

# FENCELINE TO SUCCESS



# OVERHEAD AND PROFITABILITY



# OVERHEAD AND PROFIT

- What does it cost to open the doors of your business?
- Would your company have *OVERHEAD* if there were no sales?
- Does *OVERHEAD* contribute to profits?



# OVERHEAD AND PROFIT

## *WHAT IS OVERHEAD?*

Overhead is a way of measuring **INDIRECT EXPENSES**, or those expenditures that are necessary to allow your business to continue operating, but **DOES NOT** contribute directly to profits



# OVERHEAD AND PROFIT

## *WHAT IS OVERHEAD?*

Overhead includes any indirect expenses your company incurs even if you never sold anything.



# OVERHEAD AND PROFIT

## *WHAT IS OVERHEAD?*

These indirect expenses can be the same each month or never the same. They are a fixed expense, but the dollar amount can change.



# OVERHEAD AND PROFIT

## *WHAT IS OVERHEAD?*

- Indirect
- Direct
- Variable

*These are the THREE (3) components  
that determine TRUE cost!*



# OVERHEAD AND PROFIT

## *What are INDIRECT COSTS?*

- Rent or Mortgage Payments
- Utility Payments
- Insurances Required
- Licensing Required (local and state)
- Office Supplies
- Maintenance Required on Facility





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# OVERHEAD AND PROFIT

## What are INDIRECT COSTS?

- Tools, Equipment, Vehicle Payments
- Advertising and Marketing
- Bank Charges
- Employee Benefits
- Fuel Charges
- Office Management Staff – indirect labor cost



# OVERHEAD AND PROFIT

## *What are INDIRECT COSTS?*

- Is your MEMBERSHIP IN THE AMERICAN FENCE ASSOCIATION an indirect expense?



# OVERHEAD AND PROFIT

*What are DIRECT COSTS?*

- Simple answer is!!

**ANY COST THAT IS DIRECTLY RELATED TOWARDS  
PRODUCING A PROFIT-MAKING PRODUCT OR SERVICE**



# OVERHEAD AND PROFIT

## *What are DIRECT COSTS?*

- Job Labor – Controlled & Uncontrolled
- Job Materials
  - Products to Construct Project
  - Cement, Sand, Gravel, etc.
  - Nails, Bolts, Screws, Welding Supplies, etc.



# OVERHEAD AND PROFIT

## *What are VARIABLE COSTS?*

Direct and Indirect Costs that are directly connected to SALES that fluctuate with increases/decreases in sales



# OVERHEAD AND PROFIT

## *HOW TO CALCULATE TRUE COST*

- ✓ Direct Cost
- ✓ Indirect Cost
- ✓ Variable Cost
- ✓ PROFIT – This is what we are looking for!



# OVERHEAD AND PROFIT

To make a PROFIT, we must know  
our BREAK EVEN POINT

Do YOU know yours?





# OVERHEAD AND PROFIT

## *What is your Break Event Point?*

- The Break Even Point is the point at which the cost/expenses and revenue are equal-meaning ALL your OVERHEAD is PAID
- A Break Even Point Analysis enables you to plan for the future.



# OVERHEAD AND PROFIT

## What is your Break Event Point?

If you know and understand your OVERHEAD Cost and Calculate your BREAK EVEN POINT based on SALES REVENUE, this will show exactly when a PROFIT will begin.



# OVERHEAD AND PROFIT

If you are getting 75-80% of your work, **YOUR PRICES ARE TOO LOW!!!!**

Increasing the price by 15-20% will almost **DOUBLE** your **PROFITS!**



# OVERHEAD AND PROFIT

## *What is a Budget?*

*Budget – a detailed projection of expenses for a fixed period (often 12 months).*

Budgets help to analyze cash flow

Budgets help to make prudent business decisions



# OVERHEAD AND PROFIT

## *Why develop a Budget?*

- **Forecast** future revenues and expenses
- Evaluate opportunities for cost cutting
- Find opportunities to be more efficient and productive



# OVERHEAD AND PROFIT

## *What is Forecasting?*

- **Forecast** – a conservative estimate of how much sales revenue you'll have next year.

Evaluate past year(s) revenue and forecast upcoming year revenue while factoring in market conditions



# OVERHEAD AND PROFIT

## *Why should you Forecasting?*

- A comprehensive budget can be developed through forecasting sales and revenues
- Outlines past and future sales contracts
- Evaluates the past ebbs and flows to help predict the future



# OVERHEAD AND PROFIT

## *Why should you Forecasting?*

- Outlines the financial expectations of the business
- Guides decision making and how to invest resources – staff, building, inventory, tools, equipment, vehicles, etc.





# OVERHEAD AND PROFIT

SO...



# OVERHEAD AND PROFIT

SO...



**OVERHEAD AND PROFIT**

**WHAT ABOUT  
PROFIT?**



# OVERHEAD AND PROFIT

## *What is PROFIT?*

Profit is the positive gain remaining for a business after all COST and EXPENSES have been deducted from TOTAL SALES

Profit is NOT a dirty word! It is the financial return that business owners strive and aim for to reflect the RISK they take as an owner.



# OVERHEAD AND PROFIT

*What does PROFIT do for us?*

- Profits enable companies to develop new merchandise and services
- Profits enable companies to invest in new equipment & technologies



# OVERHEAD AND PROFIT

## *What does PROFIT do for us?*

- Profits enable companies to expand (new employees, new facilities, new vehicles, etc.)
- Profits enable companies to survive an economic downturn



# OVERHEAD AND PROFIT

## *OVERVIEW*

- Understand your OVERHEAD
- Understand your Break Even Point
- Understand Budgeting and Forecasting



**OVERHEAD AND PROFIT**

**= *PROFIT***





OVERHEAD AND PROFIT

# QUESTIONS

