



# M-World Training Series Business

A photograph of a modern, curved architectural structure, possibly a walkway or bridge, illuminated with bright blue light at night. The structure has a curved, ribbed railing and a curved ceiling. The background shows a city skyline at night.

**002 Profitable business**

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## Course outline

Starting a business and operating one is hard work. To continue to operate, business owners strive to make a profit and it is something that doesn't just happen without much planning, effort and time. So how does your business make money, whilst continuing to cover its overheads? This module will introduce you to the basics of managing your business finances, including calculating an hourly rate and using margin and markups to make money. This course may also be of interest to those looking to start a business and from the outset, set it up to operate profitably.

## Target audience

The course is best suited for the electrical industry including:

- Sole traders
- Business/company owners
- Small to medium businesses
- Companies (up to 20 employees)

## Course objective (aim)

The purpose of this course is to: investigate the basics of business profitability.

## Course topics (sessions)

The course has been divided up into four sessions, each focusing on a different component of procurement and purchasing. Participants engaging in the course will learn:

- To identify why the business owner/sole trader is in business
- To identify a profitable hourly rate
- To define margin and markup and how they relates to business profitability
- To recognise the health (viability) of the business

## Course delivery

This course is to be designed to have the flexibility of being able to be delivered in the following formats:

- Face to face – Classroom style
- Online – self paced
- Online – Zoom or similar
- Podcast

## Course length

This professional development course has been strategically designed to engage the adult learner as well as meet the requirements for approved professional development

certification. M-World recognises the demands of the profession as well as the knowledge and understanding that each participant brings to the course, therefore the length of each module reflects this. Participants can pace themselves through the module, completing the sessions in a manner that best suits their learning needs.

### Course evaluation

At the completion of the module, participants will be provided with an anonymous survey to provide feedback about the following components of the course. This information will be collated and used to inform future planning and delivery of other courses offered by M-World.

- Timing- was the sequence and time spent in each session and/or activity sufficient. If there was too much time or not enough, this will be reflected in the results of the survey
- Content/learning activities- the reference material, content within the PowerPoint presentation and information shared verbally and graphically
- Overall presentation

## Reference material

- Session 1 – Why am I in business?

Starting your own business has many financial benefits compared to working for a wage or salary. There are many reasons why you may have decided to go into business, including:

- Flexibility – control your own schedule
- Autonomy or owning your own career, including that you would prefer to work for yourself rather than have a boss/manager – you decide how to operate your business
- Financial rewards – decide how much money you want to make
- Wanting to help people
- Wanting to make a difference – pursuing a passion by doing something that you really care about or makes you happy or by giving back to the community

Regardless of the reason for going into business, your business needs to be successful otherwise you will end up out of business and back working for someone else. Successful businesses however don't happen without much time, effort and energy. Ensuring that your business is set up for success from the outset is important. Consider referring to [Preparing for business](#) to further learn how to prepare yourself to start a new business. Additionally, M-Elec will provide future courses covering this topic.

- Session 2 – What can I charge in business? (hourly rate)

This module is not designed to elaborate on business planning in detail, but instead look at aspects of the plan that contribute to the initial success of the business, such as pricing.

Pricing is an essential and crucial part of your business. When considering pricing, it is worthwhile to consider both the price of your service/s as well as the products that you will be selling. Pricing also needs to take into account your overheads, including relevant taxes (such as the goods and services tax (GST)), a wage for yourself, superannuation as well as leave entitlements.

- **Overheads:** These can include both fixed and variable costs and are all related to the day-to-day running of the business. Fixed costs includes rent, car repayments, superannuation, insurance, licensing, adviser fees (business coach, accountant, etc) and any other known costs. Variable

costs include utilities (water, power, etc), cost of materials and products, office supplies and if applicable, staff wages.

