agentprofitplanner

Precision agency planning

PROFIT & LOSS STATEMENT STRUCTURE
THE BREAK-EVEN POINT
Real Estate Agency

UNDERSTANDING PROFIT

The Profit & Loss Statement is the primary financial measure of business performance. It summarises the total revenue and expenses over a previous or forecast period.

The revenue and expense items in the P & L are drawn from the Chart of Accounts, a general ledger set up in the accounting system at the commencement of the business, or the start of a new accounting period.

Two of the most important aspects of the P & L Statement is the Cost of Sales (COS) and the margin of Gross Profit. If the margin of Gross Profit is too low (because COS is too high), the ability of the business to cover additional general operating costs will be diminished.

PROFIT & LOSS STATMENT STRUCTURE FOR REAL ESTATE AGENCY BUSINESS

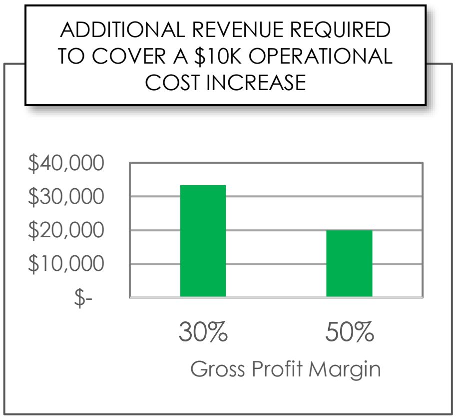
			$		% Gross Revenue
GROSS REVENUE			**$650,000**		
(-) [1]COSTS OF SALE					
Sales Staff					
Sales Staff Salary & Incentives		$335,000			
Sales Staff [2]Statutory Costs		$ 33,500			
Advertising					
Contribution from Sellers	$100,000				
(-) Total Advertising Cost	$120,000	$ 20,000			
Gifts to Clients		$ 6,500	$395,000		61%
GROSS PROFIT			**$255,000**	(39%)	
(-) [3]OPERATING COSTS			$175,000		27%
NET PROFIT			**$ 80,000**		12%
					100%

1. Costs of Sale are any costs directly related to the listing and selling of property.
2. Statutory Costs include compulsory Superannuation and Workers Compensation if applicable.
3. Operating Costs include rent & outgoings, administration staff costs, insurance, utilities, accounting and legal etc.

MARGIN OF GROSS PROFIT: CRITICAL IMPLICATION

Managers must carefully monitor the margin of gross profit.

If gross margins are only 30 percent, for every $10,000 increase in operating costs, sales commission revenue needs to increase by $33,300 just to stay even. In some areas, this is equivalent to 4 or 5 sales. However, if gross margins are 50%, a $10,000 increase in fixed costs requires an increase in sales commissions of just $20,000.



Gross Profit is calculated by deducting the 'Cost of Sales' from the gross revenue. The main components of 'cost of sales' is: -

1. Payments to salespeople (salary and commissions)
2. Advertising over-runs are the key 'cost of sales.

Therefore, it is critical that agency managers ensure they maintain appropriate salespersons remuneration structures and carefully manage advertising costs.

BREAK EVEN POINT

Calculation of the Break Even Point (BEP) is critical to business planning. In simple terms, the Break Even Point (BEP) is calculated as: -

Revenue – (Variable costs + Fixed Costs) = 0

The agentprofitplanner philosophy suggests that the calculation of the BEP must include 'adequate compensation' for the agency owner. The agency owner may wear one or more of the following 'hats' and should therefore be compensated for these roles when conducting a Break-Even Point analysis. This is an allowance for the 'opportunity cost' of time spent in each of the roles.

Role	**Compensation**
Business Owner:	Margin of Net Profit as reward for taking on the business risk.
Business Manager:	A management fee allowance for the time spent in this area.
Salesperson:	50% (?) of personally generated sales commissions.
Invested Funds:	A return on funds invested by the owner.

SALESPERSONS BREAK-EVEN POINT

The Salespersons Break-Even Point is the point at which gross commission revenue generated by the salespersons covers the 'Desk Cost' calculated as: -

Desk Cost ÷ (1 - S/P *Cost)

*As a % of the gross revenue generated by the S/P

DESK COST

Desk Cost is the cost of accommodating and servicing one salesperson calculated as: -

Operational Costs ÷ No. of *Salespeople

*including 'listing & selling' principals/owners

Example

Total Operational Costs	$200,000
No. of Salespeople	5
Desk Cost	($200,000 / 5) = **$40,000**
Salespersons Gross Sale Commissions	$150,000
S/P Total Cost (wages/comm, super etc.)	$80,000 (**56%** of gross commission)
S/P Break-Even Point	($40,000 / (1 - 0.56) = **$90,909**

The amount of the shortfall between the Salespersons Break-Even Point, and the actual revenue generated by the Salesperson reduces Net Profit ($) proportionately. That is, it has a direct effect on the 'bottom line'.