

Financial training For non financial staff



The financial training specialists

The cost of overheads (profit)

Last week a client sent me to Denmark to run a course. It's always a pleasure to travel, especially at someone else's expense!

The trip set me thinking about how businesses finance their overheads. Whether training is an investment or an expense, it's an overhead and has to be paid for out of sales.

A business has two types of costs. First, cost of sales: the costs of producing and distributing the goods we sell, or the cost of providing the service we sell. The first level of business profit is gross profit: sales less the cost of sales. It's often expressed as a percentage, to show how much of the customers' money we keep after paying for the goods or services we have sold. A gross profit percentage of 25% means that for every £1,000 we sell, £750 goes in production costs, and we keep £250. What's your business's gross profit percentage?

The next level is overheads. These include IT, HR, Finance, sales & marketing, reception, directors, etc. They're paid for out of the gross profit.

So how much do we have to sell to cover £1,000 of overheads? If our gross profit percentage is 25%, we need to sell £4,000 leaving £1,000 gross profit, to cover £1,000 of overheads. If we overspend by £100, that's the profit from another £400 of sales!

If you're in an overhead area, what's your budget, and how much does your company have to sell to cover it?

It's a lot, isn't it!