XACTWARE

WHITE PAPER

Overhead and Profit

6.1.2011

XACTWARE.

Overhead and Profit

What is and isn't included in Xactware Pricing

OREM, UT, May 2011 - For individual trades, Overhead is any additional expense not charged (attributed) directly to the work being performed. Overhead is typically classified as an indirect cost. Profit is formally defined as "the excess of the selling price of goods over cost."* Profit is typically added to the cost of a construction-related job to allow the entity performing the work to grow their company through reinvestment. Xactware Solutions, Inc., an industry leader in providing estimating software, services, and building cost data since 1986, has recognized three categories of overhead. While ultimately, the amount of overhead and profit, as well as how and where it is accounted for within the estimate is left to the discretion of the estimator based upon the conditions of the job and the service provider performing the work, the information listed below should provide general guidelines into how Xactware's published pricing is created and intended to be used.

When Xactware performs market research on unit prices, those surveyed are specifically asked to not include expenses that would be included in the General Overhead and Profit markup percentages (item #1 below).

- **General Overhead** are expenses incurred by a General Contractor, that cannot be attributed to individual projects, and include any and all expenses necessary for the General Contractor to operate their business.

  Examples (including but not limited to): General and Administrative (G&A) expenses, office rent, utilities, office supplies, salaries for office personnel, depreciation on office equipment, licenses, and advertising.

  Including General Overhead expenses in an Xactimate estimate--General Overhead expenses are not included in Xactware's unit pricing, but are typically added to the estimate as a percentage of the total bid along with the appropriate profit margin. These two costs together constitute what is normally referred to in the insurance restoration industry as General Contractor's O&P, or just O&P. General Overhead and Profit percentages can be added in the Estimate Parameters window within an Xactimate estimate.

- **Job-Related Overhead** are expenses that can be attributed to a project, but cannot be attributed to a specific task and include any and all necessary expenses to complete the project other than direct materials and labor.

  Examples (including but not limited to): Project managers, onsite portable offices and restroom facilities, temporary power and fencing, security if needed, etc.

©2011 Xactware Solutions, Inc. All rights reserved.

Including Job-Related Overhead expenses in an Xactimate estimate--Job Related Overhead expenses should be added as separate line items to the Xactimate estimate. This is done within the Line Item Entry window of an Xactimate estimate by selecting the proper price list items, or creating your own miscellaneous items.

- **Job-Personnel Overhead** represents the non-wage related expenses incurred by a General Contractor that are associated to having their own employees perform the work, or the total G&A expenses incurred by a professional Sub-Contractor when using their services.

  Examples: Vehicle costs, uniforms, mobile phones, depreciation on hand-tools owned by the company, etc. Job-Personnel Overhead also includes the portion of General and Administrative expenses and profit that correlate to employees performing billable tasks, and that are not included in the General Contractor O&P mark-up. These expenses will be incurred either by the general contractor using employees or by a sub-contractor, depending on who is actually performing the work. If the work is being sub-contracted, then these expenses are commonly called Sub-Contractor Overhead and Profit.

  Including Job Personnel Overhead/Sub-Contractor O&P in an Xactimate estimate--Job Personnel Overhead (or Sub-Contractor O&P) expenses are included in the Labor Overhead portion of each unit price in the Xactware price list. The Labor Overhead, along with expenses for Labor Burden and Worker Wage (wage paid to the individual) make up the Retail Labor Rate. For more information on Retail Labor Rates, see the white-paper in the "Helpful Downloads" section of Xactware's eService Center at:
  http://eservice.xactware.com/apps/esc/retail_labor1.jsp.

Sub contractor
*Included This amount goes to Sub - contractor

General contractor Overhead & Profit Not included

Updating the Labor Overhead portion of the Retail Labor Rate is done from the Component List of an Xactimate estimate. Once within the Component List, select the option to view Retail Labor Rate components. This list allows you to view and modify all Retail Labor Rates used within the estimate. Price changes to a Retail Labor Rate here will affect prices in all items in the estimate that use this Retail Labor Rate.

Xactware, Inc. publishes and makes unit price data available to all customers each month, based off market surveys. Every effort has been made to ensure that Xactware's users can access, view, and modify all detail within the published unit prices.

The building cost data published by Xactware is not designed to be inclusive of sales tax, General O&P, or Job-Related O&P within the unit prices. These can be specified and added at print time after all line items have been listed. However, Xactware has designed flexibility into the system so this is not mandatory. Xactware's users have the option to add these costs to their line items as they choose. The Xactimate system is designed to provide full detail on all costs that are incurred.

**Merriam Webster Dictionary-new edition-1994*

©2011 Xactware Solutions, Inc. All rights reserved.

XACTWARE.

One Xactware Plaza
Orem, Utah 84097

800-932-XACT (9228)
fax 801-224-5218

www.xactware.com

050911