

Expansion Analysis Worksheet

Estimate:

1. Fixed Cost (in dollars)..... _____
2. Variable Cost (as a % of sales)..... _____
3. Total Investment Planned (in dollars)..... _____
4. Desired Return on Investment (ROI - expressed as a decimal)..... _____

Calculate:

- A. Multiply investment required by desired return to determine “target net profit in dollars”:

$$\textit{Item 3} \times \textit{Item 4} = \underline{\textit{A}}$$

- B. Add fixed cost (dollars) plus “target net profit” to yield “the nut you've got to crack”:

$$\textit{Item 1} + \textit{Item A} = \underline{\textit{B}}$$

- C. Subtract variable cost % (% of sales) from 100% to yield “contribution margin percent”:

$$100\% - \textit{Item 2} = \underline{\textit{C}}\%$$

- D. Divide the “nut to crack” (Item B above) by the contribution margin decimal (Item C above) to determine “sales necessary to cover costs and provide target ROI”:

$$\frac{\textit{Item B}}{\textit{Item C}} = \underline{\textit{D}}$$

NOTE: This analysis gives you the financial parameters of the issue. You will still need to acquire market data to make a realistic assessment of feasibility — and also take into account numerous non-financial issues.