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Profitability Analysis in Improving Business Success

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ABSTRACT

The rapid increase in the economy makes competition between companies to maintain its sustainability increasingly intense. How a company manages its working capital can affect the level of profitability of the company. PKM programmes are conducted to introduce the partners to profitability by managing the business partners' working capital. The training method uses zoom meetings and is assisted by two students. The material is presented in the form of PPT which includes: understanding profitability, managing receivables, payables, and inventory. The results of the activity show that training on profitability analysis has been carried out online and runs smoothly. The partner received the information and materials presented with enthusiasm, and asked questions during the activity process.

Keywords: Profitability, SMEs, Training

1. Introduction

Profitability can be interpreted as the level of strength or ability possessed by a company in generating a profit in a certain period, where the profit is generated using capital or assets (Barus, 2013). Meanwhile, (N. E. Afriyanti & Wulandari, 2023) explains that profitability is the company's ability to earn profits in relation to sales, total assets, and own capital. Profitability describes the end result of a number of policies and decisions taken by management that can show the level of success of the company's operations. Profitability also affects the decisions made by investors in making investments. The company needs to accelerate receivables from its customers and slow down the period of payment of the company's debt. This is so that the company can accelerate the company's cash conversion cycle. This cash conversion cycle shows the time required by the company in returning cash out for the company's operational needs to cash inflows.

One of the measurements that companies can use in calculating the level of profitability is the return on assets (ROA). According to M. Afriyanti & Chabachib (2011), "one indicator to measure the company's financial performance and profitability ratio is ROA, which is used to measure the company's effectiveness in generating profits by utilising its total assets". Profitability ratios are measured by a company to determine how a company's ability to meet its obligations, both short-term and long-term obligations. In this study, researchers will examine receivables from customers, the level of debt, and the level of inventory turnover that affect the level of profitability of the company. There are some recent literature that analyses the profitability of companies from different countries and economic sectors through indicators, such as net operating profitability (NOP) by Raheman et al. (2010) and Dong & Su (2010), return on total assets (ROTA) by Deloof (2003) and Padachi (2006), and also return on invested capital (ROIC) & return on assets (ROA) by Mohamad & Saad (2010). In this case, the elements considered by the analysis of profitability as independent variables are financial indicators that express working capital

The business partner of this activity is a culinary snack business located in Jambi. The business owner is Rizky Dwi Diapsari. This business is located at Purimasurai 2, Jambi. In running a business in dealing with competition, they need to increase their profitability, but they still obstructed.

From the results of observations carried out to partners regarding profitability that can create and maintain strong relationships with customers, and improve the quality of products and services, while also increasing competitiveness. However, they have major problems in increasing business profitability to develop their business. With this, the Untar Team feels the need to provide training on profitability. For this reason, the main problem that will be solved is what factors need to be considered by partners in increasing the profitability of the business that is being operated.

2. Methodology

2.1. Research Design

Training activities to SMEs aimed to provide business owners with greater insight into analysing the profitability of media to owners to achieve success. For this reason, the stages of PKM activities are:

a. The activity organiser gathered materials to interview the owner.
b. The activity organiser contacts related parties or business owners to obtain permission to interview.
c. The activity organiser divides the tasks to the team members to interview the owner.
d. The activity organiser delivered various materials to the business owner in the form of offline discussion.
e. The implementation of this activity explained to the owner about marketing on social media.
f. The activity organiser asked partners to ask questions about material that was still not yet understood.
g. The activity organiser as a tutor responded to the partners' responses about the material that had been delivered.

