

## CONTRIBUTION MARGIN

An organization's contribution margin is the amount of money, in percentage or dollars, available as a result of sales that can contribute to the fixed overhead costs of the organization.

Simply put, it is calculated as:

*Total Sales minus Total Variable Expenses*

The devil in this calculation is that GAP accounting will suggest that variable expenses will include proportions of overhead in the "burdened" labor costs, and labor costs can be either fully burdened (all overhead divided by all man-hours) or partially burdened (generally limited to a facility or work-cell).

However, in competitive times it is imperative a company know EXACTLY what the actual contribution is from every product sold, and a careful line drawn between what is actual variable cost and what is actually fixed.

The easiest way to measure fixed expenses is to define what expenses will be there if there are no sales at all, and the best way to measure variable on a new product is by estimating how much actual additional labor and materials will be required to make the new product.

In tough times many companies get caught turning down low-priced business that actually has a positive contribution to the company because they over estimate the variable cost of the product or service.