

Profitability Analysis: Using Gross Profit Margin of Fast Food-Chain Establishment

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ABSTRACT

Gross profit margin measurement provides information on the establishment's financial status. This study assesses the gross profit status, including sales revenue and cost of goods sold in the various food establishments in Bongao, Tawi-Tawi. This study employed a descriptive research method using a survey questionnaire for data collection. Ten food establishments were the key respondents in this research. The frequency and percentage method were used for data analysis. The food establishments had been operating for an average of eight years and eight months with 12 employees. Most of the establishments had an average monthly sale of Php. 701,000.00; total cost of Php. 168,350.00 and a gross profit of Php. 532,650.00. The average of fixed and variable costs was Php. 115,000.00 and Php. 53,000.00, respectively. The outcomes of this research endeavor are expected to benefit multiple stakeholders. It will provide insights into financial health, identifying potential areas for improvement and growth. It will contribute also to the existing body of knowledge by shedding light on the economic dynamics of food establishments in a unique context. Ultimately, it will facilitate evidence-based decision-making and foster sustainable development. This study is the first assessment of profitability among food establishments in the municipality

Keywords: Profitability Analysis; Gross Profit Margin; Fast Food-Chain Establishment; Food Establishment; Profit.

1. INTRODUCTION:

The socio-economic landscape of Bongao, a picturesque municipality in the province of Tawi-Tawi in the Philippines, is profoundly shaped by its vibrant food industry. Renowned for its culinary diversity, the province boasts numerous food establishments catering to the palates of locals and tourists. Recognizing the pivotal role of food in the community's economic growth and overall well-being, it becomes imperative to understand these establishments' income status. This understanding will not only evaluate their economic sustainability but also contribute to the development of this coastal town.

In the distinctive world of hospitality, restaurant owners or managers should strive for more than just satisfactory experiences; they should aim to provide impressive and exceptional service that captivates their guests. Pursuing a career in this field necessitates a genuine passion for serving others, with a strong emphasis on delivering top-quality food service (Montalbo, 2015; Festijo & Yuzon, 2013; De Luna et al., 2014). The restaurant industry is vital in the broader hospitality sector (Kaur et al., 2022).

Its primary goal is to provide guests with comfort and satisfaction while ensuring operational efficiency (Barlan-Espino, 2017).

However, the preliminary results of the 2020 Annual Survey of Philippine Business and Industry (ASPBI) revealed a concerning trend. The formal sector of the economy witnessed a decline in the number of establishments engaged in accommodation and food service activities, with a decrease of -19.8 percent compared to 2019 (Philippine Statistics Authority, 2020). This calls for a comprehensive assessment of the gross profit status of food establishments in Bongao, Tawi-Tawi. This includes the percentage of total sales over gross profit and cost of goods sold over gross profit. A comprehensive overview of the income status will be established by gathering and analyzing data from a wide range of food establishments, such as restaurants, cafes, eateries, and street food vendors.

To have effective strategies, the financial statements must be analyzed through various information on profitability. It remains significant for manager to understand business' financial performance for decision-making, evaluation,

allocation and control, where this function is the brain of sound decision in the dynamic economic landscape (Alcantara, 2024). Managers shall take seriously and focus on financial planning, monitoring and budgeting (Portana et al., 2023). It is vital role to assess the company's financial performance internally and externally (Sari, 2021).

However, lack of financial management skills of managers and business owners is disadvantageous of the business to analyze financial performance and status (Barte, 2012). Therefore, this study wants to evaluate profitability by assessing the gross profit margin with sales and cost of goods sold figures and recommend strategies and interventions to enhance the profit status of food establishments in Bongao.

The outcomes of this research endeavor are expected to benefit multiple stakeholders, including food establishment owners, local authorities, policymakers, and the broader community. The findings will provide valuable insights into the financial health of these establishments, identifying potential areas for improvement and growth. Moreover, this research will contribute to the existing body of knowledge by shedding light on the economic dynamics of food establishments in a unique context. Ultimately, it will facilitate evidence-based decision-making and foster the sustainable development of Bongao, Tawi-Tawi.

Restaurants of Bongao, Tawi-Tawi

Due to the abundance of seafood resources in the Sulu Archipelago, the province is famous for tasty seafood cuisines offered to local and foreign tourists. Aside from seafood, however, limited terrestrial agricultural products could be a farm-to-plate concept. Through these resources, various food establishments have opened in the area.