3. Results and Discussion

3.1. Profile of the Partners

The partner that is the place of activity is a culinary snack business located in Jambi. The business owner is Rizky Dwi Diapsari, with the business address in Purimasurai 2, Jambi. Various types of snacks that are sold include; banana chips, onion chips, and jengkol chips. Here is some documentation of their products:

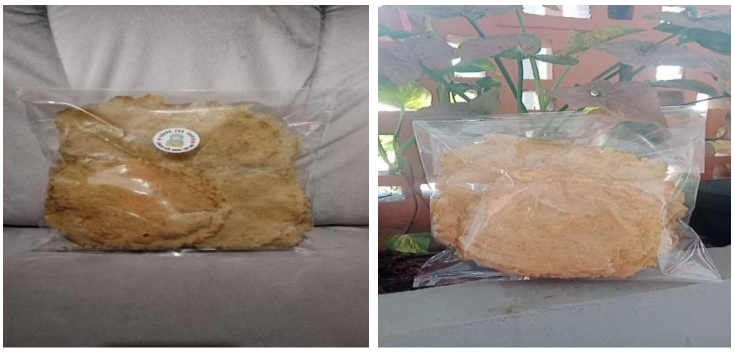

Figure 1. The products

3.2. Model of science and technology transferred to partners

This community service activity is related to the provision of knowledge about profitability delivered to the partner:

3.2.1. Definition of Account Receivable

An explanation of what is receivable based on Warren et al. (2018) is: "Receivables include all claims in the form of money against other parties, including individuals, companies or other organisations". Meanwhile, Jusup (1987) defines receivables as "In general, receivables arise due to credit sales transactions".

Number of Days Account Reveivable is an important tool in measuring liquidity. Number of Days Account Reveivable is increasing because companies tend to avoid risk. The high ratio is not a good thing for the company because it is an indication of inadequate analysis. An increase in DSO can cause cash flow problems, and may result in a decision to increase the bad debt reserve.

3.2.2. Account payable

Rudianto (2019) defines receivables as an obligation owned by a company to issue a sum of money or services or goods in the future that will be given to another party as a result of an agreement by two parties in the past. Kalia (2013) defines receivables as capital owned by a company or entity obtained from other parties in the form of loans, where the company provides compensation in the form of fixed interest expenses. Number of Days Account Payable is an efficient ratio to calculate on average how long it takes a company to pay its suppliers. Having a larger ratio indicates the company's ability to delay payments and save cash.

3.2.3. Inventory

According to Mohamad & Saad (2010), inventory is the goods owned by a company for resale or goods that are in a production process that will be resold within a certain period which are included in current assets. According to Setiana, A. 2012, what is meant by inventory is goods or materials that are the main business objects for a company.

Number of Days Inventory is a ratio that reflects the liquidity of a company and also the sales of the inventory they have. The high inventory turnover ratio of a company reflects the effectiveness of a company's inventory turnover.

3.2.4. Profitability

According to Warren et al. (2018), profitability is the company's ability to earn profits, the greater the level of profit / profit, the better the management in managing the company. Setiana (2012) explains that profitability is a ratio to measure the level of efficiency of the company in using its assets or the ability of a company to generate profits in a certain period.

3.2.5. The formula

A. Profitability

Mohamad & Saad (2010), says that profitability is the company's ability to earn profits either from sales activities, total assets, or the company's own capital. ROA calculation uses the following formula (Prawironegoro & Purwanti, 2009):

$$ROA = \frac{Earnings\ after\ Taxes}{Total\ Assets}$$

B. Account receivable

The first independent variable used in this study is account receivable. According to Jusup (1987) account receivable is the right to collect a sum of money by the seller to the buyer arising from a transaction. In this study, account receivable will be measured using no. of days account receivable. The calculation of no. of days account receivable uses the following formula:

$$No.of\ days\ Account\ Payable = \left(\frac{Account\ payables}{Cost\ of\ Goods\ Sold}\right) \times 365$$

C. Account payable

According to Mohamad & Saad (2010), debt can be interpreted as a sacrifice that arises in the future from the company's present obligations to distribute services or transfer assets from one party to another in the future, which is the impact of past events. The calculation of number of days account payable is using the following formula:

$$No.of\ days\ Account\ Payable = \left(\frac{Account\ payables}{Cost\ of\ Goods\ Sold}\right) \times 365$$

