How Much Did Shoeing That Horse Cost You?

You and the cost per horse: Performing a break-even analysis

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Do you have any idea how much money you have invested in shoeing a horse before you even pick up a hoof? Do you know how much you need to make to break-even?

The break-even point concept is only a portion of a larger concept known as "contributions and margin analysis," which looks at the relationships of cost, profit and volume. The break-even point for a business is the amount of sales or revenues that it must make or generate in order to equal its expenses.

The Zero Point

In simplest terms, it is the zero point — the point at which the business neither makes a profit nor suffers a loss.

The break-even point seems like a simple business concept, however it remains an enigma to many. Many small business owners do not know what their break-even point is. And any business that ignores or does not know this vital piece of information runs the risk of losing money — or failing all together.

Break-even analysis can provide a simple, yet powerful quantitative tool for farriers. It can provide you with insight into whether or not revenue or money earned from each service you provide will cover all the costs or expenses you incur to perform that service. In simplest terms, it can tell you the minimum amount you need to charge per horse to break-even.

Anything below your break-even point is a loss. Anything above that point is profit. Farriers can use this information in making a wide range of business decisions, including setting prices, offering discounts, making purchase decisions and determining the number of customers needed in order to be profitable.

The problem for many business owners is calculating the break-even point. This is known as break-even analysis and can be done in several ways, with varying degrees of difficulty. We're going to take a look at the simplest method.

That being said, no single break-even analysis formula will work for all businesses. Break-even analysis can be calculated to determine if the price you want to charge will make you a profit or to estimate profit on your projected expenses. Some formulas are better designed for the retail business and are less accurate for service industry businesses, such as hoof care. Many calculations can be done automatically through software programs, but can be more difficult and time consuming to figure out via pencil and paper.

If a business sells multiple products or services, break-even analysis becomes more complex, as different products and services will have different selling prices. (For another way of performing a break-even analysis see "The Economics Of Starting A Shoeing Business," by Mike Jerina and Steven Kraft, *American Farriers Journal*, November 1997, Pages 25-28.)

A Simple Method

You probably don't realize it, but your yearly income tax return can be used to calculate your break-even point for that year. There's no need to figure your variable cost, fixed cost, or depreciation separately, because it is already done for you on your IRS Schedule C Form.

In the following example, the numbers come from an actual farrier's business.

Calculating a break-even point from Schedule C:

Line #7: Gross income from sales — $91,500.

Line #28: Gross expenses before business use of home — $56,098.

Line #29: Profit or (loss) — $35,402. (Line #7 minus Line #28)

Line #30: Business use of home — $0 (This farrier reported none, but should have used this valuable deduction.)

Line #31: Net profit (or loss) — $35,402 (Line #29 minus Line #30)

This farrier reported attending to roughly 150 horses last year. Some of these horses were trimmed, some shod and some were trimmed and shod.

Determining the break-even point for each service is difficult and results are often inaccurate. This is because different costs are associated with each service that are also shared by each service. These include costs for vehicle, licenses, insurances, tools, fuel, etc.

Separating out these expenses per service is too difficult for the average small business owner to determine, as it requires calculating what percentage of each expense is used for each service.

Now we need to determine how many times per year the horses were seen. What was the average number of weeks the farrier visited his customers? Clearly this number can fluctuate.

This farrier provides service, on average, every 7 weeks.

We take the number of weeks in a year and divide by 7 weeks.

52 weeks/7 weeks = 7.42

This means our farrier provided service to each horse approximately 7.42 times per year. If you use a farrier software program, you will be able to look up this information rather easily.

We now multiply the number of horses in the farrier's service by the number of times seen per year to obtain the total number of times horses were seen in that year.

150 horses x 7.42 times a year = 1,113.

This means the farrier provided service for 150 horses a total of 1,113 times in the course of the year. Again, a farrier software program will allow you to look up this information easily.

The final calculation is to divide your total expenses (from Line #28 in your schedule C) by the number of horses seen in a year. In this example:

$56,098.00/1,113 = $50.40.

This means this farrier needs to charge at least $50.40 per horse in order to pay for all his expenses and break-even.

Now let's looks at what this farrier is charging and compare the price to the break-even point to determine general profit per service.

Trimming: $50.00 minus $50.40 = $ (0.40). Below break-even point or a 0.8% loss.

Trimming+2 Shoes: $95.00 minus $50.40 = $44.60. Above break-even point or a 46.9% profit.

Trimming+4 Shoes: $120.00 minus $50.40 = $69.60. Above break-even point or a 58% profit.

Taking in all the business expenses, this farrier is losing money on trimming. Now remember, this is the break-even point for all services in the entire business.

In this example, this farrier's total business is making a 38.7% profit margin, but he is struggling because he is not making enough income. That means he has to decide whether or not to increase his prices, decrease his costs and/or increase the number of horses he's providing hoof care for.

Learning the break-even point is one of the most useful things you can do for your farrier business.

Let's say you decide to offer discounts, or perhaps not charge for a product you use, such as a hoof dressing. If you know your break-even point, you'll be able to see how those decisions affect your profit.

If you determine that your break-even point is too high, then like the farrier in our example, you know you will have to increase the number of horses in your service, increase your prices and/or decrease your costs.

Crunching numbers isn't something many farriers enjoy, but taking the time to learn how to determine important concepts such as your break-even point, can help you have a successful business doing something you do enjoy — providing hoof care for horses. Ω

If you have a question or topic you'd like addressed in this column, mail it to American Farriers Journal Managing Editor Pat Tearney, P.O. Box 624, Brookfield, WI 53008-0624 or e-mail it to ptearney@lesspub.com, with Hoof-Care Bottom Line in the subject space.