

FIXED AND VARIABLE COSTS EXPLAINED



Running a business is hard, especially as an owner-operator. Knowing how to optimize your costs can make running your business smoother and simpler. When you can identify the difference between variable and fixed costs, you can optimize the running of your business into a profitable and well-oiled machine.

KNOW THE INS AND OUTS OF THE EXPENSES OF YOUR BUSINESS



What are Fixed Costs?

Fixed costs are any expenses that are paid on a month-to-month or annual basis. Whether the business makes money or not, these costs remain the same every month. A company cannot avoid these costs and often has very little to do with production or services provided every month. Fixed costs include license fees, insurance, interest payments, and other fees that are paid regularly. No matter how far you drive your truck each month, these costs do not change.

What are Variable Costs?

Variable costs are dependent on how much you drive. These are incurred on the basis of the products and services that you incur every month. A few examples of these costs will include fuel, tires, and maintenance for your truck so that you can run your business optimally. These expenses entirely depend on the costs for distances that you travel in your truck and the other items that make moving a load possible.



FIXED AND VARIABLE COSTS EXPLAINED, CONT.



Budget Your Business Expenses

Costs do not stay the same every month when running a business. Creating a budget for your business is integral to running a viable enterprise on a long-term basis. Knowing the difference between fixed and variable costs for your business is incredibly important. Implementing that knowledge can help optimize your profits.

Knowing your costs is important. If you have a fixed payment for your vehicle every month, the distance you drive impacts that cost. For example, you've bought a new truck and the payment is \$2000 per month. This is a fixed cost that you will have to pay every month, whether you have done any business. The number of miles you drive is directly proportional to that fixed cost. If you drive 10,000 miles that month, your truck payment cost per mile is \$0.20. In contrast, if you drive 100,000 miles that month, your truck payment cost per mile is \$0.02.

That example is simple and only uses a truck payment as a fixed cost. To calculate your total cost per mile, divide your total expenses for the month by the total number of miles you've driven that month. This will give you your overall cost per mile for that month.

Being fully aware of how you can optimize the running expenses of your business creates better profits and a solid business plan, leading you to success.

Being your own boss comes with lots of upsides but presents its share of challenges too. Let TBS Factoring help you overcome some of those challenges with our cash flow solutions, truckers bookkeeping services, back-office support, DOT compliance services, insurance help, trucking permit services, and more. That way you can focus on what's most important: building your business.