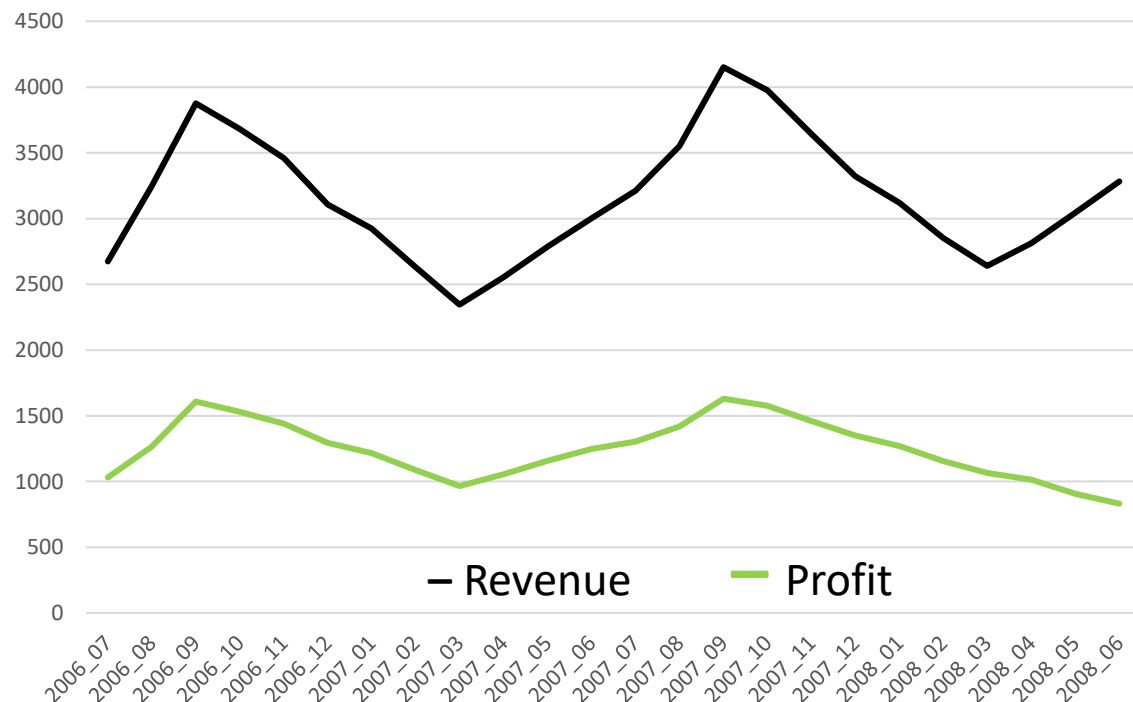


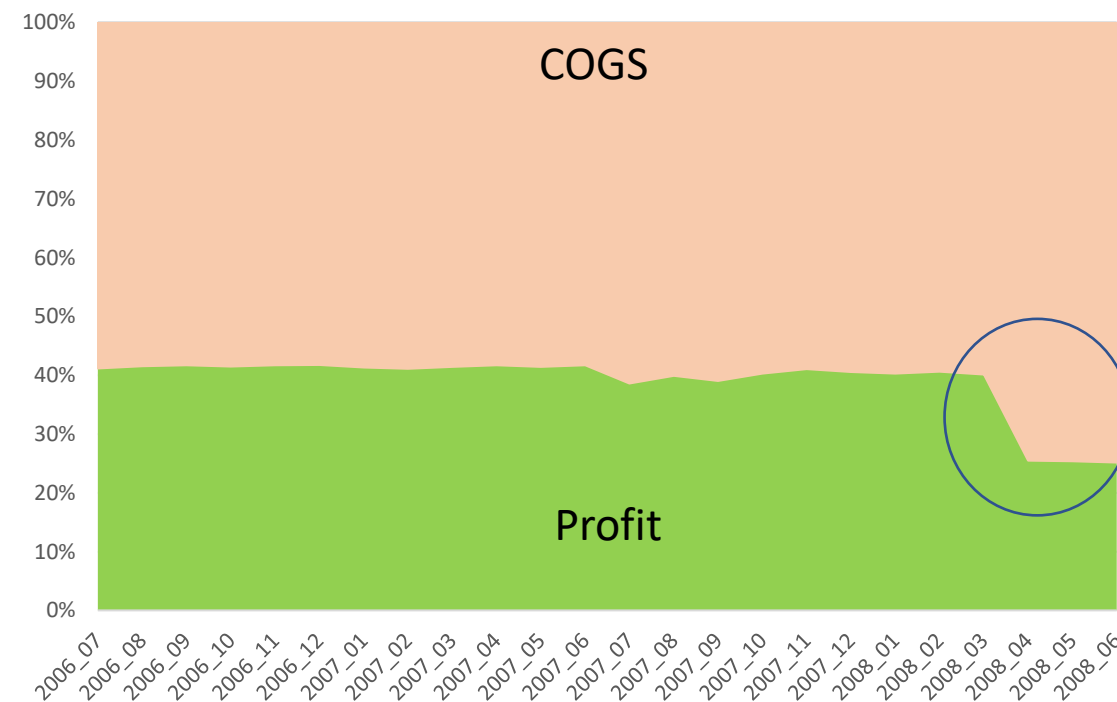
Adventure Work Cycles. The Profit Decline Case

