Simplistic Financial Computations; Basic Static Concepts

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Abstract

This document explains how simple financial estimates can be made by system architects. These simplistic estimates are useful for an architect to perform sanity checks on proposals and to obtain understanding of the financial impact of proposals. Note that architects will never have full fledged financial controller know how and skills. These estimates are zero order models, but real business decisions will have to be founded on more substantial financial proposals.

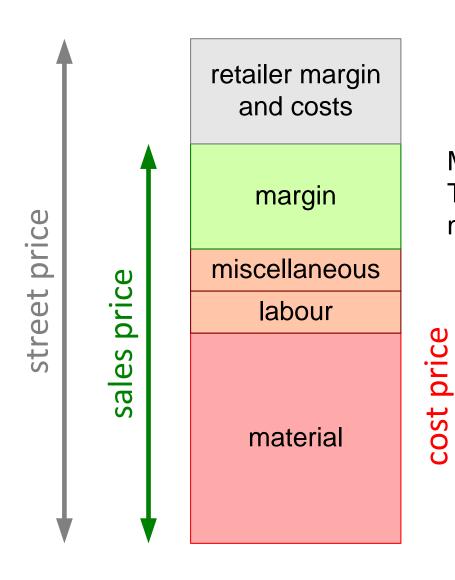
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logo **TBD**

Product Margin = Sales Price - Cost



Margin per product. The margin over the sales volume, must cover the fixed costs, and generate profit

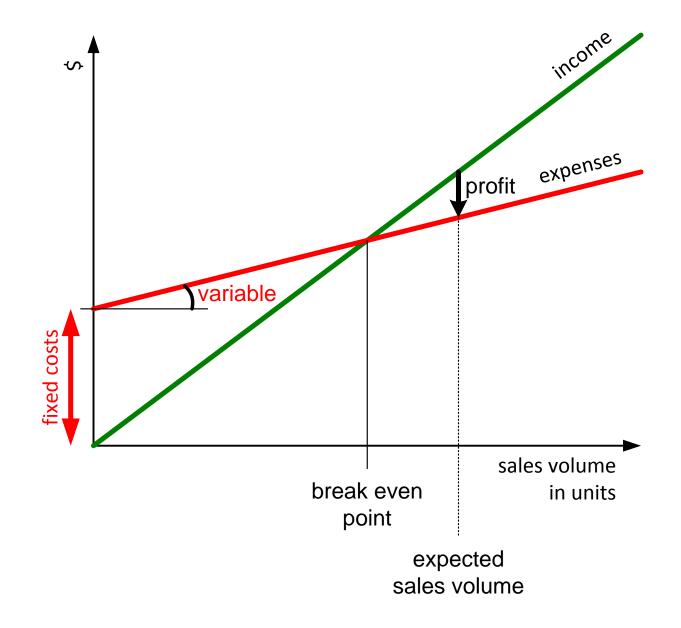
transportation, insurance, royalties per product, ...

Cost per product, excluding fixed costs

purchase price of components may cover development cost of supplier



Profit as function of sales volume





Investments, more than R&D

financing

marketing, sales

training sales&service

NRE: outsourcing, royalties

research and development

business dependent: pharmaceutics industry sales cost >> R&D cost

strategic choice: NRE or per product

including: staff, training, tools, housing materials, prototypes overhead certification

often a standard staffing rate is used that covers most costs above: R&D investment = Effort * rate



Income, more than product sales only

other recurring income

services

options, accessories

products

income_{service}

sales price_{option} * volume_{option}
options

sales price_{product} * volume _{product}

license fees pay per movie

content, portal updates maintenance