



Business Management, Inc.

## **GROSS PROFIT MARGIN**

Gross Profit Margin is the single most important number on our company's Profit and Loss (also known as Income Statement). Gross Profit Margin is a financial metric used to assess our company's financial health and can be used to help us run our business. Revealing the proportion of money left over from revenues (sales) after accounting for the cost of goods sold (direct expenses). Gross profit margin is the source for paying additional expenses (overhead) and savings. Using our Gross Profit Margin we can determine if we can afford to hire an estimator or buy that new computer system.

The first thing we need to do is make sure we have our expenses in the proper categories. We need to understand our expenses and determine if they are direct or overhead. Direct expenses (Cost of Goods Sold) are those expenses that can be assigned directly to the job. Overhead expenses are the ongoing expenses used to operate our business. Examples are office rent, accounting fees, office supplies, and advertising.

<b>Contract Income</b>			<b>75,000.00</b>	<b>100%</b>
Material	11,250.00			15%
Labor (including burden)	15,000.00			20%
Equipment	2,250.00			3%
Subcontract	26,250.00			35%
Other Direct Expense	1,500.00			2%
Total Direct Expense		56,250.00		75%
<b>Gross Profit</b>			<b>18,750.00</b>	<b>25%</b>

Now that we know our Gross Profit is 25% we can see how much we would need to increase our sales to hire an estimator.

Let's say the wage to hire an estimator is \$50,000 per year. Using our Labor Burden Calculator we know our burden is 16.45%.

$$50,000 \times 16.45\% = 8,225 \text{ per year total cost to hire an estimator.}$$
$$8,225 \div 25\% \text{ (gross profit)} = 32,900.$$

We would need to increase our sales by \$32,900 to hire an estimator.

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