

## **J.R. Huston Enterprises, Inc.**

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**HTPLIP:** From chapter 43 of How to Price Landscape & Irrigation Projects

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MS Excel Figure worksheets (attached)

- Figure 43.1 Budget to Actual P&L report

**PURPOSE:** To explain the importance of and how to monitor general and administrative costs

### **INTRODUCTION**

Indirect costs, or general and administrative (G&A) overhead costs, are essential to monitor. Like field-labor downtime, G&A costs can get out of control and eat up your bottom line, while individual job-cost reports look great.

I don't recommend necessarily attempting to allocate actual G&A overhead expenses to your jobs through job costing. Rather, I prefer to simply compare direct costs bid to actual performance, by means of gross profit margin (GPM) on a job-by-job basis. If your GPM turns out better than estimated, great! If not, find the problem and fix it before the next time.

However, you do need to monitor G&A overhead on individual jobs. Figure 43.1 is a sample profit and loss (P&L) financial statement format which compares monthly and year-to-date "budget vs. actual" categories. A good accounting software program should allow you to produce such a report. If you don't have that capability, you can produce it manually or enter the data into a computerized spreadsheet program.

\*\*\*\*(Figure 43.1. Sample P&L Statement)\*\*\*\*

### **The Break-even Point, or the "October Surprise"**

A company usually reaches its break-even point (BEP) in the 9th or 10th month of its fiscal year. You reach your BEP when your accumulated gross profit margin (G&A overhead costs plus

net profit) equals your G&A overhead budget dollar amount for the year. If you hit your break-even point prior to the end of the fiscal year, any dollar amounts on bids above Phases I and II direct costs (plus sales tax and field labor burden) will be net profit for that year. That's *if* the work is completed and billed prior to the end of the fiscal year.

**\*\*\*\*\* Main point:** A company usually reaches its break-even point (BEP) in the 9th or 10th month of its fiscal year. You reach your BEP when your accumulated gross profit margin (G&A overhead costs plus net profit) equals your G&A overhead budget dollar amount for the year.

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Work bid after the BEP is met, which will be completed and billed before the fiscal year end, can be bid with the realization that any amount above direct costs in the bid goes to the net profit margin on the bottom line. If your net profit margin on a bid is 10 percent and your G&A overhead amounts to another 15 percent, your net profit margin is really 25 percent, since your G&A overhead is already covered for the year.

Some contractors understand this concept and know that, after they meet their BEP, they can bid work cheaper than they normally would at the end of the year without really cutting net profit. I would not recommend this strategy unless you have a very justifiable reason. Because of the inherent risk in projects, especially construction ones, you should always strive to work for profit.

#### Determining the BEP

Use the following formula to calculate a company/division's BEP:

$$\text{BEP} = \text{Annual G\&A overhead budget dollars} \div \text{Annual GPM \%}$$

For a company whose budget is as follows:

Sales.....	\$1,000,000	100%
G&A overhead.....	\$200,000	20%
Net profit.....	\$100,000	10%
Gross profit.....	\$300,000	30%

$$\text{BEP} = \$200,000 \div 30\% = \$200,000 \div .3 = \$666,667$$

The "projected" BEP is calculated to be \$666,667.

In other words, once you hit \$666,667 in sales for the year, theoretically you should have accumulated enough gross profit to cover all of your \$200,000 G&A overhead costs. This is your break-even point. If your gross profit margin is approximately 30 percent, multiply the \$666,667 by .3 and you get \$200,000.

*Remember:* This is the “projected” or budgeted BEP. Due to fluctuations in the GPM on individual jobs throughout the year and other factors, the “actual” BEP will in all likelihood be different as seen on your profit and loss (P&L) statement. Therefore, it’s necessary to monitor the “budgeted-to-actual” BEP by means of the P&L statement.

**\*\*\*\*\* How it works start \*\*\*\*\***

A client in New England had wrapped up his landscaping season with a healthy bottom line. His fiscal year ended March 31<sup>st</sup>. Late in the fall he was given the opportunity to bid on a winter pruning job that his crew would complete prior to the end of his fiscal year. He wanted the job because winter revenue, other than snow plowing and sanding, was hard to come by. This job would keep three people busy for a good part of the winter and the contractor could put his division manager on the crew. This would transfer the manager’s winter hours and salary from a G&A overhead expense to billable hours. An additional benefit would be that the contractor would not have to lay off the other two crew members and risk losing them if they did not return in the spring. He knew that he had to be competitive to get the project.

With a 10 percent net profit and G&A overhead, this job would normally go for about \$42,000. My client turned in a bid for \$28,000, which just covered his direct costs. And he still did not get the job.

**\*\*\*\*\* How it works end \*\*\*\*\***

**SUMMARY**

It’s very important that you monitor your G&A overhead costs and break-even point by means of a P&L statement similar to the one in Figure 43.1. A company usually reaches its BEP in the 9th or 10th month of its fiscal year. You reach your BEP when your accumulated gross profit margin (G&A overhead costs plus net profit) equals your G&A overhead budget dollar amount for the year.

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This article was adapted from James Huston’s new book and audio book, *How to Price Landscape & Irrigation Projects* and his previous book, *Estimating for Landscape & Irrigation Contractors*. The author is president of J.R. Huston Enterprises, Inc., which specializes in construction and services management consulting to the Green Industry. Mr. Huston is a member of the American Society of Professional Estimators and he is one of only two Certified Professional Landscape Estimators in the world. For further information on the products and services offered by J.R. Huston Enterprises, call 1-800-451-5588, e-mail JRHEI at [jrhei@jrhuston.biz](mailto:jrhei@jrhuston.biz) or visit the J.R. Huston Enterprise web site at <http://www.jrhuston.biz>.