



#startupvikes

## **How To Prepare A Profitability Analysis On Your Dream Product/Service**

### **Three Key Initial Factors/Inputs**

- 1** Market Sell Price Point (MSPP)
- 2** Cost Structure (classified by Variable Cost (VC) for product/service & Fixed Expenses (FE) )
- 3** Volume/Traffic (VT)

#### **Reflection:**

If your MSPP is greater than VC on a per unit basis, you have generated a Gross Profit Margin (GM) on a per unit basis to cover your FE.

How many units must be sold to cover your FE to Break-Even (B/E)?

Also, how many months/time frame will it take to B/E?

What is your operational capacity to produce product/service?

#### **Cost Structure - Variable Cost (VC) for a product/service includes:**

Direct material

Direct labor

Overhead (Indirect material & labor)

Southern Organic Sweetcakes, LLC  
**Forecasted Income Statement**  
 For The Year-End 2018

					\$	%	\$/Units
MSPP		VT	3,000	Sales Dollars	\$ 13,500	100%	\$ 4.50
VC	\$ 4.50	VT	3,000	Less: VC	9,000	67%	\$ 3.00
	\$ 3.00			<b>Gross Profit Margin (GM)</b>	<b>\$ 4,500</b>	<b>33%</b>	<b>\$ 1.50</b>
<b>Fixed Expenses (FE):</b>							
				Rent	1,200	9%	\$ 0.40
				Utilities	700	5%	\$ 0.23
				Legal & Accounting	500	4%	\$ 0.17
				Marketing & Selling	300	2%	\$ 0.10
				Depreciation	400	3%	\$ 0.13
				Insurance	300	2%	\$ 0.10
				License	200	1%	\$ 0.07
				<b>Total Fixed Expense (FE)</b>	<b>\$ 3,600</b>	<b>27%</b>	<b>\$ 1.20</b>
<b>Operating Profits Before Taxes</b>					<b>\$ 900</b>	<b>7%</b>	<b>\$ 0.30</b>
<b>Invested Capital</b>					<b>\$ 15,000</b>		
<b>Return On Invested Capital</b>					<b>6%</b>		

**Reflection:**

Is a 6% return on your invested capital and your time worth your Dream?  
 Should I leave my funds in a bank CD or stock market for better return?  
 Will 6% return attract investors to my Dream?

Southern Organic Sweetcakes, LLC  
**Break-Even Math**  
**2018**

Fixed Expenses (FE)		\$	3,600
Gross Profit Margin (GM) per unit	Divide	\$	1.50
Sweetcakes units sold (VT)	=		<b>2,400</b>
Market Sell Price Point (MSPP)	X	\$	4.50
<b>Sales Dollars needed to B/E</b>			<b>\$ 10,800</b>

**Proof:**

			Sales Dollars	\$	10,800
\$ 3.00	2,400		VC Dollars		7,200
VC	VT		GM	\$	3,600
			FE		3,600
			Profits		0