

Name:

Date:

Class:

## Improving Business Profitability

### Calculate Unit Economics and Break-Even Point

*After speaking with the owner about their financials, they say the maximum number of vases they can produce each month is 60, which is five units less than their current break-even point. You know this means they will never be able to earn a profit unless they take action to reduce their monthly fixed expenses or improve their contribution margin. After explaining this to the business owner, they have granted you permission to recommend strategies to cut their costs and improve the business's potential to be profitable.*

#### Part 1—Recommendations to Improve Profitability

Your first thought is to shop around for a new location. There are additional vacant shops in town available to rent. One is on the outskirts of town with no foot traffic for \$750 a month. It will fit all equipment but only has room for production operations and a very small selling area. The other option is similar to the current store for \$1,500 a month, but with less foot traffic, as it is a short walking distance from the town square. The utilities will remain the same for all locations. The insurance is \$100 per month for the location on the outskirts of town and \$170 for the location a few blocks from the town square.

1. Considering all factors, prepare a list of five recommendations the business owner should implement to improve their finances. For each recommendation, explain how it will adjust the business's expenses, be feasible to implement, and will improve profitability. (Use the Internet to search real-life suppliers or providers who may offer better pricing. If found and used as a recommendation, provide the link.)

a.

Answer:

b.

Answer:

c.

Answer:

d.

1

Answer:

e.

Answer:

**Part 2—Recalculating Unit Economics and Break-Even Point**

1. Assuming all recommendations are approved by the business owner to implement, recalculate the unit economics, including the contribution margin, and break-even point for the pottery business.

Answer: