Diamond Challenge for High School Entrepreneurs

Session 12: Making Money

Overview

This session will address the fundamental concepts of unit variable cost, unit revenue, and unit contribution margin, fixed costs, and breakeven volume, to illustrate how businesses make money.

Key Points

- ❖ Understanding margins and costs is critical to making smart business decisions.
- ❖ Until they validate all components of their business model, entrepreneurs should always think twice before spending money on things that they could borrow or lease.
- ❖ Many startups fail because they run out of cash. To survive in business, you need to forecast your cash needs and keep in mind the delay between when you need to pay your bills and when your customers pay you.

Discussion Questions

1. Without looking, do you know how much cash is in your wallet right now? How about your savings account? Do you think businesses need to always know the answer to analogous questions?
2. Would you rather have a business selling $100 units to 10,000 customers or a business selling $10,000 units to 100 customers? Why?
3. Who do you think receives a higher unit contribution margin on the sale of one pair of jeans – Old Navy or Gucci? Why?

Additional Resources

Ten Critical Cash Flow Rules

Possible Assignments

1. Make some estimates of your sales price, variable costs, fixed costs, and breakeven.
2. Compare your target prices to your competitors' prices.
3. Calculate a few different breakeven scenarios. What if you could lower your fixed costs? What if you could raise your price?