Profit Decrease: The Data for Last 2 Years

Revenue vs Profit*



Share of COGS and Profit in Revenue

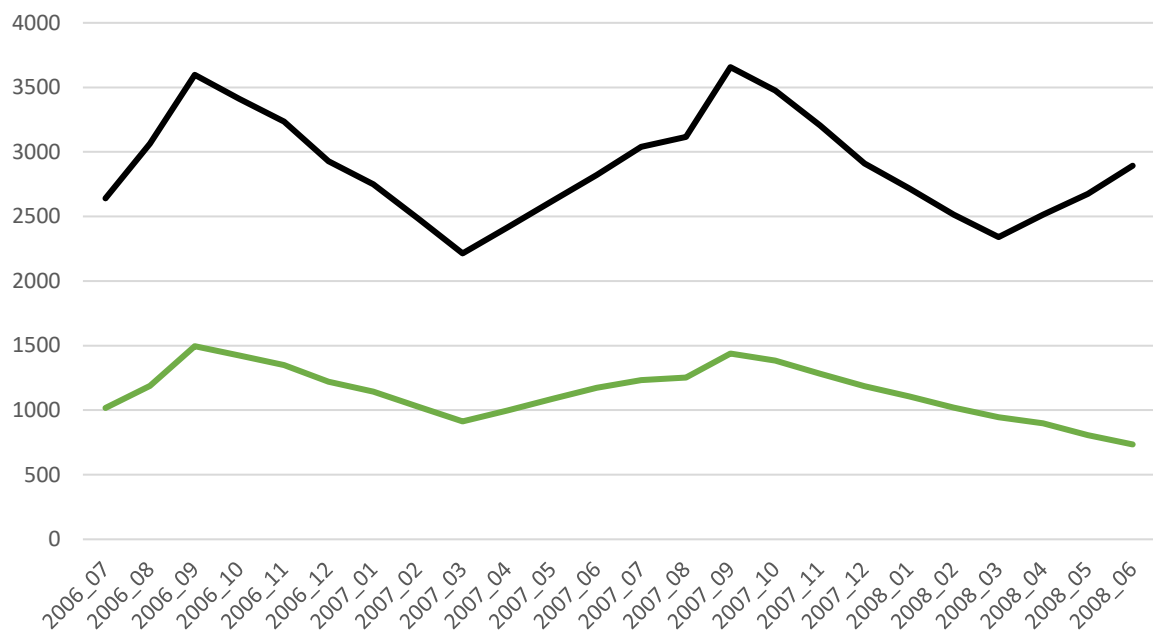


- Revenue is stable with some seasonal effects, but profit dropped considerably in the Q2 2008.
- A Profit Margin ($\text{Profit}/\text{Revenue}$) fell by 15% from 40% to 25%
- That can be explained by a cost increase that led to lower profit even though revenue was stable.

