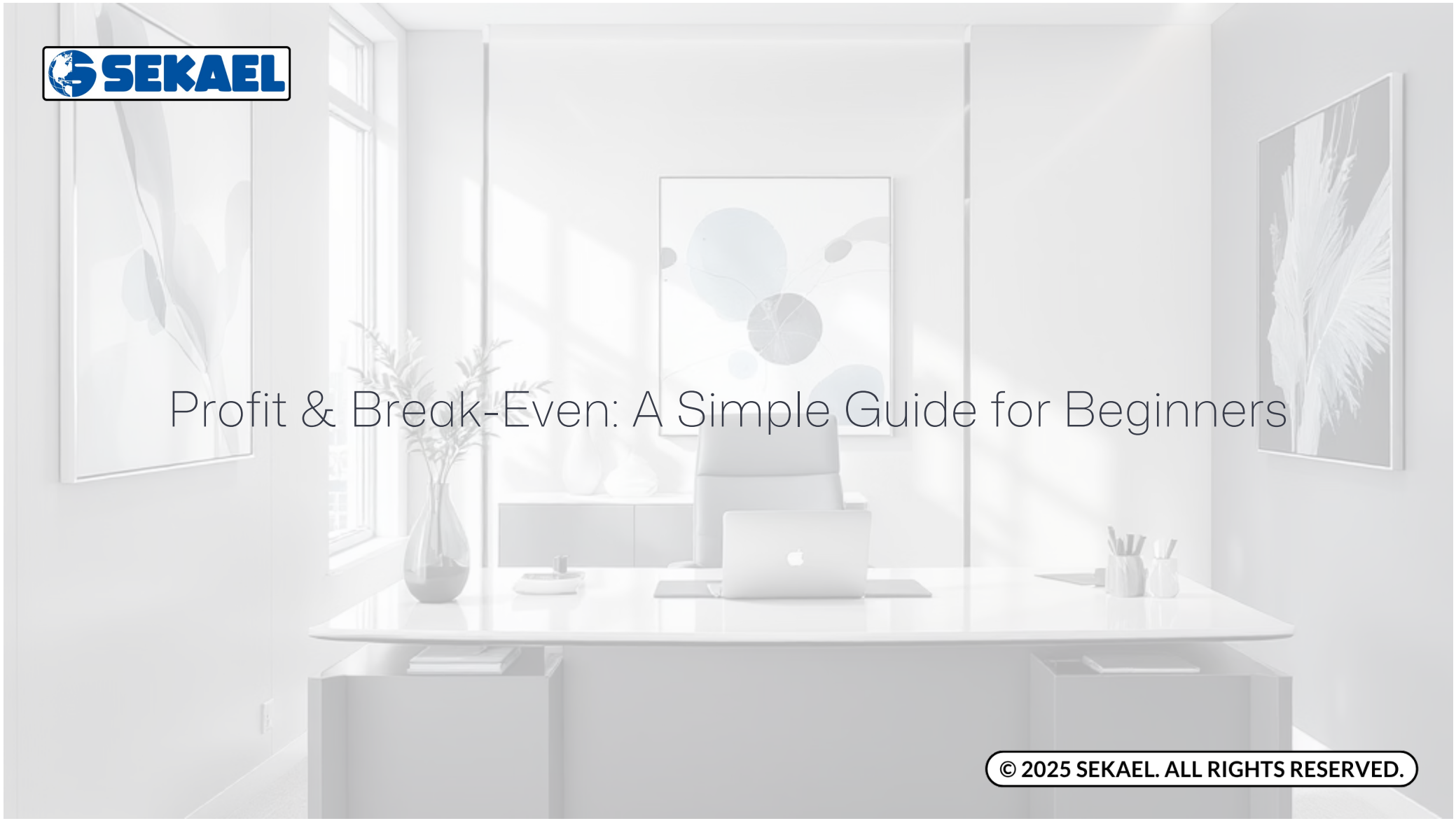

Profit & Break-Even: A Simple Guide for Beginners

Welcome

This guide covers the most important topic for any entrepreneur, new or experienced. ***"Will this business make money?"*** *This simple question is the foundation of every business plan, every investment, and every entrepreneurial dream. Answering it is the difference between having a business and having an expensive hobby.*

This guide will teach you how to answer that question. We will cover the two most critical concepts for your financial survival: ***Profit*** *(how you measure your success) and the* ***Break-even Point*** *(the exact sales target you must hit just to stop losing money).*

What Makes This Guide Different?