The most in demand business in this era is the restaurant industry (Dingil et al., 2023). In Bongao, food establishments and street foods operate in various barangays in the municipality where the business is consistent with their operations. In the recent data from Licensing and Permit Office of Local Government Unit of Bongao shows that there were 29 registered food establishments in 2020 (Table 1). There was an increase of 17.24% from 2020 to 2021 and 12.7% from 2021 to 2022.

TABLE 1. Registered Food Establishment of Bongao

YEAR	NO. OF REGISTERED FOOD ESTABLISHMENT
2020	29
2021	34
2022	38

When COVID19 happened on the end of 2019, many people had died, business establishments were closed, and transportation was shut down. the Philippines felt the pandemic on the last month of the first quarter of 2020.

So, various establishments from different business stores were forced to close due to Philippine government command to shut down public and private operation to avoid spreading of diseases. The implication of the business operation, especially in food industry was no profit, and employees were left empty handed.

When the government directed to loosen the rules, businesses especially food industry were slowly moving forward, open access to customers that leads to profit generation. However, there were food establishments especially here in Bongao had already been stopped in their business operation due to financial failure from the pandemic situation.

In addition, aside from closure from the pandemic, some food stores have already been closed due to unforeseen financial events and mismanagement. The closure of establishments may directly affect the employees, communities, investors, and owners. It also has a macro effect on the locale's economic landscape and status.

However, there are challenges faced by food establishment entrepreneurs, including financial management challenges, market trends adaption, and efficient technology implementation (Anne Napolitano Consulting, 2024). The challenge of financial management might affect the business performance and operation. Failure in financial management may shut down the business, laying off employees and increasing financial risks. There are causes of financial mismanagement of the business establishment. It includes financial management knowledge, excessive debt and financial management view.

Literature Review & Theoretical Basis

In evaluating the financial stability and performance of a dynamic landscape of business, the financial metrics play essential role. Profit margin is one of the financial metrics that part of primary keys for calculating performance indicator. Profit margin has three central types, including gross profit margin which concentrates on production and pricing (Majka, 2024).

According to Chiladze (2018), profitability is one of the fundamental metrics of the financial stability of businesses. Moreover, this study anchored on the basic formula of calculating gross profit margin. The formula is net sales is deducted by cost of goods sold. The cost has two compositions, including fixed and variable costs.

Profit Margin

Profit is the primary goal of an enterprise for business survival, which gains from excess expenses and revenue (Begum et al., 2024). To survive in the business, financial health should be evaluated through financial metrics (Hargrave, 2023). Profitability analysis helps business establishments assess and evaluate the concept of assigning all costs acquired by them (Kokila & Ramprathap, 2021). It is a valuable technique in determining entrepreneurs' decision-making (Brierley, 2016).

To understand the computation of gross profit, it is the deduction from total sales and cost of goods sold. Profitability measurement is essential for business success

(Ag decision maker). In determining the enterprise's performance, it must calculate the net income figure and sales, cost of goods sold, operating expenses, and capital invested (Tulsian, 2014). The result of this assessment is the basis of the decision-making process for long and short-term planning (Anugrah, 2011). The analysis contributes positively to the economic stands of the business environment for comparability and benchmarking (Diokno, 2023). It must be analyzed regarding the true meaning to avoid being unbiased (Puspitaningtyas et al., 2018).

Sales Revenue

Sales revenue is an inflow the enterprise receives from trading goods (Girsch-Bock, 2024). It is an essential aspect of the business that provides income. Selling generates money needed for development, innovation, and sustainability (Jaitly, 2023).

The management's concern is to maximize its sales. It is different from a department's work to achieve its goals. It is a collective effort of the enterprise. If the business consistently increases its sales, it will probably have market expansion and profitability increase. This means the management is doubling its sales, not expenses (Leonard, 2019). Achieving maximum sales requires communication, persuasion, and rapport to fuel transactions and exchange information (Chandra, 2024).

Cost of Goods Sold

Costs contribute to the cash outflow of the business that produces products (Zimbroff & Schlake, 2015). They are a given-up contribution to the company in exchange for the manufacturing of products (ICSI, 2017). Most manufacturing companies are challenged by cost management (Gichuki, 2014). Top management must assess the cost to provide information for resource allocation decisions (IES, 2020) and control business operations (Lepādātu, n.d.). In addition, it impacts sales and profits (Suzan & Nabilah R., 2020).

