



# Business Essentials: Finding Your Profit & Break-Even Point



*Before and After This Module*

**BEFORE** This Module...

### Vague Profit

*You may think "profit" is just one simple number (Revenue - Costs), without understanding the different stories your financials are telling.*

### Business Guesswork

*Starting a new business idea feels like guesswork. You're unsure exactly how many sales you need to make just to survive.*

### Confusing Costs

*All expenses might seem the same, making it hard to know which ones are the most critical to control or which ones will grow with your sales.*

### Intimidation

*The math behind business finance, like calculating a break-even point, might seem too complex or confusing for a beginner.*



# NET BUSINESS KONSEPTES CAND EMILS: SKILLS

AFTER This Module...

## Profit Clarity

You will be able to identify and explain the "Four Levels" of profit (Gross, Operating, Pre-tax, Net) and what each one reveals about a company's health.

## Business Confidence

You will have the skill to calculate your exact break-even point, giving you a clear, tangible sales target for any new business idea.

## Cost Control

You will be able to confidently classify any cost as either **Fixed** or **Variable**, a critical skill for managing budgets and predicting future profit.

## Calculation Mastery

You will understand the simple math behind the **Contribution Margin** and be able to use it to make smart business decisions.

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## 1. What is Profit? (The Big Question)

*Alright, let's start with the most important question in business. What is profit?*

*At its core, **profit** is the scorecard that tells you if you're winning. It shows how efficiently your company is making money. The basic formula is simple, and it's the same in all three countries—the US, Japan, and the Philippines.*



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## Total Revenue (Money In) - Total Costs (Money Out) = Profit

- **Total Revenue:** This is all the money you collect from selling your products or services.
- **Total Costs (or Expenses):** This is all the money you had to spend to make those sales happen.

Think of it like a simple bake sale. Your **Revenue** is the \$200 you made selling cookies. Your **Costs** are the \$50 you spent on flour, sugar, and chocolate chips. Your **Profit** is the \$150 left over.

While the *idea* is universal, what we're allowed to count as a "cost" and how we handle taxes can get a bit different depending on whether you're in New York, Tokyo, or Manila.



## 2. The Four "Levels" of Profit

*Here's a pro-tip: "Profit" isn't just one number. We calculate it in stages, like filtering water. Each stage tells you a different story about your business and where the "leaks" might be.*



## 1. Gross Profit (Your *Product* Profit)

- **Formula:** *Revenue – Cost of Goods Sold (COGS)*
- **What it means:** *This shows the profit you made just from selling your product, before paying for rent, marketing, or office salaries.*
- **COGS** *is the direct cost to make what you sell (like the raw materials for a car or the coffee beans for a café).*



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## 2. Operating Profit (Your *Core Business* Profit)

- **Formula:** *Gross Profit – Operating Expenses (SG&A)*
- **What it means:** *This is the profit from your main, day-to-day business operations. It's the single most important number for judging a company's health.*
- **SG&A** (*Selling, General & Administrative*) costs are things like office rent, employee salaries, and marketing bills.



### 3. Pre-tax Profit (Income Before Taxes)

- **Formula:** *Operating Profit +/- Non-Operating Income & Expenses*
- **What it means:** *This is your total profit from all activities, including non-business stuff. For example, if you earned interest from a bank account, it gets added here. If you paid interest on a loan, it gets subtracted.*
- *(Note: In Japan, you'll often hear this called "Ordinary Profit" or Keijō Rieki, which is a very similar concept.)*



#### 4. Net Income (The "Bottom Line")

- **Formula:** *Pre-tax Profit – Income Taxes*
- **What it means:** *This is it. After you've paid all the costs, all the interest, and all your taxes to the government, this is the final profit the company gets to keep, reinvest, or pay out to owners.*



### 3. What is the Break-even Point? (The "Magic Number")



*This is one of the most powerful tools for any new business owner. The **break-even point (BEP)** is the **exact** level of sales you need to achieve to have \$0 profit and \$0 loss.*

*It's the "magic number" where your total revenue **perfectly** covers your total costs. If you sell one more item, you're profitable. If you sell one less, you're losing money.*



*To find this, we must first separate our costs into two types:*

### Fixed Costs

*These costs stay the **same** no matter how much you sell. Think of your monthly rent, base salaries, or insurance. You pay \$2,000 in rent whether you sell one cookie or one million.*

### Variable Costs

*These costs **change** in direct proportion to your sales. Think of raw materials, shipping, or sales commissions. To sell one more cookie, you need one more "unit" of flour and sugar.*



## The (Simple) Math Behind the Break-Even Formula

*The official formula can look scary if you don't like math, so let's break it down.*

*The key is to find your **Contribution Margin**. This is the amount of profit each sale "contributes" to paying your fixed costs.*



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Let's use a simple \$1.00 cookie example:

- **Sales Price:** \$1.00
- **Variable Cost:** \$0.60 (flour, sugar, etc.)
- **Contribution Margin:**  $\$1.00 - \$0.60 = \$0.40$

*This means that for every \$1.00 cookie you sell, you get \$0.40 to help "contribute" to paying your rent.*

*The **Contribution Margin Ratio** is just this number as a percentage:*

- **Contribution Margin Ratio:**  $\$0.40 / \$1.00 = 40\%$

*This means 40% of all your revenue is available to pay fixed costs.*

Now, here is the Break-Even Formula:

Break-even Sales (\$) = Total Fixed Costs / Contribution Margin Ratio

*If your monthly rent (Fixed Cost) is \$100, the math is:*

- $\$100 / 0.40 = \$250$

*This means you must sell \$250 worth of cookies just to pay your rent and break even.*

## 4. On-the-Ground View: Japan

### Profit



Japanese companies often place a huge emphasis on **Operating Profit** and **Ordinary Profit** (*Keijō Rieki*). It's all about long-term, stable, core business health.