This isn't your typical accounting guide. The best way to learn is by seeing how principles apply to real people and real-world situations. Here's what you will learn exclusively in this guide:

Learn Through Relatable Scenarios

Forget dry, generic examples. You'll learn by seeing how a break-even point is calculated for tangible business ideas—like Jenelie's healthy salad kitchen, Pat's e-commerce store for press-on nails, and Cris's freelance web design service.

Gain a Unique 3-Country Perspective

Master the practical differences in business costs and structures in Japan, the USA, and the Philippines. This guide provides a side-by-side comparison you won't find elsewhere, showing you exactly how high fixed costs in Japan, flexible labor in the US, and critical infrastructure costs in the Philippines completely change your path to profitability.

Master Calculations (Even If You Dislike Math)

Every calculation is broken down into simple, step-by-step instructions. We avoid complex algebra and instead focus on a simple, intuitive concept called the "Contribution Margin." You'll see exactly how to find your "magic number" and calculate your break-even point without feeling overwhelmed.

Avoid Common Business-Ending Mistakes

Learn about the most common errors beginners make—like misclassifying costs, forgetting "hidden" fees, or confusing profit with the cash in your bank account (a fatal error, especially with VAT)—and how you can avoid them from the start.

Section 1

What is Profit?

Profit is the ultimate scorecard for a business. In the simplest terms, it's the money left over after you've paid all your bills. It's a simple measurement of how efficiently a business is making money. The golden rule of all business is this simple formula:

Profit = Revenue − Expenses

Revenue

*This is all the money your business **collects** from its activities, primarily from selling products or services. If you sell 10 salads for ₱100 each, your Revenue is ₱1,000.*

Expenses

*This is all the money your business **spends** to operate and generate that revenue. This includes everything from the cost of the lettuce and chicken (ingredients) to your kitchen rent, your staff's salaries, and your Facebook marketing budget.*

This formula is universal. It works the same in Tokyo, Manila, and New York. The only things that change are the specific local rules about what counts as a tax-deductible "expense" and, of course, the tax rates themselves.

Section 2

The "Staircase" of Profit

(Types of Profit)

"Profit" isn't just one number. It's best understood in stages, like a staircase. Each step down tells a different, important part of your business's story.

Step 1: Gross Profit

Gross Profit = Revenue − Cost of Goods Sold (COGS)

- ***COGS*** *is the* ***direct cost*** *of creating the product or service you sold.*
- *For a* ***product*** *business (like Pat's nails), COGS is the raw materials (gel, nails, glue) and packaging.*
- *For a* ***service*** *business (like Cris's design), COGS might be the cost of the stock photos or software plugins used* ***only*** *for that specific client's project.*
- ***What this tells you:*** *Is the product* ***itself*** *profitable? Before you pay rent or marketing, does selling one unit make you money? High gross profit is healthy.*

Step 2: Operating Profit

Operating Profit = Gross Profit − Operating Expenses (SG&A)

- ***Operating Expenses*** *(or SG&A: Selling, General & Administrative) are all the costs to keep the business running, even if you don't make a sale.*
- *Examples include rent, employee salaries, utilities (electricity, internet), marketing budgets, and software subscriptions.*
- ***What this tells you:*** *Is the* ***core business operation*** *profitable? This is one of the most important numbers. It shows if your business model actually works day-to-day.*

Step 3: Earnings Before Tax (EBT)

Earnings Before Tax (EBT) = Operating Profit ± Non-Operating Items

- *This is an important step that is often overlooked. It separates your* **business** *performance from your* **financing** *performance.*
- *"Non-Operating Items" include things like interest paid on a business loan (an expense) or interest earned from a company bank account (income).*
- ***What this tells you:*** *This is the total profit the company made* **before** *the government takes its share.*

Step 4: Net Income

Net Income = Earnings Before Tax (EBT) − Income Taxes

- *This is the famous "bottom line." It's the final, official profit (or loss) that the company has left over after* **everyone** *has been paid, including the government.*
- ***What this tells you:*** *This is the money that can be reinvested into the business (to buy new equipment, hire more people, or expand) or, in some cases, paid out to the owners.*

Section 3

What is the Break-even Point?

