Snap fitness cvp and break-even analysis essay sample

Looking into opening a small business can be a daunting task but with various opportunities for buying into a franchise, becoming a small business owner seems to be a reality for some. Each franchise provides various information pieces about their franchise to attract new owners.

When someone is looking to invest in a franchise, doing an analysis to validate the information provided by the franchise is critical in understanding whether or not the franchise is going to be as profitable as projected. One such franchise is Snap Fitness out of Minnesota. Knowing the fixed costs of operating the franchise one can determine how many members are need to break even. Also, included is an analysis of achieving a $10, 000 net income for a month of operations. To be a valid analysis, we have included five examples of variable costs associated with a fitness center.

Variable Costs

As the owners of a new business, the ultimate goal is to make a profit. Profit can be measured in many ways and there are many complex techniques that can be used to calculate how much of a product or service must be sold to produce a profit. Cost Volume Profit or CVP is one of the most useful ways for managers to understand the relationship between cost, volume, and profits, and make competent management decisions. CVP analysis focuses on five areas:

*Unit selling price

*Variable cost per unit

*Total fixed cost

*Sales Mix

*Volume or level of activity

Based on our research of Snap Fitness, some of this information is available to perform CVP analysis. We will begin by eliminating the focus on sales mix, for now, as a start-up franchise, we are only focusing on selling memberships. The initial CVP analysis will be based on breaking even. Research shows that acquiring only 300 members will allow Snap Fitness to avoid any financial loss. By offering a standard membership rate of $26 per month, monthly sales would equate to $7, 800. The monthly sales figure comes from multiplying 300 members by the $26 monthly fee. Currently, the only fixed costs are the operating expenses of $4, 000 and the equipment lease of $2, 000 for a total of $6, 000 per month.

To compute the variable costs for the month, assuming we are only computing a break-even point, the formula would be total sales – fixed costs – net income = variable costs. $7, 800 – $6, 000 – 0 = $1, 800. The variable costs of $1, 800 can also be computed per unit by dividing $1, 800 by 300 (memberships) or $6 per unit. Note that the variable costs vary in total directly and in proportion to activity level. This CVP analysis is a skeletal statement based on sales necessary to break-even, so it is a projection of variable costs.

Target Net Income

Based on the CVP analysis for Snap Fitness, the target net income of $10, 000 for the month is calculated for the monthly sales in memberships and

dollars from the following equations. *Required monthly sales in memberships = fixed costs + targeted income / contribution margin per unit

*Required monthly sales in dollars = fixed costs + targeted income / contribution margin ratio Using the date from the CVP analysis, the targeted net income for the required monthly sales in memberships is calculated as follows. The fixed costs of $6, 000 are added to the targeted net income of $10, 000. The sum of these factors ($16, 000) is then divided by the contribution margin per unit of $20 ($26 monthly fee – $6 variable cost per unit).

The required monthly sales in memberships are calculated to be 800 memberships for the targeted net income of $10, 000. For the monthly sales in dollars required to reach the targeted net income of $10, 000, the fixed costs of $6, 000 are added to the targeted net income of $10, 000. The sum of these factors ($16, 000) is then divided by the contribution margin ratio of 77% ($20 contribution margin/$26 monthly fee). The required monthly sales in dollars is calculated to be $20, 779 to reach the targeted net income of $10, 000 for the month.