

Small Business Development Center at Volunteer State Community College



A public service program of the Division of Continuing Education & Economic Development

June's Newsletter Topic: The Break-Even Point for Small Businesses

What is break-even? I could give you a multitude of different definitions and formulas that could make your head spin. However, I think I will opt for the down-to-earth definition. Break-even is the point at which you are not making any money and you are not losing any money. You are simply breaking even.

Knowing your break-even point is one of the most important pieces of information that a business owner should know. Whenever I ask someone if they know what their break-even is, I always get the answer of "I have a ballpark idea of what it is". This is not good enough to make important decisions in your business such as hiring additional personnel, buying a piece of equipment, or offering a new product or service. You need to know exactly how much money it takes to break-even.

There are a variety of different ways to calculate your break-even point. For the sake of this newsletter, let's use the simplest one, which is:

$$\text{Breakeven} = \text{Fixed Costs (FC)} / \text{Gross Margin (GM)\%}$$

Fixed costs are any costs that your business incurs whether you make money or not, such as, rent, utilities, insurance, taxes, office expenses, etc.

Gross margin percentage is what you make after pay immediate expenses associated with the product or service you offer. This could be materials to make the product, payroll for the service, and even sales commissions. This is also called "mark-up".

Let's take a look at the example below to calculate break-even for Bill's Lemonade Stand.

Fixed Costs	Rent, insurance, marketing	\$300	
Gross Margin %	Covers cost of lemons, water, sugar	30% (for every \$.10 sale \$.07 covers immediate costs)	
Break-Even	(FC)/(GM)%	\$300/30% or .30 = \$1,000	

So how many sales will the lemonade stand have to make to break-even? Divide the break-even point by the unit cost. In this case the break-even is \$1,000 and each cup of lemonade is sold for only \$.10.

$$\$1,000/ \$.10 = 10,000$$

This means it will take 10,000 cups of lemonade per month to break even. This will now equip Bill with the information he needs to be successful in making business decisions. It sounds like Bill may want to raise the price a little.

June Small Business Workshops

Date	Event Title	Time	Event City	Location	Fee	Contact Person	Contact Phone
6/10/08	How to Start a Small Business	4:00 – 6:00 p.m.	Gallatin	VSCC, Betty Gibson Building, Room 107C	FREE	Charles Alexander	615-230-4780 or calexander@volstate.edu
6/26/08	How to Start a Small Business - Spanish	4:00 – 6:00 p.m.	Gallatin	VSCC, 300 Building, Room 104	FREE	Charles Alexander	615-230-4780 or calexander@volstate.edu

Small Business Tip of the Month:

Break-Even Calculator

If you would like to take a more in depth look at calculating your break-even use the link below. You will be able to identify the number of units that it will take to break-even. Units could be the number of products or services you have to sell to break-even.

<http://www.dinkytown.net/java/BreakEven.html>

Remember the TSBDC offers the following:

- **Free** and confidential one-on-one counseling for existing and start up small businesses. Whether the counseling is in the area of marketing, operations, management, or any other business service, the TSBDC consultant provides guidance every step of the way. *By appointment, please.*
- Training seminars on a wide array of topics for small business owners.
- Assistance with various funding proposals including SBA loans.
- Referral to professional services and agencies.

Tennessee Small Business Development Center

1480 Nashville Pike
Betty Gibson Hall #114
Gallatin, TN 37066

Phone (615) 230-4780

Fax (615) 230-3362

www.volstate.edu/tsbdc
www.tsbdc.org