This is one of the most critical, powerful, and motivating numbers you will ever calculate.

> *The **Break-even Point** is the exact amount of sales you need to cover all your costs. It's the specific target where your total profit is exactly **zero**. You're not losing money, but you're not making any money either. You are perfectly "breaking even."*

If your sales are below this point, your business is losing money (in the red). If your sales are above this point, your business is making money (in the black).

An Easy Way to Think About Break-even (for Math Beginners)

Forget complex algebra. The easiest way to understand break-even is with a simple idea called ***Contribution Margin****.*

> Contribution Margin = Sales Price per Unit − Variable Cost per Unit

Think of it this way: When you sell one product, a chunk of that sales money ***immediately*** *goes to pay for the (Variable) cost of making it. The money* ***left over*** *is the "contribution." This leftover piece is what is available to "contribute" to paying your big pile of (Fixed) costs, like rent.*

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Let's use an example:

Jenelie sells a healthy salad for ₱250.

The ingredients and packaging (Variable Costs) cost ₱175 per salad.

*The **Contribution Margin** is: ₱250 (Price) - ₱175 (Variable Cost) = **₱75**.*

> *This **₱75** is your magic number. It's the "profit engine" of your product. It's the amount of pure profit from one salad that you can now use to pay your fixed costs (like rent and salaries).*

Calculating Break-even in (Units):

Now, the question is simple: "How many ₱75 'contributions' do we need to pile up to pay for all the fixed costs?"

The formula is:

> Break-even (in Units) = Total Fixed Costs ÷ Contribution Margin per Unit

Let's say Jenelie's fixed costs (kitchen rent, basic salary, internet) are ***₱9,000*** *per month.*

- *Break-even = ₱9,000 (Fixed Costs) ÷ ₱75 (Contribution Margin) =* ***120 salads****.*
- *This is a crystal-clear, actionable goal. Jenelie* ***must*** *sell 120 salads in a month just to pay her bills. The 121st salad she sells is her first bit of actual profit.*

Calculating Break-even (in Sales Revenue):

Sometimes you want to know the target in dollars or pesos, not units.

01

Find the Contribution Margin Ratio

Contribution Margin Ratio = Contribution Margin per Unit ÷ Sales Price per Unit

(e.g., ₱75 ÷ ₱250 = 0.30, or 30%)

This percentage (30%) simply means that for every ₱1.00 of sales, 30 centavos are left over to "contribute" to fixed costs.

02

Use this formula

Break-even (Sales Revenue) = Total Fixed Costs ÷ Contribution Margin Ratio

Break-even = ₱9,000 ÷ 0.30 = ***₱30,000****.*

This is the exact same result! (120 salads × ₱250/salad = ₱30,000). It's just two ways of seeing the same target.

Key Definitions:

Fixed Costs (FC)

These are expenses that do not change no matter how much you sell. You have to pay them even if you sell zero.

Examples: *Monthly rent, employee salaries, insurance, monthly software subscriptions (like Adobe or Shopify).*

Variable Costs (VC)

