

How to start the financial planning process - break even analysis

For early stage companies, the best way to get started is to 'play' with the main variables of a project in order to understand how they interact and the effect on profit. These are:

- **Fixed costs and overheads** - the main costs that will be incurred regardless of sales volumes - such as staff, stationery, insurance, accountancy fees, etc.
- **Variable costs** - these are costs that vary directly in line with sales - for example the material costs to produce a widget - each widget will incur these costs, and ten widgets will incur ten lots of this cost.
- **Sales prices** - the price you expect to sell the item for, or are thinking of selling at.
- **Sales volumes** - the number of units you expect to sell, or require to sell to cover your costs.
- **Profit** - the point at which you will begin to make profit, or your target profit amount.