

Executive Summary

This report analyses the company's monthly profit margin performance across the year. Although the business recorded a net annual profit of approximately \$9,000, the overall financial performance shows high instability and weak profitability.

The analysis reveals that profits were driven by only a few strong months, while several loss-making months significantly eroded gains. This indicates that the business is operating with thin margins, poor cost control, and high exposure to financial risk.

2. Overall Performance Overview

- The company experienced frequent fluctuations between profit and loss throughout the year.
- There is no consistent upward trend in profitability.
- Large negative months nearly wiped out gains from profitable periods.
- Without a few exceptional months, the business would have ended the year at a net loss.

Conclusion:

The company survived the year financially but did not perform sustainably.

3. Monthly Profit Margin Analysis

Profitable Periods

March: Moderate profit growth

July & August: Stable mid-year performance

October: Highest profit month of the year

December: Strong year-end recovery

These months demonstrate that the business can be profitable under the right conditions.

Loss-Making Periods

May: Significant loss

September: Marginal loss

November: Largest loss of the year

The November loss alone exceeded the profit of several positive months combined, making it the single biggest contributor to weak annual performance.

4. Key Insights

Insight 1: Profitability Is Highly Volatile

Monthly profit swings indicate inconsistent pricing, cost management, or demand planning. This volatility increases business risk and makes forecasting unreliable.

Insight 2: Heavy Dependence on Few Months

October and December account for a disproportionate share of annual profit. Over-reliance on limited periods exposes the business to serious risk if those months underperform.

Insight 3: Poor Cost Control During Peak Periods

Despite strong sales potential in Q4, November recorded the worst loss. This suggests:

- Excessive discounting
 - High advertising spend with low conversion
 - Increased returns or logistics costs
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Insight 4: Annual Profit Is Critically Low

Ending the year with only ~~£~~9k profit indicates that:

- Margins are too thin
 - Operating costs are too high
 - Revenue growth is not translating into profitability
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5. KPI Tracking for Better Financial Control

To improve profitability and prevent unexpected losses, the business must shift from end-of-month reporting to real-time performance control using key KPIs.

Core KPIs to Track:

1. Profit Margin (%)

- Measures efficiency, not just revenue.
- Helps identify months where costs outweigh gains.
- Enables comparison across periods and products.

2. Cost per Order (CPO)

- Reveals hidden increases in fulfilment, logistics, and marketing costs.
- Prevents selling at a loss unknowingly.

3. Advertising Spend vs Profit

- Ensures marketing activities generate real profit, not just sales.

- Identifies unprofitable campaigns early.

4. Return & Refund Rate

- Highlights product quality, customer expectation, or logistics issues.
- Explains profit drops despite strong sales.

5. Monthly Net Profit Trend

- Acts as an early warning system.
- Detects declining performance before losses escalate.

6. Strategic Recommendations

1. Investigate Major Loss Months Immediately

Focus on May and November to identify root causes such as ad overspend, discounts, or operational inefficiencies.

2. Stabilise Monthly Performance

Shift focus from occasional large profits to consistent monthly profitability.

3. Strengthen Q4 Planning

Improve demand forecasting, inventory planning, and promotional control during peak seasons.

4. Prioritise Margin Over Revenue Growth

Focus on higher-margin products and cost efficiency rather than sales volume alone.

5. Implement a KPI-Driven Dashboard

Use real-time KPIs to monitor performance and take corrective action early.

7. Final Business Conclusion

While the company achieved a positive annual result, its profitability is fragile and unsustainable in its current form. Without improved cost control, KPI monitoring, and strategic planning, the business remains highly vulnerable to future losses.