Example of research paper on cvp and break even analysis

Business, Marketing

CVP and break even analysis

Introduction

Entrepreneurs utilize cost volume profit analysis (CVP) to identify levels of business activities essential in limiting loses emanating from lack of adequate monitoring and evaluation of business performance. As such, CVP offers a viable option for use to give a reflection of the estimates amounting as variable costs. Also known as break even analysis, it specifically gives an overview of how profits fluctuate due to variation in sales price, fixed costs, variable costs and quantity off products or services.

Start-up costs $60, 000 to 184, 000

Fixed operating expenses $4000 per month

Lease equipment $2000

Break-even 300 members

a) According to the Cost-volume-profit (CVP) analysis, several assumptions are applicable (Rajasekaran, 2010). These includes constant total fixed costs, all produce are sold, all per unit variable costs are constant, and sales price per unit is also constant.

Total fixed costs for Snap Fitness centre = $6000

The total number of members required to achieve is 300

Per unit contribution to break even= 6000/300=$20 i. e. Break even volume= fixed overhead/contribution per unit

The total monthly fee is $26

The variable cost is obtainable through subtraction of the contribution from the monthly fee i. e. 26-20= $6

b) From the information in part a) above;

Monthly net income $10, 000

Fixed Costs + Target Profit

Contribution Margin per Unit

$6000+$10, 000/$20= 800 units (members)

Sales 800 members (units) * contribution (26)

Overall, the cost volume profit analysis ensures indicate that the enterprise would be operating under no loss or profit. Precisely, it assumes that the value of all costs (fixed and variable costs) and the selling price are constant. Variable costs conform to the level of output produced by the enterprise.

Examples of variable costs for a fitness centre

Fitness centres occur as business opportunities similar to any other enterprise that requires various expenditures in its operations. Variable cost is an example of cost incurred in the fitness centre business. Speaking of variable costs, this refer to expenses essential for the daily running of a business activity, which vary proportionally depending the level of activities engaged in by a business (Drury, 2007). Precisely, it equates to the summation of marginal expenditures over the sum of units produced by a business. Overall, variable costs sum up with fixed costs to constitute total costs needed in operation of a business.

As previously connoted herein, CVP analysis gives a plan on future business levels, thus provides information on the probable expenses needed in the future running of a business enterprise. Fitness centres incur variables cots including taxes, utilities, and insurance, depreciation of supplies as well as maintenance and repair of businesses utilities.

a) Taxes

Taxes payable by fitness centres vary depending on the level of activities it executes. Upon inception, fitness centre tax remittances are lower as compared to those payable upon expansion. For this reason, tax paid by fitness businesses varies and constitutes as a variable cost. Fitness centres pay different types of taxes, which include;

Property tax; this entails taxes remitted by the fitness centre to the local taxing authority where it is situated. Therefore, as fitness centres activities increases, the need for more property acquisition is significant. As a result, more taxes will be remitted, hence, making property tax a variable cost.

Excise tax; revenues payable by a fitness centre determined by level of consumption in terms of fuel and other activities constitute as excise tax. This occurs as a variable cost incurred by fitness centre enterprise in that increased activities as the business progresses results in an increase in consumption, thus, need for increased tax.

Business income tax; certainly, all businesses are required to remit taxes on their earnings. A fitness centre is likely to increase its earning, since this is an essential business objective. Consequently, higher taxes are imposed on increased fitness centres earnings thus leading to a variation in costs.

Gross receipts tax; certain states impose a tax on gross receipts of a business. As such, since the proposed business centre might be situated in such states, such taxes will comprise as variable costs, as the receipts will vary with time.

Self employment tax; undeniably, the proposed fitness centre will occur as self employment. Therefore, self employment tax will differ depending on the level of business income. This will result as a variable cost.

Employment taxes; The fitness centre will employ a number of employees and thus employment taxes will represent variable costs since it is determined by number of the businesses workforce, which will vary over time.

