2021 BUSINESS BUILDER

VIRTUAL TRAINING SERIES

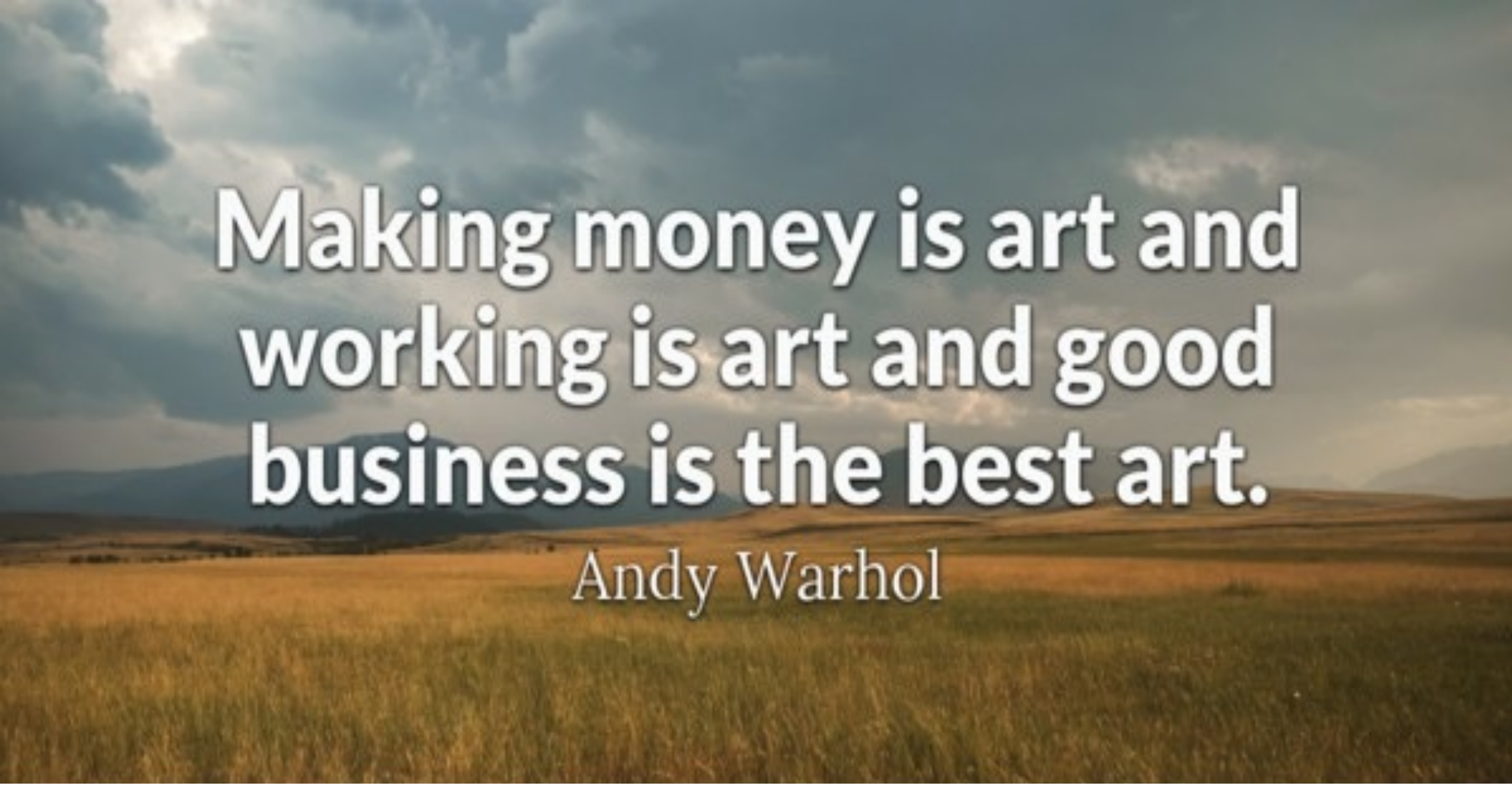
3.17.21/10-11AM

BUSINESS PLANNING IN ACTION

JULIE JAKSHA

PARKLOCAL
DEVELOPMENT CORPORATION

MONTANA STATE UNIVERSITY
EXTENSION


Making money is art and working is art and good business is the best art.
Andy Warhol

Julie Jaksha SBDC, EDFP
AASBBC Accredited Consultant,
Regional Director
Headwaters RC&D

Montana State Star ASBDC 2014 & 2019
Montana Ambassador
Leadership Montana Class of 2021

Wife, & Mom to 3 beautiful kids!
Love to hike, camp, fish, raft and hang out at the lake!