Part of calculating the gross profit is identifying the cost of goods sold, which refers to the direct costs of producing the goods sold by a company (Fernando, 2024) reported in the income statement (Beaver, 2021). In producing an output that aims for higher profit, inputs from economic sources should be calculated, including the cost of the materials and labor (Dewi et al., 2021). Managing the company's cost has an essential approach to building a competitive advantage (Wang, 2019) and influencing the decision-making process (Stobierski, 2023; Narawish et al., 2022).

Assessing a business's cost helps small companies ensure the quality of projects that avoid burden for future development (Huang & Zhang, 2013). A company does not assess the cost, as its primary determinant affects the profitability - an increase in cost attracts low sales return (Temitayo & F, 2020). Breaking out the cost from sales has an advantage in analyzing the cost of goods sold and the gross profit for inventory, sales decisions (Studocu, n.d.), planning, evaluation (Anh et al., 2023), and effective production control (Luther, 2023). So,

the enterprise can survive and develop to promote growth, expansion, cost control, and capital utilization improvement (Gao, 2021) because of the accuracy of cost price information (Lulaj & Iseni, 2018; Rounaghi et al., 2021).

For a company's survival, the manager should track the trend, level, and structure of incurred costs to create reliable and accurate decision-making (Lahutta & Wroński, 2015). According to Goestjahjanti & Widayati (2019), studying the effect of controlling the cost of goods sold on sales is essential. The goal is to provide the business with a strategic framework for business improvement (Tipalti, n.d.). There are two types of cost, including variable and fixed costs (Bell, 1998)

Variable Cost and Fixed Cost

According to Aggarwal (2024), variable costs are expenses that fluctuate as the quantity of products changes. They depend on the company's production (Luther, 2023). As production changes, the costs vary, directly influencing the volume of production. Fixed costs refer to the cash outflow of a business that remains constant even if the production changes (Ur Rahman, 2023). These charges must be paid no matter how many items are offered (CEE, n.d.).

Variable costs include raw materials and direct labor. Materials are essential inputs in creating a product that is typically composed of two kinds: direct and indirect materials. Labor is the engine in creating the output (Luther, 2023). Businesses always control costs by eliminating and reducing unessential business costs to gain high profits (Akeem, 2017.), especially marketing costs (Jha, 2020) and production costs (Studocu, n.d.; Correia & Saldanha-da-Gama, 2014).

Fixed costs include expenditures on information technology, equipment, and employee salaries (Liu & Tyagi, 2017). It is also related to recurring expenses such as rent, interest payments, insurance, depreciation, and property tax (Hayes, 2024).

2. RESEARCH METHODOLOGY

Research Design/Study Design

This study is using the descriptive research method to measure and analyze variables from the information of the respondents. In addition, it is a method to assess the collected quantitative evidence and information from the survey result using variety of statistical analysis. Survey is used as the quantitative research technique through questionnaires (Nassaji, 2015).

Overall, this research design based on survey questionnaires is proper method to employ to assess and observe affecting organizations' financial management especially profitability of the food establishments. The research method is an instrument to understand the endeavors of the food establishment owners in terms of financial profitability of the business (Allen, 2017).

Study Site

The research locale of this study is located at Bongao, Tawi-Tawi, the southernmost tip of the Philippines. This coastal municipality is a capital town of the province of

Tawi-Tawi of the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM). It is situated between two-named seas: the Sulu Sea and the Celebes (Sulawesi) Sea in the north and west, respectively.

One of the major sources of livelihood in the area is trade and commerce (Provincial Government of Tawi-Tawi, 2023). Bongao is promising for business investments due to increasing of foreign and local tourists' arrival. That is why, the region eyed the province as potential gateway to the country from the south.

Businesses especially food establishments are increasing year by year. Therefore, the study wants to assess financial profitability of the food establishment sector in the municipality to help through this research survey.

Sampling Method

Sampling method is a technique of planning and choosing the sample of respondents from the whole population. The population is a group of people has common characteristics and attributes (Elfil & Negida, 2017). The population of this respondents are the food business establishment owners wherein there were few of them invested in this venture. So, the purposive sampling technique is used to study a certain group with knowledge of the occurrence. This sampling technique could be employed with qualitative and quantitative research (Tongco, 2007).

The researcher used purposive sampling technique to guarantee that the selected respondents are experts to answer the prepared research questions. It can identify the respondents who are the business owners of food business establishments that can provide comprehensive and reliable viewpoints on a research problem on the financial profitability of the business.

