



## AIRPORT BUSINESS OPPORTUNITY

Milwaukee County General Mitchell International Airport (GMIA) is seeking individuals or businesses with an interest in retail stores that are eligible to qualify as disadvantaged businesses. You will have opportunities to partner with large companies to develop and operate news & gift and specialty retail stores at Mitchell Airport for 7 to 10 years. The CBDP office will assist interested parties in determining their eligibility for this opportunity and will arrange meetings with company representatives. This might be the opportunity you have been waiting for. A national company will partner with you, and you will be able to learn the workings of the retail industry. For more information, contact Mark Phillips at (414) 278-5104.

## Are You Making Money?

I often ask businesses this question, "Are you making money?" I ask this question because I find that too many businesses don't know their overhead rate. Or worst, don't know what an overhead rate is. If you don't know your overhead rate, how do you know if you are making money? The overhead allocation rate is the indirect expenses divided by direct expenses. The lower the overhead rate the more profitable the business. Conversely, the higher the overhead rate the less profitable the business. See page 2.

*"the CBDP office is exploring ways to achieve targeted goals by being involved in the RFP and bidding development process."*



Downtown Milwaukee

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- Are You Making Money? Overhead rate and how it effects your bottom line
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Billable hours	Example 1	Example 2	Example 3	Example 4
Employee A	\$ 792.00	\$ 792.00	\$ 1,008.00	\$ 1,008.00
Employee B	\$ 1,188.00	\$ 1,188.00	\$ 1,512.00	\$ 1,512.00
Markup (commonly called profit)	10.00%	18.56%	40.00%	50.90%
Gross Revenues	\$ 1,980.00	\$ 1,980.00	\$ 2,520.00	\$ 2,520.00
Cost of Good Sold (Direct costs)	\$ 500.00	\$ 500.00	\$ 500.00	\$ 500.00
Gross Costs (direct & indirect costs)	\$ 1,800.00	\$ 1,670.00	\$ 1,800.00	\$ 1,670.00
Gross Profit	\$ 1,480.00	\$ 1,480.00	\$ 2,020.00	\$ 2,020.00
Net income (before taxes)	\$ 180.00	\$ 310.00	\$ 720.00	\$ 850.00
Net income increase over Example 1	0%	72%	300%	372%
Gross Profit Margin (gross profit/sales)	74.75%	74.75%	80.16%	80.16%
Net profit margin (net income/sales)	9.09%	15.66%	28.57%	33.73%

**Table 1—Summary of Scenarios**

A business needs to capture all its' costs to be financially healthy, to control costs, and sustain growth. The overhead rate is a key component that impacts the major financial statements such as the Balance Sheet, Profit & Loss, and the Cash Flow Statements. The overhead rate is part of three components in determining the billing rate or multiplier. What are the typical items that go in the overhead rate calculation?

Indirect costs are expenses such as rent, insurance, janitorial, utilities, property taxes, advertising, health and medical, taxes, marketing, salaries or labor costs not directly chargeable to a contract, etc. Direct costs are labor expenses, materials used to make a product, etc.

### Step 1

Calculate the direct cost by identifying all expenses (direct labor, material, etc.), also known as the "Cost of Goods Sold" directly related to producing a product or service. During the exercise of assessing the company's average direct cost, it is suggested that you estimate the direct costs by using historical data and adjust for inflation. For example, your employee is assigned to a project averaging 8 direct labor hours per day at \$ 20 (raw rate) an hour, your direct labor costs are \$160 (8 x \$20) per day. The raw rate is the hourly rate paid to an individual less benefits and payroll taxes. The benefits and payroll taxes will be captured in the overhead rate to be discussed later in this example.

### Step 2

Calculate the overhead by using historical costs for the past 3 to 5 years, including the current year. If your business is a start-up or in the planning stages, create a preliminary Profit & Loss Statement. Prepare an estimate of all salaries not directly chargeable (e.g. owner, administrative staff, supervisors, etc.) and other overhead items, and use actual costs to refine the estimates over time. For example, if the annual overhead costs are \$100,000 and your business is operating on a twelve months basis (2080 hours per year/12 months = 173 hours per month), the average overhead costs are \$48.08 per hour (\$100,000/2080) or \$384.62 per day. For example, if 50 percent of the supervisor's time is chargeable to a project, half the supervisor's salary is overhead and the remaining half is direct charges (\$50,000/yr. x 0.5= \$25,000). Depending on the number of employees and if the company's gross sales are less than \$1 million, 30 to 50 percent of your annual hours should be billable. It is important that the owner devote the necessary hours to analyzing the financials, marketing and business development. The hours spent on the financials, marketing and business development are indirect hours. As the company grows and the business becomes more profitable and mature, the Owner's indirect time should be devoted to financial analysis, marketing and business development. The company's financial health will support the Owner's indirect hours, allowing the Owner's to "work on the business versus working in the business". I like to use sports as an analogy. The Owner is like the head coach. Although the Coach isn't physically in the game as the players on the court (the player represents direct labor), the Coach's plan or game strategy to win the game is key. The Coach can't play the game and devote the time to develop a game strategy at the same time. The indirect time the Coach generates to develop a winning plan is important. Likewise, the hours the Owner spends on business development is necessary and through sound financial strategies the Company can support the indirect hours, while reducing the overall overhead rate. Remember, it is better to increase revenues by establishing and maintaining a lower overhead rate because it means the company is carrying less overhead and increasing profit margins. [Continue on page 4](#)

