DECLARATION FORM

I, Tsitsidzashe Nhamo, declare that this project is my own work and has not been copied from any sources without acknowledging the source.
APPROVAL FORM

The undersigned certify that they have supervised the student Registration number R111124N’s dissertation entitled 
An analysis into the causes of a decline in profitability: A case of Innscor Bread Company submitted in partial fulfilment of the requirements of the Bachelor of Commerce Accounting Honours Degree at the Midlands State University.

SUPERVISOR DATE

CHAIRPERSON DATE

EXTERNAL EXAMINER DATE
RELEASE FORM

NAME OF STUDENT: TSITSIDZASHE NHAMO

REG NO. R111124N

DISSERTATION TITLE: An analysis into the causes of a decline in profitability: A case of Innscor Bread Company

DEGREE TITLE: Bachelor of Commerce Accounting Honours Degree

YEAR THIS DEGREE WAS GRANTED: 2014

Permission is hereby granted to the Midlands State University Library to produce single copies of this dissertation and to lend or sell such copies for private, scholarly or scientific research purpose only. The author does not reserve other publication rights and the dissertation nor may extensive extracts from it be printed or otherwise reproduced without the author’s written permission.

SIGNED .............................................................

PERMANENT ADDRESS: 6207 Rusape Rd

Budiriro 5b Harare, Zimbabwe

DATE: November 2014
DEDICATION

I dedicate this research project to my entire family for their continued financial and moral support towards my studies. May the almighty God shower them with unending blessings.
ACKNOWLEDGEMENTS

Firstly I would like to thank the Almighty God for making this publication possible and for seeing me through the course of my studies at the Midlands State University.

This research would not have been possible without the supervision and assistance of Miss Takachicha who was always patient with me. I also would like to pour out my heart to the whole Accounting department at large with special mention going to Mr. Mvura (Daddy) for his fatherly support.

My heartfelt gratitude goes to all the employees of Innscor Bread Company for the gate to a bigger and greater future.

To my friends, Sifiso, Faith, Tary, Tryness, Peter and many others (the list can go on forever), I thank you for the encouragement, motivation and support in all aspects of my life.

Finally to my beloved loving family, I thank you for all the support and life mentoring that has made me the person I am today. My parents, my sisters and brothers Tadiwa, Tinevimbo, Tary, Tovimba, Tirimushe and Learnard I love you guys and thank the Almighty for the lives of each and every one of you.
ABSTRACT

The study examined the causes of a decline in profitability. The key objective of most businesses is to get a profit. Making profit in business environment usually indicate a healthy business. A favorable effect of business that generates profits is the ability for the company to expand and grow its operations. The study is an analysis of the causes of the decline in Profitability at Innscor Bread Company in Harare. A number of problems in the company performance were experienced which triggered this research.

The first chapter is an introduction to the research, showing the background of the study, statement of the problem, research objectives, limitations and delimitation of the study. Chapter two is a review of literature based collectively on opinions of practitioners in the field and explores what other authors have researched and proposed relating to the causes of a decline in profit. Chapter three seeks to explore methods and techniques that were used in collecting the data and information. The research made use of interviews and questionnaires, which were used to gather data. The data collected in chapter three was analyzed and presented in chapter 4. Chapter 5 concludes the research thereby giving a summary of the findings hence giving recommendations.
# TABLE OF CONTENTS

**CHAPTER ONE** ............................................................................................................................... 1

**INTRODUCTION** ................................................................................................................................. 1

1.0 INTRODUCTION ............................................................................................................................... 1

1.1 BACKGROUND TO THE STUDY ......................................................................................................... 1

1.2 STATEMENT OF THE PROBLEM ...................................................................................................... 3

1.3 MAIN RESEARCH OBJECTIVE .......................................................................................................... 3

1.4 SUB RESEARCH OBJECTIVES .......................................................................................................... 3

1.5 RESEARCH QUESTIONS .................................................................................................................... 4

1.6 SIGNIFICANCE OF THE STUDY ........................................................................................................ 4

1.7 DELIMITATION .................................................................................................................................. 5

1.8 LIMITATIONS .................................................................................................................................... 5

1.9 DEFINITION OF KEY TERMS ........................................................................................................... 5

1.10 SUMMARY ...................................................................................................................................... 6

**CHAPTER TWO** .................................................................................................................................... 7

**LITERATURE REVIEW** .......................................................................................................................... 7

2.0 INTRODUCTION ............................................................................................................................... 7

2.1 OVERVIEW OF PROFITABILITY AND ITS IMPORTANCE TO BUSINESSES ................................... 7

2.2 FACTORS THAT AFFECT BUSINESS PROFITABILITY .................................................................... 8

2.3 CAUSES OF A DECLINE IN BUSINESS PROFITABILITY .................................................................. 10

2.4 THE EFFECTS OF A DECLINE IN PROFIT ON BUSINESS PERFORMANCE ................................. 11

2.5 THE EFFECT OF DISTRIBUTION CHANNELS ON BUSINESS PROFITABILITY ............................ 12

2.6 STRATEGIES THAT CAN BE PUT IN PLACE TO CURB PROFIT DECLINE .................................... 13

2.7 HOW PROFITS CAN BE MANAGED MORE EFFECTIVELY ............................................................... 14

2.7 SUMMARY ...................................................................................................................................... 16

**CHAPTER THREE** ................................................................................................................................ 17
RESEARCH METHODOLOGY ........................................................................................................ 17

3.0 INTRODUCTION .............................................................................................................. 17

3.1 THE CONCEPT OF RESEARCH .................................................................................... 17

3.2 RESEARCH DESIGN ...................................................................................................... 17

  3.2.1 Research design techniques .................................................................................. 18

  3.2.2 Descriptive ............................................................................................................. 18

  3.2.3 Justification of the Descriptive Research Design .................................................... 18

  3.2.4 Case Study ............................................................................................................ 18

3.3 POPULATION ................................................................................................................... 19

3.4 POPULATION SAMPLING .............................................................................................. 19

  3.4.1 Sampling ................................................................................................................. 19

3.5 PRIMARY DATA ............................................................................................................... 20

  3.5.1 Primary Data .......................................................................................................... 19

  3.5.2 Secondary Data ....................................................................................................... 20

3.6 RESEARCH INSTRUMENTS ............................................................................................ 20

  3.6.1 Questionnaires ....................................................................................................... 20

  3.6.2 Types of questions used .......................................................................................... 20

  3.6.3 Questionnaire administration ............................................................................... 21

3.7 INTERVIEWS ................................................................................................................... 21

  3.7.1 Telephone Interview ............................................................................................... 21

  3.7.2 Interview administration ....................................................................................... 21

3.8 DATA VALIDITY AND REALIBILITY ............................................................................ 22

3.9 DATA ANALYSIS AND PRESENTATION ..................................................................... 22

3.10 SUMMARY ..................................................................................................................... 22

CHAPTER FOUR ..................................................................................................................... 23

