Essential Question: How do we decide how much to charge?

Objectives – Students will:

- Identify specific types of expenses to analyze and establish units of sale (or a fundraising target, if appropriate).

Launch: Thinking about what you learned in Lesson 9 about startup, fixed, and variable expenses, define each one in your own words. Try not to use words that are used in the original definition.

What are startup expenses?

What are fixed expenses?

What are variable expenses?

Step 1: Vocabulary – Review the definitions. In the space provided, write examples or reword the definition in a way that makes the most sense to you.

Unit of sale: What a customer gets when they pay for a product or service.

Contribution margin: The amount of money made after selling one unit of sale and subtracting the variable costs. What remains are funds to cover fixed costs or become profit. This is calculated using the following formula: Unit price - variable costs = contribution margin.

Business	Unit of Sale	True or False
Pizzeria	One piece of pizza	
Pizzeria	One whole pizza	
Grocery Store	One pound of strawberries	
Grocery Store	One strawberry pie	

Step 2: What is your real food business's unit of sale? What will your customers receive?

Share your unit of sale and adjust based on peer feedback.

Step 3: To create or produce the products or services that make up a unit of sale, your real food business will have expenses. Thinking about your supply chain and your unit of sale, list the variable expenses that your business will incur for each type of expense. Try to estimate how much they will cost.

Startup Expenses: Expenses that a business owner needs to pay before they can provide their product or service.		**Fixed Expenses:** Expenses that a business owner needs to pay on a regular basis even if they don't sell any prod-		**Variable Expenses:** Expenses that a business owner needs to pay that vary or change depending on how	
Startup Expenses:	**Estimated $**	**Fixed Expenses**	**Estimated $**	**Variable Expenses**	**Estimated $**
Add up your expenses and estimate your total startup expenses: $ This is how much it costs to open your business.		Add up your expenses and estimate your total fixed expenses: $ This is how much it costs to keep your business open *each month*		Add up your expenses and estimate your total variable expenses: $ This is how much it costs to create a product or provide a service.	

Step 4: Your contribution margin is the amount of money that a business makes per sale to cover your variable expenses (the cost to produce the item).

1. What is the contribution margin you will need to cover your variable expenses?

   Unit selling price - variable expenses = contribution margin for one unit of sale.

   _______________ - _________________ = ___________________

2. How many units will you need to sell to cover your fixed expenses?

   Fixed expenses / contribution margin = ___________ units

Note: This is the number of units that must be sold to cover your monthly fixed expenses.

Student Reflection: It is important in entrepreneurship to be okay with changing parts of your business plan! Now that you see how many units you'll need to sell each month, think about the following questions:

1. Do you need to change your price?
2. Can you lower your variable expenses?
3. Can yo ulower your fixed expenses