

$$\text{Profitability} = \text{Revenue} - \text{Cost}$$

Revenue Drivers

Quantity \rightarrow market share, customer frequency.

Price \rightarrow discounts, promotions etc.

Cost Structure

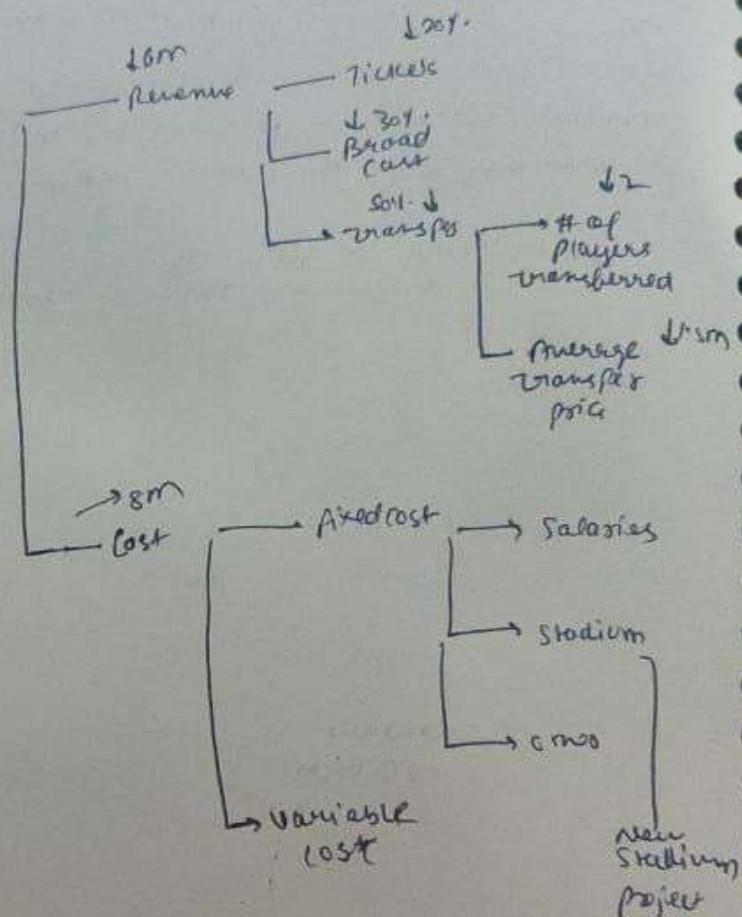
Fixed costs \rightarrow Rent, salaries, insurance.

Variable costs \rightarrow materials, direct labour.

Semi-variable costs \rightarrow fixed & var components

Arsenal's profit challenge →

developing a strategic set
that enables Arsenal
Football Club to achieve
from a monthly operating
loss of £2 million to a
monthly profit of £2
million - closing a £4 million
profitability gap



freezing stadium project.