The LGU Bongao provided several registered food establishments in 2023, where there are 38 restaurants registered at the Licensing and Permit Office. The researcher calculated the sample of size of the respondents to 25% of the population. Therefore, there are only 10 participants of this survey. There are managers who did not want to participate due to financial confidentiality. However, the disclosed information was kept confidential and secured.

Survey Instruments

A comprehensive information has been gathered regarding the profitability analysis of the food establishments in Bongao. The survey provided valuable insights from the business establishment owners.

A two-paged survey questionnaire was distributed to collect and gather information from the respondents. There are two parts of this survey questionnaire, including the basic business profile and profitability information. The basic business profile included food and services offered, number of employees and years of operation. While profitability information included monthly sales, monthly cost (fixed and variables costs) and gross profit.

To answer the questions, choices and ranges are available to make the participants easy to response. There are queries that are opened to answer such as name which is optional, address and age of the participant.

Research Procedures and Collection

The data collection was commenced on third quarter of 2022. The conduct was started on requesting of list of registered fast-food establishments at the Permit and Licensing Office of the LGU Bongao. 38 registered establishments were the population of the respondents wherein 25% was the sample size.

This research study was using survey and interview to collect data from the respondents. Survey is the compilation of information using the form of survey questionnaires from a sample of respondents (Check & Schutt, 2012). Interview is another tool in collecting data from the specific respondents, where is using questions from questionnaire as guide (Sahoo, 2022).

Two data collection techniques were employed on this study, including primary and secondary data collection. The primary data were collected directly from principal resources using survey questionnaire and interviews (Heap & Waters, 2018). The secondary data, however, were gathered from books, published research articles, financial magazines, government reports and information, and newspapers used for reference and literature review (Sahu, 2013).

Data Analysis / Statistical Analysis

This research is studying the analysis of gross profit margin of food establishments in Bongao. This study employed frequency and percentage analysis to examine the profit margin against gross sales and cost. This frequency analysis examined the number of occurrences and percentage that revealed in the data (Mishra et al., 2019). For data presentation, tables were used to present the data in this paper to make it easy to understand.

Result and Discussions

The ten food establishments were surveyed in Bongao, Tawi-Tawi, Philippines. Most of these establishments primarily offered snacks and meals as their food options. 40% of the respondents have employees in the range of 8-14. In addition, 30% of the respondents have workers in the range of 0-7 and 22-28. Most establishments are young regarding years of operations, with 70% (Table 2).

TABLE 2. Number of Workers and Years of Operation

Number of Workers	F	P	Years of Operation	F	P
	0-7	3		30%	0-8
8-14	4	40%	9-16	1	10%
15-21	0	0%	17-24	1	10%
22-28	3	30%	25-32	1	10%
Total	10	100%	Total	10	100%

Sales revenue refers to the cash inflow from business economic activities (Chauhan, 2013). For this study, half of the respondent establishments have received an inflow, with a monthly average in the range of Php 90,000.00-

605,000.00. Twenty percent of the establishments have an inflow of Php 1,120,001.00-1,635,000.00 and Php 1,635,001.00- 2,150,000.00 (Table 3).

TABLE 3. Monthly Average Sales

Monthly Average Sales (Php)	F	P
90,000-605,000	5	50%
605,001-1,120,000	1	10%
1,120,001-1,635,000	2	20%
1,635,001-2,150,000	2	20%

TOTAL 10 100%

Cost is an element in computing the gross profit of the business. In this research study, 50% of the respondents have an average total cost of Php. 40,000.00-142,250.00 (Table 4). Two establishments had a range of Php. 102,251.00-244,500.00. Similarly, 20% of establishments have a range of Php. 346,751.00-449,000.00.

TABLE 4. Monthly Total Cost Average

Monthly Average Total Cost (Php)	P	F
40,000-142,250	5	50%
102,251-244,500	2	20%
244,501-346,750	1	10%
346,751-449,000	2	20%
TOTAL	10	100%

Costs come in two kinds: fixed and variable costs. Fixed costs are permanent cash outflows, such as rent, property tax, insurance, and depreciation. Meanwhile, variable costs are cash outflows that remain constant in how much the company produces and sells, including labor, commissions, and others (Nickolas, 2024). However, this study found that 60% of establishments have a monthly average fixed cost of Php. 15,000.00-100,200.00. 50% of the respondents have a monthly average variable cost of a range of Php. 20,000.00-38,250.00 (Table 5).