## Directory of DBE Owned Firms

[www.county.milwaukee.gov/cbdp/CertifiedVendorList.htm](http://www.county.milwaukee.gov/cbdp/CertifiedVendorList.htm)

## Contracting with Milwaukee County-First Steps

Please visit the website below for introduction to Milwaukee County, its various departments and divisions, and its solicitation, procurement, and contracting processes. [www.county.milwaukee.gov/bop](http://www.county.milwaukee.gov/bop)



### Milwaukee County Summary DBE Participation (Capital Improvement Projects)

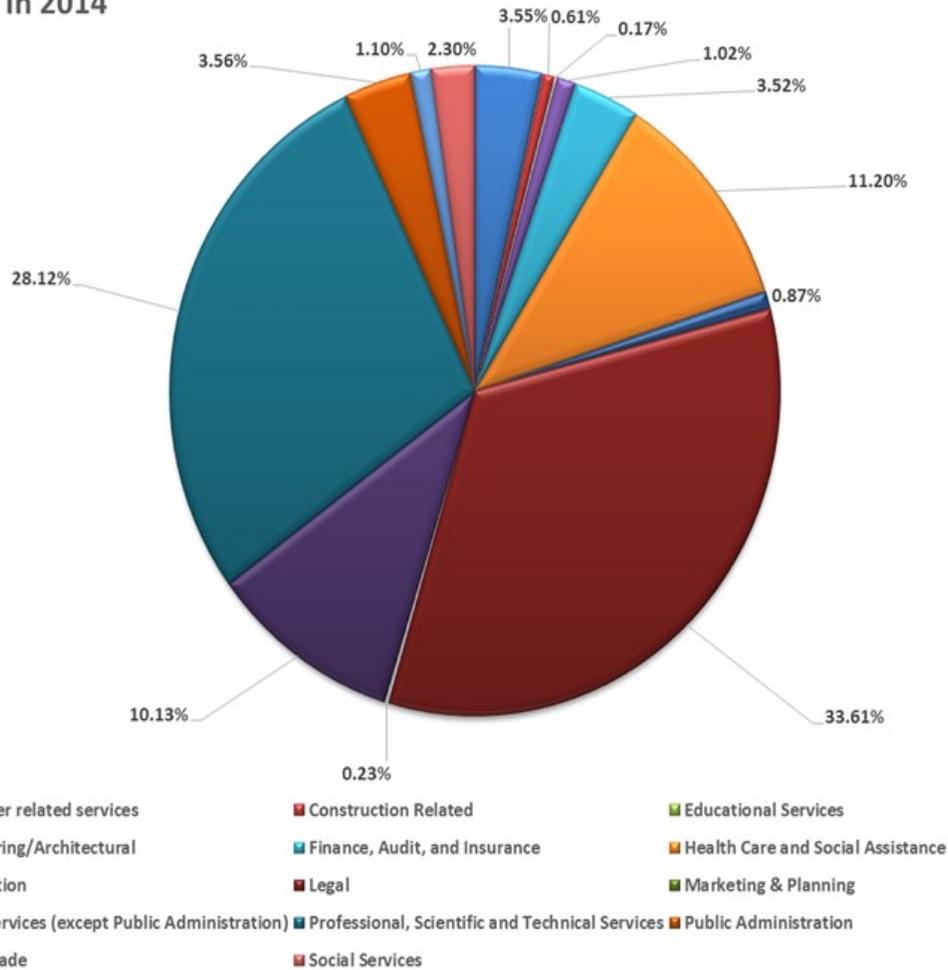
2015 Adopted Capital Improvement Budget-\$ 78,572,288.00

Total Approximate Contract Dollars Awarded (January-June 2015)-  
**\$16,381,577.16**

Total Approximate Dollars Committed to DBE firms (January -June 2015)-  
\$4,546,485.82

