

Business fundamentals

▶ completing income statements

▶ producing a breakeven analysis chart

Glossary PAGE 148

cost of goods sold
fixed cost
operating profit
plot
royalty
sales revenue
variable cost
wholesaler

Breakeven analysis

Reading

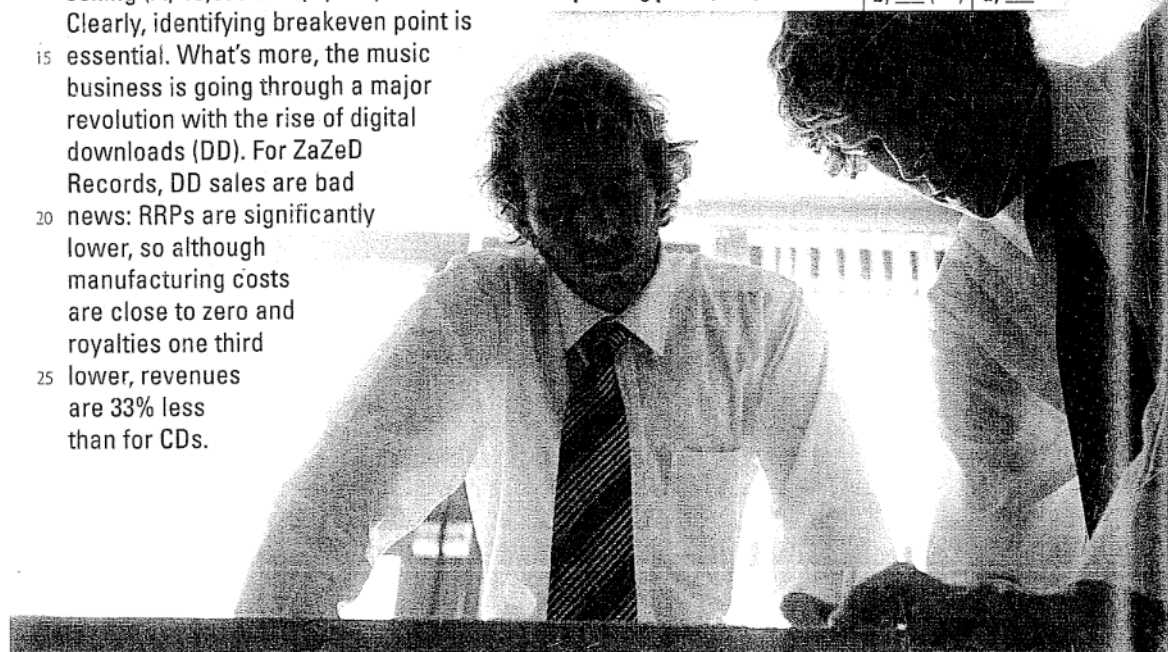
1 Read the article and complete figures a–d in income statements A and B.



Zak and Zeb Duchovny started their own independent record label five years ago. ZaZeD

Records receives around half of a CD's €15 recommended retail price (RRP) from wholesalers, who then sell on to record stores at around 60% of RRP. Choosing the right music is critical: income statements A and B illustrate the difference between selling (A) 10,000 and (B) 100,000 records. Clearly, identifying breakeven point is essential. What's more, the music business is going through a major revolution with the rise of digital downloads (DD). For ZaZeD Records, DD sales are bad news: RRP's are significantly lower, so although manufacturing costs are close to zero and royalties one third lower, revenues are 33% less than for CDs.

| ZaZeD Records Income statement (figures in €K) | A | B |
|---|-------------------|---------------|
| Sales revenue | 75 | 750 |
| <i>Less variable costs</i> | | |
| Cost of goods sold | 6 | 60 |
| Promotion | 7.5 | 75 |
| Artists' royalties | 10 | 100 |
| Mechanical royalties | 6 | 60 |
| Total variable costs | a) ___ | c) ___ |
| <i>Less fixed costs</i> | | |
| Salaries, rent, utilities, etc. | 150 | 150 |
| Operating profit (loss) | b) ___ () | d) ___ |



2 Draw a breakeven analysis chart with € on the vertical axis from 0 to 750, and sales on the horizontal axis from 10K to 100K. (See the example on page 119.) Enter the following information:

- 1 Draw a horizontal line representing ZaZeD Records' fixed costs.
- 2 Plot the sales revenues for turnover of a) 10,000 and b) 100,000 albums and draw a straight line connecting these two points.
- 3 Plot the total for fixed plus variable costs for turnover of a) 10,000 and b) 100,000 albums and draw a straight line connecting these two points.
- 4 With a partner, calculate the same revenues and costs for digital downloads rather than CDs. Using another colour, draw lines for DD revenues and total costs on the chart.
- 5 Draw vertical lines from the horizontal axis to the points where the revenue and total costs lines cross to identify the respective breakeven points.

Discussion

3 In small groups, discuss the questions.

- 1 What sort of questions does a breakeven analysis provide answers to?
- 2 What are the implications of the trend towards digital downloads for record labels, artists, composers and consumers?