#120th Marketing Club

5th Dubai 80th Business Club

Practicing Profit Management

Tuesday 12-12-2023

8 PM EGY **9 PM** KSA **10PM** UAE

FOUNDER & HOST

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Biography

- ✓ Pharmacist
- ✓ Graduated from the faculty of Pharmacy, Alexandria University, 2007
- ✓ MBA Holder- Advanced Marketing.
- ✓ 16 years of diversified experience in Egypt, KSA & GCC.
- ✓ Experience in product launches, P&L management, leadership and managing teams
- ✓ Passionate about training, public speaking, sales ,and marketing management & business consultations
- ✓ BUH –Takeda.

What will happen if companies don’t focus on profit ?

If companies don't focus on profit, they may **struggle** to :

- **Stay competitive**
- **Attract investors**
- **Continue operating in the long term.**

Profit is a key factor in a company's ability to sustain itself, pay bills and employees, invest in research and development, and grow the business. Without a focus on profit, a company may not have the resources to achieve its goals or fulfill its mission.

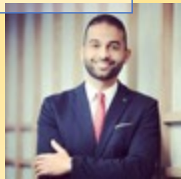
Examples of companies that have expanded due to profitability:

Amazon: With its beginnings as an online bookstore, Amazon has grown into one of the largest e-commerce companies in the world. Due to its profitability, Amazon has expanded into various industries, including cloud computing, grocery retail, and streaming entertainment.

Starbucks: Starbucks started as a single coffee shop in Seattle in 1971. Through a focus on quality and customer experience, Starbucks has expanded into over 30,000 locations worldwide, serving coffee and food products.

Apple: Apple's success in personal computing led to the expansion of the company into other technologies such as smartphones, MP3 players, and laptops. With each product’s success, Apple has expanded into new markets, helping the company to become one of the most profitable in the world.

Google: Originally a search engine, Google has expanded into advertising, online productivity tools, and mobile operating systems. Due to successful diversification, Google has become one of the world's most successful and profitable tech companies.



Examples of companies that have failed due to profitability:

Blockbuster: The popular video rental store chain shut down in 2013 due to declining revenue as customers shifted towards online streaming services.

Kodak: Formerly a leader in photography and film, Kodak went bankrupt in 2012 as digital photography became more popular and traditional photography declined.

Toys "R" Us: The toy store chain filed for bankruptcy in 2017 and eventually shut down all of its stores due to intense competition from online retailers like Amazon and Walmart.

RadioShack: The electronics store chain filed for bankruptcy in 2015 and closed most of its stores due to increased competition and declining sales.

Agility ???

How Can Marketing Manager Increase Profitability ?

There are several strategies a marketing manager can adopt to increase company profitability. Here are some suggestions:

1. Targeted Marketing Campaigns: Develop marketing campaigns that specifically target the most profitable customer segments.

2. Pricing Strategies: Review the company's pricing strategy . This could involve raising prices for high-value products and services, or implementing dynamic pricing techniques that adjust pricing based on customer demand and market conditions.

3. Customer Retention and Loyalty Programs: Focus on retaining existing customers and building their loyalty. Implement customer retention strategies such as personalized communications, exclusive offers, and rewards programs.

4. Marketing Partnerships: Explore opportunities for strategic partnerships with complementary businesses

5. Data-Driven Decision Making: Use data analytics to gain insights into customer behavior, preferences, and market trends. By analyzing this data, marketing managers can make informed decisions

6. Improving Return on Investment (ROI): Track and measure the performance of marketing campaigns to identify areas for improvement. Focus resources on tactics that generate the highest ROI and consider cutting back on less effective strategies.

7. Focus on Customer Lifetime Value: Shift the focus from short-term profits to long-term customer profitability. By nurturing relationships with customers and providing exceptional customer experiences

How Can Sales Manager Increase Company Profitability ?

To help a sales manager increase company profitability, here are a few strategies they can consider:

1. Set clear sales objectives: Establish specific, attainable sales goals for the team to focus on. These goals should be aligned with the overall profitability objectives of the company.

2. Analyze customer data: Collect and analyze customer data to identify valuable insights such as customer preferences, buying patterns, and behavior.

3. Train and develop the sales team: Invest in ongoing training and development programs to enhance the skills and knowledge of the sales team.

4. Implement effective sales processes: Streamline and optimize sales processes to increase efficiency and reduce unnecessary costs.

