Gross Margin (GM)

Description – What is the definition of this KPI?

A brief narrative that describes what is being measured. Can be as little as two sentences. For more abstract measures (% , indices, etc.) it can be as long as two paragraphs. It needs to describe the direction you want the indicator to go.

Gross Margin (GM) % is the percentage of each dollar of revenue that a company retains after covering the direct costs of materials and labour associated with delivering the services sold by the company.

GM is expressed a as percentage, therefore, the higher the percentage the more the company retains of each dollar to cover indirect costs (cost that are common to all services e.g. administrative costs. For example, a gross margin of 25% would indicate that for every dollar of revenue generated, $0.25 would remain after covering the direct costs, which is then available to cover indirect costs.

Formula – How is this KPI Measure?

A mathematical formula with its component pieces broken down and described. Has to leave the reader with an understanding of what is actually measured and how that is converted or modified into the KPI. Must include a sample calculation.

\[
GM \% = \frac{Revenue - Direct Costs}{Revenue}, \text{expressed as a percentage, where}
\]

Revenue = Survey Fees as per Pals Income Statement

Direct Costs = The aggregate of Direct Costs and Job Costing, presented as Subtotal for Direct Costs and Subtotal for Job Costing as per Pals Income Statement

Example 1

In the month of August 20XX, Pals earns $1,500,000 in Survey Fees, incurs direct costs of $650,000 and has net job costs recognized (reduction of WIP) of $100,000.

\[
\frac{($1,500,000 - $650,000 - $100,000)}{1,500,000} = 0.50 \text{ or } 50.00\%
\]

Example 2

In the year 20XX, the Legal Division of Pals earns $7,000,000 in Survey Fees, incurs direct costs of $3,250,000 and has net job costs recognized (increase in WIP) of negative $100,000.

\[
\frac{($7,000,000 - $3,250,000 + $100,000)}{7,000,000} = 0.55 \text{ or } 55.00\%
\]
Benefits – What are the benefits and outcomes sought and why are they important to the city?

A positive and motivating expression of the reason and purpose. This can include both fiscal/economic benefits, societal and personal.

- Improvement in GM leads to improvement in Pals net income; additionally:
- Utilized to assess efficient use of materials and labour
- Comparative analysis used to identify negative trend so appropriate action can be taken.

- Comparative analysis used to identify positive trends so cause can be leveraged and replicated
- Utilized to monitor the impact of perceived efficiency changes
- Provides indication of the pricing, cost structure, and production efficiency

Activities – What can be done to improve and win?

A listing of the key desired or transformational efforts that will lead to superior performance

- Be more cognizant of the costs associated with each job and work towards being more efficient with materials and labour associated with each job.
- Review pricing to ensure that all jobs are charged at the appropriate price to meet a desired gross margin.
- Utilize comparative analysis to determine the trend on a monthly basis and utilize analytical tools to assess why the change occurred
  - For negative trends identify contributing factor and institutes corrective actions
  - For positive trends identify contributing factor and replicate in other areas