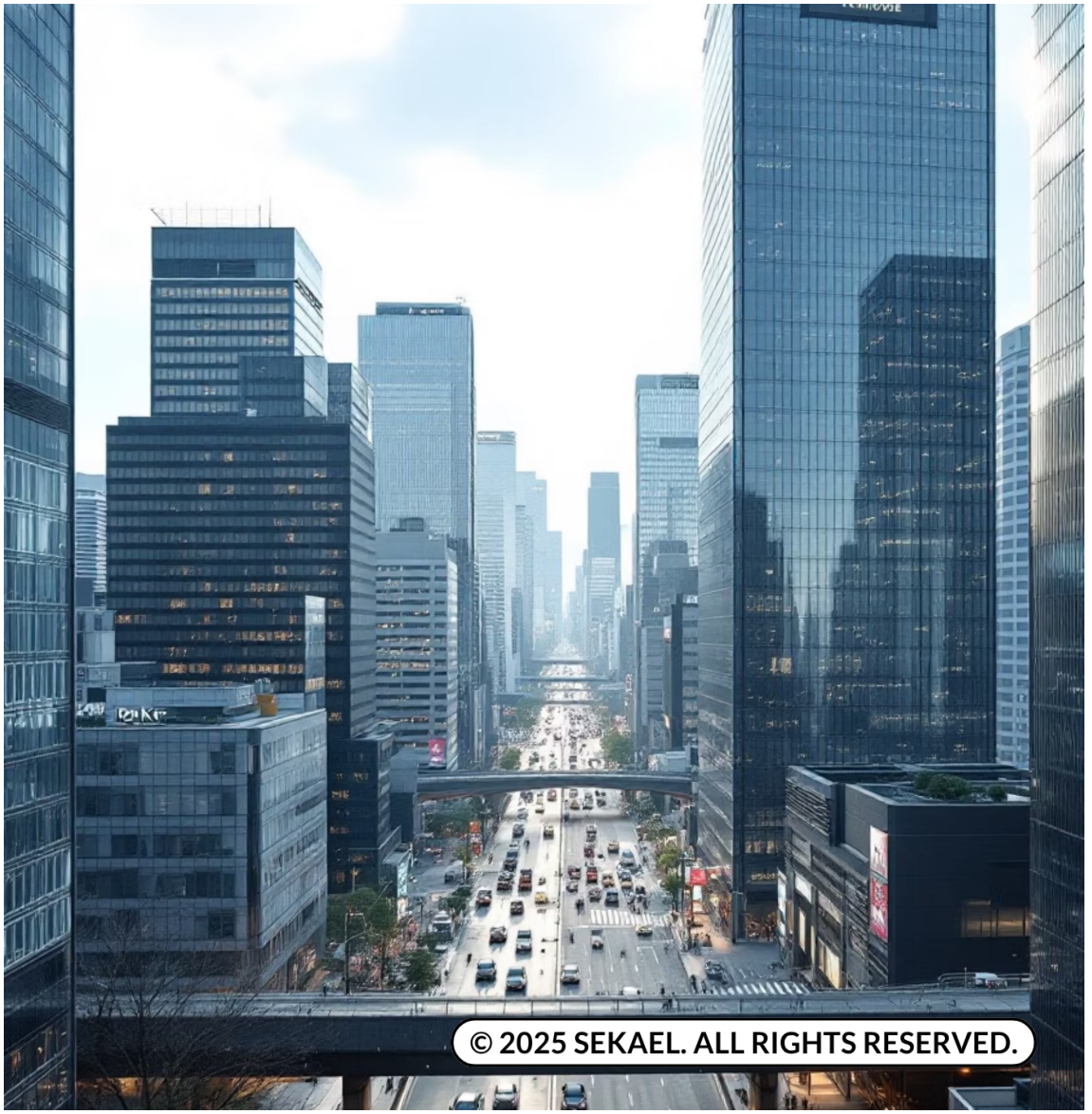
These are expenses that do change directly with each sale. If you sell more, these costs go up.

Examples: *Raw materials, ingredients, packaging, shipping, sales commissions, and credit card processing fees (e.g., ~2.9% of the sale).*

Section 4: Country Focus

Japan

- ***High Fixed Costs:*** *This is a defining feature of many traditional Japanese businesses. Commercial rent in major cities is high, and the cultural expectation of lifetime employment often means that employee labor acts as a* ***fixed cost****, not a variable one.*
- ***High Break-even Point:*** *This is the direct result. Because the "mountain" of fixed costs is so high, companies need to achieve massive sales volume (sell many units) just to get to profit.*
- ***Strategic Implication:*** *This high-fixed-cost model creates high* ***leverage****. In a booming economy, once the break-even point is passed, profits can rise incredibly fast. However, in a recession or a downturn, the company becomes vulnerable to heavy losses very quickly. There is strong (and growing) pressure in Japan to improve profit margins and shift more costs from fixed to variable.*