5. Optimize pricing strategies: Analyze pricing elasticity, competitor pricing, and customer willingness to pay to determine the most appropriate pricing levels.

6. Encourage cross-selling and upselling: Encourage the sales team to identify opportunities for cross-selling and upselling to existing customers.

7. Foster customer relationships: Build strong relationships with customers by providing exceptional customer service and personalized experiences.

8. Offer incentives and rewards: Implement a performance-based incentive program to motivate the sales team and reward high achievers.

9. Monitor and analyze sales performance: Continuously monitor key sales metrics, such as conversion rates, average deal size, and sales cycle length.

10. Stay updated with industry trends: Stay informed about new market trends, emerging technologies, and industry developments.

Pricing Strategy

1. Cost-based pricing: This strategy involves determining the cost of producing or delivering a product and adding a markup to cover overhead costs and generate profit.

2. Market-based pricing: With this strategy, the price is determined by the market demand and competitive landscape. Businesses analyze market factors such as customer preferences, competitor pricing, and overall market conditions.

3. Value-based pricing: This strategy focuses on the perceived value of the product or service to the customer. The price is set based on the benefits and value the customer receives, rather than the cost of production.

4. Penetration pricing: In this strategy, a business sets the price of a new product or service initially lower than the market average to attract customers and gain market share. The goal is to increase sales volume and establish a customer base.

5. Skimming pricing: This strategy involves setting a high initial price for a new product or service during its launch, targeting early adopters and customers who are willing to pay a premium for the innovation or exclusivity. The price is gradually lowered as the market expands.

6. Psychological pricing: This strategy uses psychological techniques to influence customer perception of price. Common tactics include setting prices just below round numbers ($9.99 instead of $10) or offering discounted prices with a sense of urgency (limited time offer).

Price Elasticity

Price elasticity of demand is a measure of the responsiveness of the quantity demanded of a good or service to changes in its price.

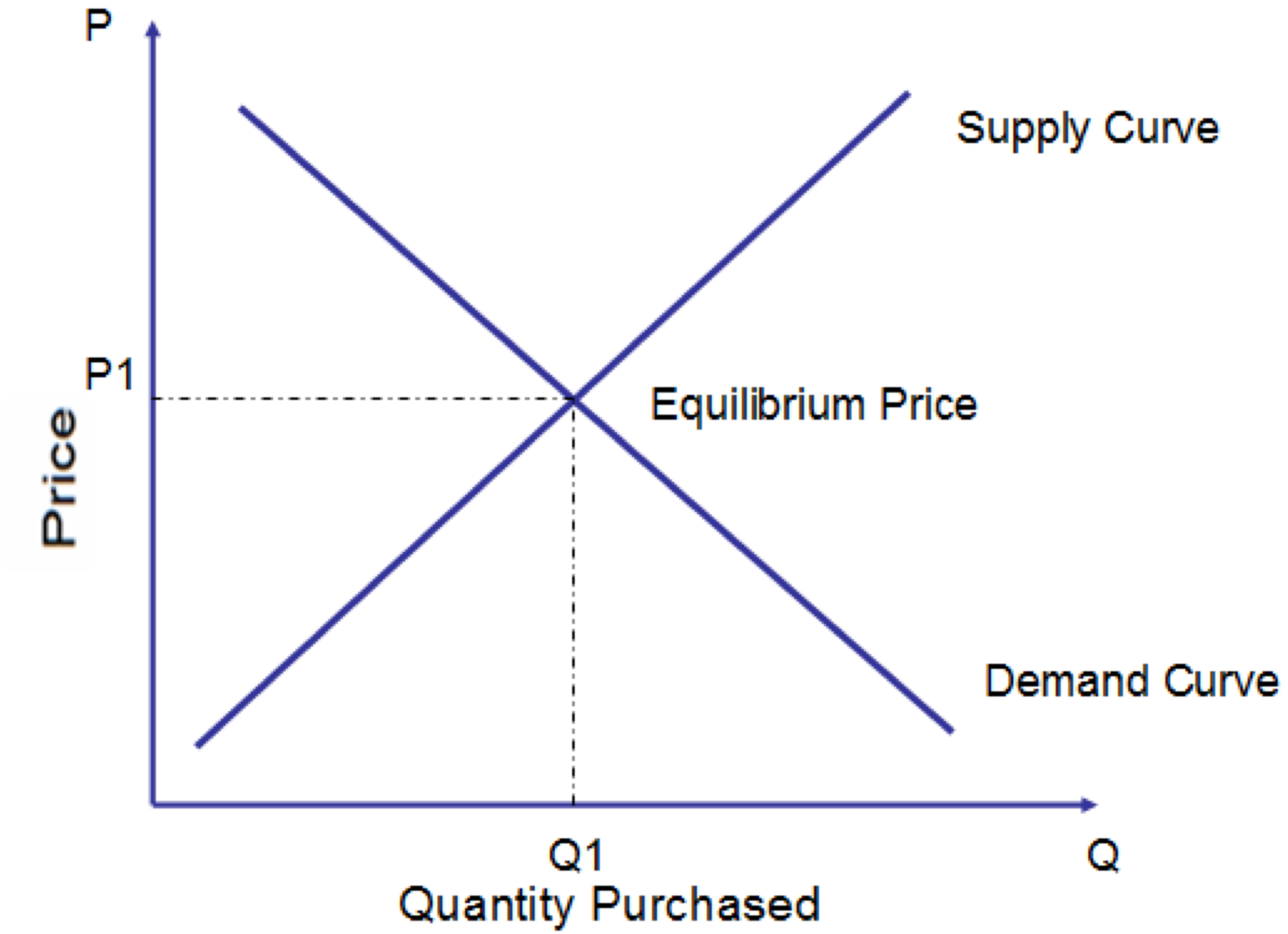
It is calculated by dividing the percentage change in quantity demanded by the percentage change in price.

