EDGE INITIATIVES

SOLUTIONS FOR BUSINESS OWNERS

Are your real estate costs too high?

Every business is different and the real estate needs of a manufacturing business differ significantly from those of a service company with similar top line revenues.This makes it difficult to create any kind of realistic benchmark as to where a company's real estate costs should be, but a complex question can be reduced to some simple fundamental concepts.

The viability of any business in any industry ultimately depends on the relationship of its cost structure to its revenues and this litmus test that can give you some good pointers as to whether your costs are too high.

The revenues must first be adjusted for the type of industry as follows:

* Manufacturing and Distribution:Gross Profit after cost of goods excluding labor

* Service:Direct Profit after costs of all outside labor

* Retail: Gross Margin

Then the total real estate costs of the operation (market rent including utilities, taxes and all direct real estate costs) must be expressed as a percentage of the relevant revenue number.

A recent exercise among my clients showed a range of 2% at the low end and 6% at the high end with the median at about 4%. The 6% client and the 5.5% client are looking, respectively, to move and to downsize.

In today's economy it is essential to look at all costs and real estate is no different just because it appears to be "fixed". Landlords have become increasingly reasonable of late and if you have less than two years to go on your lease there may well be a conversation to be had.

Edge Initiatives is the brainchild of **business guru** Steve Davies. It exists to help executives run their businesses more effectively and offers business solutions that cover most situations faced by owners and executives trying to bring their business to the next level.

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