COSTS, MARGINS AND BREAK-EVEN

How many sales you need to cover your costs, and how to use that number to price, plan and pay yourself.

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AT A GLANCE

- Your **break-even point** is the number of sales where money coming in exactly covers all your costs. Below it you lose money. Above it you make a profit.
- To find it, you need three numbers: your **price**, your **cost for each sale**, and your **monthly costs** that don't change with sales.
- Knowing your break-even point helps you set prices, plan how much to sell, and decide when you can pay yourself.

Why it matters

Many new businesses are busy but still short on money at the end of the month. Usually the owner doesn't know how many sales it takes just to stay even. Your break-even number turns "I hope this works" into a goal you can count toward each week.

Investors and lenders also ask about it. If you can explain your break-even point in one sentence, it shows you understand your business.

How it works

Every business has two kinds of costs.

Kind of cost	What it means	Examples
Variable costs	Costs that go up with every sale you make.	Ingredients, supplies, shipping, card processing fees, gas for each job
Fixed costs	Costs you pay each month whether you sell a lot or nothing.	Rent, insurance, phone, software, loan or vehicle payments

Your **margin** is what's left from each sale after its variable costs. That leftover money is what pays your fixed costs. Once your fixed costs are covered, every extra sale is profit.

Margin per sale = Price − Variable cost per sale

Break-even sales = Monthly fixed costs ÷ Margin per sale

Always round the break-even number **up** to the next whole sale. You can't sell 8.3 car washes.

Step by step

1. **List your variable costs for one sale.** Go through everything you spend to deliver one product or job. Include card fees, which usually run about 3% of the price.
2. **Subtract them from your price.** The result is your margin per sale.
3. **Add up your fixed costs for one month.** Use real bills from your bank statements, not guesses.
4. **Divide fixed costs by margin per sale.** Round up. That's your break-even number of sales each month.
5. **Add what you want to pay yourself.** Add it to your fixed costs and divide again. This gives you a more honest target (see **M-12 Paying Yourself as a Founder**).

Example: Malik's mobile car detailing

> EXAMPLE
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> Malik runs a one-person mobile car-detailing business from his van. He charges **$150** for a full detail. These numbers are made up to show the method.

Step 1-2: Margin per job

Item	Amount
Price for a full detail	$150.00
Cleaning supplies	−$18.00
Gas to drive to the customer	−$7.00
Card processing fee (3% of $150)	−$4.50
Margin per job	**$120.50** (about 80% of the price)

Step 3: Monthly fixed costs

Fixed cost	Per month
Van payment	$450
Insurance	$180
Phone and booking software	$60
Marketing	$200
Saving for equipment repairs	$110
Total fixed costs	**$1,000**

Step 4: Break-even

$1,000 ÷ $120.50 = 8.3, so Malik needs **9 jobs a month** just to cover his costs.

Step 5: Paying himself

Malik wants to pay himself $3,000 a month. That raises his target: ($1,000 + $3,000) ÷ $120.50 = 33.2, so he needs **34 jobs a month**, or about 8 a week.

What if Malik changes his price?

Price per detail	Margin per job	Jobs to break even	Jobs to also pay himself $3,000
$120	$91.40	11	44
$150 (today)	**$120.50**	**9**	**34**
$175	$144.75	7	28

> KEY POINT
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> Cutting the price by 20% (from $150 to $120) means Malik needs about **30% more jobs** to earn the same pay. A discount has to bring in a lot more customers to be worth it. See **M-07 Pricing Your Product or Service** before you lower prices.

A quick tech example

Priya sells a scheduling app for **$15 a month** per customer. Each customer costs her about $2.00 a month in hosting and support, plus about $0.75 in payment fees, so her margin is **$12.25**. Her fixed costs (tools, contractors, marketing) are $3,000 a month. $3,000 ÷ $12.25 = 244.9, so she needs **245 paying subscribers** to break even. For subscription businesses, also track how long customers stay, which **M-09 Unit Economics: What Each Customer Is Worth** explains.

Common mistakes

- **Leaving out small costs.** Card fees, packaging and gas look tiny, but they come out of every single sale.
- **Forgetting to pay yourself.** A business that only breaks even when the owner works for free hasn't really broken even.

- **Using a "good month" as normal.** Plan with an average month. If your sales change with the seasons, plan for the slow months.
- **Mixing up margin and profit.** Margin is what's left from one sale. Profit is what's left after all costs, fixed costs included.
- **Calculating it once.** Recheck your break-even point whenever your prices, rent or supplier costs change.

Your checklist

- ☐ List every variable cost for one sale, including card fees
- ☐ Calculate your margin per sale
- ☐ Total your fixed costs from last month's real bills
- ☐ Calculate your break-even sales and round up
- ☐ Add your own pay and calculate your real target
- ☐ Turn the monthly target into a weekly goal
- ☐ Put a reminder on your calendar to recheck it every 3 months

Key words, explained

Word	What it means
Variable cost	A cost that goes up each time you make a sale.
Fixed cost	A cost you pay every month no matter how much you sell.
Margin (per sale)	What's left from one sale after its variable costs. Also called contribution margin.
Gross margin	Your margin shown as a percentage of the price. Malik's is about 80%.
Break-even point	The number of sales where money coming in equals all your costs.
Profit	What's left after every cost, fixed and variable, is paid.

More terms: **S-10 Business Words Made Simple: Glossary A–Z**.

Where to go next

- **M-15 Break-Even Calculator**: a fillable worksheet that does this math for you.
- **M-07 Pricing Your Product or Service**: how to set prices with confidence.
- **M-09 Unit Economics: What Each Customer Is Worth**: how much each customer is worth over time.
- **M-06 Cash Flow: Why Profitable Businesses Still Run Out of Money**: why you can be profitable and still run short of cash.
- **M-04 Reading a Profit and Loss Statement**: where these numbers show up in your financial statements.

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