DATA ANALYSIS AND PRESENTATION ............................................................................. 23

4.0 INTRODUCTION ............................................................................................................... 23
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 QUESTIONNAIRE RESPONSES</td>
<td>23</td>
</tr>
<tr>
<td>4.2 DEPARTMENT RESPONSES</td>
<td>24</td>
</tr>
<tr>
<td>4.3: ACADEMIC QUALIFICATIONS</td>
<td>25</td>
</tr>
<tr>
<td>4.4: KNOWLEDGE OF BUSINESS PROFITABILITY</td>
<td>26</td>
</tr>
<tr>
<td>4.5 CAUSES OF A DECLINE IN PROFIT</td>
<td>26</td>
</tr>
<tr>
<td>4.6: DETRIMENTAL CAUSE OF A DECLINE IN PROFIT</td>
<td>27</td>
</tr>
<tr>
<td>4.7: STRATEGIES TO CURB PROFIT DECLINE</td>
<td>28</td>
</tr>
<tr>
<td>4.8: ADEQUACY OF SALES REVENUE</td>
<td>29</td>
</tr>
<tr>
<td>4.9: HOW TO INCREASE SALES REVENUE</td>
<td>30</td>
</tr>
<tr>
<td>4.10: AREAS CURRENTLY TARGETED</td>
<td>31</td>
</tr>
<tr>
<td>4.11: AREAS WITHOUT CHANNELS OF DISTRIBUTION</td>
<td>32</td>
</tr>
<tr>
<td>4.12 Interview Responses</td>
<td>32</td>
</tr>
<tr>
<td>4.13 Secondary Data</td>
<td>37</td>
</tr>
<tr>
<td>4.14 SUMMARY</td>
<td>37</td>
</tr>
<tr>
<td>CHAPTER FIVE</td>
<td>38</td>
</tr>
<tr>
<td>CONCLUSION AND RECOMMENDATIONS</td>
<td>38</td>
</tr>
<tr>
<td>5.0 INTRODUCTION</td>
<td>38</td>
</tr>
<tr>
<td>5.1 SUMMARY OF THE STUDY</td>
<td>38</td>
</tr>
<tr>
<td>5.2 OVERVIEW OF MAJOR FINDINGS</td>
<td>39</td>
</tr>
<tr>
<td>5.2.1 Factors affecting profitability</td>
<td>39</td>
</tr>
<tr>
<td>5.2.2 Causes of a decline in profit</td>
<td>39</td>
</tr>
<tr>
<td>5.2.3 Effects of the decline in profit on the overall performance of the business</td>
<td>40</td>
</tr>
<tr>
<td>5.2.4 Strategies that can be put in place to curb the decline in profit</td>
<td>40</td>
</tr>
<tr>
<td>5.2.5 What can be done to manage profit more effectively</td>
<td>40</td>
</tr>
<tr>
<td>5.3 CONCLUSION</td>
<td>40</td>
</tr>
<tr>
<td>5.4 RECOMMENDATIONS</td>
<td>41</td>
</tr>
</tbody>
</table>
5.5  SUGGESTED AREAS OF FURTHER STUDY ................................................................. 42

REFERENCES ............................................................................................................. 43

Appendix 1 .................................................................................................................... 45
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1.1</td>
<td>Statement of comprehensive income</td>
<td>2</td>
</tr>
<tr>
<td>Table 2.1</td>
<td>Profit trends</td>
<td>15</td>
</tr>
<tr>
<td>Table 4.1</td>
<td>Departmental responses</td>
<td>23</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>Academic qualifications</td>
<td>23</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>Knowledge of business profitability</td>
<td>24</td>
</tr>
<tr>
<td>Table 4.4</td>
<td>Interview responses</td>
<td>33</td>
</tr>
<tr>
<td>Figure 4.1</td>
<td>Questionnaire response rate</td>
<td>24</td>
</tr>
<tr>
<td>Figure 4.2</td>
<td>Causes of a decline profit</td>
<td>26</td>
</tr>
<tr>
<td>Figure 4.3</td>
<td>Detrimental cause of a decline in profit</td>
<td>27</td>
</tr>
<tr>
<td>Figure 4.4</td>
<td>Strategies to curb profit decline</td>
<td>28</td>
</tr>
<tr>
<td>Figure 4.5</td>
<td>Adequacy of sales revenue</td>
<td>29</td>
</tr>
<tr>
<td>Figure 4.6</td>
<td>Increasing sales revenue</td>
<td>30</td>
</tr>
<tr>
<td>Figure 4.7</td>
<td>Areas currently targeted</td>
<td>31</td>
</tr>
<tr>
<td>Figure 4.8</td>
<td>Areas without distribution channels</td>
<td>32</td>
</tr>
</tbody>
</table>
# LIST OF APPENDICES

<table>
<thead>
<tr>
<th>Appendix</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appendix 1</td>
<td>Research assistance letter</td>
</tr>
<tr>
<td>Appendix 2</td>
<td>Questionnaire Questions</td>
</tr>
<tr>
<td>Appendix 3</td>
<td>Interview Questions</td>
</tr>
</tbody>
</table>
CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

This chapter covers the background of the study, followed by the statement of the problem which gives a brief outline of what will be focused on so as to bring out the research objectives. Also outlined in this chapter are the proposed main research questions and the sub research questions which are believed to be able to bring out a solution to the research problem. It is also in this chapter that the justification of the study, definition of key terms and delimitation of the study and lastly e limitation of the study is outlined.

1.1 BACKGROUND TO THE STUDY

As portrayed by Steve Lefever, today’s economy has resulted in some brutal price wars that make it difficult, if not impossible, for many companies to raise their prices. Revenues have decreased dramatically in many cases. As a result, profits have taken a hit and some owners who were expecting to switch out of their businesses over the next several years have had to delay their exit plans. Profits are more important than ever for your company’s survival and long term health, and for laying the foundation for a successful ownership transition. Innscor Bread Company has been experiencing a problem with the decline in its profit yearly. The director’s report (December 2013) highlighted this issue as illustrated below.
Table 1.1: Statement of comprehensive income for the year ended 2009, 2010, 2011, 2012 and 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>2009 (000)</th>
<th>2010 (000)</th>
<th>2011 (000)</th>
<th>2012 (000)</th>
<th>2013 (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>12 800</td>
<td>11 000</td>
<td>10 200</td>
<td>10 000</td>
<td>9 000</td>
</tr>
<tr>
<td>Less cost of goods sold</td>
<td>(5 000)</td>
<td>(6 500)</td>
<td>(6 900)</td>
<td>(7 200)</td>
<td>(7 500)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>7 800</td>
<td>4 500</td>
<td>3 300</td>
<td>2 800</td>
<td>1 500</td>
</tr>
<tr>
<td>Less expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production costs</td>
<td>(100)</td>
<td>(120)</td>
<td>(180)</td>
<td>(200)</td>
<td>(250)</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>(1 000)</td>
<td>(1 000)</td>
<td>(1 100)</td>
<td>(1 100)</td>
<td>(900)</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(120)</td>
<td>(130)</td>
<td>(190)</td>
<td>(220)</td>
<td>(600)</td>
</tr>
<tr>
<td>Net profit/loss</td>
<td>6 580</td>
<td>3 250</td>
<td>1 830</td>
<td>1 280</td>
<td>(250)</td>
</tr>
</tbody>
</table>

Source: Innscor Bread Company accounts

This decline in profit at the bread company has become a cause of concern as it has crippled the efficiency and the viability of production and operations at Innscor Bread Company. The distribution manager cited the fact that the product is only being distributed to surrounding areas and cities. (Management meeting March 2013).

The minutes of the meeting stated that the decline in profit was now at its peak and had to be controlled since a loss was recorded in and before December 2013. As a result, the company had to close its Lytton road branch in December 2013 so as to carry out its operations under one roof at its head office at Graniteside, Harare. This was done so as to cut on production costs. (Annual general meeting December 2013).