Section 5: Country Focus

The United States

- ***Flexible Labor:*** *This is a major structural difference. The rise of the "gig economy" and a heavy reliance on freelancers, contractors, and outsourcing makes it much easier for companies, especially startups, to treat labor as a* ***variable cost****. You hire a designer (variable) instead of* ***hiring*** *a designer (fixed).*
- ***Lower Break-even Point:*** *Because fixed costs can be kept lean, a company can often become profitable with a much lower sales volume. This allows for rapid market entry and testing of new ideas.*
- ***Investor Focus on EBITDA:*** *This term is common in the US business world.* ***EBITDA*** *= Earnings Before Interest, Taxes, Depreciation, and Amortization. Investors and banks use it as a way to compare the* ***core operational profitability*** *of different companies. It strips out decisions about financing (Interest), government rules (Taxes), and non-cash accounting quirks (Depreciation & Amortization) to get to a "pure" operations number.*

Section 6: Country Focus

The Philippines

- ***Rising Labor Costs:*** *While historically low, consistent minimum wage adjustments and inflation (as of 2025) mean that labor is a rapidly increasing fixed cost that must be carefully managed in any business plan.*
- ***High Infrastructure Costs:*** *These are a real and significant challenge. Electricity and internet services are often substantially more expensive than in the US or Japan. This directly increases a business's fixed costs and reduces its operating profit, making it harder to compete.*
- ***Tax System:*** *The corporate tax rate (25% for regular corporations, 20% for smaller SMEs under the CREATE Act) is straightforward.*

Important Note: Cash Flow vs. Profit

The 12% Value Added Tax (VAT) is a critical concept for beginners. VAT is **not** *revenue and* **not** *an expense. It does not affect your profit calculation. It is a tax you collect* **from your customer** *on* **behalf of the government***.*

Example:

You sell a product for ₱112. In reality, ₱100 is your ***Revenue*** *and ₱12 is the* ***VAT*** *you are temporarily holding. That ₱12 never belonged to you.*

This massively impacts ***cash flow****. If you mismanage that cash and spend it, you will be in serious trouble when it's time to pay your tax bill. A business can be profitable on paper but forced to close because it has no cash.*

Section 7

Break-even Point Calculation Examples

Let's use our team!

Example 1: Patricia's Creative Studio (Philippines)

Business: *Pat's e-commerce store for handmade press-on nail kits.*

- ***Fixed Costs (Monthly):*** *₱4,500 (Shopify plan, marketing tools, internet)*
- ***Sales Price per Unit:*** *₱700 (Per kit)*
- ***Variable Cost per Unit:*** *₱350 (Raw materials, packaging, shipping)*

01

Find the Contribution Margin

₱700 (Price) − ₱350 (Variable Cost) = ***₱350 Contribution Margin per kit****.*

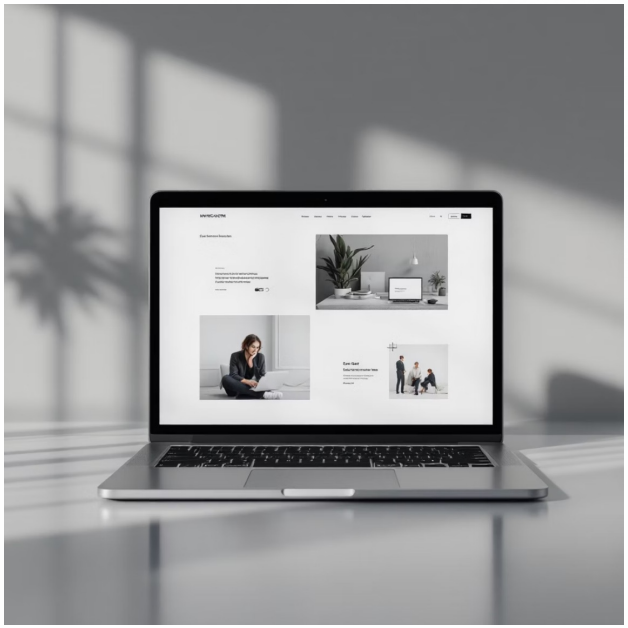
This ₱350 is the "profit engine." It's what Pat has left from each sale to pay her ₱4,500 in fixed costs.

02

Calculate Break-even (in Units)

₱4,500 (Fixed Costs) ÷ ₱350 (CM per kit) = ***12.85 kits****.*

Takeaway: Pat can't sell 0.85 of a kit, so she must sell ***13 kits*** *per month to cover her costs. Her 14th kit will be her first sale that generates a true profit.*



Example 2: Cris's Digital Services (Philippines)

Business: Cris's freelance website design service.