consultant fit ecosystem around it

distinguish core & non core operations
preserve core, trim non core

Creston Utility Profit Decline

Questions — Define

Utility — 0

A regulated power generator

What is business model — 1 Power plant & sell transmission and
cables — in 1994

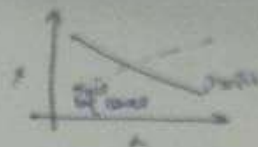
When did this occur — 12 months ago

Financial objectives — increased 1.2 billion USD

By when may want this fixed — 1990

never work in percentages

Profits are driven by revenues & cost



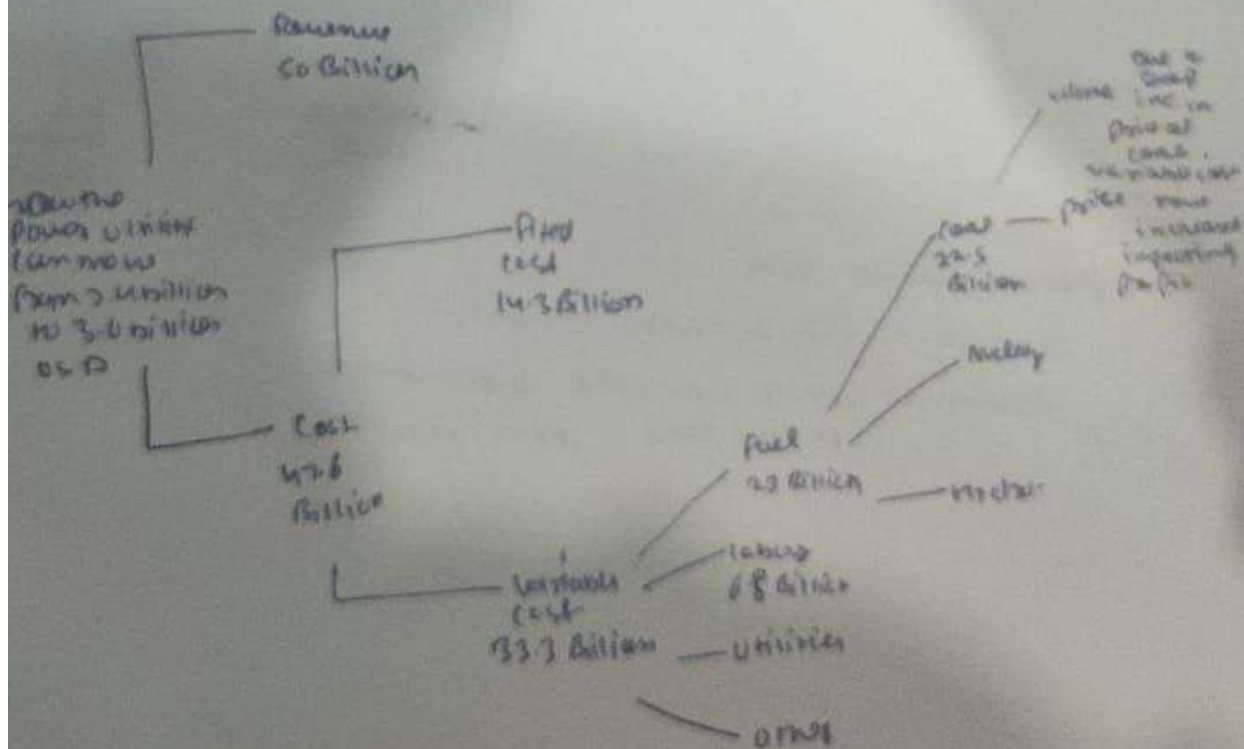
Level 1

Level 2

Level 3

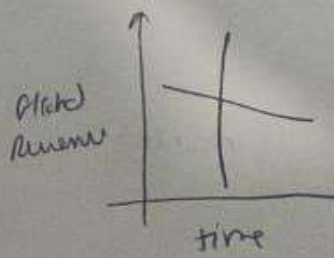
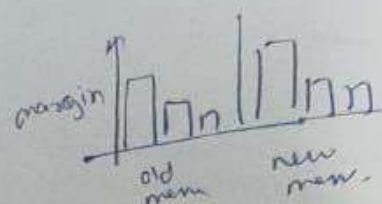
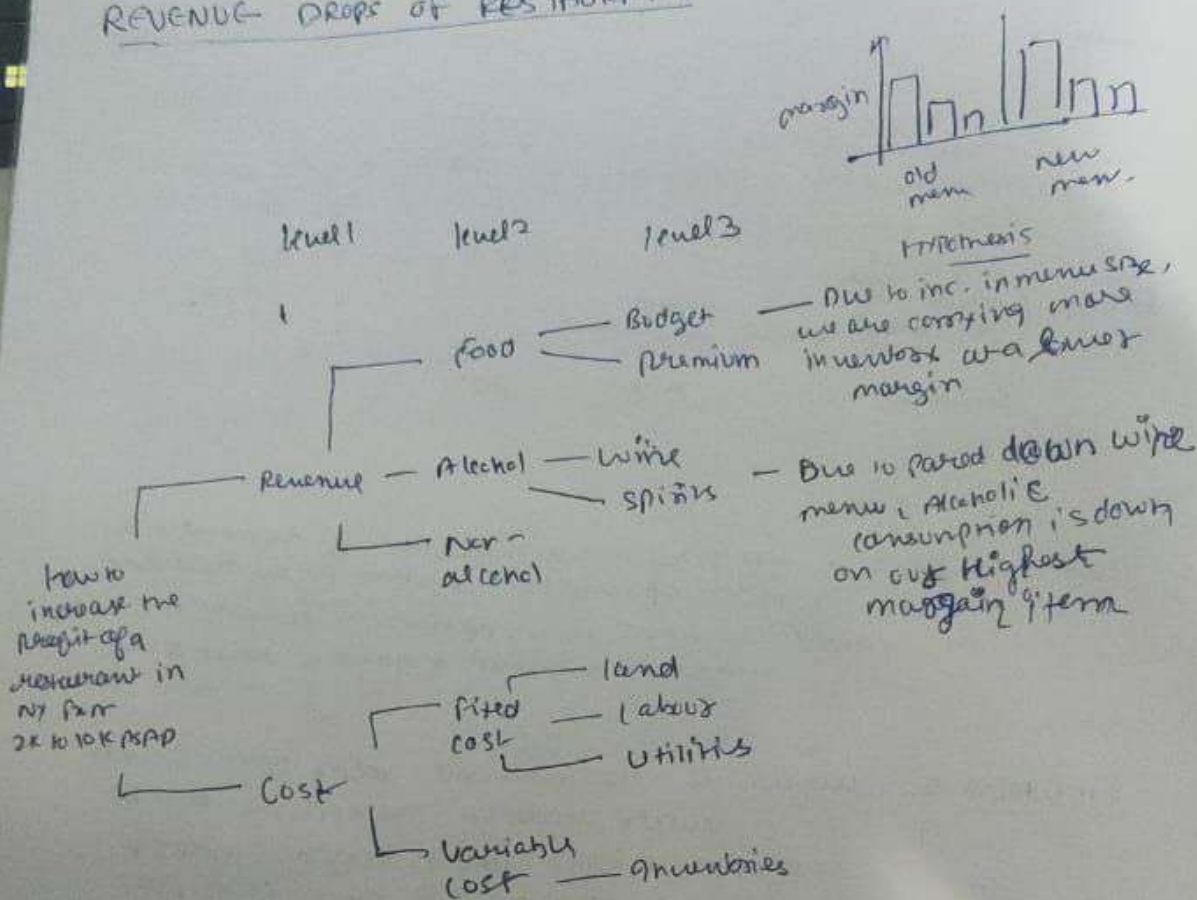
Level 4

Level 5



option	Resistance	Disruption
