know that you are in the business of growing people.

Step 6. Staff Meetings

Other than your first meeting when you have to go over the dry stuff – rules and regulations – all meetings thereafter should address two issues and two issues alone:

1. How can we improve revenue? *and*
 2. How can we improve service?
- Any other issues can be dealt with one-on-one with employees. If you have a problem with Sally and Fred, - talk to Sally and Fred and don't involve the other members of the staff.
 - Staff meetings should not be “dig my eyes out with a spoon” events, but rather should be uplifting.
 - Always have an agenda and stick to it.
 - Keep meetings short - people don't have time; and remember some are coming in on their day off; or well before their shift.

Step 7. Bad Apples

Invariably, you are going to make a mistake and hire someone you shouldn't have. On top of that, you will recognize this fact when you can least afford to lose someone. Bob is on vacation and you are already short in the warehouse; and Doug cut his finger and is off the schedule for a week. *Dammit. What do you do?*

👍 You act promptly and get that bad apple off the team immediately.

- 👍 The longer a bad apple is around, the more you look like a twit for hiring them in the first place. People will cheer when you do the dirty deed and will rally around to make sure that you are okay.
- 👍 Having the wrong person on the team can kill the morale and sometimes in the dead of summer - when everyone is exhausted - all you have is morale driving your organization.
- 👍 Be fair to the outgoing employee. Let them know that they just didn't "fit" and that you are sure "they'll be happier somewhere else."
- 👍 Never terminate an employee without someone else in the room with you.
- 👍 Know where you stand legally so you don't make the mistake of breaking the labour laws.
- 👍 Act swiftly and get out. You have wasted enough time with the individual and you don't need to spend another minute worrying about them.
- 👍 Pay whatever severance is due and be done with it.

Let's summarize:

- ★ You have your budget.
- ★ You have a keen eye for talent.
- ★ You have trained your staff well, and continue to do so in spite of the extra cost, because it limits turnover and actually saves you money.
- ★ You take a personal interest in your employees.
- ★ You right your wrongs immediately and care more for the team than you do for individuals.
- ★ You reward good performance only.

- ★ You also know what your labour costs are for the first year and you haven't even opened yet.

You are so far ahead of the vast majority of people who open businesses and that's because you took the time to follow the:

The Haffhour Handbook On How to Estimate Labour Costs

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Appendix A.

Schedules and Labour Costs Worksheet										
	Mon	Tues	Wed	Thurs	Fri	Sat	Sun	Hours	Average Wage	Cost
Supervisor 1	On	Off	Off	Open	Open	Open	On	45		
Supervisor 2	Off	On	On	Close	Close	Close	Off	45		
								90	\$20	\$1,800
Clerk 1	Open	Open	Open	Open	Open	Off	Off	40		
Clerk 2	Off	Off	Swing	Close	Off	Open	Open	40		
Clerk 3	Close	Close	Close	Off	Off	Swing	Swing	44		
Clerk 4	Off	Off	Off	Swing	Swing	Swing	Close	36		
Clerk 5	Off	Off	Off	Swing	Close	Close	Off	30		
								190	\$15	\$2,850
Warehouse 1	Close	Close	Close	Off	Off	Close	Close	40		
Warehouse 2	Off	Off	Off	Close	Close	Off	Off	16		
								56	\$16	\$896
Totals										
Management	\$1,800.00									
Front	\$2,850.00									
Back	\$896.00									
Sub-Total	\$5,546.00									
Benefits @ 10%	\$554.60									
Total Labour	\$6,100.60									
Sales	\$40,000.00									
%	15%									