- ***Fixed Costs (Monthly):*** *₱17,000 (Internet, design software, co-working pass)*
- ***Sales Price per Unit:*** *₱50,000 (Per project)*
- ***Variable Cost per Unit:*** *₱9,000 (Stock photos, paid plugins, writer fees)*

01

Find the Contribution Margin

₱50,000 (Price) – ₱9,000 (Variable Cost) = ***₱41,000 Contribution Margin per project****.*

This is the power of a service business! The contribution margin is extremely high for each sale.

02

Calculate Break-even (in Units)

₱17,000 (Fixed Costs) ÷ ₱41,000 (CM per project) = ***0.41 projects****.*

Takeaway: Cris doesn't even need to sell ***one full project*** *to cover her entire month's fixed costs. She breaks even less than halfway through her first project, and the rest is profit.*

Section 8

Strategic Application by Country

The break-even number tells you what to focus on. A CEO in each country might ask:

Japan

"Our break-even is too high. How can we lower our fixed cost base? Can we renegotiate rent or automate tasks to reduce our reliance on fixed labor?"

America

"Our break-even is low. How do we scale our sales faster than our fixed costs? How can we use variable-cost labor to test 10 new markets at once?"

Philippines

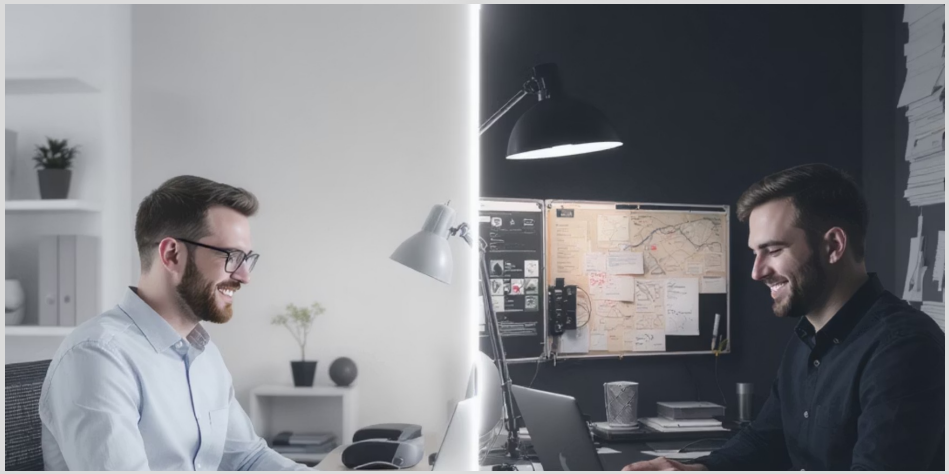
"Our break-even target is ₱500,000. Is our cash flow healthy enough to manage our VAT payments **before** *we even get to that point? How can we reduce our high electricity costs?"*

Section 9

Common Mistakes and Cautions

1

Misclassifying Costs



Be careful! A full-time, salaried employee is a fixed cost. A freelancer you pay per project is a variable cost. Classifying these wrong will make your entire calculation useless.

2

Forgetting "Hidden" Variable Costs

Beginners always miss these! Don't forget credit card processing fees (e.g., ~2.9% + ₱15), shipping supplies, and packaging. These are absolutely variable costs and must be included.

3

Confusing Pre-tax and After-tax

The break-even calculation only tells you how to get to zero profit. Taxes are only paid after you have a profit. If your goal is to actually make ₱10,000 in profit, your new target is (Fixed Costs + ₱10,000) ÷ Contribution Margin.

4

Using Units vs. Sales ₱

Know which number you are using. "I need to sell 120 salads" is an operational goal for the kitchen. "I need ₱30,000 in sales" is a financial goal for your business plan. They are the same target, viewed differently.

Section 10

Practice Problems

Test Your Knowledge

1 Q1 (Japan)

A new Japanese cafe has Fixed Costs of ¥500,000, a Unit Price of ¥2,500, and Variable Costs of ¥1,500. What is the break-even number of units (customers)?

2 Q2 (America)

An American freelancer has Fixed Costs of $4,000/month. They charge an average of $80/hour, and their variable costs (software, fees) are $30/hour. How many hours must they bill per month to break even?

