Evaluate break-even analysis as a decision-making tool

Business, Management

3. 3 Evaluate break-even analysis as a decision-making tool. The definition of the Break-even analysis: The break-even analysis is an analysis of a product or company's sales required to neither losemoneynor make a profit, but simply to cover costs. Explain in mathematical term: total revenues – total costs = 0. The methods: By using a break-even formula or by drawing a break-even chart. Why is it so important using a break-even analysis?

Because it gives vital information about a business or a company's financial status, not just for a simple break-even point. For start-up businesses, it determines how businesses are setting-up prices for their projections to achieve a reasonable level of break-even point and safety margin. For an on-going business, it equally vital for review analysis and forecast its break-even point; as, how can it improve the relationship between fixed costs, variable costs and revenues and justify a right decision to achieve an ultimate result for a healthy business.

Although it's simple and easy to set-up, yet fundamentally it's an essential decision-making tool for analysing all forms of businesses. For example: 1. Increase prices to raise total revenues, it creates a lower break-even point and better safety margin. 2. Reduce fixed costs or variable costs and prices remain the same also can lower the break-even point. 3. Reduce selling prices and variable costs to generate more sale revenues; equally it can lower the break-even point.