

Washburn Guitar Company: Break-Even Analysis

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Washburn Guitar Company Break-Even Analysis

The selling price of a firm's products and commodities plays an important role in break-even analysis. For example, when other factors are kept constant and the selling price is lowered, the break-even point increases and vice versa (Cafferky, 2014). Before incorporating demand into the break-even analysis, Washburn Guitar Company should employ several methods to establish it in the market. The company should select a product and portion of the market while adjusting the price and compare the outcomes of the consumer demands. Other methods such as regression analysis, review of archived data on the past performance as well as professional intuition can be used in analyzing the demand.

After that, the firm should incorporate the results pertaining to their product demand in the break-even analysis. For example, Washburn has a fixed product cost of \$38,000 and unit variable – of \$145. After the market analysis, different price demands changed from low of 186 to 231 units with respect to the unit selling price. The results of a break-even analysis, which set \$349 as a selling price per unit, yielded a BEP of 186.27 units and total revenue of \$65,009.80. According to these data, the firm would sell a total of 187 units in order to break even.

The break-even analysis that set \$389 as selling price per unit yielded a BEP of 155.7 units and total revenue of \$60,581.97. In this case, the firm would have to sell a total of 156 units in order to break even. The break-even analysis that set \$309 as a selling price per unit yielded a BEP of 231.71. The results indicate that the company would have to sell a total of 232 units of their guitars in order to break even.

The company would achieve a profit margin of 2.87% if they achieved their target of 2000 units at a unit selling price of \$349.

References

Cafferky, M. (2014). *Breakeven analysis*. Business Expert Press.