Revenue & Cost Analysis

PRACTICAL CLASS #3
SPRING 2025

Agenda

1. Cost Analysis
2. Business Model Canvas
3. Group Time

Revenue is the total income generated by the sale of goods and services related to the primary operations of the business.

Costs refer to the value of resources used or foregone to achieve a specific objective, typically in producing goods or services.

Cost Essentials

- For businesses to be able to collect revenues, they need to incur expenditures to provide the goods/services sold and ensure the daily company operations. These include labour, raw materials, rent, deprecation, promotion expenses, and more

- Understanding costs is essential to understand a company's profitability, and hence its sustainability over the long term. Cost awareness is then a source of competitive advantage

- Any thorough analysis of a product or company is then relying on cost data to ensure proper resource allocation and decision-making

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Types of Costs

- **Fixed Costs** are independent of output or activity, and remain constant within different levels of sales/production. Some examples include rent, admin salaries, or insurance

- **Variable Costs** are directly related with the production of each product unit, and may then have a bigger impact on the overall company profitability

- **Explicit Cost** are actual monetary expenses a company incurs while conducting business operations. These costs involve direct payment or a cash outflow.

- **Opportunity Costs** are the value of the next best alternative that must be forgone to pursue a certain action or decision.

- **Implicit Costs** are a type of opportunity cost that specifically relates to internal resources. They do not involve a direct cash outlay but are related to the firm's own resources.

- **Sunk Cost** is a cost that has already been incurred and cannot be recovered, regardless of future decisions. Since it cannot be changed, it should not influence decisions.

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Profit

Is the financial gain a business or individual makes after subtracting all costs from total revenue

$$\text{Total Profit} = \text{Total Revenue} - \text{Total Cost}$$

$$\text{Total Profit} = (P \times Q) - (\text{FC} + \text{VC} \times Q)$$

Break Even

The **break-even point (BEP)** is the level of sales at which total revenue equals total costs, meaning there is **no profit and no loss**. It is the point where a business covers all its expenses but has not yet started making a profit.

$$\text{Break-Even Point (in units)} = \frac{\text{Fixed Costs (FC)}}{\text{Price per Unit (P)} - \text{Variable Cost per Unit (VC)}}$$

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Business Model Canvas

It is a strategic tool that helps businesses and entrepreneurs visually map out and develop their business model.

It consists of **nine key components** that define how a business creates, delivers, and captures value:

1. Key partners - Who helps the company to succeed?
2. Key activities - What are the company's core operations?
3. Key resources - What assets are essential for the company?
4. Value proposition - Why do customers choose this product?
5. Customer Relationships - How does the company engage with customers?
6. Channels - How does the company sells their product?
7. Customer Segments - Who buys the product?
8. Cost Structure - What are the company biggest expenses?
9. Revenue Streams - How does the company make money?

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Create Tesla Business Model Canvas

👤 Key Partners	☑ Key Activities	🍃 Value Proposition	😀 Customer Relationships	👤 Customer Segments
	⚙ Key Resources		👁 Channels	
💲 Cost Structure			💰 Revenue Streams	

Key Partners

- Battery suppliers
- Raw material suppliers (mining companies for lithium, nickel, etc.)
- Manufacturing & automation equipment suppliers
- Government incentives & sustainability programs

Key Activities

- Vehicle manufacturing & R&D
- Battery innovation & supply chain management
- Software development
- Expansion of charging network
- Marketing through social media & events

Key Resources

- Gigafactories
- Battery technology & supply chain
- Autonomous driving AI & data collection
- Tesla Supercharger network
- Strong brand & customer base

Value Proposition

- Sustainable & zero-emission electric vehicles
- High performance & acceleration
- Autonomous driving
- Supercharger network for fast charging
- Minimalist, futuristic design

Customer Relationships

- Direct online & in-store sales (no dealerships)
- Tesla mobile app for remote vehicle control & service
- Software updates that improve car performance
- Strong brand community & customer loyalty

Channels

- Online direct-to-consumer sales
- Tesla showrooms
- Word-of-mouth marketing
- Social media influence

Customer Segments

- Tech-savvy & early adopters
- Eco-conscious consumers
- Luxury car buyers
- Businesses & government fleets

Cost Structure

- Car production & manufacturing (Gigafactories, robotics, labour)
- Battery technology R&D
- Software development
- Supercharger network expansion & maintenance
- Logistics, delivery, and after-sales service

Revenue Streams

- Car sales
- Full Self-Driving (FSD) & software subscriptions
- Supercharger network usage fees
- Vehicle servicing & repairs