The company meeting minutes also highlighted that the sales of the company were declining. Due to this problem the company had to downsize its workforce through retrenchments as it
was facing challenges in the payment of salaries. (Innscor Bread Company accounts September 2013).

The organization also had to reduce the number of loaves of bread produced per day since the sales were declining. Production costs increased as a result of not fully utilizing the capacity of production machinery. The established capacity of the organization’s machinery is 250 000 loaves per day but now they are producing 180 000 loaves per day. (Innscor Bread Company Production statistics accounts October 2014).

1.2 STATEMENT OF THE PROBLEM

Innscor Bread Company has failed to maintain constant profits over the past five years, resulting in the reduction of operations and inability to pay salaries on time and this research seeks to investigate on why it is continuing to experience such drastic fluctuations and decline in profits.

1.3 MAIN RESEARCH OBJECTIVE

To investigate the causes of the decline in profit as this is affecting the operations of the business through downsizing the workforce, challenges in the remuneration of employees and also to look at strategies that can be put in place so as to boost the profit.

1.4 SUB RESEARCH OBJECTIVES

- To identify factors that affect profitability
- To identify the causes of the decline in profit
- To identify the effects of this decline on the overall performance of the business
- To assess the distribution channels as a factor affecting profitability
- To analyze the strategies that can be put in place in order to curb this decline
- To assess what can be done to manage profit more effectively.
1.5 RESEARCH QUESTIONS

- How does a decline in profit affect the viability of the business?
- Of what importance is the distribution channel in determining profitability?
- What can be done to manage profit more effectively?
- What are the weaknesses of the organization in the current low profit situation?
- What strategies can be put in place in order to boost profit?

1.6 SIGNIFICANCE OF THE STUDY

1.6.1 To the researcher

- The study was carried out in partial fulfillment of the requirements of the Bachelor of Commerce Accounting Honors Degree.
- The study will allow the student to get a firsthand experience on how a research is carried out and the process involved.
- The study will give the student a better understanding and enhance knowledge on the area of study.

1.6.2 To the University

The study will enhance the university’s literature and use such material when carrying out similar projects in future and for future referencing.

1.6.3 To Innscor Bread Company

Hopefully, the findings of this research will assist the management on the best practices to increase profits.
1.7 DELIMITATION

- The study is confined to Innscor Bread Company Harare head office.
- The period of study is from January 2013 to December 2014.
- The respondents are management and employees of Innscor Bread Company.

1.8 LIMITATIONS

Financial Constraints

- The shortage of sufficient financial resources for the researcher to be able to gather enough information. However, the researcher tried to cut costs of travelling to gather information by trying alternative methods of communication like using the telephone and emails.

Time

- There was limited time within which the researcher was concluded and there were deadlines to be met and the researcher had to do assignments for other modules whilst attending lectures as well.

Confidentiality

- The researcher had limited access to other information in the organization. However, the researcher explained to the management that the information would remain confidential and that it was for the purposes of the study only.

1.9 DEFINITION OF KEY TERMS

Sales- in accounting sales refer to the revenues earned when a company sells its goods, products, merchandise, etc. (Harold Averkamp, 2004).

Profit- a financial return or reward that entrepreneurs aim to achieve to reflect the risk that they take. (Jim Riley, 2012).
Viability- viability of a business is measured by its long term survival, and its ability to have sustainable profits over a period of time. If a business is viable, it is able to survive for many years, because it continues to make a profit year after year. The longer a company can stay profitable, the better its viability. (Jean Murray, 2014).

Capacity utilization- is defined as the ratio of actual output to some measure of potential output given a firm’s short run stock of capital and perhaps other fixed inputs in the short run. Capacity utilization captures the output gap between actual output and capacity output. (Nelson, 1989).

Distribution channel- this is a method that companies use to enter the consumer market with their product. (Osmond Vitez, 2014)

1.10 SUMMARY

This chapter serves as an introduction to the research study, providing an overview of the whole study. Objectives of the research have been outlined, research questions, background to the study, significance of the study, delimitation and limitation. Definition of key terms was also outlined. The next chapter will focus on literature review.
CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter is a review of literature based collectively on opinions of practitioners in the field and explore what other authors have researched and proposed relating to the causes of a decline in profit. Literature review is conducted so as to obtain an in depth knowledge and understanding of the subject study or topic. Hence quoting related literature published becomes imperative as it provides direction and makes research work easier.

2.1 OVERVIEW OF PROFITABILITY AND IS IMPORTANCE TO BUSINESSES

The key objective of most businesses is to get a profit. Making profit in business environment usually indicate that the organization is offering goods and services that are most desired by customers at a reasonable price. A favorable effect of business that generates profits is the ability for the company to expand and grow its operations. Employee livelihood is improved and this includes offering performance bonuses and increasing the compensation level. (Osmond Vitez 2014).

Profitability is a significant aspect that assists businesses gain market share, giving corporate managers the means to innovate and produce better goods. Entrepreneurs should strategically manage the profit and loss. A favourable profit and loss plants the seeds for a stable economic future for the company. (Alexander Glaser, 2012).

According to Hogren, Foster and Datar (2008), profit is a function of cost and revenue. Revenue minus cost is equal to profit. Profitability refers to the potential of a venture to be financially successful. (www.wisegeek.com)

Dr Phillip R. Geist (2014) suggests that profit is important as it supplies funds for two important purposes namely to provide a payback for owners, and to reinvest in the business to support stability and growth. Due to the above reasons, business owners should always remember that ‘profits matter’ on a daily basis.
Profitability is measure of the return in the shape of a profit that shareholders obtain for their investment in the company. It is expressed in the following ratios: return on equity, return on capital employed, earnings per share, prize earnings ratio and economic value added. (Michael Armstrong, 2012).

According to Gail Walraven (1995) profit is an obligation of doing business if a firm regularly spends in excess of its revenue it cannot remain open for long. Companies have to make profit so that they can re-invest in their future programs.

Profits is very crucial to a business because the profit rate determines capital formation investments. At the project evaluation stage, investment projects are chosen on the basis of the firm’s required hurdle rates of return on capital to attain the firm’s objectives. Alternative firm objectives include sales maximization, profit maximization and so on. Profit rate governs the level of output. (Ali Anari, James. W Kolari 2009).

2.2 FACTORS THAT AFFECT BUSINESS PROFITABILITY

As postulated by Van Thompson (2014), productivity and distribution affect the company’s ability to grow and make profits. If employees are sluggish in making products, both profitability and growth can slow. Similarly a company’s ability to distribute its products is important to generate revenue. If a company’s distribution system is interrupted, profits are driven down as well.

Poor distribution channels affect business profitability. Creating a second location exposes the company to many new customers and this can be a way to change current operations into a much more profitable business. (Mike Handlesman, 2014).

A company’s profit is usually influenced by the changes in sales, raw material costs and changes in labor costs. The inventory valuation method used in a firm has impact on the firm’s profit. The first in first out, (FIFO) method takes into account inventory purchased earliest in the production process, leading to cheaper materials being used due to the fact that inventories purchased at early dates are purchased at low prices owing to inflation. (Justin Johnson ,2014)
It is now widely recognized that one of the main determinants of business profitability is market share. Under most circumstances, enterprises that have achieved a high share of the markets they serve are considerably more profitable than their smaller-share rivals. This connection between market share and profitability has been recognized by corporate executives and consultants, and it is clearly demonstrated in the results of a project undertaken by the Marketing Science Institute on the Profit Impact of Market Strategies (PIMS). The PIMS project, on which we have been working since late 1971,\(^1\) is aimed at identifying and measuring the major determinants of return on investment (ROI) in individual businesses. Phase II of the PIMS project, completed in late 1973, reveals 37 key profit influences, of which one of the most important is market share. (Robert D. Buzzell, Bradley T. Gale, and Ralph G.M. Sultan\(2001\))

According to Lee Morgan (2014), the cost of goods sold directly affects the gross profit. This is so because the money used to manufacture goods is deducted from the revenue realized from sales. Therefore it is important for a company to go for cheaper wholesale products so as to reduce the cost of goods sold and make more profit.

