

## QUESTION #3 – CAN THIS VENTURE BE PROFITABLE?

*First, determine the break-even in sales*

1. Calculate all the business expenses you'll pay on a monthly basis including a salary for yourself.
2. Calculate the variable costs percentage.
3. Divide fixed monthly costs by the gross margin

Fixed Monthly Payments	FITNESS CENTRE	RETAIL CLOTHING	WATER TRUCK
Loan Payment	\$4,880	\$1,860	\$1,955
	\$460	\$175	\$275
<b>Bookkeeping</b>			
Bank Charges	\$410	\$50	\$50
Credit Charges	\$205	\$365	\$0
Insurance	\$500	\$120	\$435
Legal Fees	\$125	\$60	\$20
Licenses / Taxes	\$150	\$10	\$10
Marketing	\$425	\$845	\$125
Membership Fees	\$860	\$0	\$0
Office Supplies	\$75	\$25	\$25
Rent	\$3,500	\$3,000	\$0
Repairs & Maintenance	\$160	\$0	DC
Security	\$0	30	\$0
Shop Supplies	\$75	\$0	\$0
Telephone / Internet	\$270	\$200	\$200
Utilities	\$0	\$120	\$0
Wages – Other Staff	\$3,735	\$1,630	\$3,630
Wages – Yours	\$3,000	\$2,310	\$4,200
WCB	0	\$65	\$460
<b>Total Monthly Fixed Payments</b>	<b>\$18,830</b>	<b>\$10,865</b>	<b>\$11,385</b>

Direct Costs (as a %)	FITNESS CENTRE	RETAIL CLOTHING	WATER TRUCK
Product (Inventory)	1.5%	60%	0%
Contractors	7.7%	0%	0%
Fuel / R&M / Travel	0%	0%	22%
Total CGS	9.2%	60%	22%
<b>GROSS MARGIN</b>	<b>90.8%</b>	<b>40%</b>	<b>78%</b>

Break Even in Monthly Revenues	FITNESS CENTRE	RETAIL CLOTHING	WATER TRUCK
A. Fixed Payments	\$18,830	\$10,865	\$11,385
B. Gross Margin	90.8%	40%	78%
<b>A ÷ B = Revenues Required to Cover All Costs</b>	<b>\$20,740/month</b>	<b>\$27,163/month</b>	<b>\$14,600/month</b>
	<b>\$248,880/year</b>	<b>\$325,950/year</b>	<b>\$175,200/year</b>

**Second, determine what the total revenues are that potentially exist within the market area for your business.**

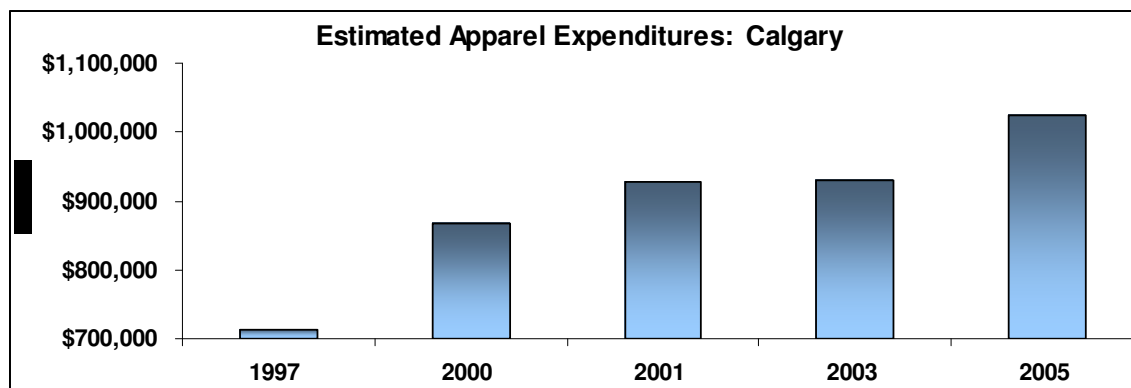
## **MARKET RESEARCH**

1. INDUSTRY PROGNOSIS - Are sales increasing / decreasing?
  - If sales are decreasing, do you really want to enter this business?
  
2. TARGET MARKET
  - Who is the buyer?
  - What are they like (rich, educated, etc)?
  - How many of them are in the area?
  - On average, how much money do they spend annually purchasing your product / service?
  - How often do they purchase?

## **RETAIL CLOTHING STORE EXAMPLE**

### **Calgary Clothing & Accessories Market**

Extrapolated to 2005, the total clothing market in Calgary is estimated at \$1 billion<sup>1</sup>; and includes expenditures for men, women, and children. The Calgary retail clothing industry has experienced significant growth – an estimated 44 percent from 1997 to 2005 or 5.5 percent per year . Two variables explain this significant growth; first, expenditures on clothing per household has increased by 15.5 percent, and the number of Calgary households increased by 24.5 percent.



