

Break Even Info

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Links to sites which *belongs to companies* offering services etc are **NOT** recommendations to them by us!!!

Simple and Complex Break-Even

To calculate Break-Even can be a simple way or a complex way. Simple if you sell one item or service with one price. And complex if you sell more than one type of product/service at different prices.

Simple Break-Even

You have a **fixed cost** for running your company, like rent and salary, etc. Then you may have a **variable cost**, like buying in a product that you later will sell. The company that sell one type of software to importers may have a Simple Break-even.

Fixed cost + Variable Cost is your **total cost**. Then when your turnover (sum of what you are selling) is equal to total cost you reach break-even. In other words, that's the minimum you need to make in turnover.

See this and note:

- Total Variable Cost (TVC) = Variable Cost (VC) per item x number of items (x).
- Total Cost (TC) = Fixed Costs (FC) + Total Variable Costs (TVC)
- Total Revenue (TR) = Selling Price per item (SP) x number of items sold (x)
- Contribution Margin (CM) = Selling Price per item (SP) - Variable Cost (VC) per item
- BreakEven: When Total Revenue (TR) = Total Cost (TC)
- Minimum number of units needed to reach BreakEven:
 $\text{Fixed Costs (FC)} / \text{Contribution Margin (CM)}$
- Contribution Ratio (CR) = (Contribution Margin (CM) / Selling Price per item (SP)) * 100%
- BreakEven in currency terms = Fixed Costs / Contribution Ratio (CR)

I give you an external link to a YouTube film that explain this. <https://youtu.be/XhbbZC77DSw>

Continue to next page for Complex BreakEven.

Complex Break-Even

In the case of the company selling fishing equipment, tours, boats rentals, etc we have an example where multiple products and services makes the BreakEven more complex. The same goes for the Woman's online shop and also for the Cafeteria.

Here you must make separate calculations for each product/service and decide how many % of total they will make up.

-Do the same calculation, as above but change the Fixed costs to the % you decide this will be of your business.

So in the case of Fishing equipment shop expect:

-Selling Fishing Equipment, etc, is 30% of business with average price 30 per item with average cost of 15 per item.

- Selling Food Items, etc, is 20% of business with average price 3 per item. With average cost of 2.20 per item.

-Arranging tours, etc, is 20% of business with average price 50 per tour sold. Average cost per sold tour 25.

-Renting out boats, etc, is also 20% of business with average price 25 per rent. Average cost per rent is 2.

-Selling Fishing rights for lakes, is 10% of business with average price 10 per sold right. Average cost per sold right is 4 (paying to lake owners) etc.

Then for Fishing equipment and Food items use **Fixed costs for the shop itself** only. 60% of shop fixed cost for Fishing equipment and 40% for Food (there respectively % of sales in the shop excluding tours, boat rents and fishing right cards). Note that even if food shows a negative result with this calculation it may make sense as it may increase sell of everything else at the same time as it's a part of a better service. This could be adjusted by instead let say putting 90% of fixed shop costs on Fishing equipment and only 10% on the Food items.

Arranging tours will have a small fixed costs (% on salaries as it uses working time).

Renting out boats will have the cost for the boats (buying, maintaining, etc) as fixed costs.

Fishing rights have only a small fixed cost for preparing and maintaining agreement with lake owners etc. So fixed costs could be put at 0.

Then by trying different quantities and proportions between the different ways the company earn money you can also see which product/service is better for you. And then see if you can increase that product/service, and so on. It's a bit complex, yes. But it is also important to analyse this as good as you can. When it gets complex, then simplify it by selecting estimated average prices, average costs, ...