Profitability Frame Work :— ① How to increase the margins of a Company ?

⑪ How to increase the sales of company ?

⑫ Company experiencing drop in profitability ?

Profit & Loss / Income Statement $\underset{\text{3 parts}}{\Big\langle}$ Revenue / Sales
Cost / Expenses
Profits / Margins .

Profit / Margins = Revenue − Cost .

a) Revenue ⇒ $\Big\langle$ Price of selling.
Quantity
i.e $R = P \times Q$.

eg:— selling 10 choclates at ₹50. then Revenue = 50×10
R. = 500 ₹

In Real life cases a company has many products to sell instead of just one. & each product has different price

i.e Revenue $= (P_1 {}^* Q_1) + (P_2 {}^* Q_2) + \ldots + (P_n {}^* Q_n)$

How Price & Quantity always go hand in hand.

eg:— If price increases. then no. of sold quantity decreases as there will be fewer customers to buy it at increased price

€ Price Elasticity :— The relationship btw Price & Quantity.

Q&A's ① Why is the revenue of a particular company is dropping ?

↳ Ans :− Either price could be dropping or Quantity

We'll have to analyze the reasons behind decrease # in
Price OR Quantity.

① <u>Price</u> :- ① Now price going down is basically a factor of competition increasing quite a bit.

⑪ Offers / Discounts ⇒ leading to more Marketing cost & decline in Revenue.

⑫ Demand of product is low & Supply is high.

② <u>Quantity</u> :- ① Not enough demand for the product in market

⑪ Generally a Bad Quality product.

⑫ Product no longer being able to address / satisfy people's demand OR Solve customer problems.

⑬ Issue in distribution ⇒ Not targetting high demand customer segment enough / Supply chain issue

⑭ Lower Inventory Vs Demand ⇒ Not able to manufacture at a faster pace

✗ After analyzing all these parameters coming to the objective of increasing revenue.

① Considering Price Elasticity eqⁿ consider increasing price

Revenue side or quantity.

② Can we increase our quantity sold by selling more by increasing the quality of product / by improving distribution / Supply chain.

How Exploring the Cost side of → Profits

Cost :- Cost has 2 components / variables < Direct / Variable
                                            Indirect / Fixed

Direct :- ① Direct cost are variable cost i.e Higher the
          Quantity of the product that we are
manufacturing the higher is it cost. (AKA COGS Cost of Goods sold)
② Marketing cost :- This too has Fixed & variable component
          The higher the no. of product sold it will
require that amount of marketing

⑧   InDirect :- ① Fixed in Nature. eg:- If we have a
          manufacturing plant we can produce 10 Qty or
100 Qty's → The total amount of maintainance cost of the
factory would be same / fixed. → Here the more the no. of
units produced is better for the company.
          ② Overhead expenses :- Hiring people / resources and
                    paying salary to them irrespective of
the amount of work that varies b/w Month to Month.
          �iii) Office space / Equipment :- Amount of Rent / Electricity
                              Maintenance cost -

a) Revenue - Direct cost → Gross Margins

b) Gross Margins - Indirect cost → Operating Profit / EBIT
                    Non-Operating cost
c). Operating profit - (Interest + Taxes) → Net Profit / PAT

Direct cost :- What are some of the reasons why DC could be increasing.

- **Reasons** :- (i) Cost of raw material might be increasing
   (ii) Cost of Supply → Supplier might increases prices.
- (iii) Transportation cost → Increases if we buy it from a distant place.

Indirect Cost :- What could be some of the reasons for increase in Fixed cost.

(i) · If we are not able to be enough productive. Of the Services / land that we have rented on. Yearly basis then our per unit price would be more. Indirectly.
   ↳ Here we need to increase Utilization. Of Manufacturing plant at 100%

Profitability ⟨
   → Revenue · → Price × Qty.
   ↳ Cost ⟨ Direct cost
           Indirect cost