7. COUNTING THE BEANS

TRACKING AND ALLOCATING RESOURCES TO KEEP YOUR BUSINESS THRIVING

The financial plan section of a business plan is crucial as it outlines the financial projections and strategies that will guide the business towards achieving its goals.

Revenue Projections estimate the income the business expects to generate over a specific period. This includes sales forecasts, pricing strategies, and anticipated market demand. Revenue projections should be realistic and based on thorough market research.

Expense Budget outlines all the costs associated with running the business. This includes fixed costs (e.g., rent, salaries) and variable costs (e.g., raw materials, utilities). It's important to categorize expenses to understand where the money is going and to identify potential areas for cost savings.

Break-Even Analysis determines the point at which the business will be able to cover its expenses and start making a profit. It's a critical tool for understanding the minimum performance required to avoid losses and for setting realistic sales targets.

Funding Requirements and Strategy outlines the amount of funding needed to start or grow the business and the strategy for obtaining it. It includes details on the type of funding (e.g., equity, debt), potential investors or lenders, and the terms of financing. It's important to clearly articulate how the funds will be used and the expected return on investment.

Financial Assumptions are the underlying premises on which the financial projections are based. These can include assumptions about market growth, pricing, cost of goods sold, and economic conditions. Clearly stating these assumptions helps in understanding the basis of the financial projections and assessing their realism.

The financial plan is a comprehensive document that provides a roadmap for the business's financial future. It requires careful planning, realistic projections, and a thorough understanding of the market and business operations. By addressing all these elements, the financial plan helps in making informed decisions, securing funding, and achieving long-term success.

FINDING THE SWEET SPOT

CALCULATING WHERE COSTS AND REVENUE ALIGN

After the operating costs have been estimated for a specific period, the next step is to calculate the break-even point. This refers to the level of the turnover (amount of sales) where the gross profit is equal to the estimated operating costs. Break-even turnover is an important guideline for the prospective entrepreneur, as he or she should know the minimum turnover necessary for covering all the costs.

$$\textbf{Break Even Point} = \frac{\text{Fixed Cost}}{\text{Selling price per unit - Variable cost per unit}}$$

$$\textbf{Break Even Point} = \frac{\text{Fixed Cost}}{\text{Contribution Margin per unit}}$$

Calculate the break-even point for a business that sells desks to the retail market at R1 000, and it costs R600 per unit to produce. The fixed costs for the month amount to R50 000. What is the break-even point in unit and rand value?

Solution

Break-Even in units: $\frac{\textit{Fixed Costs}}{\textit{Selling Price per unit} - \textit{Cost Price per unit}} = \frac{50\ 000}{1\ 000 - 600} = \frac{50\ 000}{400} = 125$

Break-Even in Rands: Break-Even in Units x Selling Price

125 x 1 000

R125 000

or $\frac{\textit{Fixed Costs}}{\textit{Contribution Margin Ratio}} = \frac{50\ 000}{400 \div 1\ 000} = \frac{50\ 000}{0.4} = \text{R}125\ 000$