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GPM, Labour Cost and Overheads: Benchmarks by Business Type

How gross profit margin, labour cost and overhead percentages compare and what actually moves them, across ***five small business types.***

Why this matters

Three numbers tell you most of what you need to know about a small business's health: gross profit margin (GPM), labour cost as a percentage of revenue and overheads as a percentage of revenue. Knowing what's normal for your sector makes it far easier to spot when one of these is running high or low and to know what action to take first.

How the numbers fit together

GPM is revenue minus the direct cost of what you sell (stock, materials, and sometimes production labour). Overheads are the fixed running costs that come off gross profit: rent, utilities, insurance, admin. Roughly speaking, GPM minus labour (where it isn't already counted in cost of sales) minus overheads leaves you with net profit.

Where labour sits in that sum depends on the business. In a salon or a restaurant, staff are producing the service directly so labour behaves like a cost of sale. In a shop or a trades business, labour often sits more in overhead alongside admin and premises costs.

Cost pressures pushing margins down right now

Employer National Insurance rose from 13.8% to 15% in April 2025 (which is the same for 2025/2026) and the threshold at which it starts is now £5,000 rather than £9,100 so NI is due on far more of each employee's pay. The Employment Allowance rose too from £5,000 to £10,500 which eases things for smaller employers but doesn't remove it.

The National Living Wage moved to £12.71 an hour from April 2026, a further 4.1% rise. Together, these push labour cost percentages up automatically even if a business changes nothing about how it operates. It's worth separating a labour cost rise caused by external cost pressure from one caused by running inefficiently, because they call for different responses.

Benchmarks by business type

These are typical UK ranges, not fixed rules. Actual figures vary with location, scale and how a business is run.

Business type	GPM	Labour cost	Overhead
Retail shop	35% to 54%	14% to 28% of revenue	Rent and rates are usually the largest fixed cost
Restaurant, cafe or pub	55% to 72%	25% to 35% of revenue	Food plus labour (“prime cost”) ideally under 55% to 60% combined
Hair and beauty salon	Varies, labour dominates the model	40% to 55% of revenue	Rent and fixed costs typically 13% to 18%
Construction and trades	22% to 40%	Often carried through subcontractor costs rather than payroll	10% to 15% net profit is a common healthy target
Professional services	52% to 76%	42% to 62% of revenue	Comparatively light, since there's no stock or heavy premises cost

What tends to hurt margins, and what improves them

The same patterns come up again and again in each sector.

Business type	What tends to hurt margins	What improves them
Retail shop	Excess stock in slow movers, weak buying terms at low volume, discounting used as a default	Tighter stock control, renegotiated supplier terms, discounting used deliberately, not habitually
Restaurant, cafe or pub	Food waste and poor portion control, overstaffing against actual covers, too many high-waste, low-margin dishes	Waste tracking and portion specs, rotas built on footfall data, a pruned, margin-led menu
Hair and beauty salon	Low chair or column utilisation, product overuse and shrinkage, rent high relative to chairs earning revenue	Tighter appointment books, stronger retail attachment, commission structures that reward profitable services
Construction and trades	Underquoted jobs, unbilled scope creep, materials price volatility, poor subcontractor management	Full costing before quoting, a contingency for price movement, a used process for pricing variations
Professional services	Unbilled or underutilised time, too much admin relative to billable work, scope creep on fixed fees	Properly tracked utilisation, discipline on fixed-fee scope, periodic fee reviews

The pattern across all five

A margin problem is often a pricing problem in disguise. Rising costs, National Insurance, wages, energy, materials are easy to notice. Prices not being reviewed to keep pace with them are easy to miss because nothing dramatic happens when that review doesn't happen. The margin just quietly erodes.

POINTS TO BE AWARE OF

If your labour or overhead percentage looks high next to these ranges, it's worth checking where your own costs are actually sitting before assuming something's wrong. A salon at 50% labour might be perfectly healthy, while a shop at the same figure would be in trouble. Benchmarks are a starting point for a conversation, not a verdict on their own.

What to do next

- Work out your own GPM, labour cost and overhead as a percentage of revenue for the last full year
- Compare them against the range for your sector, not a generic “good business” number
- If one figure is out of line, dig into the detail behind it before changing prices or cutting costs
- Review your pricing at least once a year against your actual costs, not just against last year's prices
- Get in touch if you'd like a hand pulling these numbers together for your business