Find new contract	low	medium
Get a new supplier	medium	medium
Buy a new unit	high	high

REVENUE DROPS OF RESTAURANT

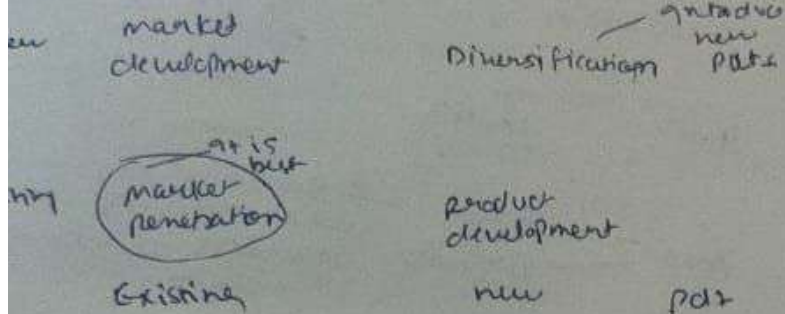


WRAP-UP →

break down into structured problem using decision tree

Ansoff matrix

Anchor



Other analysis - It may involve huge amt of investment ex. acquisition of direct competitors in the relevant market segment or competitors in another customer segment to quickly reach scale

FINDINGS-1 - we would recommend mem could launch leather shoes in the existing market for higher profit margins because the mix of shoes & bags could pull utilize store space & generate most volume sales

FINDINGS-2 - international diversification

CASE STUDY

NETFLIX PROFITABILITY

✓ make sure objectives are clear.

