Economics of One Unit

Economics of one unit - the profit or loss for each unit or item sold

Juan's t-shirt shop buys plain t-shirts in bulk and customizes them using customer-supplied graphics.

They sell the shirts at $10.00 each. Let's look at how Juan calculated the EOU for custom t-shirts:

This table breaks down the variable costs involved in producing a single shirt. It provides the contribution margin; the amount per unit that a product contributes toward the company's profitability before the fixed expenses are subtracted.

To find the economics of one unit of sale in dollars, you subtract the **variable** expenses that you will use to produce/supply the product or service for a single unit from the unit's selling price. You'll hold your fixed costs to the side right now because those expenses are paid by the money you earn from all of your sales, not just this one product.

Cost of Each Shirt – Variable Expenses			
Cost of Goods Sold			
Cost per shirt	$3.00		
Labor & Materials	$3.00		
Total Cost of Goods Sold		**$6.00**	
Other Variable Expenses			
Shipping	$2.50		
Handling	$0.25		
Total Other Variable Expenses		**$2.75**	
Total Variable Expenses			**$8.75**

The total variable expenses are found by adding the cost of goods sold to the other variable expenses. Now, let's finish calculating the EOU.

Economics of one unit (EOU):		
Selling price per unit (shirt)	$10.00	
Expenses per unit		$8.75
Profit per unit of sale	**$1.25**	

Note: if the expenses per unit were higher than the selling price per unit, Juan would have a loss instead of a profit.

We will look at this more closely in future modules as we review business finances.