

# Example of break-even analysis business plan

[Business](#), [Company](#)



## **The Pricing Objectives and Constraints**

A company's pricing objectives outline strategies and direction to achieve organizational goals. Pricing is a vital element in the market mix; a product's pricing objective must be stated, and the company's statements should include a defined timeline for achieving the set objective. A firm should consider various factors when setting pricing objectives, for instance, a firm should consider the overall financial, marketing, and management goals. The product's objectives should be identified to ensure the pricing strategy matches the set targets. The consumer satisfaction is a vital element in any organization; the price elasticity and various price points should be reviewed to suit the client's purchasing power. The final factor includes assessing the available resources in the company to ensure they meet the pricing level objectives.

There are different reasons for setting a company's pricing objectives, for instance, to match up with competitors' prices, to increase the sales volume, to discourage new entrants in the market, or to maximize profit. The Most Leisure Clothing, Inc. seeks to desensitize customers on prices, offer products at affordable prices to encourage expansion of company's sales. The firm has a financial goal to increase the overall revenue by at least 70% by the end of the fifth year. This can be achieved by increasing the sales volume; favorable prices for the clothing will attract and maintain new customers.

The Most Leisure Clothing, Inc is focusing on entering into new geographic markets, which will include Southwestern States. This process will require evaluation of its pricing strategy; the firm will change its pricing level to

match up with the competitors' prices in the new markets. Increasing the market share will require standard pricing objectives that will enable The Most Leisure Clothing, Inc to achieve the set overall organizational goals. Pricing constraints refer to Factors that limit the choice of prices a company should set for its product. The Consumers' demand for a product affects the price that a company sets at a given period. A firm may decide to set high prices when the consumers' demand is high. It is however, a challenge to determine the consumers' preference within the first quarter of the company's sales schedule. Competition from other firms is another constraint in formulating a pricing objective. A firm may be forced to increase or reduce prices in accordance with the prevailing prices in the market. Most Leisure Clothing Inc's business activities are in a perfect competitive industry, which makes it hard to dictate market prices for the products. The attempt to expand Most Leisure Clothing Inc's market will force the firm to increase its prices to achieve the required capital. This may scare potential customers, which may lead to a decline in the company's total sales.

Most Leisure Clothing Inc pricing level will be determined by the costs incurred in the production process. The company has an advantage due to product differentiation; the high quality products will increase the volume of sales. The cost based pricing is the method that will be used in determining prices for the clothing. The company has a variety of products such as hiking boots, camping gear, mountain climbing outfit, and casual clothing. There will be different prices set for each commodity according to the cost incurred in producing the product. The cost based pricing strategy involves adding an

extra unit or percentage to the cost of the product. The cost plus pricing method entails adding a specified amount of money or percentage to the total seller's cost. The Most Leisure Clothing Inc will add an extra unit to the products' cost; this will enable the firm realize some extra revenue to cater for the expansion activities. The prices will be suitable to convince people to change their old camping attire to new well structured equipment and clothing.

Most Leisure Clothing Inc will design an effective pricing strategy for the products; this is an approach used to design a course of action to achieve a company's pricing and marketing objectives. The Most Leisure Clothing Inc's major weakness is achieving a stable market share in the near future. This weakness can be addressed by adopting a suitable marketing strategy, for instance, using a secondary marketing pricing. The pricing strategy involves setting one price for a certain target market, and a varying price for another target market. This encourages close customer evaluation and promotes client attraction. The new markets will get attracted to the company's clothing, which will lead to increased sales. The company will use various strategies in some markets, for example, adopting a Penetration pricing strategy in new markets. The method entails setting prices below regular ones used by competing brands to enter a market and acquire a significant market share rapidly.

Cost volume profit analysis enables the managers to make relevant decisions concerning the performance of an organization. The analysis helps people understand the existing interrelationship between a company's cost, volume, and profit by reviewing the interactions among the company's

prices, volume of sales, per unit variable cost, total fixed cost, and the mix of the products sold at a given period. Most Leisure Clothing Inc will get a better idea on the best product mix; the firm will focus on producing the clothing that has a higher customer demand. The managers will compare the cost incurred in producing various items, with the sales volume. The profit margin will dictate the items to produce in large quantities according to the customer demand.

Breakeven Analysis is the process of determining the point where revenue = cost of production i. e. the profit is zero.

Break-even analysis = Fixed Costs / (Unit Sale Price – Unit Variable Cost)

## **Break –even analysis for the hiking equipments**

### Hiking Boots

When break-even analysis is performed on the Hiking Boots, the demand is as follows:

Fixed cost = \$2, 000

Total order= 2000

Break-even analysis = \$2, 000 / (\$120 - \$80)

= \$2, 000 / \$40

= 50 pairs of Hiking Books.

Total demand is  $50 \times 2000 = 100000$

The revenue is = quantity  $\times$  cost price

$50 \times 100000 = \$5, 000, 000$

## **The GPRS**

The demand for GPRS is

$$= \$2000 / (\$300 - \$200)$$

$$= 20 \text{ pairs of GPRS}$$

The order is 600 which gives total demand of  $600 \times 20 \text{ pairs} = 12000$

## **Revenue that will be obtained from the GPRS sale would be**

$$20 \times 12000 = \$240,000$$

## **The Headlamps**

The demand for the headlamps would be calculated as follows

Fixed cost of producing the equipment/ (unit sale price- unit variable cost)

$$= \$2000 / (55 - 30) = 80 \text{ headlamps}$$

The order for the lamps = 300 . The demand will be  $300 \times 80 = 24000$

The revenue =  $24000 \times 300 = \$7,200,000$

## **The break-even analysis for the camping gear**

Two men's tents

Two men's tents demand would be:

$$\$2000 / (150 - 100) = 40 \text{ tents}$$

The revenue =  $\$150 \times 20000 = \$3,000,000$

## **Three-man tents**

The demand for the three men tents is  $\$2000 / (120 - 40) = 25 \text{ tents for men}$

The order made is 1000 and the total demand is therefore  $2000 \times 25 = 50000$

The revenue is  $50000 \times 120 = \$6,000,000$

**The demand for the camping gas will be estimated as**

$\$2000 / (20 - 15) = 400$  camping gases

The order for the camping gases is 300 and thus the total demand would be

$(400 \times 300) = 120000$

**The unit cost is \$20 and \$15 is the variable cost for the camping gas.**

The revenue that will be obtained:

$120000 \times 20 = \$240,000$

For the camping gear, the best pricing level is \$ 120 per unit sold because it gives the highest revenue while the price level for the hiking equipment is \$ 300 per unit sold.

**Quoted prices**

Setting of quoted prices entails determination of break-even pricing. This enables an organization to make a comparison on the outcome of profit that results from the different prices set. The management can obtain maximum profit by quoting the prices of the given commodities.

The adjustments made to the quoted prices is due discount offered to customers.

**Appendix**

Figure 1: Growth pattern of sales for next five years