D. Inventory

Kusuma (2009) states that inventory can be defined as goods stored by a company to be used or traded in the future. The calculation is using the following formula:

$$No.of\ Days\ Inventory\ = \left(\frac{Inventory}{Cost\ of\ Goods\ Sold}\right) \times 365$$

The implementation of the activity is presented in the form of PPT using ZOOM, the sample socialisation material is documented in the following pictures:

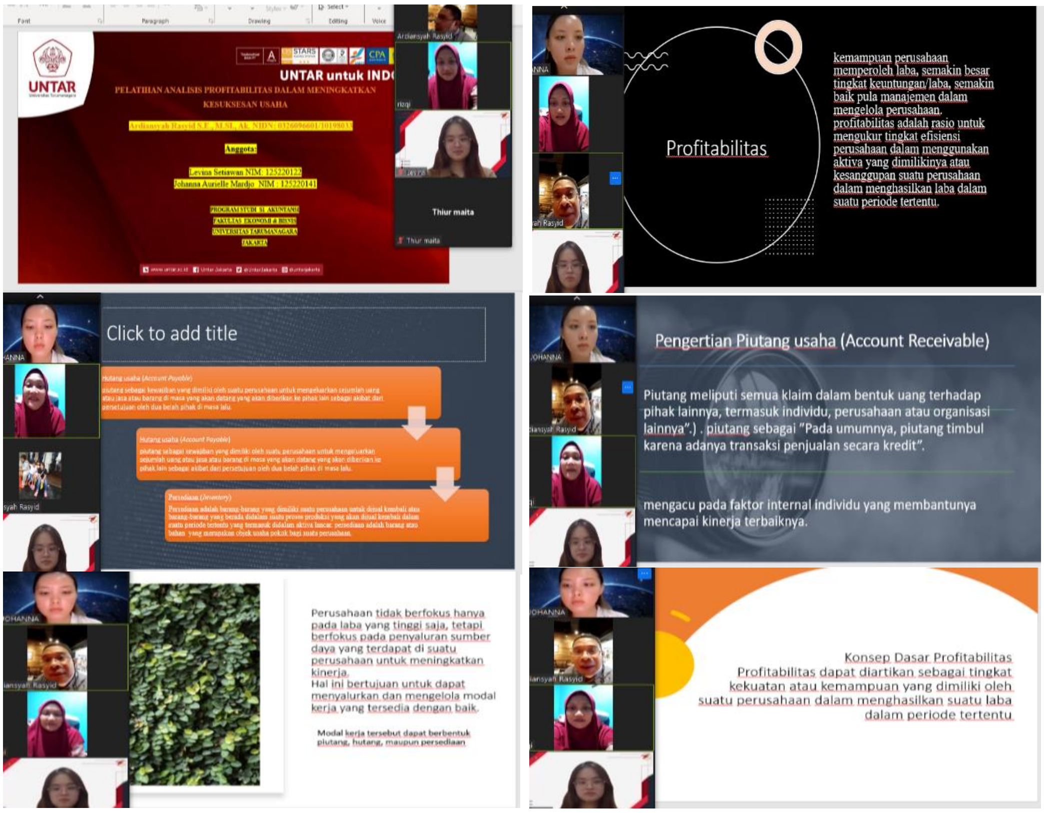

Figure 2. The documentation of the activity

4. Conclusion

The results of the implemented activities offer several key insights. Firstly, the training on profitability analysis, delivered through a PowerPoint presentation, has effectively covered crucial topics such as understanding profitability, and managing receivables, payables, and inventory. This comprehensive approach ensured that participants gained a clear understanding of essential financial concepts and practices.

Additionally, the training was conducted online and ran smoothly, reflecting the adaptability and efficiency of the delivery format. The business partners engaged with the content enthusiastically, demonstrating their interest by actively participating and asking questions throughout the session. This level of engagement highlights the effectiveness of the training in not only conveying important information but also fostering a collaborative learning environment.

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