Franchise taxes; certainly, the value of the proposed fitness centre business will appreciate or depreciate depending on its management. For this reason, franchise tax, which is determined by the value of a business, will vary, hence constituting as a variable cost.

b) Utilities

The proposed fitness centre business will operate with the aid of different utilities, which loose value over time. Therefore, acquisition of such utilities will be necessary, thus, costs for utilities needed in a fitness centre vary and occurs as a variable cost.

c) Insurance

Insurance of a fitness centre as a property as well as insurance of its employees such as trainers is an essential requirement, which changes with time depending on the value of the business centre. Consequently, insurance is a core requirement in a fitness centre that constitutes as a variable cost.

d) Depreciation of supplies

Supplies acquired by a fitness centre during its start-up depreciate due to continued utilisation. As a result, acquisition of new supplies is essential thus making it a variable cost.

e) Maintenance and repair of fitness centres facilities

For effective production, it is vital to repair and maintain utilities available in a fitness centre. As such, more costs are needed in maintenance and repair of fitness centres facilities, which makes it a variable cost. Overall, understanding of variable costs within a fitness centre type of business will allow for appropriate decision making in order to improve its product and service provision (Drury, 2007), which will guarantee an increase in its returns.

Information on purchasing a franchise

Franchising entails different types of business related engagements whereby an owner of a service or a product grants a different individual right to utilise them upon remittance of some payment (Mathews et al., 2011). In fact, such products and services usually have a brand name that guarantees market recognition, which offers a competitive edge in the market. In addition, training and support that facilitate the success of such businesses are offered by those selling such products and services. On the contrary, this does not guarantee eventual success of a business, as it’s similar to any other business that might succumb loses depending on managerial qualities of the business owners. There exists terms of agreement, contained in a franchise operational manual (Hatten, 2011), that govern the way an individual runs a business acquired through franchise. For this reason, it is crucial for an individual planning to acquire such a business to get a copy of the franchise operating manual in order to determine whether provisions provided in the manual are adequate.

Franchise form of business ownership also requires one to remit royalties to the franchisor irrespective of whether the business is making profits or not. In addition, royalties are payable even in cases where the franchisor does not provide services that he/she promised initially. On the other hand, if the franchisee decides to voluntarily terminate the franchise agreement prior its end, he/she will still pay royalties until the end of the agreement. Deductively, Snap Fitness occurs as an example of a franchisor that offers adequate fitness related services. In fact, its sales and marketing support facilitates attainment of business success.

As indicated in their agreement, Snap Fitness offers financial support to their franchisees, which facilitates the attainment of the business. Their team also offers support in locating a strategy point for your business, which will guarantee increased earnings. In addition, their also offer promotional and marketing support for your business by organising marketing campaigns for your business. Overall, the support of Snap Fitness franchisors offers desirable business qualities, worth their payment charges. Other services offered by Snap Fitness as contained in their operating manual include;

Supply and maintenance of equipments

Full training of their franchisees, free of charge

Efficient Information Technology and management systems

Consequently, franchising offers numerous benefits aligned to reduced costs in business operations. Snap Fitness offer lower franchising rates, close to $300 upon start up of their franchise agreement. For this reason, entering into their franchise would be such a noble and recommendable idea. The following is an overview of the benefits emanating from the decision to engage in Snap Fitness franchising by the proposed fitness centre;

i. Branding

Snap fitness is an already established fitness centre and enjoys a higher competitive edge over other existing fitness centres. In fact, Snap Fitness is well serviced with fitness equipments inclusive of strength training and cardio equipments. Therefore, entering into a franchise with Snap Fitness will strengthen the market share of the proposed franchise business. This will guarantee future growth of the proposed businesses brand. On the contrary, product brand can change with time (Hatten, 2011). Entering into a franchise with Snap Fitness will curb this as it offer training services for its franchisees and fitness trainers, which will ensure client loyalty.

ii. Advertisement

Snap Fitness provides support services such as advertising to its franchisees as part of the franchise agreements. For this reason, costs that could have been incurred in advertising by the proposed fitness centre will be reduced and can be utilised to improve other components of the fitness centre such as purchasing new equipments, which will facilitate expansion the proposed business centre.

iii. Supplies

Certainly, supplies essential in running of business activities are costly.

Franchising agreements provide clauses that guarantee supply of business resources at reduced rates Mathews et al., 2011). To this purpose, entering into a franchise business with Snap Fitness will facilitate maintenance of high profit margins by the propose fitness business centre.

iv. Financing

Financial support is essential for running of a business's activities at various levels. Franchisors offer financial support to its franchisees. As such, entering into a franchise by the proposed fitness centre will warrant financial support in terms of reduced interest on loans, which is beneficial for the running of the business.

References

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