

Day 2 - Forging New Pathways to Growth and Sustainability

Working Session 2

Determining Costs, Negotiating Rates, and Developing Contracts

Break-Even Analysis Worksheet

Cost Versus Price:

Cost is the amount of expense that an organization incurs to bring a product or service to market. Price is the expense that an organization charges a customer to obtain the service or product. In order for an organization to have funding to expand, the price that they charge for services cannot be equal to the cost.

Factors to consider:

All inputs into the cost must be considered when determining costs. Indirect costs, direct costs, direct labor, marketing, and facility costs must be incorporated into the final cost determination. Once your costs have been assessed, you can move to determining price. Your price must account for market demand, competitor pricing, and market saturation for your product or service.

Determining Costs and Break-Even Analysis

The worksheet below provides a framework for determining the cost for delivering an evidence-based program. Conducting a break-even analysis will help you determine your break-even point. Break-even is the point upon which revenue and expenses are equal. Therefore, the break-even point represents the minimum expectations for program revenue. Revenue earned after the break-even point represents program revenue over expenses or profit.

Please provide responses to the following questions.

1. Itemize all of the expenses that you will incur to deliver your program.
2. Incorporate all indirect and direct expenses into you itemized expense list.
3. Use the budget table worksheet document (page 3) to assist you in determining all of your program expenses.
4. Determine the price for your service. Remember that price is different than cost. Your price is the amount of money that you will sell your product or service. The price should cover your direct and indirect costs, while including margin.
5. Assess the price that your market competitors are selling similar products or services.
6. Determine if there is a current Medicare fee schedule price for your service. If so, it is acceptable to use this as a benchmark price for the service. Since fees on

the Medicare fee schedule are fixed, the only way to increase revenue is to increase the number of service units provided or persons served.

7. Establish a final price based on market data and your internal analysis of program expenses.
8. Establish a per person unit price and group completer price.
9. Determine how many completers are required to cover the minimum program costs.
10. Determine how many classes of completers are required to meet the minimum program costs. Use the average class completer data, based on your program historical data.
11. This point represents the break-even. The break-even must include a full person/class. For example, your break-even cannot be 20.5 completers, because you cannot have a half person complete. Please always round up in your break-even analysis.
12. Determine if you have enough market demand to meet the break-even projection.

Program Name	
Date	
Evidence-Based Program Budget Questions	Program Response
Indirect	
Do you currently differentiate your Direct Costs from your Indirect costs	
Do you have a standard method of allocating Indirect costs	
Do you have a standard Indirect cost rate that is approved by a Federal Agency? If so, list the Agency.	
What do you currently include in your Indirect Rate	
Do you have the capability of allocating Indirect expenses down to the program level? Per Class? Per Participant/Day? Per Participant that completes the workshop?	
What are your Indirect costs for running the EB Program?	
Can you attribute these Indirect costs per class? Per completer? Per participant per day? If so, list the rate/costs for each.	
Fringe	
What is your standard fringe rate?	
Do you attribute fringe to full-time and part-time employees?	
Is the same fringe rate attributed to full-time versus part-time employees? If not, what are the differing rates?	
Do you apply a fringe rate to contractors? If so, is the rate the same?	
When you developed your EB Program budget, did you establish a fringe rate for the staff for budget purposes? What was that rate?	

Cost Centers	
Do you have your program budgets separated by cost centers?	
Does each program represent a separate cost center in your budget?	
Is your EB Program treated as a separate cost center in your budget?	
Do you know the cost to deliver an each EB Program?	
What is the cost of delivering one EB Program class? Can you attribute this cost to the participant level? Can you attribute this cost to the participant level per day versus per completer?	
Direct Expenses	
Do you have a breakdown of direct expenses you incur when delivering an EB Program Class?	
Can you attribute these expenses per class? per completer? per participant per day?	
What are each of the expenses items that you have listed in your Direct costs?	
What is the cost of each of the Direct expenses items you incur for delivering Enhanced Fitness? Per Class? Per Completer? Per Participant Per day?	
Personnel	
How many people do you currently have on staff to deliver EB programs	
What are the classifications of staff that deliver your EB programs (Full-time, Part-time, Contractors)	

Are all of these personnel expenses captured in your budget model	
What is the level of effort per person that you have allocated to deliver EB programs (FTE)	
What is your total cost of personnel to deliver an Enhanced Fitness program Per class? Per participant? Per participant per day?	
Supplies/Facility Costs	
What supplies do you require to provide EB programs?	
What is the cost that you have allocated in your budget for these expenses?	
Do you attribute these costs per class? Per participant? Per participant per day?	
What is the facility cost to deliver your EB program?	
Do you attribute these costs per class? Per participant? Per participant per day?	
Miscellaneous Expenses/Sunk Costs	
What are your program sunk costs	
How were these sunk costs covered?	
What was the total expense of these sunk program costs?	
Do you have a marketing budget included in your budget?	
What is the marketing budget and how are these expenses allocated?	
Licensing/Training	
Do you have to incur a recurring licensing or training expense?	

If so, what is that amount and how is this expense reflected in your budget?	
Annual Budget/Break-Even	
Do you have an annual budget attributed for your EB Program?	
If yes, what is that budget amount?	
What is the attributed costs of this annual budget per class? Per participant? Per participant per day?	
What level of revenue is required to meet your annual break-even for EB Program?	
What are your current sources of program revenue to support Enhanced Fitness?	
At what point in the year do you anticipate that your EB program will meet your break-even calculation?	
How many classes are required to meet your break-even projection?	
Which class marks the point where you surpass your break-even calculation and then incur revenue over expenses for your EB Program?	
What is the desired revenue rate required to meet your projected break-even per class? Per completer? Per participant per day?	