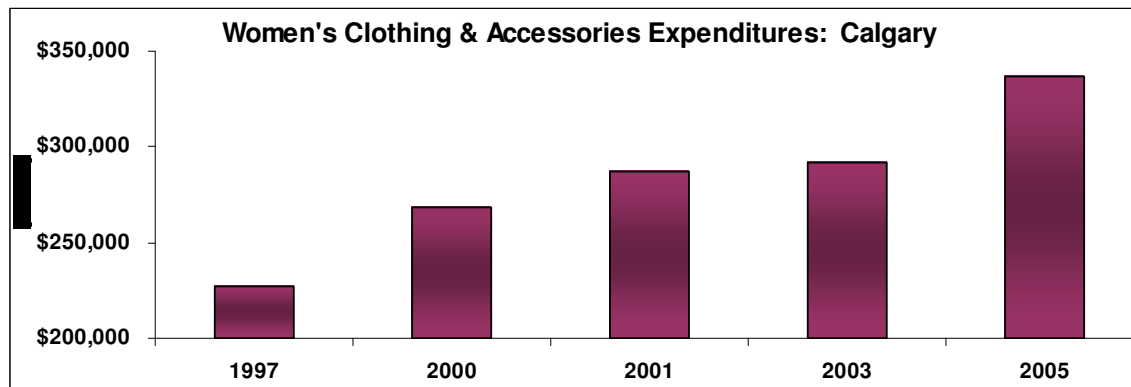
Source: Statistics Canada:

The total 2005 clothing & accessories expenditure for women in Calgary is approximately \$336.5 million<sup>2</sup>. This expenditure increased by 48 percent over eight

<sup>1</sup> Source: Statistics Canada – it is estimated that household spending on all clothing is \$2,835 annually and as of 2005, there were 361,071 dwellings in Calgary;

<sup>2</sup> Source: Statistics Canada – it is estimated that household spending on women's clothing is \$932 annually, and as of 2005, there were 361,071 dwellings in Calgary;

years (1997 to 2005) for an average annual growth of six percent. Refer to appendix three for household spending details. Refer to the following graph for trend illustration.



Source: Statistics Canada:

This business' buyers are primarily female adults (ages from 25 to 40 years). In Calgary, there are approximately 163,500 women in that age category whom comprise of 33 percent of all females in Calgary. Therefore, the total clothing & accessory market for women between the ages of 25 to 40 in Calgary is estimated at \$111 million (\$336.5 million x 33%) annually.

**Third, now that you know the total potential revenues within your market, is there room for your business to enter?**

Two final areas to evaluate before determining your business' revenue forecast:

### 3. MARKETING

- Will your business need to engage in advertisement, public relations, promotions, website design, etc to attract buyers?
- If so, what activities will you engage in, when & how often, and what is the cost each time?
- If your business requires a marketing strategy and you do not implement one – chances are, you will not attract customers and therefore, your business will not produce any sales / revenues.

### 4. COMPETITION

- How many businesses are there?
- What differentiates your business from theirs – in other words, why are their buyers going to switch & start purchasing from your business (price / quality / location / selection / availability / etc)

*RETAIL CLOTHING EXAMPLE*

Total estimated market revenues for clothing in Calgary:	\$1,023 billion
Total number of apparel retail stores in Calgary:	673
Potential revenue / clothing establishment:	\$1.5 million

*Fourth, determining forecasted revenues for your business...*

So we've learned that potential revenues for a business depends on a variety of factors

- ∞ Market Size
- ∞ Number of Competitors
- ∞ Entrepreneurs' knowledge & expertise
- ∞ Location / Vicinity
- ∞ Production Capacity
- ∞ Promotional Campaign
- ∞ Price of Service / Product
- ∞ Quality of Service / Product
- ∞ Customer Service
- ∞ Amount of Inventory Available

**To name a few.... every business is different!**

	<u>Fitness Centre</u>	<u>Retail Clothing</u>	<u>Water Truck</u>
<i>Key Revenue Driver</i>			<i>Contract</i>
	<i>% of market</i>	<i>Inventory Turnover</i>	
Total Potential Market		\$1 million	
Percentage of Market (4 centers in area) - 25%			
<b>Forecasted Revenues:</b>		<b>\$250,000</b>	
Inventory Amount			\$75,000
Average Industry Turnover Rate (CGS / Average Inv)			3 Times
Cost of Goods (\$75,000 x 3)			\$225,000
Average Industry Gross Margin (Women's Clothing)			40%
<b>Forecasted Revenues (\$225,000 ÷ 60%)</b>			<b>\$375,000</b>
<b>Contract -- \$85/hour x 80 hours/week x 40 weeks</b>			<b>\$272,000</b>

Revenues to Breakeven	\$248,880	\$325,950	\$175,200
Forecasted Revenues	\$250,000	\$375,000	\$272,000
<b>Margin of Error</b>	<b>\$1,120</b>	<b>\$49,050</b>	<b>\$96,800</b>
Conclusion: There is room for entry for all three businesses; however, some are riskier than others – which business would you prefer to have?			