

Breakeven Analysis - Know Your Number Before You Need It

The simple calculation that tells you exactly how much you need to sell before a single penny of profit lands in your account.

Why this matters for a small business

Breakeven analysis works out the point at which your sales revenue exactly covers your costs - no profit, no loss. It sounds basic but very few small business owners actually sit down and calculate it and that gap is where a lot of avoidable trouble starts.

Larger companies have cash reserves, finance teams and room to absorb a bad month. A small business usually doesn't. If you don't know your breakeven point then you are pricing, hiring and buying stock on instinct rather than fact and you often find out that you're in trouble only when the bank balance tells you. Working the number out in advance turns a vague worry ('am I making money?') into a clear target that you can check yourself against every single week.

What breakeven analysis tells you

- The exact sales volume or revenue that you need just to cover your costs
- Whether a price rise or discount will actually help you or hurt you
- How close (or how far) you are from turning a profit at your current sales level
- Whether a new product, market stall or piece of equipment is worth the money before you commit to it

The formula

Breakeven analysis rests on splitting your costs into two types. Fixed costs stay the same no matter how much you sell (rent, insurance, loan repayments, a stall pitch fee). Variable costs rise and fall with every sale that you make (materials, packaging, card processing fees).

Subtract the variable cost of one item (or unit) from its selling price and you get what is called the contribution margin i.e. the amount that each sale contributes towards covering your fixed costs. Once those fixed costs are covered then every further sale is pure profit.

Breakeven point (in units) = Fixed costs divided by contribution margin per unit. Multiply that figure by the selling price and you get your breakeven point in revenue instead. Sounds like rocket science? See if the example below makes more sense.

Worked example: Bailey's Bakes

Bailey sells sourdough loaves from a Saturday market stall. Here is her breakeven point, step by step.

Item	Figure
Fixed costs per week (stall pitch, insurance, loan repayment)	£200
Selling price per loaf	£3.20
Variable cost per loaf (flour, yeast, packaging)	£1.20
Contribution margin per loaf (£3.20 minus £1.20)	£2.00
Breakeven volume (£200 divided by £2.00)	100 loaves per week
Breakeven revenue (100 loaves times £3.20)	£320 per week

What this means in practice

Sell 99 loaves in a week and Bailey's Bakes makes a loss. Sell 100 and every cost is covered with nothing left over. Sell 120 and the 20 loaves above breakeven are worth £2.00 each in straight profit, £40 that week. That single number, 100 loaves, turns a vague hope of 'selling well' into a clear target Bailey can watch for in real time, right there on the stall, without waiting for the accounts at year end.

WORTH A LITTLE TIME AND EFFORT

This is especially useful when a client is deciding whether to take on a second stall, add a new product line or accept a big wholesale order. The maths only takes a few minutes but it regularly changes the decision, sometimes showing an idea is stronger than the owner expected, sometimes saving them from a commitment that would have cost money every single week. Worth doing before you sign anything, not after.

What to do next

- List every fixed cost you pay regardless of sales, added up over a week or a month
- Work out the variable cost of producing or delivering one unit (see the Gross Profit Margin Calculator)
- Subtract the variable cost from your selling price to get your contribution margin
- Divide fixed costs by contribution margin to find your breakeven volume then multiply by price for breakeven revenue
- Re-do the calculation whenever a price, supplier cost or rent changes since the breakeven point moves with it
- Book a free chat with us if you'd like a hand working this out for your own numbers