

BREAK EVEN ANALYSIS

Purpose

This analysis will provide you with business information during the month to tell you how you are going towards your goals. This is the first step towards becoming aware of whether or not you have had a profitable days work or not.

This can provide an indicative value of the average surplus per transaction which can be used as a starting point to discuss business strategies to improve its performance.

Process

1) Getting information

Make sure that you understand the drivers of the costs of the business and ensure that you allocate costs to the appropriate section in the calculator. For example, it would not work to put commission based staff remuneration under wages in the calculator as this does not take into account the link with the sales made.

The most feasible approach will be accessing the business's own accounting system used for bookkeeping purposes (MYOB, Xero, QBO Intuit etc.). We recommend using the average of the last 3 months in each relevant item to get an accurate benchmark.

Calculator instruction

- 1) Based on the financial information you have, calculate sales, purchases, and total expenses (including wages) and enter an amount in each data input box.
- 2) Determine a monthly provision for tax, asset repayments and debt repayments.
- 3) The total monthly cash target will be the business cash target including current net profit. This is an ideal cash position.
- 4) The average number of transactions per month can be calculated from your invoicing system. Use the average number of invoices/transactions over the last 3 months if possible.

2) Data Analysis

- 1) Average Transaction Value
 - This indicates the average sales amount per transaction.
- 2) Monthly sales to achieve cash break even
 - You must have sales at this amount every month to break even (before making a loss)
- 3) Monthly sales to achieve annual cash target
 - You must have sales at this amount every month to reach your annual cash target
- 4) Daily sales target to achieve annual cash target
 - You must have xx number of sales transactions per month, and xx number of sales transactions per day to achieve the annual cash target.
- 5) Daily target to achieve break even
 - You must have xx number of sales transaction per month, and xx number of sales transaction per day to break even.
- 6) Average transaction value and surplus per transaction
 - The business makes \$xx surplus per transaction.

3) Discussion

- What can you do to optimise the average surplus per transaction?
 - Raise all/some prices
 - Remove or reduce discounts
 - Negotiate better costs from suppliers
 - Reduce overhead costs
 - Swap slow moving stock for high moving stock from suppliers
 - Develop sales scripts to sell at higher margins
 - Develop more effective marketing materials
 - Up-sell additional products and services (Increase the average sale per customer)

4) Create an Action Plan & Tracking

Based on the analysis you have done create an action plan with deadlines, and assign responsibility to those action plans. Re-do the analysis in three months, six months and twelve months to see improvements.