6 Ways to Reduce Breakeven Point

EXAMPLE #1

Shift Sales focus (and incentives) toward higher margin products

Using an increase in sales alone could be the quickest way to the grave. What you have to look at is 'where do you get your biggest bang for your buck'.

Talk with the sales team and find out what is stopping them from selling more of your high margin product(s) and then fix it.

This tactic alone will turn a loss making business into a profitable one.

Product	**Current**		**Target**		
	Sales	Margin[#]	Sales	Margin[#]	
	$	%	$	%	
A	20,000	10.0	10,000	10.0	
B	10,000	25.0	8,000	25.0	
C	6,000	40.0	18,000	40.0	
Total	36,000		36,000		
Gross Profit	6,900	19.16	10,200	28.33	
Fixed Costs	(8,000)		*(9,000)		* incl extra sales incentives
Net Profit/(Loss)	(1,100)		1,200		
BEP	**$41,753**		**$31,768**		

[#]Includes product labour costs of A - $8,000; B - $5,000; C - $1,200 = $14,200

EXAMPLE #2

Redesign low margin products to reduce cost of raw materials

Once people get a success getting a product to market, they often forget to ask 'Is this the best way to do this?' The way things are done should always be under the microscope looking for a cheaper faster way to bring the product to market.

Ask questions like 'could we outsource this to someone who can make certain aspects of our product (or components thereof) faster and cheaper than we do?'

Don't get hung up on this, car manufactures have been doing it for decades to get the cost of their product down as much as they can.

Product	**Current**		**Target**	
	Sales	Margin[#]	Sales	Margin[#]
	$	%	$	%
A	20,000	10.0	20,000	18.0
B	10,000	25.0	10,000	30.0
C	6,000	40.0	6,000	40.0
Total	36,000		36,000	
Gross Profit	6,900	19.16	9,000	25.0
Fixed Costs	(8,000)		(8,000)	
Net Profit/(Loss)	(1,100)		1,000	
BEP	**$41,753**		**$32,000**	

EXAMPLE #3

Redesign production sequence to reduce cost of production labour

Similar to Example #2, labour can and often is the most expensive cost in manufacturing. If you are an 'end product' provider then look at who can take part of your production process e.g. assembly, and outsource it to them.

Apple has been doing this since the Apple Mac came out, just as Dell Computers did at the very beginning and most other modern manufacturers do now days.

Product	**Current**		**Target**	
	Sales	Margin[#]	Sales	Margin[#]
	$	%	$	%
A	20,000	10.0	20,000	25.0
B	10,000	25.0	10,000	32.0
C	6,000	40.0	6,000	40.0
Total	36,000		36,000	
Gross Profit	6,900	19.16	9,600	26.67
Fixed Costs	(8,000)		(8,000)	
Net Profit/(Loss)	(1,100)		1,600	
BEP	**$41,753**		**$29,996**	

[#]Includes product/labour costs:

A - $8,000; B - $5,000; C - $1,200 = $14,200 A - $5,000; B - $4,300; C - $1,200 = $10,500

EXAMPLE #4

Reduce Fixed Costs by cutting services temporarily deemed unnecessary

Just like governments do, increasing the fixed cost of services or benefits to the public through additional welfare programs, business owners must continually ask the question 'can we do without this, short term or long term with little or no effect on profitability.

Are insurance coverage and premiums put under the microscope each year, are communication costs examined to ensure they're the being provided at the most competitive rates in the market? Are employees working effectively and not just efficiently? Will current technology improve our efficiency and reduce costs.

When preparing annual budgets, every item must prove itself to be the best value for money before being accepted

Product	**Current**		**Target**	
	Sales	Margin	Sales	Margin
	$	%	$	%
A	20,000	10.0	20,000	10.0
B	10,000	25.0	10,000	25.0
C	6,000	40.0	6,000	40.0
Total	36,000		36,000	
Gross Profit	6,900	19.16	6,900	19.16
Fixed Costs	(8,000)		*(6,500)	
Net Profit/(Loss)	(1,100)		1,200	
BEP	**$41,753**		**$33,924**	

* Selected overhead deemed unnecessary are cut

EXAMPLE #5

Increase prices to lower sales (maybe) and increase profit margin.

Many business owners have a false belief that raising prices will lose them customers

Product	Current		Target	
	Sales	Margin#	Sales	Margin#
	$	%	$	%
A	20,000	10.0	18,000	12.0
B	10,000	25.0	9,000	38.0
C	6,000	40.0	5,500	45.0
Total	36,000		32,500	
Gross Profit	6,900	19.16	8,055	24.78
Fixed Costs	(8,000)		(8,000)	
Net Profit/(Loss)	(1,100)		$ 0,055	
BEP	**$41,753**		**$32,284**	

EXAMPLE #6

Combination of measure outlined in Examples #1-5

Many business owners have a false belief that raising prices will lose them customers

Product	Current		Target	
	Sales	Margin#	Sales	Margin#
	$	%	$	%
A	20,000	10.0	12,000	20.0
B	10,000	25.0	9,000	35.0
C	6,000	40.0	15,000	40.0
Total	36,000		36,000	
Gross Profit	6,900	19.16	11,550	32.08
Fixed Costs	(8,000)		*(7,500)	
Net Profit/(Loss)	(1,100)		4,050	
BEP	**$41,753**		**$23,379**	

#Includes product labour costs:

A - $8,000; B - $5,000; C - $1,200 = $14,200 A - $6,000; B - $4,700; C - $1,200 = $11,900

* Selected overhead deemed unnecessary cut and additional sales incentives added

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As you can see, in each case Total Sales remained unchanged and the entire focus on bringing this (example) business back from losses of $1,100 per month to a profit of $4,050 in Example #5.

The key strategy was to bring BEP down below sales as opposed to focusing solely on getting Sales ($41,753) above BEP. To achieve this would have required an increase in sales of Product A (biggest seller) up by $11,000 per month (55%) higher than the current level of $20,000, 30.55% of Total Sales.

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