

Profitability

12 marks

Weekly forecasts for two possible additional services		
	Steam room	Hair cuts
Additional customers	200	50
Average price charged per customer	\$5	\$25
Wages	\$60	\$400
Cost of sales	\$40	\$125
Lease of equipment	\$400	\$175

b) Consider the weekly forecasts in Appendix 2 for the two additional services Bethany could choose. Which additional service should Bethany choose to offer? Justify your answer.

Steam Room

Gross Profit = \$960.....Profit = \$500.....

Gross Profit Margin = 96% Profit Margin = 50%

Steam room has lower gross profit and profit, but its Gross profit and profit Margin are higher

Haircuts *Gross Profit = \$1125 Profit = \$550*

Gross Profit Margin = 90% Profit Margin = 44%

Hair cuts have higher gross profit and profit, but its Gross profit and profit Margin are lower

Recommendation SA Although hair cuts have higher profit in absolute terms the Steam room has higher GPM and profit margin so higher profitability.

This means that in the long term if Bethany increases her sales she will

The steam room will be more profitable as she will make more profit from every \$ of sales.
