

## ***CFO / CEO tip***

Calculate your breakeven sales level and robustness number-

In a manufacturing business, it is very valuable to know your breakeven sales level. Often this can be a challenge due to the accounting choices. We want to try to keep it simple, so here is a fairly easy way.

### **STEP 1- CALCULATE YOUR DIRECT EXPENSES AS A PERCENTAGE.**

$\frac{\text{Direct expenses}}{\text{Sell price}} = \% \text{ variable cost}$

### **STEP 2- CALCULATE YOUR BREAKEVEN SALES LEVEL.**

$\text{Fixed costs} + \% \text{variable cost} \times \text{BES} = \text{BES}$

*You will use a decimal for the percentage and then solve for BES or your breakeven sales level.*

### **STEP 3- CALCULATE YOUR ROBUSTNESS NUMBER.**

$$\left( \frac{\text{Current sales} - \text{breakeven sales}}{\text{Current sales}} \right) \times 100 = \text{Robustness number}$$

As an example, if your sales are \$5.5M with a breakeven level of \$5.1M, your robustness number is 7.3% (.073). Meaning if your sales drop by 7.3% you will make no money.

This robustness number is a great guide for tracking your susceptibility to economic swings. It is not intended to be an exact number; think of it like your business BMI (body mass index). It is a guide and one element to your health.



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