

# 3 key questions

your co-op's financial plan will answer

- 1 will this co-op ever make money?
- 2 if so, when will it turn a profit?
- 3 how much money will we need to make that happen?

gratitude to Kate Khatib for the Simple Break-Even Exercise



## 2 A Simple Break-Even Exercise

what does your co-op sell or do to make money?

Type of Item	Retail Price	COGS	Margin	Units sold	Gross Monthly Profit
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

add the lines together to get (+) **Total Gross Profit \$**

## 1 Learn Some Key Financial Terms

- Retail Price:** the customer's price for an item
- COGS:** "cost of goods sold" is what it costs you to produce an item -- suppliers, materials, wholesale price, etc.
- Margin:** retail price minus cost of goods -- the simple profit of an item sold
- Units Sold:** how many did you sell? a unit refers to the typical way you sell them. For example, "1 dozen eggs" "1 bicycle" "1 3-pack of batteries"
- Gross Profit:** margin times the number of units sold
- Fixed Costs:** things that cost you roughly the same amount every month (for example, rent, salaries, insurance, utilities, bookkeeper, etc.

next: practice using them in a simple break-even exercise



## STEP THREE Create a Financial Plan

your co-op's story in numbers

**Break-Even?** how much does it cost to run your co-op?

**Gross Profit \$** minus (-)

**Fixed Costs \$** equals (=)

**Net Profit \$** when your "net" is zero \$, that's your break-even point

**Fixed Costs (things that will cost you roughly the same amount every month)**

Item #1	Inputs	Costs
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Item #2	Inputs	Costs
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Item #3	Inputs	Costs
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

**Find Your COGS (Production Costs)**

## 5 Ramp-up to Break-Even

add the element of time to our budget to project when our co-op will achieve our aspirational break-even point

- 1 Copy your key products or services from aspirational budget worksheet.
- 2 Estimate your co-op's sales on a monthly basis (or quarterly if that makes more sense) Don't worry if your monthly net is a negative number. It takes time to ramp up sales.
- 3 Figure out **WHY** key changes in sales occur over a period of time and write down your key assumptions in **the assumptions box** below
- 4 Make sure that your figures and your assumptions are aligned.

Monthly Gross Income	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18
<i>list key products/services</i>																		
<b>Total Gross Profit</b>																		
<b>- Total Fixed Costs</b>																		
<b>= Net Profit</b>																		

## 6 How Much Cash Does Our Co-op Need to Start?

	Ideal	Reduced	Bare-Bones
TOTAL Negative* Net Profit from Ramp-Up			
TOTAL Start-Up Budget			
TOTAL CASH NEEDED			

**Note:** Convert your **total negative net profit** to a positive number before you enter it on the form.

## 3 Our Co-op's Start-Up Budget

Things our co-op needs to have before we can start to make money

What We Need To Start	Ideal	Reduced	Bare-Bones
<i>list items here</i>	<i>list costs here</i>		
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

- 1 **Ideal:** In a perfect world, we would have all these items.
- 2 **Reduced:** The world isn't perfect! We can get by with this budget.
- 3 **Bare-Bones:** Our first few months may look different than our original plan, but it's important to us to get started at a basic level as soon as possible to test out our ideas.

## 4 Aspirational Budget Worksheet

(an exercise of financial imagination)

where do we want to be at our ideal break-even point?

**Example:** our co-op aspires to bring in enough revenue to pay the salaries of three worker-owners at \$20/hour for 40 hours a week by month 12

<b>Aspiration</b>	
<b>By When?</b>	

Income	Unit Price	- COGS = Margin	X Units Sold	= Gross Profit
<i>list key products/services</i>				
			<b>Total Gross</b>	
			<i>minus fixed costs</i>	
			<b>Total Net</b>	

- 1 **Calculate** sales for the month when you will have achieved your aspiration.
- 2 **Remember:** Fixed costs are regular monthly expenses like rent, salaries, etc.

## Assumptions

why do our numbers make sense? what assumptions are they based on?

**What are the assumptions behind your month-to-month ramp-up?**

For example:

- Do sales or prices increase or decrease? What makes that happen?
- Are there seasonal impacts that make sales go up or down?
- Are special marketing events planned that will affect sales?
- Will additional staff increase costs, but then later increase sales?

List the key assumptions behind your ramp-up here: