Contribution Based Activity
Revision Note

This revision note has been prepared to reinforce concepts we have covered in earlier training that arise again in this lesson.

Gross Profit Per Hour

The gross profit achieved per hour is a major profit driver in most non retail businesses.

The gross profit achieved per hour will vary from job to job, for many reasons including:

Skills of employee doing the job	Work ethic of person doing the job
The value of materials sold with the job, and the mark up on those materials.	The accuracy of the quote
Market price pressure on certain jobs	Customer discount offered
The day of the week the job is done	Amount of other work on at the time.
Suitability of the job	Equipment breakdown

Although a business owner may intuitively know some jobs are more profitable than others most do not measure the relative profitability of jobs on a week by week basis.

Effectiveness is the number of hours sold to customers, measured as a percentage of the total hours worked by all team members involved in production.

Working with the average gross profit per hour provides a basis for estimating net profit on a weekly basis for enterprises that do not have a reliable weekly profit reporting system. It also provides an opportunity for owners to compare the relative profitability of different job types and customers.

The table below shows how the average gross profit per hour is calculated. If computer records are not available, it reasonable to work from the invoices generated in a typical week.

	price	cost of parts	hours	gross profit per hour
Blackwell	$385	$152	3	$78
James	3,250	1766	11	$135
Keegan	766	332	4	$109
Sorrell	455	105	5	$70
Spencer	1190	763	4	$107
O'Leary	122	20	0.5	$204
			Average	$117 Gross profit /hr

Available Production Hours.

This concept is used for businesses that generate revenue from "selling" labour hours to customers, whether it be a fixed number of hours per unit of product, such as the hours that go into making a manufactured item, or the number of hours a service provider spends on the job.

A full time employee works 1,650 hours a year, and this is the base of estimating production hours.

There are 5 days a week, 52 weeks of the year, making up 260 days. Deduct from this 20 annual leave days, 10 sick days and 10 public holidays to arrive at 220 days. The standard work hours are 7 ½ hours per day, and 220 x 7 ½ equals 1,650.

In calculating total enterprise hours multiply 1,60 hours by the number of full time equivalent production personnel, then

- Add the hour's owners work in production
- Estimated or planned overtime
- Adjust for apprentices, they will not work 1,650 hours as they will spend time in class, and be non-productive for some of the time. Often it is appropriate to exclude an apprentice altogether, particularly in their first year.
- Account for those employees working partly in production and partly in other areas of the business.

Contribution Based Activity is not an exact science and it does not have to be in order to be effective. However in estimating hours available for production you need to ask probing questions of your client so as to make the estimate as accurate as possible.