Break Even Analysis

Nicola Lamprecht

20th Jan 09

D.Shahrezaey
0703123

Q 1: The first way in which HMV generates sales revenue is through the sale of good in store like CDs, books and DVDs. This is the main front runner in sales, creating large profits in the millions especially when new CDs and DVDs are released.

Secondly HMV makes sales revenue is through online music, movie and game downloads. But they are not a very big competitor in this market as of yet as their downloads cannot be put onto apple MP3 players which are the main MP3 players and they only started this store in 2005 compared to iTunes which was released for customers to use on the 9th of January 2001 making a 4year difference over the competitor.

Thirdly they sell all their products, books, CDs and DVDs and more in their new offshore Internet fulfilment facility in Guernsey, as it is a recognized tax -haven. Under European law, retailers that operate outside the European Union can sell products valued at less than £18 to customers in member states without charging VAT which is why they moved them selves to the channel island and with the money they save on VAT, and being close enough to the UK they offer free postage being a perk of the online store.

Finally, HMW group own the Waterstones book store which generate sales revenue for them through selling all genres of books and audio CDs. HMV group confirmed record sales of £564.3m in the year to 26th April, representing year-on-year growth of 5% and like-for-like growth of 3.3%. Last year it reported a drop in full-year like-for-like sales of 4.1%. But due to them building a new distribution hub/warehouse costing 1.6m their profits are still at, but down to 16.3m.

Q2:

a) Start-up Costs

b) Five types of cost incurre d when opening a new store, especially a big retail chain would include, Cost of premises (either bought or rented), shop-fitting (which can go into the million very easily), staff training, purchasing the initial stock which required deep pockets and fin ally premises insurance which for a big store with thousands of people coming in and out all day would be very expensive as England seems to be catching up with the USA when it comes to suing everyone and everything possible!

c) Five other long run cos ts (once the shop has opened) would include such things like, Shop security as the products which a big music store sell are very desirable to thieves as they are small, easy to conceal and even easier to sell on. Electricity, gas and water bills will run into the thousands each month as music stores usually have very bright lighting on 24/7 and loud music playing during the stores opening times. Wages for all the staff would have to be paid out on time every month as these staff members are what is keeping your shop going; they are the sellers and staff who generates your sales revenue and profit in the long run.

Rental of the premise Is one of the main money grabbing parts of opening a new store. If bought outright, then you will probably have a mortgage repayment and plenty of refurbishment and upkeep costs to contend with, but when you rent this is up to the landlord to keep this under control and there is no initial mega cost to fork out. In store security equipment to work along side of the staff and especially security would consist of door alarms, CCTV and tagging all expensive individual items with security tags and magnetic strips.

d) The importance of cost to a business is essential if they are looking to make a decent profit and maximise the sal es revenue and income. Lower the buying price, increasing the % of profit and thus increasing sales revenue leading to greater profit in the long run. Most of the costs in a business consist of trying to generate sales, like, increasing advertising to let the public know what is that you do, sell and want them to buy. Product awareness is a part of advertising also. Training the staff in the manor of personal selling and the closing of a sale is all well, but when you are running a shop like HMV with thousands of customers per day and most of them know what they have come into store for and need very little help then it is just not viable to spend money in personal selling, when they could be training staff to us till, deal with customer complaints and offer ing refunds.

Costs along with creating a predicted costing graph and table along with an good idea of what they are looking to spend is crucial in stopping the store going off track and spiraling out of control.

Q3

a) Table:

	26 Weeks to 29/10/2005 £	**26 Weeks to 23/10/2004 £**
Operating Profit	2,800,000	15,700,000
Profit Before Tax	200,000	10,500,000

b) The gross profit is represented by my "Operating Profit" and my net profit is represented by "Profit before Tax."

c) The difference between gross and net profit is that: #

Gross Profit is the difference between what an item sells for, and what it costs you. So, if you have an item selling for £10, and you paid a £5 for it, your gross profit is £5.

Net Profit is the money left over after all expens es have been paid including tax amongst other things. You have to subtract companys total expenses from total revenue thus showing how much a company has earned (or lost) usually in the space of a year.

d) The importance of profit to a company like HMV i s crucial to its success. As HMV has been a company for nearly 100years now I am sure it recognized the importance of a good profit in keeping its operations running smoothly. All profit that HMV generates is from sales of media products, books and other smaller lines like apple equipment and games.

Task 2:

Fixed Costs: £100,000
Variable Costs: £20
Selling Cost: £30
Break Even Point: 10,000 Treatments P.A

a) Using the formulae (Fixed Costs (over) Contribution Per Unit), I was able to work out that

$$\frac{£100{,}000}{(£30 - £20) = £10} = 10{,}000 \text{ treatments}$$

Output	**Total Revenue**	**Total variable Costs**	**Total Fixed Costs**	**Total Costs**
5,000	150,000	100,000	100,000	200,000
10,000	300,000	200,000	100,000	300,000
20,000	600,000	400,000	100,000	500,000

b) If Gillian was to work a 5day week every week for a whole year I would advise Gillian to perform over 38treatments a day every day for her working week to produce a profit.

5days a week = 260 working days in a year
260wd divided by 10,000 treatments = 38.04 treatments a day just to break even.

If she were to make a profit in her business, she would have to perform over 38 treatments per day ever day or an average of 39 per week if all was added together.