September 2013

Financial Management Tools & Resources

- Alternative Funding Strategies?
- Cash Flow Management
- Crowdfunding
- Management Control
- Breakeven Worksheet
- Cash Flow Worksheet (1 month)
- Cash Flow Worksheet (12 months)
- Financial Sources Worksheet
- Glossary of Business Management Terms

Other Helpful Tips for Growing Your Business

- Startup Checklist
- Mapping out the Sale
- Business Registration and Incorporation
- Business Insurance: Protecting against risk
- Customer Relationship Management
- Expense Management and Control
- Bookkeeping and Accounting Training
- Financing a Business based on Credit Card History
- Time Management Worksheet

Fixed Costs, Variable Costs and Breaking Even

Comparing personal financing to business financing

In business, it is important to understand the numbers. This means knowing how to develop revenue forecasts as well as compare actual performance to projected outcomes.

If you've never been in business, learning this may seem like an insurmountable undertaking. However, there are analogies between managing personal finances and business finances that may help to minimize the learning curve.

Managing Personal Finances

In life and in business, the bottom line in financial management is to spend less money than you earn. For wage earners, this means that a monthly paycheck must cover monthly expenses. Read *How to Create a Frugal Budget* for more information.

These expenses can be *fixed* or *variable*. For example, a fixed expense may be the mortgage and the car payment, which are the same amount (fixed) each month, and variable expenses may be food and electricity, which can "vary" each month.

Managing Business Finances

A business has fixed and variable expenses as well. Fixed expenses may be the cell phone and rent for facilities, and variable expenses are those costs directly associated with providing services and/or delivering products.

For example, if you provide a delivery service, a variable expense is the amount of gas used to get from point A to point B. If you own an ice cream shop, variable costs include the ice cream, ice cream cones, napkins, fudge sauce and other accoutrements associated with selling the product, which is ice cream.

Breaking Even & Generating a Profit

Because variable costs are directly correlated to selling a product or service, as long as you charge more than it costs you to deliver or produce what you sell, you will generate a *gross* profit. At the same time, gross profits must then be applied to cover any ongoing fixed expenses before you have money left over, which represents *net* profit.

When revenues equal variable and fixed expenses, the business "breaks even." When revenues exceed variable and fixed expenses, the business makes a profit. Breakeven analysis helps you to minimize costs and maximize profits.

Think about your business. Which costs vary? Which costs are the same each month? Use the online Forecasting Worksheet to determine how to operate profitably.