



Overhead Rate Calculation



Stephen King
President and CEO
GrowthForce



Overhead rates are typically used by manufacturing companies to allocate overhead costs to products and by service companies to allocate overhead costs to client projects. A company can use performance ratios, such as an overhead rate, to effectively manage its operations and to measure its overall performance against that of similar companies in its industry.

An overall overhead rate can be calculated by dividing:

overhead (indirect) costs (for example, rent and utilities)
direct costs (for example, labor)

If your overhead costs are \$30,000 and direct costs are \$60,000, your overhead rate is .50. If the typical overhead rate for companies in your industry is 1.3, and your rate is .50, you have a competitive advantage with your lower overhead. Performance ratios such as overhead rates should be tracked monthly, quarterly, and annually. Tracking overhead rates over time will highlight trends and normalize exceptions caused by extraordinary items or the timing of monthly expenses.

Navarro SBDC · www.navarrocollegesbdc.org · **903-872-8104**

Materials, services or products offered by providers to SBDC clients are available as a resource for you to locate professionals who can assist you with business concerns. Making these sources available to you does not imply or constitute a recommendation or endorsement by the SBDC, but is only intended to be a convenience for you. You must perform your "due diligence" by interviewing the individuals or companies to determine if they meet your needs. If you do retain their services, be sure to obtain your agreement in writing: who is responsible for what; what work is to be performed; what is not included; what is the cost.

The Navarro SBDC at Navarro College is a member of the North Texas SBDC Network. Funded in part through a cooperative agreement with the U.S. Small Business Administration (SBA). Hosted by the Dallas County Community College District and nationally accredited by the Association of SBDCs.