

# BREAKEVEN CALCULATION OF THE COMPANY WHEN STARTING A BUSINESS

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**Abstract:** *Starting a business involves planning, making key financial decisions, completing a series of legal activities, hiring reliable employees and after all of this, the success of the new firm is determined by a few steps, which every manager must take into account. One of these steps is adopting a company name, the calling card of the business, taking into consideration the related tips regarding its selection. When talking about a company, its mission must be clear and easy to understand. Thus, the description of the main activity and the general environment must be also present in the business plan.*

**Key words:** *starting a business, manager, resource allocation, requirements, breakeven calculation.*

## 1. Introduction

The appearance of the workplace can define the working atmosphere, and it can also be a key factor in determining the clientele. The most important function in a business is that of a manager. In this case, the head of the company must be aware of the requirements of the position, the different types of managerial styles, and in the end he must adopt a suitable one for his company. Of course, the financial and human resources must be taken into account when starting a business. In the following paper these steps are explained and put into application through the birth and evolution of the Wave limited liability company.

The main objective of this paper is to present the statistical method for determining the threshold of profitability of the organization.

## 2. Adopting the Company's Name

The right name can sometimes make all the difference when it comes to propelling a business to success, rather than just slogging on. A name is the primary calling card of a business and the right one can make your company the talk of the town. It must be memorable, unique and pronounceable.

Wave- a name that captures people's imagination and interest; looks and sounds attractive; a name that triggers our curiosity. In our opinion, a company must possess such a characteristic in order to have a fruitful, successful investment that is capable to fully satisfy the customer's needs and fulfil the entrepreneur's wants.

This name underlines the simplicity of the pub's interior design, the fluidity of the dominant colours and the atmosphere.

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### 3. Description of the Main Activities.

The Wave limited liability commercial company renders beverage serving services in a pleasant atmosphere and accompanied by live music, opened day and night. It also provides a wide range of management services too: thematic parties, karaoke nights and all sorts of events. The fact that the firm's services address a clientele of all ages, who especially love classical rock music and seek lower prices, yet not compromising for quality, underlines the necessity of competent, efficient staff and the importance of public relations. The employees are trained in this domain and also dispose of high communication skills.

Wave understands the significance of customer satisfaction because "the goal as a company is to have customer service that is not just the best but legendary" (Sam Walton, Founder of Wal-Mart) and values their opinion due to the fact that they are the pillars of the development and growth of a firm; to strengthen this, the firm's

promoters asked 30 different people from 3 different cities to taste their cocktails and coffee recipes before they started selling them, their reactions being visible under the comment section in the bars menu.

Fidelity cards- the company offers as tokens of its appreciation, be it a discount up to 100%, be it a free beer or even a laptop. Based on its special raffles, the clients have the possibility to win trips abroad or in the country, pampering weekends, romantic dinners etc.

### 4. The workplace

The company has an open space for the warmer seasons and an enclosed one for winter (Fig. 1).

The enclosed space consists of a large lounge characterized by its art nouveau-inspired style, a giant chessboard with large pieces and two large oak bookcases with a big variety of volumes.

The terrace's deco coincides with the one of the enclosed space.

