



# CREATE FOUNDATIONS

POWERED BY CREATE BIRMINGHAM

## BUT AT WHAT COST

# CREATE FOUNDATIONS: But at What Cost

## 1. Startup Costs and Ongoing Needs

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### *The Price is Right?*

(20 minutes)

Your customer is no longer the same person they were. Maybe they've lost income. Maybe they're more willing to pay for convenience. For this reason, it's helpful to go back to the basics. How do you decide on the right price? Remember, price communicates value.

1. What sort of factors do you need to consider in setting your price?

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2. How have new distribution and new marketing channels impacted your pricing?

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3. What do you think your new product or service is worth to your customers?

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4. How much are your customers currently paying for alternative solutions to their problem?

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5. What is your new, refocused product or service? How much do you plan to charge for it?

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## Startup Costs

Because your model is evolving in response to this major change, it's important to go back to the basics and reexamine your costs. This is also a good opportunity to see where you can streamline things or reduce overhead. **Any money, people, things, technology or activities needed to transition to your new model are your startup needs.**

### ASK YOURSELF:

- How much time do I need to dedicate to transitioning to the new model?
- What sorts of activities do I need to complete to transition?
- What will I need to buy before I can offer my new product or service?
- What can I borrow or rent initially instead of buy?
- How much can I do myself and who else needs to be involved in the transition?
- Even though some needs won't cost money, others will. How much money will you need to get started?

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### ASK YOURSELF:

- How much will I pay the people helping me to transition the model?
- How much will initial supplies cost?
- Will I need to buy or develop new technology? Equipment?
- Will I need to hire service providers (attorney, accountant, graphic designer, etc.)?

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## Ongoing Costs

Your ongoing costs include the money, people, things, technology, and activities required day to day, month to month, to keep your business running. Examples of ongoing costs include utilities, rent, and salaries.

Take a minute to think about some of your costs and needs for your business.

My Startup Costs	My Ongoing Costs

### Don't Forget Yourself!

Look back at your ongoing costs. Did you pay yourself? Unless you get paid, your business isn't sustainable. **Even if you don't have the money to pay yourself right now, it needs to be a goal. Include it in your costs.**

### Weighing the Costs

Because your costs make or break your business, it's important to identify which are essential (you've got to have them) and which are optional (it'd be nice to have them). Initially, focus on the things you absolutely have to have to make your venture work.

If something is expensive and essential, be creative. Can you accomplish the same thing for less? **Streamlining your costs and cutting where you are able could be the difference between surviving and closing.** Mission-critical costs should not be reduced, however. You could buy inferior ingredients to lower your costs, but in doing so, you would sacrifice taste and ultimately the success of your business.

## 2. Fixed vs. Variable Costs

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### *The Cost of Doing Business*

(30 minutes)

Ongoing costs can be divided in two categories – “fixed” and “variable.”

Fixed costs must be paid every month—no matter what—even if no sales are made. For example, utilities and web hosting must be paid regardless of how many units you sell. Other fixed costs include rent, insurance, and salaries.

Write your fixed costs below. Guess if you aren't sure. Do what you can to eliminate or reduce any costs that aren't absolutely necessary.

Fixed Costs: Item Description	Cost
<i>Total Fixed Costs:</i>	

While fixed costs stay about the same each month regardless of sales (although utility bill will probably vary month to month), variable costs change according to how many units you produce/sell. Your **variable costs are the amount of money it takes to produce one unit or typical offering**. The sum of your variable costs (those tied to your unit) is known as your cost of goods sold (cogs).

Variable costs help you determine your gross profit. **Gross profit is the amount of money you make on each unit after subtracting your variable costs from your price.**

Calculate your variable costs by making a list of all the costs that go into producing that product or service and getting it into the hands of your customer. **Make sure you include additional distribution costs (like delivery or online payment processing).**

Variable Costs: Item Description	Cost
<i>Total Variable Costs:</i>	

Calculate your gross profit using the following formula:

$$\text{GROSS PROFIT} = \text{PRICE} - \text{VARIABLE COSTS}$$

Typical Unit of Sale	
Price	
Variable Costs	
Gross Profit	

### 3. Redefining Your Break-Even Point

#### *Surviving the Valley of Death*

(30 minutes)

Your break-even point tells you the number of units you must sell each month to cover all your expenses. If your unit has changed and your costs have changed, your break-even point has, as well. To calculate your break-even point, divide your monthly fixed costs by your gross profit.

$$\text{BREAK-EVEN POINT} = \text{FIXED COSTS} \div \text{GROSS PROFIT}$$

The point of these calculations (or financial modeling) is to help you figure out if your new model works or not. If your first calculations don't seem realistic, don't worry. By adjusting your numbers (through cutting costs, increasing the price, or changing your offering), better models can be found.

Typical Unit of Sale	
Price	
Variable Costs	
Gross Profit	
Fixed Costs	
Break-even Point	
Work Days per Month	
Work Weeks per Month	
Units per Day	
Units per Week	