- Business Queensland (Queensland Government, 2022b) has a tool that may help calculate the cost your overheads. Although it is for start up costs, you can adapt it to include the cost of your overheads in a year: <https://www.business.qld.gov.au/running-business/finance/essentials/costs>
  - Small Business, Western Australia (Small Business Development Corporation, 2021), also has an operating expense calculator that you may find useful: <https://www.smallbusiness.wa.gov.au/sites/default/files/operating-expenses-calculator.xlsx>
- **Earning hours:** When determining an hourly rate, you also need to consider how many hours each day are available to earn and how many days a year you will be available to work. It is easy to overlook how many hours are available to work, although you might be physically at work for 8 hours or longer each day, not all those hours will be chargeable (this is one of the greatest misconceptions with many trade related businesses and one that should not be overlooked). Consider the following when working out your total number of income producing hours per year will be:
- Annual leave
  - Public holidays
  - Personal leave (for illness or if applicable, caring for family members)
  - Professional development days
  - Business administration (such as invoicing, installing equipment, or maintenance)
  - Non-billable meetings with potential new clients, network meetings or industry meetings

### **Calculating an hourly rate**

Using the information and costings for overheads as well as the workable hours that you have available, you can calculate an hourly rate that will cover not only the cost of running and operating your business, but also to ensure that it is making a profit. The spreadsheet that is available to you from M-Elec may be helpful to calculate the hourly rate that your business needs to charge.

- Refer to Business Queensland's *Charge per hour for services* calculator (Queensland Government, 2022c) to establish an hourly rate: <https://www.business.qld.gov.au/running-business/marketing-sales/marketing-promotion/pricing/calculators>

The following scenarios provide information about the overheads and earning hours for different businesses. In each of the scenarios, consider the different factors influencing the financial success of the business:

- #1 Jim, Sole trader – Stage 1
  - Operates as a contractor working directly out of his own van, has no shed or office and no staff working for him
  - Satisfied to make enough money to cover his own wage and hasn't considered looking further into the costs of operating his business. He just wants to cover his costs
  - Considerations:
    - These operators normally work of a low charge out rate not factoring in business growth, insurance, vehicle running costs and the time spent out of hours doing quotes and paperwork
    - People in business like Jim often try to cut costs to survive
    - Assessing hourly running costs, charge out rates and chargeable hours will give this operator a whole new perspective on what it costs to be in business and how to set the business up for further success
- #2 A1 Electrical, Sole trader/Partnership – Stage 2
  - Operates the business from a home-based office, with a shed located also on the property
  - Partner answers the phone and follows up on the paperwork, including accounts and administration
  - Considerations:
    - Review the hourly running costs and overheads to include the cost of the partner (answering phones, accounts, etc), operating costs of the shed and home-based office and check overheads include additional insurances, etc
- #3 Ignite Electrical, Partnership/Trust/Company – Stage 3
  - Operating from a leased shed, considering purchasing their own commercial property to operate from
  - Employs a few office staff as well as a couple of tradespeople who are out on the road
  - Considerations:
    - Review overheads and business processes in place to ensure they are operating efficiently (sometimes business improves

significantly however operations don't necessarily reflect any changes)

Situations often change, business continue to grow and circumstances differ from time to time, therefore it is really important to seek assistance or ask for help to ensure your business is operating as successfully as it can.

- Session 3 – Markup vs. margin

Markup and margin are two terms that are often misused and misunderstood. These two words have large misconceptions associated with them in the electrical industry, resulting in many business owners recognising the difference when it is far too late. Often times, business owners are met with the consequences of these two words when they discuss with their accountant their finances at the end of the year. Knowing the difference will see the business owner have a much better control over their success. Basically, difference between margin and markup is that margin is sales minus the cost of goods sold, while markup is the amount by which the cost of a product is increased to set the selling price.

### **Markup**

- Markup is the amount by which the cost of a product is increased in order to establish the selling price. For example, you purchase a product that costs \$40, mark it up 50%, \$20, and you sell it for \$60
- $\text{Markup} = ((\text{sales} - \text{cost of goods sold}) \div \text{cost of the goods sold}) \times 100$

### **Margin**

- Margin (also known as gross margin) is sales minus the cost of products sold. For example, if a product sells for \$100 and costs the business \$70 to supply/provide, its margin is \$30.
- $\text{Margin} = ((\text{sales} - \text{cost of products sold}) \div \text{sales}) \times 100$

It is not hard to derive the wrong prices for products if there is confusion about the meaning of margins and markups. Depending on the situation, you may want to derive a certain margin on all products, therefore you need to markup your products. If you are looking at a particular margin, then using the following calculation will be beneficial:

**$\text{Desired margin} \div \text{cost of goods} = \text{Markup percentage}$**



The table below might be useful if you are considering what margin you would like to make on your products. For example, if you wanted to make a 30% margin, then your products would need to be marked up 42.9%.