If the price elasticity of demand is greater than 1 (i.e., elastic demand), In this case, the demand for the good or service is sensitive to price changes.

If the price elasticity of demand is less than 1 (i.e., inelastic demand),. In this case, the demand for the good or service is less responsive to price changes.

Lastly, if the price elasticity of demand is equal to 1 (i.e., unitary elastic demand), In this case, the demand for the good or service is considered to be neither elastic nor inelastic.

Please note that price elasticity can also be negative, indicating an inverse relationship between price and quantity demanded. This is typically the case for goods with a high degree of substitutability



Equilibrium price

Financial terminologies to understand financial statements

Income Statement: A financial statement that shows a company's revenues, expenses, and net income (or loss) over a specific period of time.

Balance Sheet: A financial statement that shows a company's assets, liabilities, and equity at a specific point in time.

Cash Flow Statement: A financial statement that shows the inflows and outflows of cash over a specific period of time.

Revenue: The income generated by a company from its normal business operations.

Cost of Goods Sold (COGS): The direct costs associated with producing and selling a product.

Gross Profit: The difference between revenue and COGS.

Operating Income: The income generated by a company from its normal business operations after deducting operating expenses.

Net Income: The total income generated by a company after deducting all expenses.

Equity: The residual interest in a company's assets after deducting liabilities.

Return on Investment (ROI): The profit or loss generated by an investment as a percentage of the initial investment.

P&L statemen (income statement

- It is simply the recap of the total income and expenses of the business over a specified amount of time. Many business owners want to analyze their income and financial statements monthly, quarterly, or annually. The documents are often used to track operating income or if you need to report any income for a loan application.

Profit and loss statement example

Profit and loss of company XYX

Total revenue	£100,000
Cost of goods sold	£20,000
Gross profit	£80,000

Operating expenses

Salaries	£10,000
Rent	£10,000
Utilities	£5,000
Depreciation	£5,000
Total operating expenses	£30,000
Operating profit	£50,000
Interest expense	£10,000
Income before taxes	£40,000
Taxes	£10,000
Net income	**£30,000**

% of revenue = Total op. expense /revenue

% of revenue = Net income/revenue

How to analyze P&L

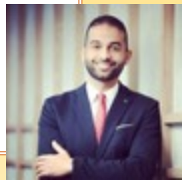
1. Review the structure of the statement: Understand the various sections of the income statement, including revenue, cost of goods sold, operating expenses, taxes, and net income.

2. Calculate key financial ratios: Calculate important ratios like gross profit margin, operating profit margin, and net profit margin. These ratios help assess the company's profitability and efficiency.

3. Compare with previous periods: Compare the current statement with previous periods to identify any trends or changes in revenue, expenses, and profit. Look for any significant increases or decreases and investigate the reasons behind them.

4. Analyze revenue sources: Break down the revenue sources to identify the most profitable products or services. Determine if there are any shifts in revenue concentration.

