## UNDERSTANDING COSTS FOR YOUR BUSINESS

# FIXED COSTS, VARIABLE COSTS, AND VOLUME

#### MANAGING COSTS IS CRITICAL TO BUSINESS SUCCESS



Types of costs affect profitability:

- Fixed Costs
- Variable Costs



**Volume** is a key concept to understand for both types of costs.

#### WHAT IS VOLUME?



Production Volume: Units your business produces over time.



Sales Volume: Units your business sells over time.



For services volume is typically the same for production and sales.



For products volume can differ (due to inventory).

#### FIXED COSTS (OVERHEAD)



What are Fixed Costs? Costs that stay the same regardless of sales or production volume.

Examples include:

- Rent or Lease
- Salaries
- Utilities

- Insurance
- Loan Payments
- Business License Fees

#### **VARIABLE COSTS**



What are Variable Costs? Costs that increase or decrease with sales or production. Often labeled in accounting as Cost of Goods Sold (COGS).

Examples include:

- Raw Materials
- Price-Rate Labor
- Production Supplies
- Packaging and Delivery
- Commissions
- Credit Card Fees

## COSTS CAN SHIFT



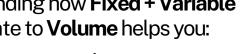
Some costs depend on the type of business!

For example, consider fuel as a cost:

- Fixed for a food truck (same amount needed daily)
- Variable for delivery service (more packages = more fuel)

## **KEY TAKEAWAYS**





- Set smarter prices
- Avoid unnecessary overhead
- Improve profitability