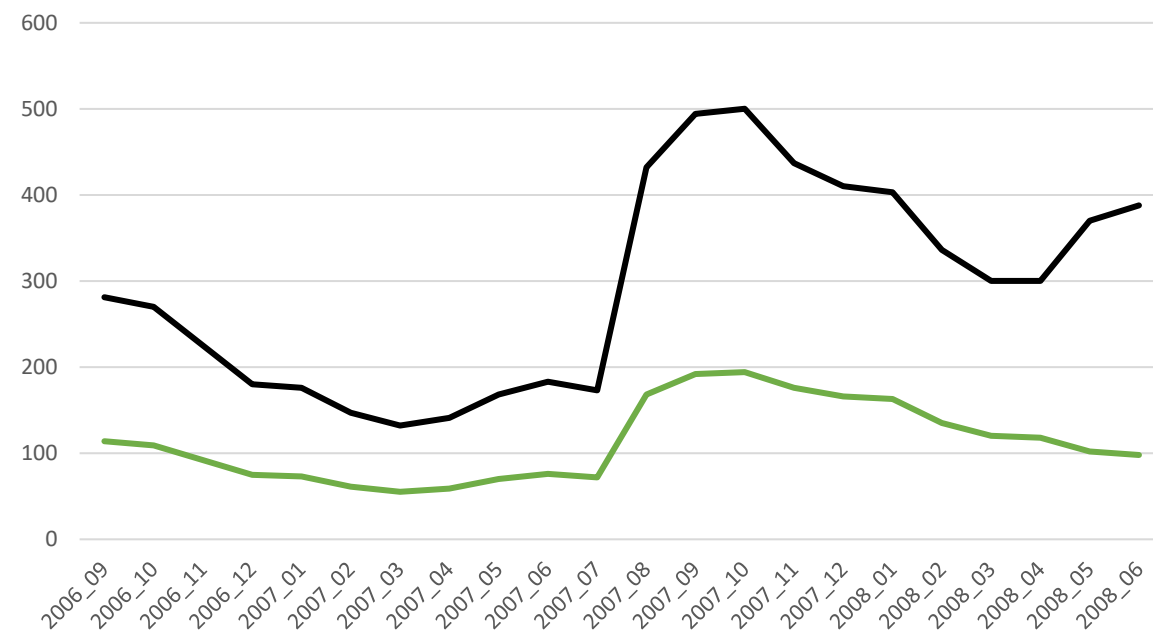
* Rolling monthly average for 3 months, Thousands

Data for Customer Regions

Revenue vs Profit*, the USA



Revenue vs Profit*, France



— Revenue

— Profit

- We observe the same effect both in the USA and France: a profit decline due to a cost increase
- An average profit margin fell from 40% to 25% for both countries from 2008 Q1 to 2008 Q2

* Rolling monthly average for 3 months, Thousands

Data for Product Categories



Bikes

81% of Revenue

39% Old Margin

24% New Margin



Components

16% of Revenue

45% Old Margin

30% New Margin



Clothes

2% of Revenue

48% Old Margin

33% New Margin



Accessories

1% of Revenue

63% Old Margin

53% New Margin

- We observe a profit margin fall between March 2008 and April 2008 for all 4 product categories' revenues
- For 3 main categories (Bikes, Components, Clothes) a margin fall amounted to 15%.
- Therefore, a cost increase influenced costs of products withing all categories.

Product Level Examination and Conclusions

- The exploration on the product unit level has showed that there was a cost increase of **25%** between March 2008 and April 2008
- This cost increase influenced all products within all product categories in all customer regions
- This cost increase resulted in the decline of profit. Particularly, we observe the profit margin drop from 40% to 25%

Potential Solution that Can be Explored

- To compensate for the cost increase, we can adjust prices. However, this can potentially lead to lower selling quantities. To implement this, we need first to explore the potential effect of higher prices on our revenue
- We can try to increase revenues without adjusting prices. For example, we can enter Germany or other European countries. In this case our absolute profit will grow. However, this will result in higher profit but the same lower profit margin that can be a negative sign for our investors
- We can try to promote product categories with a higher margin. E.g., the margin of accessories is 53%. If we manage to increase a share of accessories in our revenue, it will help to increase both profit and profit margin.