When a company possesses monopoly power, it faces little competition and demand is more inelastic this enables the company to increase profits by increasing price. If there is growth in the economy there will be increased demand for most products. If there are many substitute or if the substitute is expensive the demand for a product is high. Likewise complementary goods will be important for the profit of the company. (Tejvan R Pettinger, 2014)

With all factors being equal, an increase in sales volume will increase the profit margin. An increase in sales volume causes a reduction in the cost of goods sold because fixed manufacturing cost per unit decreases as production volume increases. The cost savings causes an increase in gross profit that translates into higher profits and a higher profit margin.\(^\text{(Raul Avenir 2014)}\)

Sales to current asset ratio (SCAR) is a ratio between net sales and total current asset. A high level of this indicator shows working capital deficit. A decrease of the ratio means a narrowing down of the company’s activity which slows its production. Sales to equity ratio (SER) indicates how well the own capitals were used for generating sales. An increase in this
indicator suggest a positive aspect that shows a much better management of the own capitals used in activity and a rise in efficient. (CameliaBurj 2011).

2.3 CAUSES OF A DECLINE IN BUSINESS PROFITABILITY

Inadequate distribution channels lead to a decline in profit. If a business is based in a single region, for example, if it is mainly centered in towns, there may be hidden profits waiting to be tapped in other areas. Therefore services should be made available to a broad geographical audience. (Mike Handelsman, 2014)

“An analysis by Dale N. Allman (2012) states that the rate of return earned by U.S. businesses as been relatively low for the past several years. The depressed profit rate partly reflects recession or near recession conditions in the economy over much of the last decade. Some economists have argued, however, that the low profit rate of recent years also reflects a longer run downward trend related to conditions other than the business cycle.”

There are two main reasons for profit decline that is a decrease in sales or an increase in expenses. However, it is possible to increase sales and still experience a decrease in profit. This occurs if the sales increase comes from a higher sales of low margin items. Rising costs in terms of overhead costs, especially as the pay of long-term employees is increased each year. (Sam Ashe-Edmund, 2014)

Rodger Golden (2014) portrays that a decline in the market causes a decline in the profitability of business as well. Several reasons cause a decline in the market and the first is when popularity falls due to seasonal changes and when the market becomes flooded with similar items. Gross profit declines when materials are affected by the fluctuations in the market such that the material cost increases thereby causing the gross profit to decline accordingly.

A decline in profit is caused by a reduction in sales as a result of falling prices. A decrease in revenue while the costs of goods sold remain the same causes a decrease in the gross profit margin. Nevertheless, the ratio at which cost of goods sold decrease may not be comparative to the decrease in sales owing to certain fixed costs. (Raul Avenir, 2009).
The cost of goods sold is one of the most direct factors affecting the profit margin. The efficiency at which business is done also impact the profit margin. In some cases, too much time could be spent on customers that are not profitable. The above factors can combine to make an inefficient process of selling products. Inefficiency ends up costing more money and in the end cuts into the profit margin of the company. (Luke Arthur, 2014).

In order to achieve growth, which is the primary goal of all businesses, a business owner must watch the profit margin of a company. According to Rodger Golden (2014), the most contributing factor is the consumer market, but others include the price of the materials or the cost to maintain a business location or hire workers to handle a workload. If the gross profit margin is still declining, the problem could be under-pricing the services or products.

2.4 THE EFFECTS OF A DECLINE IN PROFIT ON BUSINESS PERFORMANCE

Jonathan Lister (2014) stipulates that the decline in net profit of a business does not indicate a healthy business and may cause problems in a variety of areas from pay scales, employee management and methods of production. Inefficiency is experienced and it drags down the business revenue stream by taking more time to produce fewer goods or accomplish fewer tasks.

As the profits and revenues decline, the firm cuts on hiring new employees. The manufacturer may cut on purchasing new equipment, curtail research and development in an effort to cut costs. Marketing expenditures may also be reduced. These cost cutting efforts will affect other businesses which provide the services and goods used by the big manufacturer. (Marc Davis, 2014).

Declining profit can impact the company’s ability to meet debt obligations. Late loan payments affect the company’s credit standing, making future borrowing more difficult. If the declining net profit continues, employees will find out and this often hurts the morale and motivates valuable personnel to find new employment. When there are opportunities to increase income, improve operations, declining net profit may rob the company of the monies needed to take advantage of these offers thereby leading to opportunity cost or opportunity
loss. The company also faces difficulties in finding new stock holders and investors. (William Pirraglia, 2014).

The decline in profit reduces the operations of the business. Companies that face reduced market share from lower customer demand or a down turn in the business cycle are forced to reduce their operational output. Consistent losses lead to business bankruptcy. Underperforming companies may require the owner of the business to declare personal bankruptcy basing on how the company is organized. Declaring this bankruptcy may create an economic ripple affecting other companies in the business environment. (Osmond Vitez, 2014).

According to David Ingram (2014), Companies that make profit regularly can use their money to fund growth strategies such as penetration in new markets. Firms that incur a loss are most likely to rely on investors and lenders to fund growth. Relying on outside financing is more costly as compared to using retained earnings, as firms pay interest, fees and dividends for loans and investments.

As uncertainty increases and sales decrease, businesses make less sales. The impact becomes greater for companies that give in house credit, as collecting accounts receivable becomes hard if a business customer closes or a consumer who may use credit spending at first, stops or slows paying on an outstanding balance. This also affects the community and other businesses as it becomes increasingly more difficult for the company to pay its own bills. (Jackie Lohrey, 2014).

2.5 THE EFFECT OF DISTRIBUTION CHANNELS ON BUSINESS PROFITABILITY

A marketing channel is defined as the means by which the physical flow of goods and services are distributed to consumers and users. A marketing channel is critical to large and small businesses because they use these distribution channels to meet their marketing and business objectives by providing and delivering products and/or services that generate profit and increase their customer base. (Ramy, 2009)
The higher the number of channels, the greater the company’s market coverage and rate of growth of its sales. This principle is well illustrated by Starbucks Coffee Company. Starbucks started with only one channel, namely company-owned stores that were staffed carefully and operated profitably. Later Starbucks franchised operations in other venues: airports, bookstores, and college campuses. The company recently signed a licensing agreement with Albertson’s food chain to open coffee bars in its supermarkets. Not only is Starbucks coffee served in these venues, but other Starbucks products are sold along with coffee. Adding more channels creates rapid growth. (Mars, 2009)

While some businesses can handle all factors and aspects of its own distribution, others require some level of distribution partnership. Choosing the right distribution channel to move products or services to the end user is a long-term strategic decision and varies according to the product, service and market.

There are a number of functions of distribution channel marketing. The main use of distribution channel marketing is to provide a link between product and consumer. Other functions include information gathering, promotion, and matching. Negotiations, physical distributions, financing, and risk taking are also functions of some distribution channel marketing. All these functions are necessary for success in any market.

