



**Beyond Breakeven Point**  
By Vicki Suiter-McNickle

To be profitable, a business must charge more than its breakeven point for the services it sells. When it comes to pricing a job, what often hinders a contractor from carefully considering the markup for overhead and profit is the competitor who does not take these things into consideration. So-called “low balling” does not assure long-term business success.

You can take your business beyond the breakeven point by knowing your overhead percentage and calculating it into the bids and sale price you offer for your services.

Most of us know that overhead is the cost of running a business and includes items such as rent, utilities, office supplies, staff and officer compensation. When you know your overhead percentage, you will know *exactly* how much to mark up the cost of goods or direct expense to break even. Any markup after that is profit. By using the correct overhead percentage you will produce more consistent results.

To calculate the overhead percentage for your company, you take your overhead expenses and divide them by the cost of goods sold:  $\text{Overhead Expenses} / \text{Cost of Goods Sold} = \text{Overhead \%}$ .

A common mistake that can lead to miscalculating overhead percentage is listing liability insurance as an overhead expense rather than where it appropriately belongs as a cost of goods sold.

Marking up cost of goods by this percentage, will *just* break you even. In other words, it will produce just enough money to cover your overhead. Example:

	<u>Example A – Breakeven – no Profit</u>		<u>Example B - Net Pre Tax Profit of 8.68%</u>	
Income	\$4,027,500	100%	\$ 4,410,112	100.00%
Cost of Goods Sold	<u>\$ 3,222,000</u>	80%	<u>\$ 3,222,000</u>	73.06%
Gross Profit	\$ 805,500	20%	\$ 1,188,112	26.94%
Overhead	<u>\$ 805,500</u>	20%	<u>\$ 805,500</u>	18.26%
Net Pretax Profit	\$ 0		\$ 382,612	8.68%

Overhead % Calculations:  $\$ 805,500 / \$3,222,000 = 25\%$ . The overhead percentage is 25%.



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In this example, to reach the breakeven point you would need to mark up cost of goods sold by 25 percent to cover overhead. When doing this calculation for your company, use income statement figures for at least a six month period of time, ideally 12 months.

If you are a sole proprietor, your percentage will be lower, as you do not have officer compensation on the Income Statement. To come up with a more accurate breakeven point, it is recommended that you add an amount for your compensation to the overhead expenses. As an owner, you need to be earning adequate compensation to be successful.

By knowing your overhead percentage, you can more accurately bid on jobs by adding it to your estimated cost. Using the 25 percent overhead from the previous example, you can calculate the bid/sales price like this:

<b>Estimated cost:</b>	\$275,000
<b>Overhead %</b>	x 1.25%
<b>Subtotal to Breakeven:</b>	\$343,750
<b>Profit %</b>	x 1.13%
<b>Bid / Sales Price</b>	\$388,438

Many contractors have different markups for labor and materials, use flat rates or unit prices in bidding – any one of these could leave you wondering how to apply this in your company. If you are doing bidding in any of these ways, make sure to do the numbers in reverse before applying markup for profit. This will ensure you are covering overhead, leading to more consistent profits for your company.

In flat rate and unit pricing, it is a good idea to check these figures periodically and ensure the costs are accurate all the way around.

Knowing your overhead percentage will take you beyond the breakeven point and help you more accurately bid on jobs. Ultimately, profitable jobs will boost your bottom line.

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