Meaningful Data

Construction

<u>Labour</u>

Subcontractor GP % = (Subcontractor Income – Contractor COGS) / Subcontractor Income

Employee's GP % = (Labour Income – (Payroll Expenses + On-costs)) / Labour Income

N.B. If a partnership / sole trader and the owner is performing chargeable work, include owners drawings in calculation.

On-costs can form up to 45% additional overhead for employees, and includes items such as workers compensation, super, public holidays, rain days, TAFE leave, holidays, long service provision etc...

Determining owners charge-out rate

- Firstly determine the actual hrs worked by the owner.
- Divide your EBITDA (earnings before interest, tax, depreciation and amortisation) by your total hours. This will give an indication of your charge-out rate.
- Most business owners are shocked by the result. Is this the same as what they charge out their employees? Is this more than the minimum wage?

Job Profitability

- To form a true reflection of profit the owner's hrs must be factored into the project.

For example...

a) Divide the total job profitability by the owner's hrs worked – this is basically the owner's charge-out rate, however, this profit <u>does</u> include mark-up on materials.

b) A more accurate picture is gained by deducting the material from the total profit, and divide the remaining figure by the OWNER'S HOURS.

Soooo... if:

Total profit = 5,000
Profit on materials = 1,000

Owners Hours = 100

In example a) the charge-out rate would be 5000/100 = $50hr (profit on materials included)

In example b) the charge-out rate would be 4000/100 = $40/hr (profit on materials excluded)

Retail

Useful Ratios

Gross Profit Ratio = Gross Profit / Net Sales

Inventory Turnover = Cost of Goods Sold / Average Inventory
2.5 to 3.5 is considered 'good'

Stock Turn Rate = Net sales / Average retail inventory (use 13 month method)
2.5 to 3.5 is considered 'good'

Collection Ratio = Accounts Receivable / (Revenue / 365)

Mark-up vs gross profit margin. Know the difference.

Gross Profit = Sales – COGS
Gross Profit Margin = GP / Sales x 100
Markup = GP / Cost x 100
Non-retailers usually talk markup. Eg if you buy a widget for $2 and sell it for $4 most would say that's a 100% markup. However a retailer is more likely to say "that's a gross margin of 50%".

Sales per m2 = net sales / available sales floor space (m2)
Relevant for benchmarking

Sales per employee hr = net sales / employee hours

Sales Growth Rate = this years sales – last years sales) / last years sales x 100

Other Useful Ratios

Liquidity

Quick Ratio = (Cash + Accounts Receivable + Short Term Investments) / Current Liabilities
Current Ratio = Current Assets / Current Liabilities
Interest Coverage = EBIT / Interest Expense

Performance

Return on Assets = Net Income / Total Assets
Return on Equity = Net Income / Shareholder or Owners Equity