2.6 STRATEGIES THAT CAN BE PUT IN PLACE TO CURB PROFIT DECLINE.

Sam Ashe-Edmunds (2014) portrays that expanding the distribution channel increases profits. Targeting new markets can significantly boost sales and revenues without any alterations to pricing or marketing strategies. A new distribution channel increases the consumer market thereby increasing sales, which in turn boosts profits.

Targeting new markets increases the client base. Market research helps in understanding the potential new market and helps in devising a strategy to tackle it. An increase in production will be required to meet the new demand. Evaluating and optimizing sales channels helps to reach more clients, increase market control and improve profitability. (Canada business network).
Expansion to new markets allows the business to benefit from economies of scale that were formerly unobtainable thereby providing added profit improvement. (Mike Handelsman, 2014).

Market expansion helps the business to obtain extra clients. The most actual way to attain new consumers thereby increasing our sales is to create new distribution channels in order to reach unexploited markets. Placement or distribution is one of the 4P’s of marketing. Attaining new customers through expansion of distribution channels is advantageous because it boosts profits as a result of increased revenues and reduced per-unit production costs. (Geo Metrx, 2012).

The profit and loss statements should be assessed and in that way changes in gross profit are seen in absolute terms, not just changes caused by sales increases or decreases. The gross margin should be tracked on at least a weekly or monthly basis so as to take action. (Steve Lefever, 2008)

Where there are declining profits, there should be changes in the business strategy so as to curb this decline. A crowded market place influences profit because competition is high compared to demand. Therefore the business should move to niche markets. The company can shelve off bad performers and this includes pulling the product until it is upgraded. Tightening the flow of business by reviewing each job description and explaining expectations clearly helps curb profit decline. (Monica Patrick, 2014).

Ralph Hariss (2010) portrays that hiring a professional to help boost business profits can be effective. The professional equips the business with consultation services, business coaching sessions that comprise providing the client with strategies and tools necessary to enhance profitability. These strategies can include expansion of distribution channels. By attaining these mentoring services, the company gets highly specific, customized assistance necessary to take it to greater heights.

2.7 HOW PROFITS CAN BE MANAGED MORE EFFECTIVELY.

Profits are managed by increasing turnover. Turnover can be increased by locating new markets and distribution channels. More focus should be on the most profitable customers.
Focus on customers who place large orders and who pay the full price on time. The product should also be kept up to date. If appropriate, the product range should be extended to ensure that it stays ahead of competition. (Nab Help and guidance-2014).

Distribution channels help in growing revenue thereby increasing profits. (www.marketingmo.com).

According to Heather Jones (2012), the backbone of all activities in business is revenue collection. In managing the business profits, sales should be increased. This enables the business to cater for all the other expenses that the business profits need to meet. Business expenses should be reduced and this has always been a proper way to manage the business profits. This should be based on the operating costs that are incurred in the business particularly when offering services.

Entrepreneurs should devise a business strategy to manage profits more effectively. Whether that has to do with becoming a market leader, be recognized as top innovator in the industry or be number one in providing excellent customer service. The next thing is to look into the company’s profit and loss statements, identifying sections were expenses can be slashed. This assists an entrepreneur understand how to increase money in the business account, increase sales and outmatch competition. (Alexander Glaser, 2012).

Business strategies include growth through distribution channel optimization. This is a critical element in supporting growth through a rigorous customer focus. Firms with productive channel relationships stand to increase sales, improve customer reach and reduce operating costs. Effective distribution channel management benefits everyone in the value chain by increasing market size, obtaining a larger share of consumer wallet through the channel. Proper distribution planning ensures the availability of the best available distribution methods and channels that proficiently transports services and products to the consumer. (Mars 2009)

Business strategies involve changing the operating procedures, for example generating more sales while reducing expenses. Sales could be increased by cross-selling, that is, offering new goods or services that complement the current offerings.(Mitchell York, 2014).
Matt Stocker (2014) is of the opinion that, increasing volumes and lowering overheads are strategies that can be used to manage profits more effectively. Volumes can be increased by enhancing our customer base through expanding to new markets.

Jonathan Hales (2006) explains revenue, expense and profit trends. These trends are shown in the profit and loss statement. Each trend is compared to the other to determine if financial statement is improving or declining. For example, if revenue is trending up and expense are staying flat, the profit trend should also be up. These are good trend and good relationship between revenue’, expenses and profit. However if revenues are trending up but expenses are trending up at a faster rate that will result in lower profits he then designed the following table that clearly shows the trend:

Table 2.1-Profit trends

<table>
<thead>
<tr>
<th>Trends that increase profits</th>
<th>Trends that increase profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue increase, expenses decrease</td>
<td>Revenue decrease, expenses increase</td>
</tr>
<tr>
<td>Revenues increase, expenses flat</td>
<td>Revenue flat, expenses increase</td>
</tr>
<tr>
<td>Revenue increase faster than expenses</td>
<td>Expenses increase faster than revenues</td>
</tr>
</tbody>
</table>

Source: Jonathan Hales, 2006

2.7 SUMMARY

This chapter aimed at gathering evidence or information from various authors to clarify matters that are pertinent to business profitability. It also looked at the importance of profit to a business, causes of the decline in profits and also the strategies that can be put in place in order to curb profit decline. An in depth understanding of the above attributes was obtained. Chapter three will focus on the research methodology.
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

Chapter three seeks to explore methods and techniques that were used in collecting the data and information. It examines the ways, means and methods used in collecting the data and information. This chapter overviews the researcher population and sample size used together with the approach which the researcher used in analyzing the data and information. The chapter explores the research instruments employed in order to address the research objectives outlined in the review of literature.

The fundamental objective of this chapter is to discuss the approach to the research project and how it was administered. Methods of data collection for the study are outlined as well as the techniques which the researcher applied to ensure that the objectives of the project would be achieved.

3.1 THE CONCEPT OF RESEARCH

Kumar and Ranjit (2005) defined research as “a process of seeking, by means of methodical enquiry, to solve problems and to add to one’s own body of knowledge and that of others by the discovery of significant facts and insights.” Similarly Marshy (2006) described research as a “systematic process of collecting, analyzing and interpreting information (data) in order to increase the understandability of the phenomenon in question.

3.2 RESEARCH DESIGN

According to Dawson and Catherine, (2002:43) a research design is a master plan in which the methods and procedures for collecting and analyzing required information is specified. In order to ensure that the collected information solves the research problem, the objectives of the research are included in the design. Further, when planning the research design, the design technique and the sampling methodology was of great significance and should be
taken cognizance of. Mavarst (2004) summed up the main criteria of a research design in the following question, “does the design generate answers to the research question?”

3.2.1 Research design techniques
According to Lyons and Coyle (2007) there are three research strategies that can be used in carrying out a research namely descriptive, explanatory, experiment and case study.

3.2.2 Descriptive
Robson (2003:270) defined descriptive research as a research designed to gather data in coming up with the nature of a situation that exists at the time of the study. It allows the researcher a chance to employ different data collection techniques since it provides an accurate description of the variables in the problem. The main advantage of descriptive research is that the researcher has no control over the research variable, reports can only be on what has happened or is happening. Robson (2003:270).

3.2.3 Justification of the Descriptive Research Design
The descriptive research design technique was used as it provided a next to accurate description of problems. Data collection included observation, surveys, interviews and case studies and offers to the discretion of the researcher several angles on the same information. For example in descriptive research surveys can provide statistical information about an event as well as an idea on how the people involved felt.

