Breakeven Analysis for NFP’s

Breakeven analysis is about understanding the relationship between price, volume and costs. It can help us answer questions such as:
- Does it make sense to put on another resource?
- Can I afford higher rent for bigger premises?
- And many more.

In this webinar we will look at:
1. Classifying Costs
2. Calculating Breakeven Analysis
3. Using Breakeven Analysis for a Fundraising Event

Classifying costs

Costs are classified according to how they behave within a business:

**Fixed Costs:** are costs incurred regardless of whether you make a sale or not. It includes items such as rent, advertising, insurance, leases, wages and salaries.

**Variable Costs:** are costs that are caused by making a sale. It includes items such as direct labour, direct materials, packaging, merchant fees, commissions and more.

As our sales increase, fixed costs rise step by step whereas variable costs rise at the same level and in direct proportion to the increased product/service delivery.

The breakeven profit and loss statement starts with sales, and then subtracts the variable costs of making those sales which equals a contribution margin. The contribution margin is what is left over from each dollar of sales to cover the costs and contribute towards a profit.

Calculating breakeven point

You can calculate breakeven point in 4 steps:

1. Classify your costs as either variable or fixed.
2. Calculate your variable cost percentage: or what percentage of every sale covers your variable costs
3. Calculate the contribution margin: how much do you have left over from each dollar of sales to cover your fixed costs and generate a profit
4. Calculate your breakeven point: divide your fixed costs by the contribution margin
Using Breakeven Analysis for a Fundraising Event

Breakeven Analysis can be applied to different situations to assist with making financial decisions that impact price, volume and costs. In the example below we apply it to a fundraising event.

**The event:** Mary’s Soup Kitchen is going to run an event to raise $30,000 to purchase and install a new commercial oven. The proposed event is an outdoor dinner dance with live entertainment. The costs associated with this event include: hiring costs of the marquee, tables and chairs, decorations and band, security, food and drinks. The proposed ticket price is $275.

**The question:** How many tickets need to be sold to breakeven and raise $30,000?

**The calculation:** We’re using the 4-step calculation outlined above.

**Step 1: Classify your costs**

**Fixed costs:** are hiring costs of the marquee, tables, chairs, decorations, band and security. These come to a total of $25,000.

**Step 2: Calculate your variable cost per ticket**

**Variable costs:** are the food and drinks which come to $130 per ticket.

**Step 4: Calculate the contribution margin per ticket**

Ticket price ($275) minus the variable cost per ticket ($130) = $145 contribution per ticket.

**Step 4: Calculate the breakeven point**

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\frac{(Fixed \ costs \ + \ Targeted \ funds)}{Contribution \ Margin} = \text{Breakeven point.}
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\frac{($25,000 + $30,000)}{$145} = 380 \text{ tickets required.}
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**The answer:** Therefore 380 tickets need to be sold at the suggested $275 per ticket price to raise the targeted amount of $30,000.

Once you have established the initial breakeven point you can then explore different ticket price scenarios, which will change the contribution margin and required ticket sales to find the ideal price point for the event.

*Any information provided is of a general nature. Before making any decisions please ensure you seek appropriate professional advice to ensure it is appropriate to you.*