Total Percent Committed to DBE firms (January-June 2015)=27.75%

## Percentage Waived to Total Dollars In 2014



## 2014 DBE Waiver Numbers

In 2014 Milwaukee County purchased goods and services for approximately \$105 million. Of that amount, approximately \$32 million didn't have DBE participation. That represents approximately 30 percent. The chart above shows business sectors where DBE participation was not achieved in 2014. A number of reasons can be cited for the lack of participation. One of the main reason is the lack of DBE firms aware of opportunities. Obviously, on large and traditional contracts companies will focus their attention on strategies to capture a portion of the market. However, there are a number of smaller contract opportunities that can provide a more steady avenue for sustain growth, on a more frequent basis. The CBDP office reports on a monthly basis the contracts that were not able to achieve DBE participation. As a result, the CBDP office is exploring ways to achieve the goals by being proactive in the development phase of RFP and bidding process. The Waiver Report should be viewed as the "Opportunity" report for small business. The plan is to make information available to small business, such as historical trends, budgets, and opportunities for small businesses to adjust their business strategy to provide products and services in the areas where participation is low. For example, the table above shows that Legal related services represents 33.61% of the total. The idea here is that a DBE firm will review past and existing contracts, along with the budget and develop plan to modify their business plan to capture that market share. In addition, CBDP is planning on a quarterly to semi-annual basis to produce a report identifying contracting opportunities.

### Step 3

The overhead rate is the ratio of the overhead costs divided by the direct costs. The ratio can be expressed as a number or as a percentage. Let's say that the company has a daily overhead costs of \$416.64. The overhead rate will be 2.6 ( $\$416.64/\$160$ ) or 260.5 percent, which means that you incur \$2.60 in overhead costs for every \$1 in direct labor costs.

The above example does not completely answer the question "Are you making money?", because the billing rate has not been established, which includes a markup percentage. The markup percentage is commonly referred as percent profit, however, this is not accurate technically and not an indicator of company profitability. We will examine the difference between "markup percentage" and "profit margin" later in this article. The billing rate or price per unit is the fee a company charges the client that captures operational costs plus a markup percentage. In this illustration we will determine the multiplier and billing rate. The multiplier is the rate the company uses to determine the billing rate per employee. Depending on the employee's raw rate, the billing rate is going to be different. A significant point to make here is that the multiplier includes the markup the company wants to obtain. In the previous example capturing the company's costs was calculated, however it did not address markup which is commonly referred as profit. The first step is calculating the multiplier. Again, using the above example, which determined that for every \$1 in direct labor the company incurs \$2.60 in overhead. Now, the company wants to make a 10 percent profit the multiplier is as follows:



$$\begin{aligned} \text{Total Cost} &= (\$1 + \$2.60) = \$3.60 \\ \text{Markup (10\%)} &= 10/100 \times 3.60 = \$0.36 \\ \text{Multiplier} &= 3.60 + 0.36 = 3.96 \end{aligned}$$

Taking the above multiplier the company can establish a billing rate per employee. Let's continue the illustration. If Employee A's raw rate is \$10/hour and Employee B's raw rate is \$15/hour. The billing rate is calculated as follows:

#### Example #1. Business Multiplier Results

Employee A  $\$10/\text{hour} \times 3.96 = \$39.60/\text{hour}$  and Employee B  $\$15/\text{hour} \times 3.96 = \$59.40/\text{hour}$ . It is important that you know the market billing rate for your industry. The reason will become clear later. If the market billing rate in your industry support a range between \$60/hour to \$80/hour, above billing rates in this example are within the market range. Knowing this important information can be used to maximize company profits. It will provide an indication if the company's billing rate is underpriced, at market price or overpriced.

If each employee works 20 hours each on a project: Employee A  $\$39.60/\text{hour} \times 20 \text{ Hours} = \$792$  and Employee B  $\$59.40/\text{hour} \times 20 \text{ hours} = \$1,188$ , for a total of \$1,980. The total cost is \$1,800 ( $\$10 \times 3.60 \times 20 + \$15 \times 3.60 \times 20$ ). In this scenario the company profits from Employee A & B is \$72 and \$108 respectively, for a total of \$180. You can see that without factoring the overhead the company would be operating at a loss.

Also from the above example, we can increase profitability by adjusting the billing rate to reflect the market rate support levels. The next three examples show how profitability can increase by adjusting the percent profit within the market range, controlling costs without increasing percent profit, and increasing profits by controlling costs and increasing the percent profits.



#### Example #2. Controlling the Costs

While maintaining service expectations and product quality, the company finds ways to reduce and control costs. This might be accomplished by negotiating with vendors or suppliers for a lower price, increasing the number of billable hours of staff that is on overhead, finding affordable insurance plans, or re-negotiate existing loans for a lower interest rate are a few examples. Note that your banker will be interested in a financial plan that reduces cost (liability) and increases profitability, which improves the balance sheet and retained earnings. Your banker will be interested in restructuring the company's loan.