3.2.4 Case Study
A case study is a record of research in which detailed consideration is given to the development of a particular matter over a period of time (Amran 2006). According to Lyons and Coyle (2007) the disadvantages of a case study are that, it emphasizes detailed contextual analysis of a limited number of events or conditions and their relationships and it improves the understanding of a complex problem and can add to what is already known.
3.3 POPULATION

Johnson and Christensen (2008:33) defined population as any group of individuals taken to represent what the rest of the population is like. It gives the number of people eligible to take part in the research. Amran (2006) also distinguished the two types of population as the target population and the accessible population. Target population is the entire group of individuals or objects that are relevant to the research in order to draw conclusions, and accessible population is a subset of the target population and this is the population the researcher can apply their conclusions. Population chosen was the management and line employees of Innscor Bread Company.

The respondents were determined by considering the type of information needed and the people most likely to have it. The research sample was based on Innscor Bread Company employees and management.

3.4 POPULATION SAMPLING

3.4.1 Sampling

According to Ranjit, (2007) a sample is a segment of the population selected to represent the population as a whole. The ideal sample should be representative and allow the researcher to make accurate estimates of the thought and behavior of the larger population. Questions such as who will be surveyed, how many people will be surveyed and how should the sample be chosen were asked. (Catherine 2008). The researcher used a sample in this research because it would require a lot of time to survey the entire population. Stratified random sampling was used as a selection technique since the population from which the sample was drawn does not constitute a homogenous group. People from different departments of the company were chosen.

3.5.1 Primary Data

Johnson and Christensen (2008:39) defined primary data as raw data collected for the first time. It can be collected through surveys, observation, telephone and personal interview. Primary data was used because there was direct communication with the respondents
therefore the researcher obtained first-hand information which was very useful to the research.

3.5.2 Secondary Data
Dekker (2009) defined secondary data as the data which has already been collected and analyzed by someone else. Secondary data was used by analyzing minutes, financial statements and reports of Innskor Bread Company whenever necessary.

3.6 RESEARCH INSTRUMENTS
According to R. Bogdan and S. Biklen (2003), research instruments are research tools used in research for the collection of data from sample participants. Both primary and secondary data was used. In a bid to obtain information the researcher made use of questionnaires, conducted interviews and observation as well as analysis of the company’s documents.

3.6.1 Questionnaires
‘A questionnaire is a common method of primary research and is useful for obtaining facts and figures that may be used for statistical analyses’ (Harvey N, 2002:67). Answers on the research questions were sought through distribution of questions that range from structured to open ended questions. Questionnaires were chosen as the research tool because of the advantages attached to them which include the fact that they are free from bias, which would otherwise arise in an interview. Respondents, who in some cases were senior managers, are not easily approachable, but could be conveniently reached by a questionnaire. Respondents had adequate time to give well thought answers. A questionnaire allows for better comparability of data from respondents. This is due to the uniformity in the way the questions are asked.

3.6.2 Types of questions used
Dichotomous questions, semi-open questions and open ended questions were used. Dichotomous questions are fixed alternative questions that can only be answered
example, by a “yes” or a “no”, “agree” or “disagree”. (www.businessdictionary.com). Semi open questions provide pre-specified answers, but allow for open comments in order to get clarification. (Aurelie Glerum, Bilge Atasay, 2014). According to the media college open ended questions are designed to encourage full, meaningful answers using the respondent’s own feelings and knowledge.

The questionnaire provided a starting point for follow up interviews for clarification and clearing all problem areas with the chosen respondents.

3.6.3 Questionnaire administration

The researcher travelled to Harare to distribute the questionnaires to the employees. These questionnaires were then collected after three days thereby giving the respondents enough time to go through them.

3.7 INTERVIEWS

Kahn and Cannel (2004) defines an interview as a meaningful discussion between two or more parties. Interviews can either be unstructured, semi-structured and structured interviews. Structured interviews involve the use of questionnaires based on a predetermined and identical set of questions. Under semi-structured interviews an informal chat covering certain aspects of the research was used. Semi-structured interviews are usually used in exploratory studies to provide further information about the research problem.

3.7.1 Telephone Interview

A telephone interview this technique in a bid to speed up the process of data collection and to a certain extent, to cut down on travelling costs. The major advantage was that it enabled the researcher to access top executives who otherwise may not be reached easily.

3.7.2 Interview administration

Interviews were conducted with the line employees from different departments at Innscor Bread Company, for example, sales, production, distribution and the human resources
department. Senior managers were not available therefore a telephone interview was conducted with them.

3.8 DATA VALIDITY AND RELIABILITY

As postulated by Rob Davis (2014), data validity is the correctness and reasonableness of data. The validity and reliability of data was achieved through seeking expert opinions and discussions with fellow researchers.

3.9 DATA ANALYSIS AND PRESENTATION

Blumberb (2008:418) “Data analysis refers to the process of evaluating data using analytical and logical reasoning to examine each component of data provided.” for the essence of this research the researcher mostly used qualitative data and on small occasions quantitative information. The data collected will be presented using bar graphs, pie charts and tables.

3.10 SUMMARY

This chapter outlined the purpose of the research in general and briefly described the differences between different research methods. The questionnaire and interviews gave a pool on which conclusions and recommendations were drawn basing on the research findings. Analysis and interpretations of the findings is performed in Chapter four.
CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 INTRODUCTION

The chapter presents the key findings pertaining to the causes of the decline in profitability at Innscor Bread Company. Tables, graphs, pie charts and statements have been used to present the information for easy understanding and interpretation. Methodology presented in chapter three has been analyzed and presented in line with objectives of the study. This chapter forms the crucial part of the research since from this chapter the conclusions shall be drawn.

4.1 QUESTIONNAIRE RESPONSES

Eighteen questionnaires were distributed to different departments which are finance, sales, production, stores and the human resources department. Four interviews were conducted with the sales manager, the accountant, human resources manager and the production manager. Telephone interviews were also held with the distribution manager and the finance manager as they were not available when the other interviews were conducted. The responses obtained from interviews and questionnaires carried out have been presented and analysed below.
FIGURE 4.1: QUESTIONNAIRE RESPONSE RATE

According to The University of Texas (2011) in its document “assess Teaching Response Rates” a response rate is a percentage of people who respond to a survey. It offers a scale of rating which entails the following: 50-59% response – Adequate, 60-69% response- good, 70-100% response – very good.

As stipulated by the University of Texas, rating the response rate for the questionnaires amounted to 83% which can be said to be a very good response rate therefore the information can be relied upon to influence major decisions.

4.2 DEPARTMENT RESPONSES

Finance department (27%), sales department (27%), and the production department (27%) had the greatest number of questionnaires issued to them because, more than any other department, they deal with profit related issues in their daily activities. Therefore they are able to offer an accurate and profound analysis on the causes of a decline in profit.
## 4.3: ACADEMIC QUALIFICATIONS

The question was proposed so as to assess the academic qualifications of the people responsible for the generation of profit. Therefore it was noted that the qualifications ranged from certificates with the highest levels attained in the form of professional courses and undergraduate degrees.

<table>
<thead>
<tr>
<th>Undergraduate degree</th>
<th>Certificate</th>
<th>National Diploma</th>
<th>Professional qualifications</th>
<th>No Qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responses</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Percentages</td>
<td>27%</td>
<td>27%</td>
<td>20%</td>
<td>27%</td>
</tr>
</tbody>
</table>

**Table 4.2: Academic Qualifications**

HJ Xu (2009) is of the view that education levels of the employees affect the quality of data. From the above analysis it can be noted that the staff are adequately qualified to give reliable information.
4.4: KNOWLEDGE OF BUSINESS PROFITABILITY

The objective of this question was to rate the respondents answers based on their knowledge of business profitability.

