

## Including the Portion of Corporate Overhead in a Bid

**Executive Summary:** Determining how to account for the portion of corporate overhead to be included in a bid is a calculation that every company makes a bit differently. Learn the definition of corporate overhead and how it is included in a bid.

**What is corporate overhead?** Corporate overhead is the cost associated with “keeping the lights on” at your main office. This includes:



- Utilities, rent, and land
- Office staff (executives, financial, clerical, & estimators)
- Sundry items (coffee & water, office supplies, furniture, the big screen on the wall in the kitchen, etc.)
- Events (holiday parties, birthday cakes, lunch for the team, conventions, etc.)

It's overhead and, more specifically, it's corporate overhead because

- It's not associated specifically with a project
  - None of the items above are needed to install a 12" pipe on your job (e.g., you don't need your controller or the coffee pot to get this pipe in the ground)
- It's not on the project site
  - The differentiator here is on or off the project. The same sorts of things listed above for corporate overhead are on project, and when they're on a project, or specifically being used to execute the project, it then becomes a different kind of overhead called project overhead.

There are several gray items that are classically argued about between field and office groups, two of them being insurance (auto, professional liability, general liability, etc.) and safety meetings – there are many more.

**How do I determine my company's corporate overhead?** The easiest way is to review your financial reports. If your financials are done by a CPA, there is no doubt that there is enough information to determine your corporate overhead. And even if they're done in house, there's a good probability too.

Your corporate overhead is determined primarily from the income statement – this exercise is covered in another article.

**Including the calculation of corporate overhead in your bid.** I've seen this calculation done three ways:

1. Not at all – it's just simply not seen anywhere in the bid and the Company owner knows nothing of it: "We've been doing it this way for years and it's just in there".
2. All-inclusive rate – I was with a company closing a \$1 million bid and it came time for us to assign the profit. He put 45% on the job! When I asked him how he came up with the number, he said that it was an all-inclusive rate that included all of his profit, overhead, and insurance costs. And again, he'd been doing it this way for years.
3. Discrete and specific evaluation – those companies that perform some level of analysis to determine their corporate overhead will usually list them discretely in their bid. Some items include:
  - Corporate overhead as a percentage...
    - ...of sales - most of the time I see it as a percentage of sales. If the Company did \$20 million last year in sales and spent \$1.2 million on overhead, this is 6%. It follows that on all bids this year, the estimate could include a line item in this amount (6% of the project value).
    - ...of labor – the calculation is identical to the sales calculation above, except that now it is a percentage of labor.
  - Cost of money – the owner uses contractors as banks all the time; figure your negative cash flow and attach a lending rate to it
  - Rent – land or building rent not associated with the job (rental of a temporary lot is not corporate overhead)
  - Owner's toys – the Company owner's first payment on his/her boat



**My story.** I always calculated my corporate overhead discretely as shown in #3 above. I always started my bids at 4.5% (which was less than my overhead), and then quickly realized that I couldn't win any work with this "extra" 4.5% in the job. So, every bid closing was the same – we cut this percentage at the last minute.

When I first started in business and realized how cheap the work went and how I was unable to include this cost in my bid, one of my mentors gave me the cold, hard truth: "profit pays the overhead, you need to make as much of it as you can".

On low bid, commodity type work, he was right.