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Todays Agenda for class:

Elevator Pitch/Mission Statement

Learn how to Use Break-Even to:

Look at your income statement in a new way

Understand how costs behave in your company

See how changes in price, volume, and cost impact your profitability

Types of Planning

Financial Planning – Includes preparing budgets, cash flow projections, sales forecasts and projected financial statements.

Types of planning

Operational Planning – Day to Day planning. Normally, you begin operational planning once your strategic plan is in place.

Types of Planning

Marketing Plan– This plan focuses solely on the marketing function of your business. Portions of the marketing plan appear in the business plan.

A GOOD MISSION STATEMENT

- Reflects the core purpose and direction of the company
- Embodies the basic values of the owners and employees
- Short, specific and focused
- Written in plain English, without trendy jargon and buzzwords

Headwaters RC&D is a 501c(3) non-profit focused on improving the economic and social well-being of the Southwest Montana region through conservation, development, and proper use of natural and human resources.

headwaters

RESOURCE CONSERVATION DEVELOPMENT


ELEVATOR
PITCH

Understanding Break-Even.

Why do we care what our BE is?

Break Even

to have no profit and no loss: the point at which revenues exactly cover expenses

Fixed Costs

- Fixed Costs (FC) Expenses that do not vary with sales; those costs that are incurred whether or not any sales are made. Expenses you have to pay no matter what sales you generate
- Remain the same over a given period of time
- Includes rent, salaries, advertising, insurance, write off equipment, ect.

- *What do you think about utility bills? Variable or fixed?*

Variable Costs

- Variable Costs (VC) Expenses that vary directly with sales; those costs are incurred ONLY IF sales are made.

- Change in direct relation to your revenue
- What does it actually cost to deliver one unit of whatever you do?
- Direct labor, payroll taxes and cost per employee, mileage, packaging, unit transport, or delivery, raw materials
- Variable does NOT = optional

Contribution Margin(CM)

The amount, as a percentage of sales, left AFTER variable costs are paid. The amount that is left to contribute to cover fixed costs.

Contribution Margin% (CM%)

The amount, as a percentage of sales, left AFTER variable costs are paid stated as a percentage.

<u>Operating Leverage</u>

Operating Leverage is the relationship between variable costs and fixed costs

- Higher fixed cost model = high operating leverage
- Higher variable cost model = low operating leverage

What is the difference between **variable** and **fixed** costs??

Margins

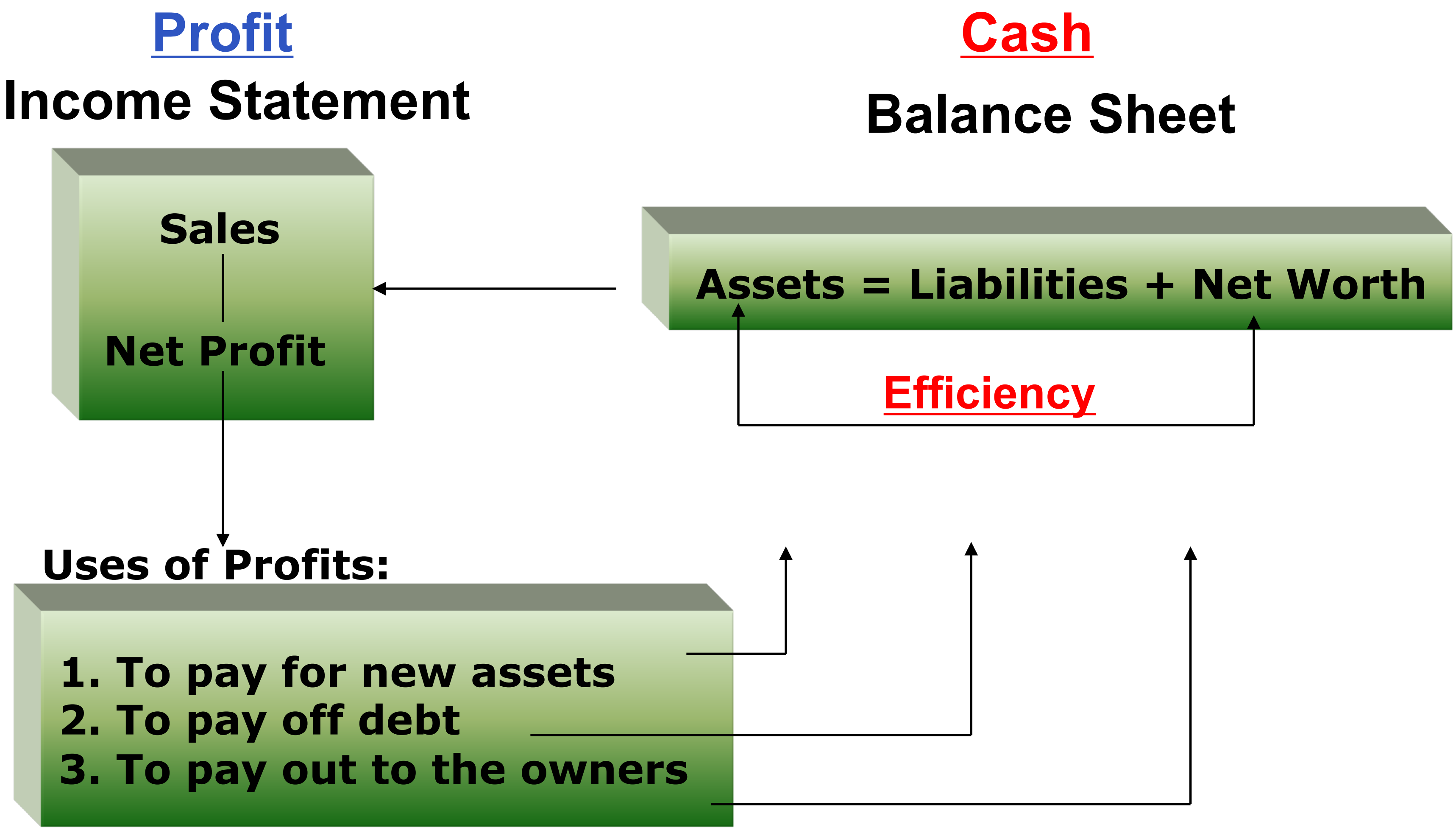
- Difference between **Price** and **Cost**
- What price do you charge for your product or service?
- How much does it cost you to deliver that single unit of product or service?
- Does difference between price you charge and cost of production provide adequate cash to cover fixed operating expenses and generate a profit?