★ clarify objectives

- (1) increase profit (revenue - cost)
- (2) from 200 million to 300 million (100 million increase)
- (3) within 6 months - Time

SMART approach

Specific
measurable
Achievable
result-focused
time bound

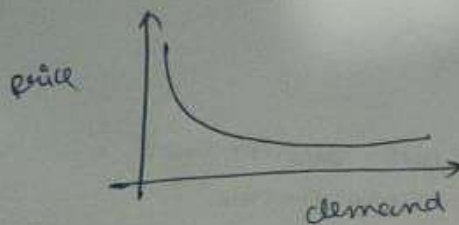
Objective - wants to increase
profitability 50% within
6 months.

Decision tree - A decision tree support tool that uses a tree like graph or model of decisions and their possible consequences, including chance event outcomes, resource costs and utility

PARETO PRINCIPLE (80-20 rule).

roughly 80% of effects come from 20% of causes

Price & demand

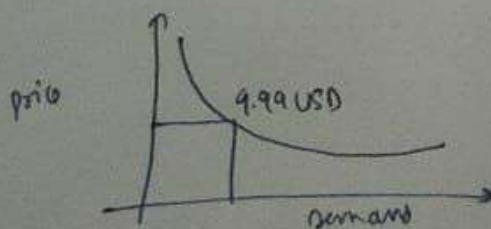


price - elastic -
consumer is in
position to change
demand in response
to change in price.

price goes ↑ consumer shifts

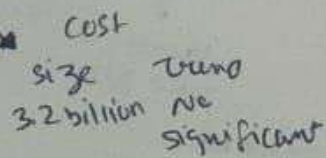
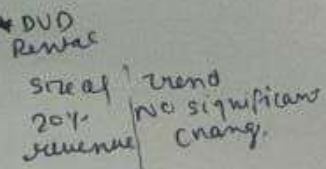
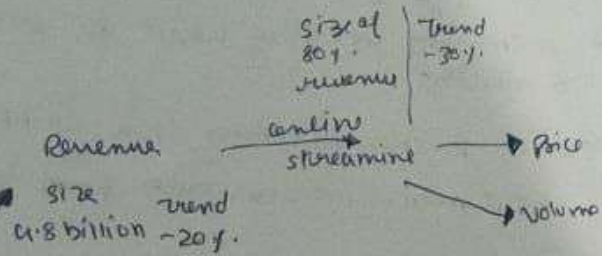
Recommendations

(1) lower price back to 9.99 USD/month



(2) increase subscription level.
Because first increase
price then decrease
may - will impact customers

Netflix
wants to
increase profitability
by 50%. From 200 million
to 300 million within
6 months



CASE STUDY

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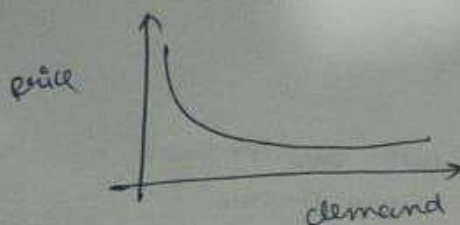
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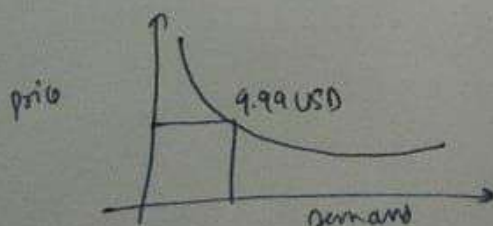


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increase subscription levels

Entry level subscription	Up to 30 movies	Standard definition display	\$7.99.
Medium level subscription	Unlimited movies	Standard definition display	\$9.99
High end subscription	Unlimited movies	HD	\$14.99.

(3) Change subscription model →

currently Netflix is traditional model customer have to pay upfront cost

(1) Add a trial period.

(2) Switch the model to freemium

- add advertisement for free membership
- remain current subscription option for paid membership

CASE FEEDBACK - .

putting key drivers into decision tree is crucial to solve the case

Use data to support your analysis