

A large bakery with a nationwide contract sells cheese bread only on its bread counter expenses would be as follows;

- General labor £2,000, Rent for the bakery £5,000, Insurance premiums £200, Marketing £600 and utility bills £550. The total fixed costs would be £8,350.
- Flour 80p, Yeast 9p, water 2p, cheese £1.50.

Based on the total variable costs for each loaf of bread the bakery would price the bread at £2.41 to cover the costs. If the bakery charges £5.00 for the bread it will receive £2.59 for each loaf to meet the fixed costs and profits.

- The bakery would then need to work out how many loaves of cheese bread they would have to sell at £5.00 to pay for the fixed costs.
- To work this out, you would first need to calculate the sum of the fixed monthly costs, which were £8,350. This figure would then be divided by the variable costs which were £2.41.
- The bakery would need to sell 8,347 loaves of cheese bread to meet their fixed costs and break even.
- Large businesses such as the contract bakery outlined in the above example can use the break-even point figures to pinpoint exactly what levels they need to be producing and selling before they can generate a profit.
- It can also help businesses with pricing strategies. In the example above, the bakery could adjust its pricing, increasing the cost of each loaf slightly so they won't have to sell as many.
- Fixed and variable costs will vary considerably between industries but businesses particularly in the manufacturing sector need to look at them very carefully.