Entrepreneurship 110

Business Plan – Financial Section

"It's All About Money Making Money"

Financial Section – Components

- ☐ Break-even Point
- ☐ Cash Flow Forecast/Cash Flow Notes
- ☐ Start-Up Costs/ Sources of Funding
- ☐ Financial Goal

Break-Even Point:

Total monthly revenue = Total monthly costs

- **Revenue** = money that comes into the business from sales
- **Costs** = all the money paid out by the business (i.e. wages, loan payments, etc.)

- Break-even point (in units) = $\frac{\text{Total Fixed Costs}}{\text{Selling Price Per Unit} - \text{Variable Cost Per Unit}}$

- **Variable costs** are costs that vary directly with the number of units being made or sold. (materials or ingredients, shipping, labour etc.)

- **Fixed costs** are costs that are relatively constant no matter how many units are made or sold. (Rent, salaries, insurance, phone & taxes)

- Jennifer buys roses for $1 each and sells them for $2 each. Each summer her fixed costs are about $500.00

  1. What is her break-even point? (How many roses must she sell to cover her costs?) 500 ROSES

  2. In 2019, she sold 4,000 roses. How much profit did she make? $35000

- The Buzz Buzz Razor Manufacturing Company is considering launching a new electric shaver.
  - It would retail for $120.00. One shaver would require $20 in parts, $2, in packaging and $.05 in shipping.
    - New fixed costs to launch the shaver would be $500,000 for advertising and $200,000 for administration

1. What is the company's break-even point?

Selling Price -> $120

Variable Costs -> $22.05

Fixed Costs -> $700 000

BREAK EVEN -> $\frac{700\,000}{(120 - 22.05)}$

= 7147 UNITS

Margin and Markup
Using the T-shirt example

Margin

- Selling Price is $15
- Cost of the t-shirt $ 9
- Margin is $ 6

"Margin" is expressed as a percentage of the selling price (margin of selling price)

$$\frac{\text{Margin}}{\text{Selling Price}} = \frac{\$6}{\$15} = 40\%$$

Markup

- "Markup" is expressed as a percentage of the cost of the item (Markup on cost of the item)

$$\text{Markup} = \frac{\text{Cost of the item}}{} \qquad \frac{\$6}{\$9} = 67\%$$