

Run the Numbers



Are you willing to ask "what if?"

Run the Numbers

If an idea cannot make money, then why move forward? Proper research and profitability estimates are necessary before starting a business. Ask yourself: What will I need to start this business and what are the costs?

Fixed costs are incurred regardless of whether you sell a single product or service and include business registration fees, legal and accounting fees, marketing costs, building or office rent, furniture, salaries, equipment and office supplies, utilities, insurance, and vehicles, etc. It is important to limit these costs as much as possible when starting a business—every dollar saved increases your chance of profitability!

Cost of being in business (Fixed Costs)

Item	\$ per month	\$ per year
Business Registration		
Legal & Accounting fees		
Marketing		
Office expenses (ie: rent, equipment, supplies)		
Warehouse expenses		
Factory expenses		
Research & Development (ie: prototypes, testing)		
Salaries		
Utilities		
Insurance		
Interest		
Other		
TOTAL		



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How much money will be made on each sale?

Profit margin is the difference between what it costs you to deliver your product or service and what you can sell it for. Use the table below to determine the cost of one sale.

Cost of Sales (variable costs)

Items required for one sale	\$ amount
Materials (raw materials, components, or wholesale product)	
Direct labour* (to make, sell or distribute) <small>*not salaries as those are fixed costs</small>	
Shipping and storage	
Sales (commissions, sales tools etc.)	
TOTAL COST	

Profit margin per one sale = price per one sale – cost per one sale.

Once you have determined your costs per sale you will have a better idea of the price you must charge for your product. You can then compare that price to the average market price for similar products or services, or, ask a group of 10 or more potential customers if they would pay that price for your product/service.

How much must be sold in order to pay off the original investment?

The "break even" point is equivalent to the number of sales you will have to make to pay off all of your costs of being in business.

Break even point = cost of being in business ÷ profit margin



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Break even point

Description	Calculation	\$ amount
Total cost of being in business		
Price per one sale		
Total cost per one sale		
Profit margin per one sale		
Break even yearly target	Total cost of being in business ÷ profit margin	
Break even monthly target	Break even yearly target ÷ 12	
Break even weekly target	Break even yearly target ÷ 50	
Break even daily target	Break even daily target ÷ 250	
TOTAL COST		

These calculations will help you:

⇒ Plan your marketing strategies

If you require only 3 sales per month to break even, you can target a "niche" market. If you require 1,000 sales per day, you will need a strategy to reach that number of customers.

⇒ Plan your price point

What price do you have to charge to make a profit?

⇒ Examine ways to cut fixed and/or variable costs

⇒ Determine how much financing you will require in order to start your business