5. Assess cost of goods sold: Analyze the cost of goods sold (COGS) as a percentage of revenue to gauge the company's ability to control production costs. Look for trends and compare them to industry benchmarks.



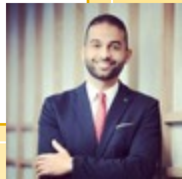
7. Look at non-operating items: Consider non-operating income and expenses, such as gains or losses from the sale of assets or interest income. Determine if they have a significant impact on the overall profitability of the company.

8. Consider one-time items: Identify any one-time items or extraordinary expenses that may distort the net income figure. Adjust for these items to get a clearer picture of the company's ongoing profitability.

9. Compare with industry benchmarks: Compare the company's financial performance to industry benchmarks or competitors to identify areas of strength or weakness and to assess relative performance.

10. Analyze cash flow: Consider the cash flow statement to understand how the company's operations are generating or using cash. Assess the impact of non-cash items on profitability.

11. Look for potential risks and challenges: Identify any potential risks or challenges that may affect the company's profitability in the future. Consider factors such as competition, industry trends, and economic conditions.



Different Types of OPEX

1. Personnel Expenses: This includes salaries, wages, benefits, and other costs related to employee compensation.

2. Rent and Leasing Expenses: This includes the cost of renting or leasing office spaces, equipment, or other assets.

3. Utilities and Facilities Expenses: This covers costs for utilities such as electricity, water, and gas, as well as expenses associated with maintaining and operating facilities.

4. Marketing and Advertising Expenses: These expenses include costs related to advertising campaigns, promotional activities, market research, and other marketing initiatives.

5. IT and Technology Expenses: This includes expenses related to hardware and software equipment, IT services, data management, and tech-support.

6. Supplies and Materials Expenses: These expenses are associated with purchasing office supplies, raw materials, inventory, or any consumable items necessary for the business operations.

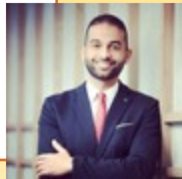
7. Maintenance and Repairs Expenses: This covers costs for maintaining, repairing, and servicing equipment, machinery, vehicles, or other assets used in the business.

8. Travel and Entertainment Expenses: These expenses include costs related to business travel, accommodations, meals, client entertainment, and other travel-related expenditures.

9. Insurance Expenses: This category includes expenses for various types of business insurance, such as liability, property, health, or workers' compensation insurance.

10. Professional Services Expenses: These expenses cover costs for hiring external professionals, consultants, lawyers, accountants, or any other professional services required by the business.

Remember, the specific categories and their names may vary based on the industry and specific business operations



OPEX

- Opex stands for operational expenditures.
- Opex refers to the day-to-day expenses that a company incurs in order to keep its business operations running smoothly.
- Opex is typically incurred regularly and is expensed in the same accounting period it is incurred.

CAPEX

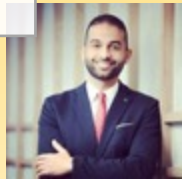
- Capex refers to the investments made by a company in assets that provide long-term benefits. These assets can include property, equipment, machinery, vehicles, or even intangible assets like software or patents.
- Capex is a one-time or occasional investment that is expected to generate returns over a longer period of time, typically beyond the current accounting period.
- Unlike opex, Capex is recorded as an asset on the company's balance sheet and is generally depreciated or amortized over its useful life.

Growth Rate

- The growth rate simply measures the percentage increase or decrease in a value between two points in time. It is calculated by dividing the difference between the final value and the initial value by the initial value, and then multiplying by 100.
- Growth Rate = (Final Value - Initial Value) / Initial Value * 100

CAGR

- CAGR is a specific type of growth rate that provides a constant rate of return over a specified period, assuming that the value grows exponentially over time. CAGR takes into account the <u>compounding effect of growth</u>, whereas the growth rate does not. CAGR is often used for investment analysis to determine the average annual rate of return of an investment over a period of time
- CAGR = (Final Value / Initial Value) ^ (1 / Number of Periods) - 1



Examples of income statement

[Company Name]
Profit and Loss (P&L) Statement
[USD $ millions]

