



PROFITABILITY ANALYSIS

Company: Manufacturing Company Example
Statement: Manufacturing Company Statement
Reference Industry: 3086 - Plastics Foam Products (40 companies)

Return on Asset Investment Improvement Worksheet I

The effectiveness of some of the methods of ROAI improvement suggested below is dependent on your percentage of variable costs in your total expenses and your accurate estimate of it is important for this analysis.

Percentage of Variable Costs
Assumed %

Method 1 **Price Increase**
Assumed % results in ROAI of **36.48 %**

Gross Margin	Bottom	Median			Top
Company current: 44.00 %					NOW
New estimated: 49.09 %	10%	25%	Median	25%	NEW
Industry Indicator:	<input type="text" value="0.00 %"/>	<input type="text" value="17.17 %"/>	<input type="text" value="26.21 %"/>	<input type="text" value="33.79 %"/>	<input type="text" value="48.61 %"/>
Price Increase needed:					<input type="text" value="8.97 %"/>
Resulting ROAI:					34.22 %

Your Gross Margin is significantly above the average for your industry and you should only raise prices after you have carefully estimated how this will change your competitive position. A price increase may lead to lower demand and your current Gross Margin provides an indication that higher prices may be difficult to implement.

Method 2 **Unit Sales Increase**
Assumed % results in ROAI of **24.14 %**

Assets to Sales	Bottom	Median			Top
Company current: 55.41 %					NOW
New estimated: 50.38 %	10%	25%	Median	25%	NEW
Industry Indicator:	<input type="text" value="74.64 %"/>	<input type="text" value="55.67 %"/>	<input type="text" value="42.86 %"/>	<input type="text" value="30.29 %"/>	<input type="text" value="20.82 %"/>
Sales Increase needed:			<input type="text" value="29.29 %"/>	<input type="text" value="82.98 %"/>	<input type="text" value="166.15 %"/>
Resulting ROAI:			42.80 %	94.73 %	175.18 %

Your performance in the Assets to Sales ratio is below the average for your industry and this may indicate that it is possible for you to implement a strategy to increase sales without major investment in new assets. You should carefully consider actions that might be taken to increase your sales volume as this might improve your Return on Asset Investment.

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Return on Asset Investment Improvement Worksheet II

Method 3 **Variable Expenses Decrease** % results in ROAI of **26.81 %**
Assumed

Many entrepreneurial firms find that it is possible to decrease variable expenses. Variable expenses are those costs that change with your volume of sales and include such items as direct labor, shipping and telephone expenses. You should carefully evaluate your variable expenses to determine if any may be reduced to improve your performance in Return on Asset Investment.

Method 4 **Fixed Expenses Decrease** % results in ROAI of **22.70 %**
Assumed

Fixed expenses are those costs that do not vary with your sales volume and include such things as property taxes, depreciation and salary. You should carefully evaluate your fixed expenses to determine if any may be reduced to improve your performance in Return on Asset Investment.

Method 5 **Amount Invested Decrease** % results in ROAI of **16.08 %**
Assumed

Asset Investment to Sales	Bottom	← NOW NEW →			Top
Company current: 45.43 %					
New estimated: 40.89 %	10%	25%	Median	25%	10%
Industry Indicator:	57.57 %	44.59 %	32.20 %	16.21 %	9.85 %
Amount Invested Decrease needed:		1.86 %	29.12 %	64.33 %	78.32 %
Resulting ROAI:		14.74 %	20.41 %	40.56 %	66.74 %

Your asset investment related to sales is well above the average for your industry and this might indicate that it may be possible for you to reduce your asset investment. As you review your assets for potential reduction, you should carefully evaluate each asset to see if a reduction can be made as this will improve your Return on Asset Investment.

Overall Effect

The results of the methods of ROAI improvement shown above are based on the assumption that each of them is applied separately, whereas a combination of them could be both more realistic and effective. If you find it possible to implement all of the above methods at the rates specified, the overall effect of that will be as follows:

Resulting ROAI **77.95 %**

Resulting Earnings On / Cost of Debt Spread **71.20 %**