

# Net profit margin analysis

Business



Net refers to the balance from which the total expenses and other costs would be deducted. Net Profit Margin is an essential measure to evaluate and compare the monetary performance of diverse companies. Profit margin is very effectual when comparing companies in corresponding industries. A superior profit margin shows more profitable ratios that has better control over its costs as compared to its competitors (Helfert, 2001)..

A high net profit margin is an indication that the company is performing well as far as generation of net income is concerned. For instance, if a company has a net profit margin of forty percent, then it means that the firm is able to generate forty dollars form a sale of hundred dollars. The national profit margin table along with the chart is shown below: The major source of revenue for the Informa Plc is from mobile sales income. The company channels most of its resources into serving as many customers as possible from a given area. It positions its stores locally to ensure that they are in the most convenient position. As indicated earlier, the net profit margin is a strong indicator in the evaluation of the financial performance of an organization.

The development of Informa Plc Company's net profit margin is tremendous. It also fluctuates with time. The company envisaged a slow momentum in future after enjoying tremendous success. The net profit margin of the company was 5. 563% in the year 2001. This decreased in four consecutive years by 24.

39%, 1. 07%, 33. 15% and 17. 88%. These were in the years 2002, 2003, 2004 and 2005 respectively (Chapman, 2011). According to the

management analysis and discussions section of the annual reports of the given years, the decrease in the net income of the company was as a result of the expansionary phase.

It was during the time when immense competition existed in the entire global market. Informa Plc expended billions of dollars every year on research and development to achieve expansion. After 2005, Informa Plc's success had started as the company's net profit margin increased steadily by 69.30% in the year 2007. Informa Plc is among the companies that performed excellently even during the time of economic hardship.

During this period, numerous companies did not achieve their revenue targets. Nonetheless, the net profit margins for Informa Plc increased consistently for the three years consecutively by 33.91%, 10.48% and 0.79%. This was in 2008, 2009 and 2010.

The average net profit margin of Informa Plc is 3.517%. This signifies that the company is able to create three dollars from its sales of a hundred dollars. This is not very high but lies in the satisfactory node as compared to the industry's average of 3.21%.

The second ratio in profitability section is the Gross Profit Margin. Gross Profit Margin (GPM). Like net profit margin, Gross Profit Margin is a wonderful ratio to explore the financial performance of an organization. Net refers to sales minus expenses while gross profit is equal to sales minus the cost of goods sold. A higher gross profit margin would be desirable from the viewpoint of a company. The computed table along with the graph is shown below: Gross

Profit Margin is one of the effective measures to assess the financial capability of an organization.

It acquaints the investor on how much the company has spent in generating the financial numbers. High gross profit margin is a clear indication that the company is incurring a low cost while generating economic profit. The gross profit margin of Informa Plc faced a similar trend like the net profit margin. This is because the gross profit margin of the company decreased in four consecutive years by considerable proportions of 13.18%, 17.

45%, and 4.20% and 4.45%. This was in the years 2002 to 2005. The reason behind that downturn was similar to that of net profit margin. The sales revenue of the company also decreased during that period by 3.

77%, 1.59% and 0.54% respectively whereas the gross profit margin of Informa Plc decreased by 322, 479, 91 and 430 basis points. After that period, the gross profit margin of Informa Plc commenced to drop. In the year 2006, the gross profit of Informa Plc increased considerably by 39.

83% as compared to the same period in the previous year. This was based on the increment in total sales by 20.25% in the same year. Gross profit of Informa Plc was almost nil in the year 2008. It then decreased by 23.65% in the wake up of the fiscal year of 2009.

It was the current economic meltdown that increased the stance of cost incurred and decreased the gross profit as well as the gross margin of the company with heavy proportions. The average gross profit margin of Informa Plc is 24.66%. This shows that the company is capable of generating 24.66

dollars from the net sales of hundred dollars which is way above the industry's average gross profit margin of 21.

66%. Return on Assets Return on Asset is a combination of both the net income and net assets of the company. The computed results along with the graph are illustrated below: Assets are things which heavily impact on the operational activities of an organization. The movement of a company's assets is considered throughout the analytical period. The movement of Informa Plc's return on assets is almost identical to that of net profit margin and gross profit margin as it consistently decreased for four years. It then gradually increased its momentum.

The return on assets of Informa Plc decreased by 24.39%, 1.07%, 33.15% and 17.88% in the years 2002, 2003, 2004 and 2005 respectively (Rooks, 2009).

During the economic expansion period, the company sold out its obsolete assets and added new ones in its operations. In the year 2007, the return on assets of the company increased by almost seventy percent. This is a big difference as compared to the same period in the previous year. This reveals that the expansionary period of the company was successful. After that year, the company's return on asset increased for three consecutive years by 33.91%, 10.

48% and 0.79%. This was experienced in the years 2008, 2009 and 2010 respectively. The mean return on asset of Informa Plc, according to computation is, 7.48%. This shows that the contribution of operational asset in generating sales worth a hundred dollars is 7.

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48 dollars. This is good enough for a telecommunication company. The mean return on asset of the company is higher than that of industry's average return on asset 6. 25 percent. Another important measure of the balance sheet is the Return on Equity.