

## Review Breakeven

- Breakeven Quantity is One of the Most Common Calculations!

## Three Parts

- 1) How many do I have to sell to cover my costs and breakeven?
- 2) How many am I likely to sell?
- 3) Am I likely to breakeven?

## Breakeven Part 1

- You are currently spending a budget of  $C = \$800,000$  on consumer promotions. Market research tells you the customer response function is  $Q = 8C^{0.6}$  and you are selling  $Q = 27,858$  shirts because of the promotions.
- You want to increase the consumer promotion budget to  $\$900,000$  and sell more shirts. Your dollar markup per shirt is  $\$40$ .
- What is the sales volume you need to breakeven?
- **$BEQ = F/(P-V) = \$100,000/\$40 = 2,500$  shirts**

## Breakeven Part 2

- You are currently spending a budget of  $C = \$800,000$  on consumer promotions. Market research tells you the customer response function is  $Q = 8C^{0.6}$  and you are selling  $Q = 27,858$  shirts because of the promotions.
- You want to increase the consumer promotion budget to  $\$900,000$  and sell more shirts. Your dollar markup per shirt is  $\$40$ .
- You need to sell 2,500 shirts to breakeven on the  $\$100,000$  increase. How many shirts does market research anticipate you will sell?
- **$Q = 8C^{0.6} = 8(900,000^{0.6}) = 29,898$  shirts**

## Breakeven Part 3

- You are currently spending a budget of  $C = \$800,000$  on consumer promotions. Market research tells you the customer response function is  $Q = 8C^{0.6}$  and you are selling  $Q = 27,858$  shirts because of the promotions.
- You want to increase the consumer promotion budget to  $\$900,000$  and sell more shirts. Your dollar markup per shirt is  $\$40$ .
- You need to sell 2,500 shirts to breakeven on the  $\$100,000$  increase. Market research predicts you will sell 29,898 shirts. Will you reach the breakeven volume?
- **No!  $29,898 - 27,858 = 2,040 \neq 2,500$**