<table>
<thead>
<tr>
<th></th>
<th>Moderate</th>
<th>Good</th>
<th>Very good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responses</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Percentages</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Table 4.3 Knowledge of business profitability

4.5 CAUSES OF A DECLINE IN PROFIT

Figure 4.2: Causes of a decline in profit

The aim of this question was to find out from employees, in their own opinion, the causes of profit decline at the company. In this regard 50% of the respondents agreed that revenue decline is the cause of a decline in profit at Innscor Bread Company. This view is also supported by Raul Avenir (2014) who states that an increase in sales volume will increase the profit margin.
However, 30% of the respondents are of the view that low production volumes are the cause of the profit decline hence also leading to low sales which further give rise to low sales revenue. Others (10%) thought in terms of an increase in expenses, whilst the other 10% talked in terms of poor managerial decisions.

4.6: DETRIMENTAL CAUSE OF A DECLINE IN PROFIT

Figure 4.3: Detrimental Cause of a decline in profit

The objective of this question was to determine the most harmful cause so as to be able to tackle the problem effectively.

The respondents had different views. Some(10%) thought in terms of poor managerial decisions, the other 10% thought in terms of a large expense base whilst 30% were of the view that low production is the most detrimental cause.

However 50% indicated that revenue decline is the most detrimental cause of a decline in profit, therefore strategies have to be put in place to curb revenue decline thereby boosting business profits. This view is supported by Sam Ashe-Edmund (2014) who states that a decrease in sales revenue causes a decline in profit. Revenue has to be maintained in order to attain profits.
4.7: STRATEGIES TO CURB PROFIT DECLINE

By asking this question, the researcher ought to solicit a solution to the problem in question. A number of strategies were mentioned by the respondents and these include increasing sales, reducing direct costs and overheads and reinventing the product. Nevertheless, the bulk of the respondents, that is, 60% mentioned that increasing sales would be the best strategy to curb profit decline since the sales of the company were declining radically thereby leading to a decline in profit. Mike Handelsman (2014) is also in support of this view as he postulates that increasing sales through expansion to new markets allows the business to benefit from economies of scale that were formerly unobtainable thereby providing more clients and added profit improvement.

However, 10% and the other 20% indicated that reducing direct costs and overheads would be the best strategy to curb profit decline. However, this view is not supported by Sam Ashe Edmund (2014) who states that rising costs in terms of overhead costs, especially as the pay of long-term employees is increased each year and it is often a great challenge to reduce it.
4.8: ADEQUACY OF SALES REVENUE

This question was asked to see if the sales revenue is adequate or not so as to further give the respondents a chance to express their views on what should be done to make the sales revenue adequate. In this regard, 80% of the respondents mentioned that the sales revenue was inadequate and had to be increased. Only 20% indicated that the sales revenue was adequate. Justin Johnson (2014), states that a company’s profit is usually influenced by the changes in sales. A high sales revenue yields a high profit, whilst low sales revenue causes a decline, therefore sales revenue ought to be adequate always.
4.9: HOW TO INCREASE SALES REVENUE

Figure 4.6: How to increase the sales revenue

From this question, the researcher sought to obtain a solution to the problem from the respondent’s views. Different methods of increasing the sales volume were given by the respondents and these include increasing production volumes, raising prices, marketing the product and expanding distribution channels. However, 60% of the respondents thought expanding distribution channels would be the best method to increase sales volume since a new set of customers will be targeted altogether.

This view is further supported by Mike Handelsman, (2014) who portrays that inadequate distribution channels lead to a decline in profit. If a business is based in a single region, for example, if it is mainly centered in towns, there may be hidden profits waiting to be tapped in other areas.

However, 20% indicated that increasing production volumes, whilst 10% thought in terms of marketing the product and the other 10% thought in terms of raising prices. However, the strategy of raising prices is not supported by Bart Kelly e-tal (2013) who states that for companies to maintain sales, prices ought to be slashed so as to increase sales volume.
This question was asked to determine what should be done to increase clientele thereby increasing sales which will further boost sales revenue. In this regard, 70% of the respondents indicated that cities are mostly targeted by the company and it is from those same cities from which returns are emanating. Mining towns, rural areas and growth points are not really being focused on and this was indicated by 20%, 5% and 5% respectively.

In this regard, the Canada business network (2012) postulates that targeting new markets increases the client base. Market research helps in understanding the potential new market and helps in devising a strategy to tackle it. An increase in production will be required to meet the new demand. Evaluating and optimizing sales channels helps to reach more clients, increase market control and improve profitability.
4.11: AREAS WITHOUT CHANNELS OF DISTRIBUTION

The aim of this question was to determine if there are areas being left out so as to be able to create new distribution channels. The bulk of the respondents, that is, 70% are of the view that there are some areas which are being neglected by the company, for example, mining towns and rural areas. Therefore there is need for market expansion so as to also target new markets.

Sam Ashe-Edmunds (2014) portrays that expanding the distribution channel increases profits. Targeting new markets can significantly boost sales and revenues without any alterations to pricing or marketing strategies. A new distribution channel increases the consumer market thereby increasing sales, which in turn boosts profits. However 30% of the respondents were of the view that distribution channels are adequate.

4.12 Interview Responses

Four sample participants were interviewed. The same set of questions was used for the interviews which are highlighted underneath together with their responses. The sample participants for the interviews were the sales manager, production manager, the accountant and the human resources manager. Telephone interviews were conducted with the finance
manager and the distribution manager. The interviews response analysis is presented in the table below:

<table>
<thead>
<tr>
<th>Person Interviewed</th>
<th>Scheduled Interviews</th>
<th>Conducted Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production manager</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Accountant</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Sales manager</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Human resources</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>4</strong></td>
<td><strong>4</strong></td>
</tr>
</tbody>
</table>

Table 4.4 Interview Response Analysis

**4.12.1: What are the factors affecting profitability at your company?**

The objective of this question was to point out the factors that influence profitability so as to be able to deal with them accordingly. The interviewees stated different factors that influence the profitability of a company. Some of the respondents (50%) agreed that a company’s profit is influenced by the changes in sales, raw material costs and changes in labor costs.

However, the other 50% emphasized that productivity and distribution affect the company’s ability to grow and make profits. This question is in line with figure 4.5 from the questionnaires whereby respondents were asked to state the causes of a decline in profitability. In this respect, the respondents indicated that revenue decline as a result of poor distribution systems affects profitability. This is further supported by Van Thompson (2014) who states that if a company’s distribution system is interrupted, profits are driven down as well. Similarly a company’s ability to distribute its products is important to generate revenue.

**4.12.2: What can you say are the causes of the decline in profitability at your company?**

This question’s aim was to point out causes of the problem in order to be able to solve the problem through dealing with the cause. Different causes were mentioned by the interviewees and are summarized below.
Some of the respondents (25%) particularly the sales manager was of the view that the most contributing factor is the consumer market, but others include the price of the materials or the cost to maintain a business location or hire workers to handle a workload. However, 75% of the interviewees mentioned that revenue decline as a result of inadequate distribution channels is the reason behind profit decline. The managers further cited that it is necessary to expand the consumer market so as to boost profits. This view was also shared by respondents on question six who indicated that profit decline was as a result of a decrease in revenue.

