

Good example of case study on profitability analysis: starbucks inc v s jumba jui...

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Profitability ratios carry great significance as it indicates the level of profit margins being earned from its business. These ratios have the capacity to influence the investment decisions of the shareholders. The paper describes the profitability ratios of Starbucks Inc and Jamba Juice over the period of two years, i. e. 2012 and 2013:

i) Gross Profit Margins:

Analysis:

The above data indicates that Gross Profit Margins of Jamba Juice was significantly higher than that of Starbucks Inc, however during 2013, the gross margins of Starbucks Inc increased from 56. 29% to 57. 14% courtesy decline in percentage of cost of sales to total sales of the company. On the other hand, Gross Margins of Jamba Juice declined from 76. 96% to 75. 47% as the percentage of cost of sales to total sales increased from 22. 89% to 25% during the year.

ii) Net Profit Margin:

Analysis:

The graph above indicates the whole story relating to profitability margins of each company. During 2013, Starbucks Inc faced a great setback as its net profit margins decreased significantly from 10. 4% to 0. 06%. On the other hand, despite of increases in % of cost of sales to total sales, Jamba Juice managed to improve its net margins from -3. 86% to 0. 98%. This indicates that latter company (Jamba Juice) is in better profitability trends as compared to Starbucks Inc.

iii) Total Asset Turnover:

Analysis:

Total Asset Turnover indicates the effectiveness of the management to generate revenue by using the available assets of the company. Referring to above data, we can infer that, although, Total Asset Turnover ratio of both the companies decreased during 2013, however, Jumba Juice has higher ratio multiple which indicates its better effectiveness to generate revenues using asset base as compared to Starbucks Inc.

iv) Return on Total Equity:

Analysis:

Return on Total Equity carries great importance as it directly indicates the return available for the shareholders of the company. In comparison of ROE multiple of both the companies, during 2013, ROE of Starbucks Inc decreased from 27.04% to merely 0.19%. On the other hand, shareholders of Jumba Juice will be ecstatic to find a significant increase in ROE multiple of the company from -59.46% to 7.75%. Hence, Jumba Juice seems to score over Starbucks in all spheres of profitability.

v) DuPont Return on Assets:

Analysis:

DuPont ROA Analysis is a shorter version of original DuPont ROE analysis and is calculate as Net Profit Margin* Total Asset Turnover. Referring to DuPont ROA of Starbucks Inc and Jamba Juice, both decline in net profit margins and low asset turnover has contributed to significant decrease in ROA multiple of Starbucks Inc. During 2013, the ROA multiple of the company decreased from 16.83% to 0.07%. On the other hand, Jamba Juice was successful in

increasing its ROA from -8.96% to 2.12% because of improvement in its Net Profit Margins during 2013.