



# Mastering cost vs benefit analysis for business success

Managing a business involves a lot of decision-making, especially when it comes to financial matters. Understanding cost vs benefit, break-even analysis and interest rates is essential to making informed decisions that will benefit your business in the long run.

## Cost vs benefit analysis

Cost vs benefit analysis, also known as a cost-benefit analysis (CBA), is a technique used to determine the financial feasibility of a proposed project or decision. It involves weighing the costs of an action against the expected benefits to determine whether the action is economically justifiable.

To conduct a cost-benefit analysis, you need to identify all the costs and benefits associated with a particular decision or project.

Costs may include upfront expenses, ongoing expenses and opportunity costs (ie the cost of foregoing an alternative option).

### Benefits may include:

- increased revenue
- decreased expenses, and
- intangible benefits such as increased customer satisfaction.

Once you have identified all the costs and benefits, you can calculate the net present value (NPV) of the project. If the NPV is positive, the benefits outweigh the costs and the project is financially viable. If the NPV is negative, the costs outweigh the benefits and the project may not be economically feasible.

## Break-even analysis

A break-even analysis is a financial tool used to determine the minimum amount of revenue required to cover a company's fixed and variable costs. This analysis can be useful in determining whether a business is operating at a profit or a loss.

- **Fixed** expenses: salaries and wages, membership fees, rent, insurance, bookkeeping and accounting fees...
- **Variable** expenses: loan repayments, marketing and advertising costs, utilities, motor vehicle expenses, taxes, repairs and maintenance, replacement of stock and technology materials, shipping...

Then you need to calculate the contribution margin – the difference between the selling price and the variable cost per unit.

The break-even point is the point at which your company's total revenue equals its total costs. You can calculate the break-even point by dividing your fixed costs by your contribution margin.



Once you know your break-even point, you can use this information to make informed decisions about pricing, sales volume and cost control. For example, if your break-even point is relatively high, you may need to increase sales or decrease costs to operate at a profit.

### Interest rates

Interest rates are the cost of borrowing money or the return on investment for lending money. In the business world, interest rates can have a significant impact on financial decisions, especially when it comes to borrowing money.

When borrowing money, it's essential to consider the interest rate and how it will affect the overall cost of the loan. A higher interest rate means higher monthly payments and a longer-term cost. Conversely, a lower interest rate can result in lower monthly payments and a shorter-term cost.

Understanding cost vs benefit, break-even analysis and interest rates is essential to managing a successful business.

By using these financial tools, you can make informed decisions about pricing, sales volume, cost control and borrowing money. Remember, a little bit of financial analysis can go a long way in ensuring the long-term success of your business.

### A higher interest rate isn't necessarily always bad...

It is important to note that even though interest rates can affect the cost-benefit analysis, it is not always the case that higher interest rates lead to a worse outcome. In some situations, a business may still benefit from obtaining finance, even if the interest rates are higher.

For example, a company may need to invest in a new project or purchase new equipment that will generate significant returns in the future. In this case, the benefits of the investment may outweigh the higher cost of the finance and result in a net positive outcome for the business.

Additionally, a business may be able to negotiate better terms or find alternative sources of funding that are more favourable, even if the interest rates are initially higher.

Ultimately, it is important to consider all the factors involved, including the potential benefits and risks, before making any financial decisions for your business. A business and equipment finance specialist can work with you to not only find a suitable lender, but also help determine if borrowing to fund that project makes sense.

You'd be surprised how often it does.

Contact us to read  
**'How to ensure your  
business financial  
model is profitable'**

