Profitable ratio analysis of thorntons plc

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Profitability Ratio Analysis

This analysis ratio based on FAME

1. Gross Profit Margin During the period 2007-2010, Thorntons has achieved the highest gross profit margin in 2007. It was increased the sales/revenue by 5. 3%. In 2008 the sales were increased by 11. 9%, however, the gross profit margin was decreased due to the high cost of good sales compared to the previous year which was increased 19. 7%. In the financial report 2009, the gross profit was declined from 105. 05 m to 104. 969m and declined in gross profit margin from 50. 5% to 48. 87$. In 2010, there was an increased gross profit margin through the sales were decreased from the previous year. In terms of performance against its competitors in a similar industry, the performance of Thortons is relatively higher during the period 2007-2010 (Figure. 1). The performance of other competitors, Dunhills, only could achieve the 42. 16% in 2010. Compare to its competitors, it was indicated that Thorntons has a high gross profit margin, meaning that Thortons has high production efficiency.

Having a High gross profit margin, Thorntons could pay its operating expense, tax, employee benefits, etc. 2. Operating Profit Margin In view of its Operating Profit Margin, Thornton's performance was increased in two consecutive years from 2007 to 2008 with a ratio of 3. 81 % and 4. 03%. This increase in operating margin was followed by declining in two consecutive years 2009 and 2010 with ratio 3. 77% and 2. 86%. These declined operating profit margin due to an increase in the expenses, especially in employee benefit and inventories expenses which continuously rose from 2007 to 2010. In addition, the strategy of the company to introduce many new products increased our multi-channel offer and invested significant sums in a new point of sale systems and factory automation has increased the cost. Furthermore, the economic downturn from 2009-2010 was pressured by the company to achieve better income. Compare to the Thorntons's competitors, the performance of the operating margin is less than Dunhills which achieved operating margin average in four years 16. 8% far above Thorntons and Farrero. The decreased in operating margin was happened with Cadbury which fall from 2007-2008.

RETURN ON SHAREHOLDER FUND (ROSF)

ROSF measures the profit against total equity invests by shareholders. In this regard, the calculation of profit is using profit before tax while other calculations, using profit after tax. Thorntons has stability performance in the middle range to returning the shareholder funds from 2007 up to 2009 compared to its competitors. However, the ROSF was decreased in 2010 due to a decrease in profit before tax 2. 4% from 2009 to 2010. On the other hand, Thorntons still achieved Basic earnings per share which increased by 20. % to 6. 5p and its Board was recommended a final dividend of 4. 10p (2009: 4. 85p), making the total dividend for the year 6. 05p. Compare to its competitors, the ratio of ROSF of Thorntons is in the middle level and relatively stable. The company generated profit continuously 4 years with a high level achieved in 2009 with profit attributable to shareholders? 6. 068 m. Cadbury was slump down in 2008 but it was achieved the high ROSF in 2009 almost 90% of other competitors with profit attributable to shareholders? 68. 55 m .

RETURN ON CAPITAL EMPLOYED(ROCE)

Return on Capital Employed (ROCE) is measured the operating profit generated against the long term capital in the business. The ROCE ratio of Thorntons was increased from 2007 to 2008 and decreased from 2008 to 2010. Though Thorntons has successfully reduced the Net debt from 2008 to 2010, however, the low achievement is influenced by decreasing in operating profit from 2008 to 2010. Compare to its competitors, the ROCE ratio of Thorntons was in the middle achievement lower than Cadbury from 2009 to 2010. Cadbury was in the negative ROCE in 2008. Dunhills has relatively constant in its ROCE ratio and close to Thorntons in the ROCE ratio. If it is further reviewed both Thorntons and Dunhill have very close in average operating profit during the period 2007-2010.

RECOMMENDATION

Considering the evaluation and analysis of profitability ratios of Thorntons during the period 2007-2010 and compare its performance against the competitors in its industry, the following is a list of recommendations that couldbe considered by Thorntons:

1. Since the Revenue (sales) over the years is relatively flat and higher compare to its competitor, it is recommended to reduced the cost of good sales to increase the gross profit by identifying the possibility to reduce the cost from its supply chain operations from procuring raw materials, reducing the number of inventories, optimization in line production and goods stock, reviewing the networks selling and model of distribution. It is indicated and might be a high opportunity to gain sales revenue by putting the right model of contract sales to anticipate the seasonal conditions.

2. To increase the Operating profit, it is recommended that Thortons to reduce the administrative expenses or divested especially in the outlet which is indicated unprofitable and focus on the optimum selling and distribution model.
3. Increase revenue by continuously developing new innovative products to generate differentiation from its competitors and maintain the domination of market share.

Reference

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