Sample Break Even Analysis

Have a Plan for Writing Your Business Plan
Business Plan Resources from *SamplePlan, Inc.*
By *Cynthia K. McCahon,* MBA

Entrepreneurs and business owners have the best of intentions when they set out to develop a business plan. They quickly find that the process can be a daunting challenge. Many would-be entrepreneurs don't complete the plan for one reason: they become entangled in a kind of analysis paralysis.

Launching a business, particularly a first business, is filled with passion, adrenaline, and raw energy. The thought of becoming a successful entrepreneur shines like a bright light for many of us. It's easy to rush into the process of launching a business without stopping to consider whether there is actually a business into which we should rush. All too often, we become like moths to a flame when we haven't done our homework. For this reason, and many others, it's vitally important to start and finish a business plan before you proceed with launching a business.

So when approaching a business plan, try not to feel overwhelmed by the task at hand. If your brain feels overwhelmed, there's a strong possibility that you'll start to tune out and become unable to wade through the often tedious process of writing your business plan.

First, start simply. Don't try to write an entire business plan in the first pass. Rather, just come up with simple financial projections that reveal whether or not your business idea is a sound business idea. The very thought of creating financial projections strikes fear into the hearts of many people. Read on.

Here's a good, simple, reliable approach that I often advise small-business owners to start with when they need to develop a basic business plan. This breaks the task-at-hand down into three simple steps. For this exercise, we'll think through two issues: What will my sales forecast look like and what are my expenses?

Your basic objective is to come up with a ballpark estimate that gives you an idea of how much the business will generate in net revenue. After you've thought through this exercise, then you can tackle a more comprehensive plan – should your projections reveal that there's a business worth pursuing.

Follow these three steps as a way to get going. You don't even need to use a spreadsheet – but it wouldn't hurt:

1. Come Up With Your Net Revenue Per Product

Start by simply writing a paragraph that describes each product or service that you plan to sell. Describe the product or service in terms of why that product/service would be something that consumers would purchase. (The following indented text represents a simple example of what your layout should look like for one product/service. Repeat the entire sequence for each product/service):

Product #1:
Come up with text that describes the product and put it here.

Then state the **sales price** for the product/service. Make sure your sales price is realistic, based on your competitor's pricing. Also state how much the product or service will **cost** you to buy, manufacture, or provide. Make sure your **cost** for that product is realistic, based on quotes from suppliers. Then, subtract the **sales price** from the **cost**. That amount is the **net revenue**.

Estimated **Sales Price** for Product #1 = $10.00
Estimated **Cost** for Product #1 = $5.50
Estimated **Net Revenue** per **Unit** for Product #1 **(Sales Price** minus **Cost) = $4.50**

Next, estimate how many **units** of that product or service you expect to sell in the first twelve months. Think about how and why sales might increase (or decrease) over the first twelve months. Be conservative, because it's far better to underproject rather than overproject.

Units Sold per Month for Product #1:

Jan:	20
Feb:	25
Mar:	30
Apr:	35
May:	40
Jun:	45
Jul:	50
Aug:	55
Sep:	60
Oct:	65
Nov:	70

Dec: 75

Then you can project the **net revenue** for twelve months.

Net Revenue per Month (**Net Revenue** per Unit x **Units** Sold):

Jan: $4.50x20=$90.00
Feb: $4.50x25=$112.50
Mar: $4.50x30=$135.00
Apr: $4.50x 35=$157.50
May: $4.50x40=$180.00
Jun: $4.50x45=$202.50
Jul: $4.50x50=$225.00
Aug: $4.50x55=$247.50
Sep: $4.50x60=$270.00
Oct: $4.50x65=$292.50
Nov: $4.50x70=$315.00
Dec: $4.50x75=$337.50

Total **Net Revenue** for 12 Months = $2,565.00

Do this for each product or service and then total each product's **net revenue** together to come up with a 12-month **net revenue** forecast for all of your products or services. Let's say, for our example, that we come up with a **total net revenue** of $150,000 for all of our products for the first twelve months.

2. Figure Out Your Expenses

Make a list of all your **expenses**, <u>excluding</u> the **cost** of the product. We've already included the **cost** of the product in our **net revenue** projection. To add it as an **expense** would be redundant.

Think of everything that you'll be writing a check for each month: rent, payroll, utilities, insurance, accounting, legal, supplies, etc. Come up with a monthly amount for each **expense**. Your list will look something like this:

Expenses

Payroll:
Jan: $4,000 Feb: $4,200 Mar: $4,400 etc…….. 12-month total $60,000

Advertising:

Jan: $300 Feb: $400 Mar: $500 etc……. 12-month total $6,000

Rent:
Jan: $800 Feb: $800 Mar: $800 etc……. 12-month total $9,600

Etc...

And so on, until you've named everything and have come up with a 12-month total for each **expense**. Then add up each line's 12-month total to come up with a **total 12-month expense** for all of your expenses. Let's say, for our example, that we come up with $130,000 in **expenses** for our first twelve months.

3. Come Up With Your Net Profit

Finally, subtract your 12-month **expenses** from your 12-month **net revenue.** That amount is your 12-month **net profit.** The **net profit** is what you're left with after you've paid your bills:

12-month **Net Revenue**:	$150,000
12-month **Expenses**:	$130,000
12-month **Net Profit:**	**$20,000**

Hey, we're in business! We have $20,000 left over.

If your **net profit** is **negative**, the **negative** amount is how much money you would need to finance the company, typically in the form of a small business loan. You'll then need to come up with projections for the next two years and include repayment of that loan. The goal is to show at what point in time the company will likely break even.

This is a very simplistic way to look at basic forecasts for a small business. It doesn't take into account a lot of variables, such as taxes, dividends, or loan interest rates. But if the numbers look good at this simple stage, then proceed to creating a more comprehensive plan. If the numbers are not panning out, take a good look at what's not adding up and decide whether it's fixable. The business may not be worth pursuing. That's the question at hand.

It's simple, but it's a way to get your business plan rolling. That moth-to-the-flame thing can be awfully painful.

The best way to manage the business plan process is to look at *sample business plans* and use a good off-the-shelf software that leads you through the entire process. We always recommend *Business Plan Pro for writing a business plan*. If you need additional help with your business plan, contact our *business plan development service at DirectPlan*.

I wish you the best of success in your venture.

Cynthia K. McCahon, MBA
SamplePlan, Inc.