After determining where costs can be reduced or eliminated, revisit the overhead calculations. From the first example, lowering the overhead by 10 percent (2.60 to 2.34) would result in a total decrease in cost (3.60 to 3.34) and in keeping the multiplier at 3.96. The total gross revenue is \$1,980 and the before taxable net income will increase by \$130 for a total before taxable net income of \$310. That represents a 72% increase. In this scenario the total cost is \$1,670 ( $\$10 \times 3.34 \times 20 + \$15 \times 3.34 \times 20$ ) compared to \$1,800 in Example #1. The effective markup is 18.56% compared to the initial 10% markup. The same gross revenue but Example 2 take less overhead to produce the project. This example is more efficient than Example 1.

### Example #3. Market range increase

Employee A and B raw rate is \$10 and \$15 respectively. Let see the impact of the billing rate if the company goes from 10% to 40% markup. Remember the previous market billing rate in your industry support a range between \$20/hour to \$80/hour.

$$\text{Total Cost} = (\$1 + \$2.60) = \$3.60$$

$$\text{Markup (40\%)} = 40/100 \times 3.60 = 1.44$$

$$\text{Multiplier} = 3.60 + 1.44 = 5.04$$

Employee A's billing rate is now  $\$10 \times 5.04 = \$50.40$

Employee B's billing rate is now  $\$15 \times 5.04 = \$75.60$

Both billing rates are well within the market range

*From the previous example, Employee A is billed at \$42.48/hour x 20 Hours = \$1,008 and Employee B is billed at \$63.72/hour X 20 hours = \$1,512, for a total of \$2,520. In this scenario the company profits from Employee A & B is \$288 and \$432 respectively, for total of \$720. Profit increases 300% over Example 1*

### Example #4. Reducing Costs and same multiplier as Example 3

In this scenario the owner decides to combine both Examples #2 and #3 by reducing costs by 10 percent and taking advantage of the market billing rate range previously mentioned by leaving the multiplier at 5.04. The resulting before taxable net income of \$180 will increase by \$670 for a total before taxable net income \$850. That represents a 372% increase over Example 1. The effective markup is 50.9% compared to the initial 10% markup. The same gross revenue but Example 4 take less overhead to produce the project. This example is more efficient than Example 3. An evaluation of the four scenarios (Table 1) shows that Example #4 is the best financial approach. Table 1, the net profit margins for examples 3 and 4, are 28.57% and 33.73% respectively. The net profit margin increased by 18.06 percent.

Performing a financial analysis will assist the business owner in determining the best long range growth strategy for their company. Gross margin is shown on the Profit & Loss Statement and Balance Sheet. Understanding the gross margin and other financial ratios will provide insight to a company's financial health. Become familiar with financial software tools to obtain a better understanding of profitability. QuickBooks has a feature called "Scorecard" which compares your profitability, sales growth, cash flow to other companies in your industry (peer group). In addition, there are a number of free Excel spreadsheet programs available on the internet that can provide financial analysis. However, it is wise to work with your accountant or financial advisor as you make important decisions. The link to free Excel spreadsheet templates is [http://www.exinfm.com/free\\_spreadsheets.html](http://www.exinfm.com/free_spreadsheets.html)

***In the next newsletter the relationship between the three major financial reports, P&L, Balance Sheet, and Cash Flow statements.***

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*“Understanding the gross margin and other financial ratios will provide insight to a company's financial health. Become familiar with financial software tools to obtain a better understanding of profitability.”*

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## Revolving Loan Program

This loan program is currently accessible by DBE/SBE certified businesses working on Milwaukee County contracts. Contract work can be at the prime or subcontract/subconsultant level, and is also available to material and equipment suppliers.

For further information, contact Tru Mwololo

[Truphosa.Mwololo@Milwaukeecountywi.gov](mailto:Truphosa.Mwololo@Milwaukeecountywi.gov),

or

telephone at (414) 278-5037.

## Contact Us

Give us a call for more information about business opportunities, certifications, and compliance.

### **CBDP**

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Visit us on the web at :

<http://county.milwaukee.gov/cbdp>

**CBDP brings you the opportunities**

### **STATS LINE**

**17 firms received DBE certification during the 1st quarter of 2015.**

*Eaton's Asphalt Service, Inc.*

*EFH Trucking, LLC*

*One Accord, LLC*

*R.M. Chin Associates (ACDBE)*

*Hata, Inc. (ACDBE)*

*City Wide Transit, Inc.*

*Olinger Trucking*

*Coastwise Fireguard, Inc.*

*Interactive Design, Inc.*

*PW Construction*

*Standard of Excellence Education & Training Center, LLC*

*Electrical Testing Solutions, Inc.*

*Dolce Burns*

*Three Sisters Landscaping*

*Young's lawn Care, LLC*

*Parsiz Group, LLC*

*Faith Group, LLC*