

Assignment - Week 1

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Case Study Based Unit Economics

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Q=1 1 Unit in this scenario?

⇒ 1 unit in this scenario is a single game licence (GL)
Each person who buys the game & pays \$20 contribute 1 unit.

Q=2 Variable cost per unit? 2% credit card fees, 8% of sales tax & 30% of game platform fee

⇒ Variable cost per unit = (Credit Card fee + Sales Tax + Game platform fee) × GL
$$= (0.02 + 0.08 + 0.3) \times 20 = \$8.00$$

Q=3 fixed period costs (per month)?

⇒ fixed period costs per month = Salaries for returned team + Website building cost + Marketing cost
$$\$20,000 + \$5,000 + \$15,000 = \$40,000$$

Q=4 Calculate PSI (Primary sunk Investment)

⇒ PSI = Total Salary for Contracted team × no. of months to complete the game
$$\text{PSI} = \$40,000 \times 4 \text{ months} = \$160,000$$

Q=5 Contribution for Unit & Break-even units per month

Contribution per Unit = SP per unit - VC per unit
$$= \$20 - \$8 = \$12$$

Break even units per month =
$$\frac{\text{Fixed period costs}}{\text{Contribution per unit}} = 3333.33 \text{ units}$$

Q=6 Pre-tax Cash flow/month?

⇒ (Units sold × Contribution per unit) - fixed period cost
$$= 2500 \text{ units} \times \$12 - \$40,000 = -\$10,000$$