Topic 7.5 Business Perfomance – Making a Profit

● **profit margin** (profit margins) N-COUNT
gross margin (gross margins) N-COUNT

A **profit margin** is the difference between the selling price of a product and the cost of producing and marketing it. A **gross margin** is the difference between the selling price of a product and the cost of producing it, excluding overheads such as electricity, water, rent etc.

The company said profits had also been boosted by sales of vehicles that had better profit margins.
Overall sales rose 11.6 per cent, while gross margins improved 2.7 per cent.

● **mark-up** (mark-ups) N-COUNT

A **mark-up** is an increase in the price of something, for example the difference between its cost and the price that it is sold for.

Restaurants make a decision as to what mark-up they require.
They use dollars to buy Western items such as video recorders and personal computers and then sell them at a huge mark-up.

● **profit** (profits) N-VAR
profitability N-UNCOUNT
profitable ADJ
profit-making ADJ

A **profit** is an amount of money that you gain when you are paid more for something than it cost you to make, get, or do it. A company's **profitability** is its ability to make a profit. A **profitable** or **profit-making** organization makes a profit.

The bank made pre-tax profits of £3.5 million.
You can improve your chances of profit by sensible planning.
Changes were made in operating methods in an effort to increase profitability.
Drug manufacturing is the most profitable business in America.
He wants to set up a profit-making company, owned mostly by the university.

Common Collocations

interim profits	pre-tax profits	record profits
an operating profit	annual profits	

● **gross** ADJ
net ADJ

1 ADJ
Gross means the total amount of something, especially money, before any has been taken away. A **net** amount is one which remains when everything that should be subtracted from it has been subtracted.

...a fixed rate account guaranteeing 10.4% gross interest or 7.8% net until October.
...a rise in sales and net profit.

2 ADV
If a sum of money is paid **gross**, it is paid before any money has been subtracted from it. If a sum of money is paid **net**, it is paid after everything that should be subtracted from it has been subtracted.

Interest is paid gross, rather than having tax deducted.
...a father earning £20,000 gross a year.
Balances of £5,000 and above will earn 11 per cent gross, 8.25 per cent net.
All bank and building society interest is paid net.

Common Collocations

gross/net income	gross/net profit
gross/net sales	gross/net earnings
gross revenues	net assets
net worth	net loss

● **break even** (breaks even, breaking even, broke even, broken even) PHRASE

When a company or a person running a business **breaks even**, they make enough money from the sale of goods or services to cover the cost of supplying those goods or services, but not enough to make a profit.

The airline hopes to break even next year and return to profit the following year.

● **break-even point** N-SING

When a company reaches **break-even point**, the money it makes from the sale of goods or services is just enough to cover the cost of supplying those goods or services, but not enough to make a profit.

I've just heard that 'Terminator 2' finally made $200 million a couple of weeks ago, and $200 million was considered to be the break-even point for the picture.

● **ROCE** ABBREVIATION

ROCE is a measure of the profit that a company makes and represents the efficiency with which the capital invested in a business is used to generate revenue. **ROCE** is an abbreviation for 'Return on Capital Employed'.

The ROCE formula is a very popular financial analysis indicator and is used widely in comparisons of the various profits of different firms and industries.

● **capital employed** N-UNCOUNT

Capital employed is the value of a company's assets minus its liabilities and represents the investment required to enable a business to operate.

Our marketing and refining business continues to make less than acceptable returns on capital employed.
Return on capital employed was 12 per cent.

● **return** (returns) N-COUNT

The **return** on an investment is the profit that you get from it.

Profits have picked up but the return on capital remains tiny.
Higher returns and higher risk usually go hand in hand.

➲ **non-profit-making:** Topic 4.2; **asset:** Topic 8.3

PRACTISE YOUR VOCABULARY

1 Put each of the terms in the box into the correct place in the text.

mark-up *profit margin* *break-even* *profitability* *gross*

When companies talk about a ________________ margin they usually mean the difference between the selling price of goods and their production cost, without taking into account other costs such as marketing and general overheads. The ________________ is the difference between total costs and sales revenues. Margin is expressed as a percentage of the selling price, or as a percentage of the total cost of goods, in which case it is referred to as the ________________. Both profit margin and the mark-up are measures of a business's ________________. When sales reach a level where revenues match costs, a company or product reaches the ________________ point.

2 Read the newspaper headlines and answer the questions.

1 **ABC achieves higher profit margins**

2 **ABC announces excellent sales figures, but higher manufacturing costs**

3 **ABC announces its Mexican operation breaks even at last**

4 **ABC's mark-ups are too high**

5 **ABCs annual report details its unprofitable activities**

a Which story is likely to tell you that the company has increased its revenue this year?
b Which story is likely to tell you that gross profit has fallen?
c Which story is likely to tell you about the closure of the company's unsuccessful American subsidiary?
d Which story is likely to tell you that profits can be expected soon?
e Which story is likely to tell you that consumers are unhappy with ABC's prices?

3 Look at the information in the box and answer the questions.

RATE OF RETURN ON CAPITAL EMPLOYED

The rate of return on capital employed (ROCE) is a good indicator of how well a company is performing. It allows a company to assess its performance by comparing its profit with the amount of capital in the business.

$$\text{ROCE (\%)} = \frac{\text{net profit}}{\text{capital employed (fixed assets and net current assets)}} \times 100$$

a What does ROCE stand for?
b What two factors does ROCE compare?
c Why do companies use ROCE?