	2018												
	JAN	**FEB**	**MAR**	**APR**	**MAY**	**JUN**	**JUL**	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**	**Full Year**
Revenue stream 1	587.0	596.3	605.8	615.4	625.2	635.1	645.2	655.4	665.8	676.4	687.1	698.0	7,692.6
Revenue stream 2	145.6	147.9	150.2	152.6	155.0	157.5	160.0	162.5	165.1	167.7	170.4	173.1	1,907.8
Returns, Refunds, Discounts	(21.0)	(21.3)	(21.7)	(22.0)	(22.4)	(22.7)	(23.1)	(23.5)	(23.8)	(24.2)	(24.6)	(25.0)	(275.3)
Total Net Revenue	**711.6**	**722.9**	**734.3**	**746.0**	**757.8**	**769.9**	**782.1**	**794.5**	**807.1**	**819.9**	**832.9**	**846.1**	**9,325.0**
Cost of Goods Sold	269.6	273.9	278.2	282.7	287.1	291.7	296.3	301.0	305.8	310.7	315.6	320.6	3,533.2
Gross Profit	**442.0**	**449.0**	**456.1**	**463.3**	**470.7**	**478.2**	**485.7**	**493.5**	**501.3**	**509.2**	**517.3**	**525.5**	**5,791.8**
Expenses													
Advertising & Promotion	18.7	19.1	19.5	19.8	20.2	20.6	21.0	21.5	21.9	22.3	22.8	23.2	250.6
Depreciation & Amortization	108.7	110.9	113.1	115.3	117.6	119.9	122.3	124.8	127.2	129.8	132.3	135.0	1,456.8
Insurance	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.4	14.7
Maintenance	5.7	5.8	5.9	6.0	6.2	6.3	6.4	6.5	6.7	6.8	6.9	7.1	76.4
Office Supplies	2.8	2.9	2.9	3.0	3.0	3.1	3.2	3.2	3.3	3.3	3.4	3.5	37.5
Rent	5.8	5.9	6.0	6.2	6.3	6.4	6.5	6.7	6.8	6.9	7.1	7.2	77.7
Salaries, Benefits & Wages	251.2	256.2	261.3	266.5	271.8	277.2	282.7	288.3	294.0	299.9	305.8	311.9	3,366.7
Telecommunication	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.9	20.1
Travel	2.3	2.3	2.4	2.4	2.5	2.5	2.6	2.6	2.7	2.7	2.8	2.9	30.8
Utilities	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	18.8
Other Expense 1	3.8	3.9	4.0	4.0	4.1	4.2	4.3	4.4	4.4	4.5	4.6	4.7	50.9
Other Expense 2	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	403.0	411.0	419.2	427.5	436.0	444.7	453.5	462.5	471.7	481.1	490.6	500.4	5,401.1
Earnings Before Interest & Taxes	**39.0**	**38.0**	**36.9**	**35.8**	**34.7**	**33.5**	**32.2**	**30.9**	**29.6**	**28.2**	**26.7**	**25.2**	**390.6**
Interest Expense	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	30.0
Earnings Before Taxes	**36.5**	**35.5**	**34.4**	**33.3**	**32.2**	**31.0**	**29.7**	**28.4**	**27.1**	**25.7**	**24.2**	**22.7**	**360.6**
Income Taxes	10.9	10.6	10.3	10.0	9.7	9.3	8.9	8.5	8.1	7.7	7.3	6.8	108.2
Net Earnings	**25.5**	**24.8**	**24.1**	**23.3**	**22.5**	**21.7**	**20.8**	**19.9**	**19.0**	**18.0**	**16.9**	**15.9**	**252.4**

Apple Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares which are reflected in thousands and per share amounts)

	Years ended		
	September 24, 2022	September 25, 2021	September 26, 2020
Net sales:			
Products	$ 316,199	$ 297,392	$ 220,747
Services	78,129	68,425	53,768
Total net sales	394,328	365,817	274,515
Cost of sales:			
Products	201,471	192,266	151,286
Services	22,075	20,715	18,273
Total cost of sales	223,546	212,981	169,559
Gross margin	170,782	152,836	104,956
Operating expenses:			
Research and development	26,251	21,914	18,752
Selling, general and administrative	25,094	21,973	19,916
Total operating expenses	51,345	43,887	38,668
Operating income	119,437	108,949	66,288
Other income/(expense), net	(334)	258	803
Income before provision for income taxes	119,103	109,207	67,091
Provision for income taxes	19,300	14,527	9,680
Net income	$ 99,803	$ 94,680	$ 57,411
Earnings per share:			
Basic	$ 6.15	$ 5.67	$ 3.31
Diluted	$ 6.11	$ 5.61	$ 3.28
Shares used in computing earnings per share:			
Basic	16,215,963	16,701,272	17,352,119
Diluted	16,325,819	16,864,919	17,528,214

Ways to increase business profitability : reducing costs, increasing turnover, increasing productivity, and increasing efficiency.