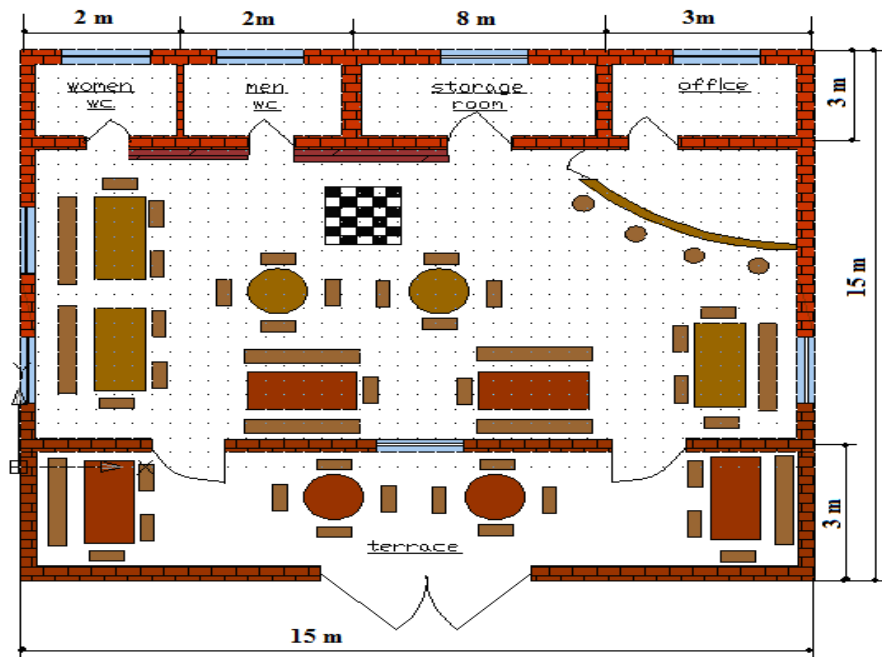


Fig. 1. *The workplace*

The entire space contains radiant heat panels with elegant designs, two toilets, an office and a storage room.

### 5. The organization chart of the company

An organization chart (Fig. 2) is a diagram that shows the structure of an

organization and the relationships and relative ranks of its parts and positions/jobs. The detailed structure of personnel and the necessary qualification to occupy positions in Wave Company are presented in Table 1.



Fig. 2. The organization chart

The term “management” encompasses an array of different functions undertaken to accomplish a task successfully.

Personnel qualification

Table 1

<b>Managing director (CEO)</b>	1	<u>bachelor studies</u> + master program in the field
<b>Marketing director</b>	1	<u>bachelor studies</u> + master program in the field
<b>Accountant</b>	1	<u>bachelor studies</u> + Chartered Accountant qualification
<b>Bartender</b>	2	secondary education + experience in the field
<b>Waiter</b>	4	secondary education + experience in the field
<b>Cleaning personnel</b>	1	primary education + experience in field

The following figure (Fig. 3) depicts the management functions of this firm.

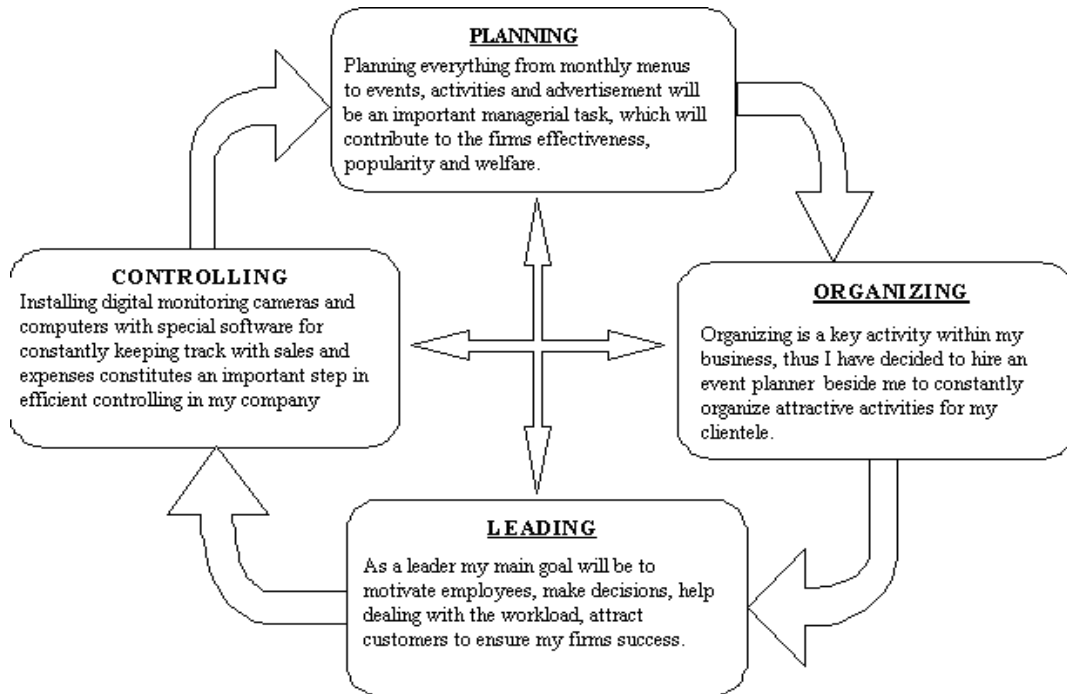


Fig. 3. *Management functions*

The graph (Fig.4) represents the general environment of this firm. These dimensions influence the organization over time and include technological, social cultural, economic, legal-political, and international issues.