### Break-Even



Fixed costs tend to be very high. Think high city rents, but more importantly, a strong cultural and legal commitment to full-time, lifetime employment. This means labor is often a fixed cost, not a variable one.

### The Result



This leads to a high break-even point. It makes companies very stable and resilient, but also slower to pivot when sales fall.

## 5. On-the-Ground View: The United States

### Profit



*In the US, the market is laser-focused on **Net Income**. But investors often talk about **EBITDA** (Earnings Before Interest, Taxes, Depreciation, and Amortization).*

*This is a (sometimes controversial) way to measure a company's raw operational earning power, ignoring debt, taxes, and non-cash accounting rules.*

### Break-Even



*Labor is much more flexible (e.g., hiring, layoffs, freelance culture). This means labor is often a variable cost.*

### The Result



*The BEP tends to be lower, and businesses can scale up—or down—very quickly. This leads to potentially higher profit margins but also more volatility.*

## 6. On-the-Ground View: The Philippines

### Profit



*In the Philippines, the key consideration is **Net Income (After-Tax)**, as the tax system has a huge and direct impact.*

### Break-Even



*Fixed costs, especially labor, are generally lower than in the US or Japan. However, other costs that might be low elsewhere can be high, particularly for utilities like electricity and internet.*

### The Result



*The tax rules (like the 12% VAT) are a major factor. From an accounting perspective, VAT is not just a tax; it's a critical cash flow challenge for new businesses, which must pay it to suppliers and collect it from customers. A low BEP can be misleading if these tax and infrastructure costs are not factored in. (Info current as of 2025).*



# 7. Break-even Point Calculation Examples

*Let's use our new, simpler math on those custom scenarios.*



## Example 1: Jen's Healthy Café (Japan)

- **Scenario:** Jenelie wants to open a healthy salad café in Tokyo.
- **Fixed Costs:** ¥1,000,000 (Rent, utilities, one staff salary).

### Step 1: Find the Contribution Margin per Salad

- Sales Price: ¥2,000
- Variable Cost: ¥1,200 (Ingredients, packaging)
- **Contribution Margin:** ¥2,000 - ¥1,200 = **¥800**
- (This means every salad sold gives Jen ¥800 to pay her rent)

### Step 2: Find the Contribution Margin Ratio

- **Ratio:** ¥800 / ¥2,000 = **40%**
- (This means 40% of all sales revenue goes toward fixed costs)

### Step 3: Calculate the Break-Even Point

- **In Sales (Yen):** ¥1,000,000 (Fixed Costs) / 0.40 (Ratio) = **¥2,500,000**
- **In Units (Salads):** ¥1,000,000 (Fixed Costs) / ¥800 (Margin per Salad) = **1,250 salads**
- Jen must sell 1,250 salads (or ¥2,500,000 in sales) per month just



## Example 2: Pat's Retro Games (US)

- **Scenario:** Patricia (Pat) starts an e-commerce store for refurbished retro games.
- **Fixed Costs:** \$50,000 (Yearly website maintenance, storage, marketing).

### Step 1: Find the Contribution Margin per Game

- **Sales Price:** \$100
- **Variable Cost:** \$40 (Acquiring used game, cleaning, shipping)
- **Contribution Margin:**  $\$100 - \$40 = \$60$

### Step 2: Find the Contribution Margin Ratio

- **Ratio:**  $\$60 / \$100 = 60\%$

### Step 3: Calculate the Break-Even Point

- **In Sales (Dollars):**  $\$50,000 / 0.60 = \$83,333$
- **In Units (Games):**  $\$50,000 / \$60 = 834$  games (You must round up!)
- Pat must sell 834 games (or \$83,333 in sales) for the year to break even.



### Example 3: Cris's Wings Delivery (Philippines)

- **Scenario:** Cris starts a delivery-only "ghost kitchen" for chicken wings.
- **Fixed Costs:** PHP 200,000 (Monthly kitchen rental, basic salary, marketing).

#### Step 1: Find the Contribution Margin per Order

- **Sales Price:** PHP 500
- **Variable Cost:** PHP 300 (Chicken, sauce, packaging, delivery fees)
- **Contribution Margin:**  $\text{PHP } 500 - \text{PHP } 300 = \text{PHP } 200$

#### Step 2: Find the Contribution Margin Ratio

- **Ratio:**  $\text{PHP } 200 / \text{PHP } 500 = 40\%$

#### Step 3: Calculate the Break-Even Point

- **In Sales (Pesos):**  $\text{PHP } 200,000 / 0.40 = \text{PHP } 500,000$
- **In Units (Orders):**  $\text{PHP } 200,000 / \text{PHP } 200 = 1,000$  orders
- Cris must sell 1,000 orders (or PHP 500,000 in sales) per month to pay her bills.