3 Q3 (Zyrine's Business)

Zyrine starts a freelance video editing business. Her monthly fixed costs (software, internet) are ₱6,500. She charges ₱5,000 per video, and her variable cost (stock media, fees) is ₱650 per video. What is her break-even sales revenue (in ₱)?

4 Q4 (General)

Revenue $1,000, Expenses $800. What is the profit margin %?

5 Q5 (Advanced)

Jenelie's "Healthy Kitchen" (from our example) has a break-even point of 120 salads. This feels too high for her. State three different ways she could lower her break-even point.

Section 11

Answers and Explanations

Solutions

Q1 (Japan)

Thinking: First, find the "profit engine" (Contribution Margin) for one customer.

*Contribution Margin = ¥2,500 (Price) − ¥1,500 (VC) = **¥1,000 CM per customer**.*

Thinking: Now, see how many "contributions" are needed to pay the fixed costs.

*Break-even (Units) = ¥500,000 (FC) ÷ ¥1,000 (CM) = **500 customers**.*

Q2 (America)

Thinking: In this service business, the "unit" is an "hour."

*Contribution Margin = $80 (Price) − $30 (VC) = **$50 CM per hour**.*

Thinking: How many $50 "contributions" are needed to pay $4,000 in fixed costs?

*Break-even (Units) = $4,000 (FC) ÷ $50 (CM) = **80 hours**.*

Q3 (Zyrine)

Thinking: The question asks for Sales Revenue (₱), not units. We should use the Contribution Margin Ratio method.

Step 1 (CM): Contribution Margin = ₱5,000 (Price) − ₱650 (VC) = ***₱4,350 CM per video****.*

Step 2 (CM Ratio): CM Ratio = ₱4,350 (CM) ÷ ₱5,000 (Price) = ***0.87 (or 87%)****.*

Thinking: Now, divide the fixed costs by this ratio.

Break-even (Sales ₱) = ₱6,500 (FC) ÷ 0.87 (CM Ratio) = ***₱7,472*** *(rounded).*

Q4 (General)

Thinking: This is a simple profit margin question.

Profit = $1,000 (Revenue) − $800 (Expenses) = ***$200 Profit****.*

Profit Margin % = $200 (Profit) ÷ $1,000 (Revenue) = 0.20 = ***20%****.*

Q5 (Advanced)

Thinking: This is a strategy question. There are only three "levers" she can pull to change her break-even.

Option 1: Reduce Fixed Costs

If she negotiates her rent (Fixed Cost) down from ₱9,000 to ₱7,500, her new break-even would be: ₱7,500 / ₱75 = ***100 salads****.*

Option 2: Reduce Variable Costs

If she finds a cheaper vegetable supplier (Variable Cost) and drops her VC from ₱175 to ₱150, her CM becomes ₱100 (₱250-₱150). Her new break-even is: ₱9,000 / ₱100 = ***90 salads****.*

Option 3: Raise Prices

If she raises her price (Price) to ₱300, her CM becomes ₱125 (₱300-₱175). Her new break-even is: ₱9,000 / ₱125 = ***72 salads****.*

Section 12:

Summary

- *Profit is the simple, universal rule: Revenue − Expenses.*
- *Profit has stages (Gross, Operating, Net) that each tell a different part of the story.*
- *The Contribution Margin (Price - Variable Cost) is the "profit engine" of a single product. It's the key to paying your fixed costs.*
- *The Break-even Point is the target where your profit is zero. It's where just enough "contributions" have been made to cover all fixed costs.*
- *The simplest formula is Break-even (Units) = Fixed Costs ÷ Contribution Margin per Unit.*
- *A business's cost structure (like high-fixed-cost in Japan vs. high-variable-cost in the US) dramatically changes its break-even point and its risk.*
- *In the Philippines, managing high infrastructure costs (which hurts profit) and VAT (which hurts cash flow) is critical for survival.*

Conclusion

You now have the fundamental tools to determine if a business idea is financially viable. Understanding your profit margins and calculating your break-even point are the first and most important steps in taking control of your financial future.

A business without these numbers is just a guess. But now, you don't have to guess. Don't just read this guide—use it. Open a spreadsheet, list your assumed costs, and find your number. This calculation will turn your vague idea into a tangible, actionable plan and give you the clarity you need to build a truly profitable venture.