

## A Real Increase in Profitability?

The table below highlights a firm that has dramatically increased its profitability in a few years. But they have focused on a short-term, not long-term, basis and you need to determine what impact this may have.

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>
<b>Sales</b>	<b>20m</b>	<b>19.50m</b>	<b>18.6m</b>	<b>16m</b>
Costs	5m	4.75m	4.6m	4m
Operating profit	15m	14.75m	14m	12m
New product development	2m	1m	0.5m	0m
Promotional expenditure	4m	3m	2.5m	1m
Sales force commissions	2m	1.75m	1.5m	1m
Total 'future' investment	8m	5.75m	4.5m	2m
<b>Net Profits</b>	<b>7m</b>	<b>9m</b>	<b>9.5m</b>	<b>10m</b>

### **Student Discussion Questions**

1. Based on the bottom-line net profits figure only, how happy would the firm be with these results?
2. Essentially, how has the firm been able to deliver these profit results?
3. What concerns do you have for the firm? Do you see their profitability continuing to increase?
4. What advice would you have for the management of this firm?