➢ Manage your costs :

✓Suppliers - are you getting the best deal from suppliers? Can you negotiate better terms, or do you need to change supplier? Can you drive better deals by consolidating your supplier base? Can you buy on a 'just in time' basis to make more effective use of your working capital?

✓Finance - do you need to review your finance facilities? - are they at the most competitive terms available? Are you using any loans effectively?

✓Premises - have you examined whether you are getting the most out of your space? Are there more efficient ways to use your premises? Could you sublet some unused space?

✓Production - have you assessed whether you can cut waste and lower the costs of your materials. Check whether you can adapt your production processes, so they are more streamlined, using fewer working hours or resources to cut labour costs.

➢ Review your offer :

- Look carefully at what you offer, who you sell it to and at what price and see if you can make improvements.

- Pricing considerations : It's a good idea to review your pricing regularly. Changes in your marketplace may mean that you can raise your prices without risking sales. However, it's wise to test any price rises before you make them permanent.
- Find your best customers
- It's not just your price list that affects your profitability - the type of customers you're selling to can also make a big difference. Consider the Pareto principle (often known as the 80/20 rule)

➢ Can you sell more to your best customers?

- up-selling - selling them premium products that make a greater contribution to your profit
- cross selling - analyzing what they buy and offering complementary products
- diversifying - identifying a need and developing new products and services to meet them.

➢ Buy more effectively :

- One of the most obvious routes to increasing your profitability is to buy more effectively. It makes sense to review your supplier base regularly and see if you can buy the same raw materials more cheaply or efficiently. However, try to ensure that you maintain quality at the same time.
- Consider using your status as a valued customer to agree long-term contracts or realistic annual minimum spends with regular suppliers to obtain a better price. If you can't strike a better deal, consider switching to other suppliers.

- Review the number of suppliers you use. Buying from too many can be inefficient - it takes up more time and dilutes your buying power. However, avoid placing all your business with one or two suppliers - it could leave you very vulnerable if things go wrong.

➢ Cut waste throughout the business

- A review of common areas of waste could help you see how to reduce them, for example: / Can you cut your power costs, e.g. is all equipment turned off when it's not being used?/Are you getting the best deals from your power suppliers?/Are you paying for unused services e.g. unused phone lines or photocopiers?/Consider whether you're getting the best from your property. Your premises are a large expense , so get the most from your investment or rental agreement:/Can you use your space more effectively by rearranging it?/Could you negotiate a lower rental if you agree to a longer contract?

Concentrate your sales efforts

- There are two key strategies for boosting profitability through sales; selling more to existing profitable customers and finding similar customers to sell to.
- You can usually put your customers and the products or services they buy into one of four categories:
- high sales and high profit
- high sales and low profit
- low sales and high profit
- low sales and low profit
- It makes sense to encourage customers that provide high sales and high profit. You can also significantly boost your profitability by nurturing customers that provide high profit on low sales.
- If customers are providing low profit from high sales, you can maybe revise pricing to generate more revenue from them. If customers are generating both low sales and low profits, consider whether it's worth your while continuing to do business with them.

Find new 'best' customers

- Make a judgement on expanding your customer base by finding new customers who have a similar profile to your existing profitable customers.
- If you are sure, you have covered your existing market as much as you can, consider moving into new markets.

➢ Expand your market

- ➢ Moving into new market areas can transform a business and handled correctly, can significantly increase your profitability. However, expanding into new markets can be risky - and mistakes can prove very expensive.
- Do your research
- Do you understand who your potential new customers are, why, when and how they will buy the product or service and how much they will pay for it?

➢ Developing new products and services

- If you're developing a new product or service for a new market, it's good to carefully consider its viability. Key questions include:
- Do you have the skills and expertise in-house or will you have to buy them in?/ Have you got the commitment and resources available to make the new project work?/Can you minimize the risk? /Can you be sure there's a demand for the new product or service at a price you can make a profit on?

➢ Team up and reduce the risk

- Rather than going it alone, partnerships and joint ventures can provide you with increased security in establishing yourself successfully in a new or expanded market.

➢ Boost productivity

➢ Checklist: improving the profitability of your business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