TABLE 5. Monthly Average Fixed and Variable Costs

Monthly Average Fixed Cost (Php)	P	F	Monthly Average Variable Cost (Php)	P	F
15,000-100,250	6	60%	20,000-38,250	5	50%
100,251-185,500	2	20%	38,251-56,500	1	10%

185,501-270,750	0	0%	56,501-74,750	0	0%
270,751-356,000	2	20%	74,751-93,000	4	40%
TOTAL	10	100%	TOTAL	10	100%

Table 6 shows the distribution of gross profit percentage over total sales to understand the portion of gross profit in total sales. Among the respondents, 40% had 76% to 88% of the gross profit over sales, followed by 63% to 75%, with 30% of the respondents.

TABLE 6. Percentage of Gross Profit over Sales

Gross Profit vs. Total Sales (Php)	P	F
36%-49%	1	10%
50%-62%	2	20%
63%-75%	3	30%
76%-88%	4	40%
TOTAL	10	100%

Conclusion and Recommendation

This research survey revealed that establishments have operated for eight years and eight months on average, with 12.6 employees. Four out of the ten establishments were located outside the perimeter of the center of Bongao, Tawi-Tawi, indicating a concentration of establishments in that area. The majority of the surveyed establishments offered snacks and meals, indicating a preference for casual dining experiences in the local market

The establishments were also compared based on their fixed, variable, and total costs, which can impact their profitability and financial performance. Five establishments spend Php. 100,000.00 up for the cost of goods sold. 60% of the respondents incurred high fixed costs over variable costs. Most of the establishments engaged in marketing promotional activities monthly as part of their promotional engagement. The workforce is an additional cost.

Total sales were also analyzed to identify the income received by the business enterprise. In this study, three out of 10 establishments had gained a million pesos in sales, and 20% received almost a million of the total sales monthly. Moreover, this study found that two establishments had gained a total gross profit of a million above, and three establishments received almost a million per month. According to business heads, marketing promotion helps the business gain more clients and customers.

Assessing the total sales, cost of goods sold, and gross profit helps the business enterprise budget and plan the actual operation by the owner. It assists in coordination with other suppliers, activities, and business operation flow. In Vietnam, the information helps the business for

various purposes, including planning, evaluating, decision-making, and cost control (Anh, 2023). Management always relies on cost information for decision-making regarding marketing operations and accounting data (Khalifa & Elkarim, 2016). It has a positive effect on making strategic accounting decisions (Ezeala & Apete, 2023).

For recommendation, perform an in-depth analysis to identify the factors contributing to variations in the income status of food establishments in Bongao, Tawi-Tawi, Philippines. Factors such as location, menu offerings, pricing strategies, customer preferences, competition, and local economic conditions should be examined to gain insights into the drivers of income variations.

In addition, it explores the impact of government policies and regulations on the income status of food establishments in the municipality. Evaluate existing policies and identify any barriers or opportunities they may present for businesses. Make recommendations for policy improvements or new interventions that can support the growth and profitability of food establishments.

According to Prado & Domingo (2024), assess the training, workshop, seminars and capacity-building needs of food establishment owners and staff in the municipality. Identify areas where additional training, skill development, or business management support could enhance the profit status of these establishments. Develop targeted training programs or workshops to address these needs. Trainings includes cash flow management (Arojo et al., 2024), variability of earnings

(Triest, 1970), and budget management (Evmenchik et al., 2021). Recommendation by Granfon et al. (2023) that a vision, objectives and goals shall be created by the business managers and owners for strategic planning of a business, preparing pricing strategies such as offer incentives and promos, and motivating employment development.

Investigate the potential for diversification and innovation within the municipality's food industry. Identify emerging trends or untapped market segments that could offer new income opportunities for food establishments. Explore innovative business models, menu concepts, or marketing strategies that can help attract a broader customer base and increase revenue.

Foster collaboration and networking among food establishment owners. Encourage the formation of local associations or networks where business owners can share knowledge, exchange best practices, and collectively address common challenges. Facilitate mentorship programs where successful entrepreneurs can provide guidance and support to aspiring or struggling establishments.

Conduct regular monitoring and evaluation of the implemented strategies and interventions to enhance the income status of food establishments. Establish key performance indicators (KPIs) to measure the effectiveness of different initiatives. Analyze the data collected to identify successful interventions and areas requiring adjustments or further attention. Continuously refine the strategies based on the feedback and insights from the monitoring and evaluation process.

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