## 8. Using Profit Margins and the BEP



Japan

*The focus is often on "**fixed cost reduction**" (a huge challenge) and improving the operating profit margin.*



US

*The focus is on **EBITDA and shareholder returns**—how can we grow fast and maximize profit margins?*



Philippines

*The focus must be on "**after-tax profit**" and managing cash flow to account for VAT and infrastructure costs.*



## 9. Common Mistakes to Avoid

### 1 Mixing up Fixed and Variable Costs

**Tip:** Ask, "If one more item is sold, does this specific cost go up?" If yes (like ingredients), it's variable. If no (like rent), it's fixed.

### 2 Confusing Pre-tax and After-tax Profit

**Tip:** Business plans should not be based on pre-tax profit, as taxes are a mandatory expense. Always run numbers with the tax rate included.

### 3 Forgetting the owner's salary

**Tip:** A true break-even point should include a salary for the owner. If the owner is not paid, any "profit" is simply their unpaid wage. A reasonable owner's salary should be added to fixed costs.



## 10. Practice Problems

*Let's test your knowledge with the new scenarios.*

**Q1 (Japan):** You want to open a small online store selling handmade guitar straps (like Jenelie's hobby). Your fixed costs (website, tools) are ¥500,000. Your unit price is ¥2,500, and your variable cost (materials, shipping) is ¥1,500. What are your break-even sales in Yen?

**Q2 (US):** You start a small business selling "Press-On Nail Kits" (like Pat's hobby). Your fixed costs are \$40,000. You sell each kit for \$80, and the variable cost per kit is \$50. What are the break-even sales in Dollars?

**Q3 (Philippines):** You start a "Fast Food Crew" for **pets** (like Zyrine's first job), making healthy pet food. Your fixed costs are PHP 150,000. You sell a one-week food batch for PHP 600, and the variable cost is PHP 360. What are the break-even sales in Pesos?

**Q4 (General):** If your revenue from selling games is \$1,000 and your total expenses are \$800, what is your **profit margin (as a percentage)**?

**Q5 (Applied):** Look at "Cris's Wings Delivery" in Example 3. Name two specific ways she could lower her break-even point.



## 11. Answers and Explanations

A1 (Japan - Guitar Straps):

1. **Contribution Margin:**  $¥2,500$  (Price) -  $¥1,500$  (Variable Cost) = **¥1,000**

2. **Contribution Margin Ratio:**  $¥1,000 / ¥2,500 = 40\%$

3. **Break-Even Sales:**  $¥500,000$  (Fixed Costs) /  $0.40 = ¥1,250,000$





### A2 (US - Nail Kits):

1. **Contribution Margin:**  $\$80$  (Price) –  $\$50$  (Variable Cost) =  **$\$30$**
2. **Contribution Margin Ratio:**  $\$30 / \$80 = 37.5\%$
3. **Break-Even Sales:**  $\$40,000$  (Fixed Costs) /  $0.375 = \mathbf{\$106,667}$



### A3 (Philippines - Pet Food):

1. **Contribution Margin:**  $PHP\ 600$  (Price) -  $PHP\ 360$  (Variable Cost) =  **$PHP\ 240$**
2. **Contribution Margin Ratio:**  $PHP\ 240 / PHP\ 600 = 40\%$
3. **Break-Even Sales:**  $PHP\ 150,000$  (Fixed Costs) /  $0.40 = PHP\ 375,000$





#### A4 (General - Profit Margin):

1. **Profit:**  $\$1,000$  (Revenue) -  $\$800$  (Expenses) =  $\$200$

2. **Profit Margin %:**  $(\$200$  (Profit) /  $\$1,000$  (Revenue))  $\times 100 = 20\%$



## A5 (Applied - Cris's Wings):

1. **Reduce Fixed Costs:** (e.g., find a cheaper kitchen space, lower her marketing budget).
2. **Lower the Variable Cost Ratio:** (e.g., find a cheaper chicken supplier, use less expensive packaging, or...)
3. **Raise the Unit Price:** (e.g., raise the price from PHP 500 to PHP 550).



## 12. Module Summary

*Here's what you learned:*

- *Profit is the universal business scorecard: **Revenue - Costs**.*
- *We use four "levels" of profit (Gross, Operating, Pre-tax, Net) to see how a business is making money.*
- *The **Break-Even Point** is the magic number of sales needed to cover all your costs.*
- *The easiest way to find it is to first find your **Contribution Margin** (Price - Variable Cost).*
- *Then, just divide: **Total Fixed Costs / Contribution Margin Ratio**.*
- *The business environment in Japan, the US, and the Philippines creates different challenges for profit and break-even.*



*In this module, we learned how to evaluate a company's financial health. In the next section, we'll build on this by moving on to "Monthly and Annual Summaries (Financial Reports)."*