

## Are you actually making a profit?

### When was the last time you checked whether you're actually making a profit? Whether all your hard work is worth it?

Most of us start our businesses with the intention of making money. Then the pressure of actually *running* the business takes over and we neglect to take that all-important time away from the day-to-day work so that we can take a good look at our figures. We need to work out whether we are actually making enough money not simply to survive, but to grow and thrive, too. Enough money to invest in our own future and the future of our businesses.

If we're not making enough money the whole process can become stressful, challenging and downright scary.

### So, what about *your* profit?

#### Here's a tough question: are you really making a profit?

Another tough question: do you even know how to work that out?

Don't worry if you don't know how to do this, it's a skill *all* business owners have to learn and this Nudge is not meant to make you feel bad, it's meant to get you focused on your business as a business, not as an expensive hobby.

### It's time to take action

Download the 'Breakeven calculator' Excel® spreadsheet or print out page 2 so that you can work out your **breakeven sales point**.

This is not a one-off exercise; it needs to be done regularly as it will change over time. Monthly is usually sufficient for most businesses.

#### To be able to carry out this exercise you will need to know, for your chosen month:

- **Your sales figure** – your total sales.
- **Your fixed costs** – costs that stay the same whether your sales go up or down (*such as rent, heating, lighting, and so on*).
- **Your variable costs** – costs that change in line with your sales (*such as raw materials, production costs, and so on*).



Download the **Breakeven calculator** spreadsheet via the Nudges page



Take a look at the online forecasting tool **Finanscapes**. It makes this whole process much easier!



**Chapter 4** of your **Understanding Your Business Finances** workbook will help you understand breakeven more fully

[www.finanscapes.com](http://www.finanscapes.com)

# Action sheet Breakeven calculator

Also available as a free Excel® spreadsheet  
 » **DOWNLOAD** via the **Nudges** page



## How to calculate your own breakeven sales point

**Step 1** Enter figures into the yellow shaded boxes only.

**First of all, work out your gross profit:\***

Sales minus variable costs = gross profit

Sales		
Minus variable costs	-	
<b>Gross profit is</b>		

**Step 2**

**Next, work out your gross profit percentage:\***

Your gross profit percentage is worked out by dividing your gross profit by your sales and then multiplying by 100.

Gross profit			<b>Gross profit percentage</b>
÷		× 100 =	
Sales			

**Step 3**

**Now work out your breakeven point:**

Your breakeven point is worked out by dividing your fixed costs by your gross profit percentage and then multiplying by 100.

Fixed costs			<b>Breakeven point</b>
÷		=	(£ level of sales)
Gross profit percentage			

**If you compare your actual sales with your breakeven point every month, you will be able to see immediately whether you are making a profit, making a loss or just breaking even.**

**Example**

**Step 1 Working out gross profit:**

Sales	£	4,000
Minus variable costs	£ -	2,400
<b>Gross profit is</b>	£	<b>1,600</b>

**Step 2 Working out gross profit percentage:**

Gross profit	£1,600		
÷		× 100 =	<b>40%</b> Gross profit percentage
Sales	£4,000		

**Step 3 Working out breakeven point:**

Fixed costs	£1,200		
÷		=	<b>£3,000 Breakeven point</b>
Gross profit percentage	40%		

This means that, in the example above, this business would need to make sales of **£3,000** to cover the fixed and variable costs.

\* **Gross profit:** Total income from your sales minus the cost of those sales. **Gross profit percentage:** A ratio of your financial performance calculated by expressing your **gross profit** as a percentage of your sales.