



Trusted Advisor to Business Owners

Going Overboard with Overtime

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The incremental cost of overtime is usually between 7% and 18% more expensive than hiring personnel and using straight time, after calculating for a benefits load of 30% - 40%

What's the right amount of overtime? Just spent the weekend looking at costs and found that we are spending \$3,500 - \$4,000 / week in overtime. Seems like it's becoming a habit for everyone here, one that's costing me some serious money. Bet we could cut out \$100k per year, easily, from our expenses, if we cut out overtime. On the other hand, I don't want to commit to additional staff in uncertain times like these. If things slow down, I can reduce overtime more easily than I can staff. Would appreciate your input.

Finding the right balance between overtime and full time is tricky. Make sure you understand the real cost of labor. Keep competitors at bay by promptly handling customer requests. Control overtime authorizations as the business grows. Do what you can to add new talent at a lower cost.

Make sure that you're charging enough to pay for all employee costs. Calculate the MINIMUM amount your company should charge for an hour of labor, just to break even. Add up both direct costs - labor including overtime - and indirect costs such as health care, uniforms, cell phones, etc. Divide an individual's total cost by the company's gross profit % goal. That's your minimum. Double the minimum to insure your company is making money. If your customers won't pay that, you'll have to figure out how to operate more cost effectively.

If you can't afford overtime, consider putting employees on a 35 hour work week. If you have to flex up hours, the next 5 hours are at regular time, not time and a half. Hire additional staff to fill the cut back gap. Put a strict limit on overtime, as in ZERO, except in case of emergencies when customers will pay extra.

Most companies today report that their backlog of work is shorter. They are working hard to meet quickly with customers. Keep competitors away by making sure that customers needs are promptly handled. This means that a steady pool of labor has to be available to quickly ramp up when groups of customers call in at the same time.

If you think you can afford some overtime, do a comparison calculation. Note that many of the extra costs, health insurance, bonuses, and field related costs such as mileage and cell phones, don't increase with overtime. But they may increase if you add staff. So an hour of overtime may be less costly than it looks, when compared to adding staff.

Consider using overtime selectively to reward employees who are willing to go the extra mile. Some companies find that in this recession they have cut back on bonuses, cost of living and performance increases. Selective overtime helps employees close the income gap they may be feeling at home, while getting additional income from clients to pay for the increase in payroll.

Make sure you're not going overboard with individual overtime authorizations. As people work additional hours, they can get tired and slow down. Overtime often cuts into productivity and leads to increased mistakes, which can be costly to correct. Limit the number of overtime hours each employee is allowed to work, and monitor quality to insure people can keep up with the additional workload.

If customer volume stays up, then consider hiring. Think about starting with part timers who willingly pick up additional work when it's available. Use new temporary and part time help to build up the company's future labor pool. Make sure that part time employees' goals include working their way up to full time hours.

Managing overtime is a day-to-day call. 5% of payroll going to overtime isn't tragic. If 30% of payroll is going to overtime hours, it's time to look for the next hire. Focus experienced employees on the most technical work. Bring in new people at a lower pay scale, and have them do more entry level work. Watch labor costs drop dramatically as you shift costs around.

Looking for a good book? No Boundaries: How to Use Time and Labor Management Technology to Win the Race for Profits and Productivity, by Lisa Disselkamp.

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