Margin	Markup
10%	11.1%
20%	25%
30%	42.9%
40%	66.7%
50%	100%

The tools available to help calculate the price of your products and services and can be located on the Business Queensland website: <https://www.business.qld.gov.au/running-business/marketing-sales/marketing-promotion/pricing/calculators>

**Mark-up**

Cost price (e.g. \$20.00)

Mark-up (e.g. 50%)

↓

Price

**Costing**

Fixed overheads (e.g. \$50.00)

Cost of sales (e.g. \$65.00)

Desired profit (e.g. \$30.00)

↓

Price

In summary, markup and margin:

	Margin	Markup
<b>Definition</b>	Sales minus the cost of products sold	Cost of a product is increased in order to establish the selling price
<b>How to calculate</b>	$((\text{sales} - \text{cost of products sold}) \div \text{sales}) \times 100$	$((\text{sales} - \text{cost of goods sold}) \div \text{cost of the goods sold}) \times 100$
<b>Purpose</b>	Used for revenue and to calculate gross margin	Used for a selling price
<b>To ensure profitability</b>	Always lower than markup	Higher than the margin
<b>Perspective</b>	Point of view from the seller	Point of view from the buyer

- Session 4 - What's profitable?

Setting up and managing finances is essential to the success of small and large businesses. Knowing the basics about financial processes will be a significant help to you. Further modules will provide additional information about business finances so for now, it is about considering how to make a profit taking into consideration your hourly rate as well as what you are marking your products up, so you can make a profitable margin.

The ATO (Commonwealth of Australia, 2022) provides a business viability tool that may be useful to assess your business' health, in terms of finances as well as performance. Assessing your business using this tool can give you a deeper understanding about the viability of your business. For more information, refer to: <https://www.ato.gov.au/business/small-business-benchmarks/compare-your-business-now/>

Using a benchmark tool basically compares your business against your competitors or other similar-sized businesses. Using financial ratios and calculators you can consider possible actions to bring your business closer to industry averages or improve above your competitors. Business Queensland (Queensland Government, 2022a) suggests benchmarking might highlight improvements that will:

- Increase your profit
- Reduce your costs
- Better manage your business operations

Specifically, the ATO (Commonwealth of Australia, 2019) key benchmark range for electrical services in the 2019-20 financial year:

<b>Annual turnover range</b>	<b>\$50,000 – \$200,000</b>	<b>\$200,001 – \$500,000</b>	<b>More than \$500,000</b>
<b>'Total expenses' divided by 'Annual turnover'</b>	52% to 69%	64% to 79%	78% to 88%
<b>Average total expenses</b>	61%	71%	83%

When comparing your business to these benchmarks, the ATO (Commonwealth of Australia, 2019) recommends that your business should fall within the key benchmark range for your annual turnover. However, if you fall outside this range, it suggests that there is room for your business to improve.

<b>Annual turnover range</b>	<b>\$50,000 – \$200,000</b>	<b>\$200,001 – \$500,000</b>	<b>More than \$500,000</b>
<b>'Cost of sales' divided by 'Annual turnover'</b>	23% to 35%	28% to 38%	31% to 42%
<b>'Motor vehicle expenses' divided by 'Annual turnover'</b>	6% to 9%	4% to 6%	2% to 4%

When using the information above, the ATO (Commonwealth of Australia, 2019) mentions that not all expenses are reported by every business so only use this information as a guide if it applies to your business.

## Notes

## References

Commonwealth of Australia (2022a). Australian Taxation Office: Business viability assessment tool. Retrieved from <https://www.ato.gov.au/calculators-and-tools/business-viability-assessment-tool/>

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