Volume

The number of units of product or service you are selling or providing

- Is generally meaningless unless you discuss it along with margin
- High volume alone is meani you keep something from each s

Financial Operating Cycle



Steps to calculate Break-Even

1. Classify costs as a fixed vs. variable, total each category
2. Calculate variable costs as a percentage of sales
3. Determine contribution margin percentage
4. Divide fixed costs by contribution margin percentage

ABC Pen Company Sell for $1.00

-.60

.40

Pens Cost .50

Commissions + .10

Variable Cost .60

Variable Cost %----.60 %

If I sell for $1.00

Pens Cost .50

Commissions .10

Variable Costs .60

How much is left? .40

This is the CM as a percent 40%

If Fixed Cost are =$800,000 how much in sales are needed to Break-Even?

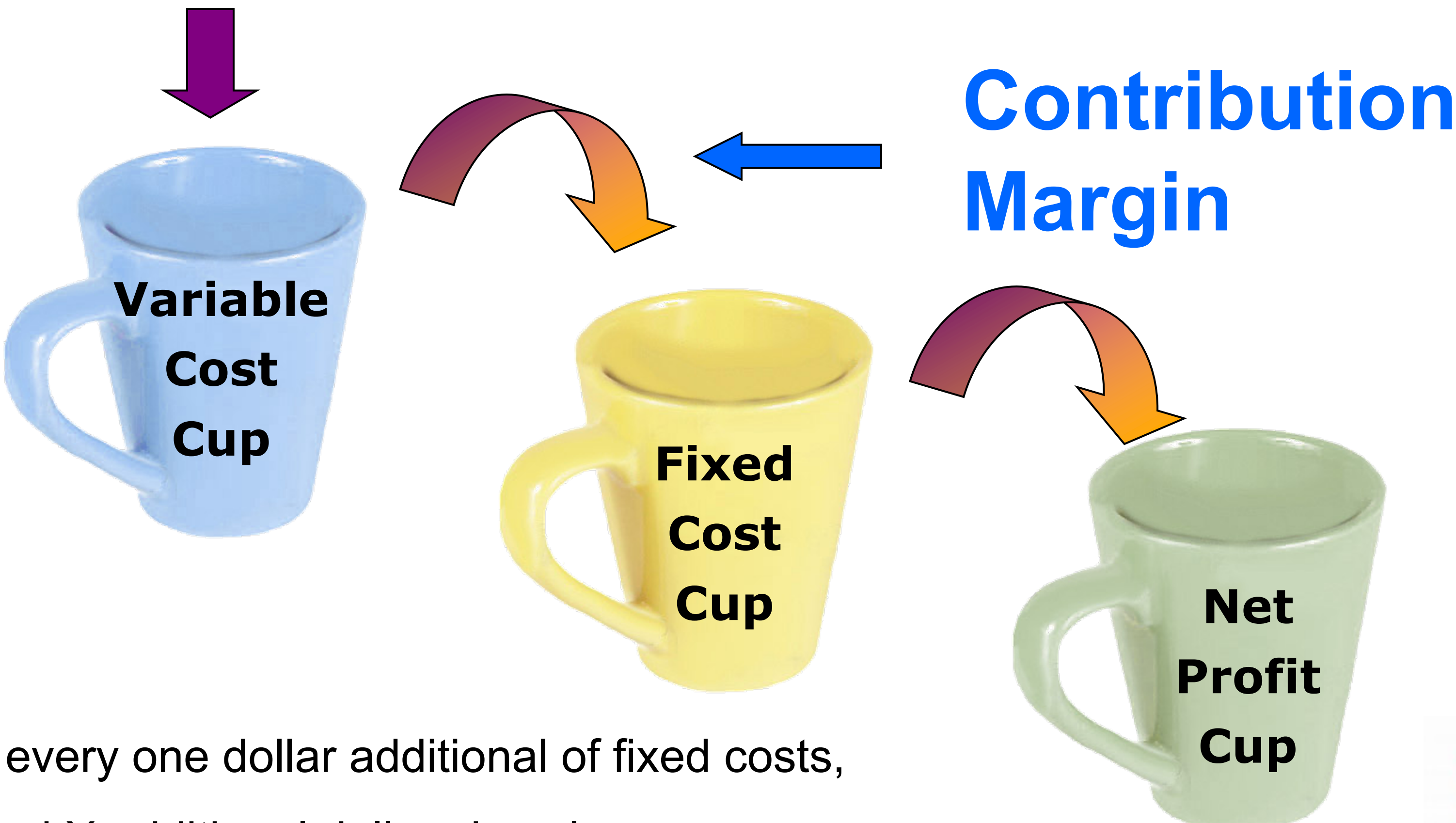
Calculating Break-Even

$$\text{Break-Even} = \frac{\text{Fixed Costs}}{\text{CM}} = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ = \$\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_$$

Calculating Break-Even

$$\text{Break-Even} = \frac{\text{Fixed Costs}}{\text{CM}} = \frac{\$800{,}000}{.40} = \$\,2{,}000{,}000$$

Sales



For every one dollar additional of fixed costs,

I need X additional dollars in sales.

Olympic Case Study:

Variable Costs	$496,000
Fixed Costs	$109,200
Sales	$620,000

Calculate Variable Costs as a percentage of Sales

$$\frac{\text{Variable Costs}}{\text{Sales}} = \frac{\$}{\$} = \_\_\_\_\_\_\_\_\%$$

Determine Contribution Margin

100- VC%= ________

Divide Fixed Costs by Contribution Margin

$$\frac{\text{Fixed Costs}}{\text{CM \%}} = \frac{\$\_\_\_\_\_\_\_\_}{\$} = \_\_\_\_\_\_\_\_ \text{ Breakeven}$$

Calculate Variable Costs as a percentage of Sales

Variable Costs = $496,000 = ___.80_____%
Sales $620,000

Determine Contribution Margin

100- VC%= ___20%____

Divide Fixed Costs by Contribution Margin