The major factors that ensure the company's success are the customers and the competitors.

The customers are those people and

organizations in the environment which acquire goods or services from the organization. As recipients of the organization's output, customers are important because they determine the organization's welfare. In this case, the customers are people of all ages, who love classical rock music and seek lower prices, yet not compromising for quality.

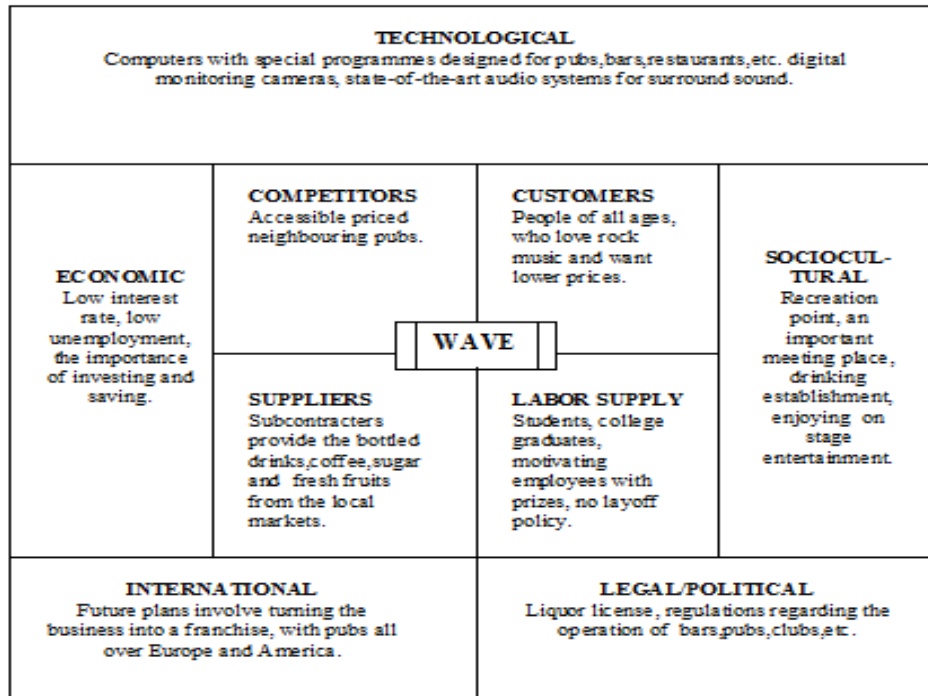


Fig. 4. General environment

The competitors are other organizations in the same industry or type of business that provide goods or services to the same set of customers. The neighbouring pubs and bars present the biggest threat.

#### 6. Determination of the breakeven point

The breakeven point is the point at which costs or expenses and revenue are equal (there is no net loss or gain). This critical point is achieved when the sales figure is equal to the total expenditure.

To calculate the breakeven point, we use

a statistical method that is based on the observation that depreciation is generally 10% of the break-even. Thus, firstly, we must calculate the total investment (Tab.2) and then the depreciation (a share of money which was allocated for investments and will be replaced over time). We will take into consideration that 70% of the investment (1) is being linearly depreciated over 50 years (the building) and the rest of 30 % (2) in a maximum of 10 years period (necessary equipments).

*The total investment calculation*

Table 2

Surface area	170 m <sup>2</sup>
Decoration	90,000 lei
Electronics and other appliances	50,000 lei
Buildings and land	400,000 lei
<b>TOTAL INVESTMENTS</b>	<b>575,000 lei</b>

$$BD = (Ti \cdot 70\%) / (50 \text{ years} \cdot 12 \text{ months/year}) \quad (1)$$

$$BD = (575.000 \cdot 70\%) / (50 \cdot 12) = 670.8 \text{ lei/months}$$

BD= building monthly depreciation

$$ED = (Ti \cdot 30\%) / (10 \text{ years} \cdot 12 \text{ months/year}) \quad (2)$$

$$ED = (575.000 \cdot 30\%) / (10 \cdot 12) = 1,437.5 \text{ lei/months}$$

ED= equipments monthly depreciation

$$TD = BD + ED = 2,108.3 \text{ lei/months} \quad (3)$$

TD= total monthly depreciation

Breakeven point = TD \* 10

Breakeven point = 21,083 lei / month

Thus, we estimate that to reach the breakeven point the company must have a monthly 21,083 Lei / month sales figure. Every leu above constitutes pure profit.

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