Fixed Costs = $ 109,200 = $546,000______
Breakeven
CM % $ 20%

AMERICA'S SBDC ACCREDITED MEMBER MONTANA

Key Points:

Its OK for your sales to be above Break-even, you are making money!

You don't have to be at Break-even to do Break-Even

Break-Even is a concept not a destination

Remember Steps to calculate Break-Even

1. Classify costs as a fixed vs. variable, total each category
2. Calculate variable costs as a percentage of sales
3. Determine contribution margin percentage
4. Divide fixed costs by contribution margin percentage

AMERICA'S SBDC

Olympic Flooring Break-Even Case Study for the current year.

- Variable Costs $904,680
- Fixed Costs $151,820

Bob’s sales for the recently completed year were:

- Sales $1,077,000

What are Break-Even sales for Olympic Flooring?

What additional sales are needed if rent increases by $2000 per month?

What total sales are necessary to generate a $50,000 profit?

What are Break-Even sales for Olympic Flooring? Follow the steps to calculate BE:

$948,875

What additional sales are needed if rent increases by $2000 per month?

12X2000=24,000 24,000/.16(CM) =$150,000

What total sales are necessary to generate a $50,000 profit?

50,000/.16=$312,500

$1,077,000+$312,500

"If you fail to plan, you plan to fail" – Benjamin Franklin

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Certified Profit Mastery Trainer
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Join us next week for "Applying Financial Tools"

Rosie Barndt, Rosie Barndt CPA, P.C., will dive into the nuts and bolts of specific pieces of your financial portfolio including balance sheets and profit and loss statements. This is your opportunity to work through these essential tools as related to your own business, ask specific questions, and receive feedback.

Register via email at park@montana.edu

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