Van Thompson (2014), is in support of this view as he postulates that productivity and distribution affect the company’s ability to grow and make profits. If employees are sluggish in making products, both profitability and growth can slow. Similarly a company’s ability to distribute its products is important to generate revenue. If a company’s distribution system is interrupted, profits are driven down as well.

4.12.3: What are the effects of this decline on the overall performance of the business?
This question was asked so as to clearly view the problem and how it is adversely affecting the company. A number of effects were cited depending with the relevant department of the interviewee. The problems are summarised below:

The Human Resources manager spoke in terms of pay scales, employee management and pay scales. This view is supported by William Pirraglia (2014) who states that as the profits and revenues decline, the firm cuts on hiring new employees. If the declining net profit continues, employees will find out and this often hurts the morale and motivates valuable personnel to find new employment.

The production manager was of the view that inefficiency in the production of goods is experienced and it drags down the business revenue stream by taking more time to produce fewer goods or accomplish fewer tasks. The decline in profit reduces the operations of the business. Companies that face reduced market share from lower customer demand or a down turn in the business cycle are forced to reduce their operational output.

The sales manager portrayed that the manufacturer may cut on purchasing new equipment, curtail research and development in an effort to cut costs. Marketing expenditures may also
be reduced. These cost-cutting efforts will affect other businesses that provide the services and goods used by the big manufacturer. (Marc Davis, 2014).

The finance manager was of the view that declining profit can affect the company’s ability to meet debt obligations. Late loan payments affect the company’s credit standing, making future borrowing more difficult.

When there are opportunities to increase income, improve operations, declining net profit may rob the company of the monies needed to take advantage of these offers thereby leading to opportunity cost or opportunity loss. The company also faces difficulties in finding new stockholders and investors. (William Pirraglia, 2014).

Question seven of the questionnaires compliments this interview question whereby the respondents were asked about the effects of the decline in profit. Respondents also shared different views that are also in line with those shared by the interviewed managers. These include reduced production volumes, low employee salaries and inability to pay debts amongst others.

4.12.4: What strategies should be put in place in order to curb the decline in profit?

The question was asked so as to devise a solution to the problem. In this regard 75% of the interviewees are of the view that the company should curb profit decline by increasing sales revenue. This sales revenue should be increased by expanding distribution channels. This view was also shared by respondents on question 10 from the questionnaire whereby respondents were to give options of strategies that can be used to boost profits. Geo Metrx (2014) supports this view as he postulates that market expansion helps the business to obtain extra clients. The most actual way to attain new consumers thereby increasing our sales is to create new distribution channels in order to reach unexploited markets. Attaining new customers through expansion of distribution channels is advantageous because it boosts profits as a result of increased revenues and reduced per-unit production costs.

However, the sales manager is of the view that where there are declining profits, there should be changes in the business strategy so as to curb this decline. A crowded market place
influences profit because competition is high compared to demand. Therefore the business should move to niche markets. The company can shelve off bad performers and this includes pulling the product until it is upgraded. Tightening the flow of business by reviewing each job description and explaining expectations clearly helps curb profit decline. (Monica Patrick, 2014)

4.12.5: What should be done by the organization to manage profit more effectively?

The objective of this question was to obtain respondents view so as to be able to manage profit more effectively. In this respect The 25% of the respondents are of the view that expense control is a vital part in managing profits. Cynthia Hartman (2014) supports this view as she says that managing of the profit and loss starts with an initial financial assessment of the business ‘current financial position. The current profit and loss statement must be reviewed by management. This income statement shows all the expenses as a percentage of sales, thereby allowing managers to cut off costs that contribute to decreasing profits. Therefore, the trick in managing profit is to know where profit can be lost and plug the leaks.

However, 75% of the interviewees are of the opinion that increasing turnover in the form of expanding the distribution channels is the strategy that can be used to manage profits more effectively. This view was also shared by 93% of the respondents on question 17 from the questionnaires. The Nab Help Guidance (2014) further supports this view by portraying that profits are managed by increasing turnover. Turnover can be increased by locating new markets and distribution channels. More focus should be on the most profitable customers. Focus on customers who place large orders and who pay the full price on time. The product should also be kept up to date. If appropriate, the product range should be extended to ensure that it stays ahead of competition.

4.12.6: What is your view on new distribution markets?

The aim of the question was to know what respondents think about the expansion of distribution channels as a solution to the problem of declining profits. In this regard all the respondents agreed that there is need for expansion to new markets thereby increasing the
customer base which in turn boosts sales. Respondents on question 16 of the questionnaires also shared this same view by indicating that expansion of the market through establishing new distribution channels would curb the problem of declining profits. This is also outlined by Mars (2009) who postulates that the higher the number of channels, the greater the company’s market coverage and rate of growth of its sales.

4.13 Secondary Data

Minutes of meetings

The data was obtained from the minutes of management meetings held at Innscor Bread Company. The researcher made use of these minutes whenever necessary.

4.14 SUMMARY

This chapter looked at presentation, analysis and discussion of data gathered from the two methods of qualitative data collection namely the use of questionnaires and conducting of interviews. The next chapter will look at the conclusion and recommendations.
CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

In this chapter the researcher will look at the summary of chapters, conclusions and recommendations based on the research objectives and questions as well as the research findings in relation to literature by the various authors.

5.1 SUMMARY OF THE STUDY

The research study sought to analyze the causes of a decline in profitability, its effects on company performance and lastly strategies that can be used to curb this decline. The background of the study, statement of the problem and research questions were stated in chapter one. Limitations encountered together with delimitations of the study and definitions of technical terms also formed part of chapter one.

Chapter two related literature related to this study already published by other authors. The chapter highlighted what experts say are the different causes of a decline in profitability, its effects on the overall performance of the business, the importance of profitability, the importance of distribution channels regarding profitability and strategies that can be used to curb the decline in profits. The chapter also looked at what can be done to manage profit more effectively.

The research methodology employed in obtaining data for the study by the researcher was given in chapter three. Aspects of the research design and research techniques were stated together with their advantages and disadvantages. The descriptive research design was used to gather information. The research data was qualitative in nature and as such the research was largely descriptive. The participants for the research were picked at random from different departments. To gather data the researcher used questionnaires and conducted
interviews. Four individuals from various departments were interviewed whilst a sample size of 15 participants was used for questionnaires.

Chapter four encompassed the presentation and analysis of all the data gathered. Information gathered was presented graphically, tabulated and by way of pie charts. Regarding questionnaires a response rate of 83% was obtained and the remainder was unsuccessful. The interviews were 100% successful. Presentation and analysis of the results of the study was done so as to meet the objectives of the study.

5.2 OVERVIEW OF MAJOR FINDINGS

The information was obtained mainly through questionnaires and interviews conducted in field research.

5.2.1 Factors affecting profitability

From the study it was discovered that there are many factors affecting profitability and these include sales changes, increases or decreases in expenses and overheads, product prices and also the consumer market.

However it was seen that the consumer market largely affects profitability in the sense that a large customer base enhances sales volume which increases the sales revenue thereby directly increasing profits.

5.2.2 Causes of a decline in profit

Results of the study show that revenue decline is the main cause of a decline in profit at Innscor Bread Company. It was discovered that the respondents are in support of the fact that revenue decline is the main cause of the decline in profit. Other causes were mentioned and these include low production volumes, poor managerial decisions and increases in expenses and overheads. However, only a small number of people were in support of those views.
5.2.3 **Effects of the decline in profit on the overall performance of the business**

A number of effects were cited by the respondents. These effects include inability to pay employees, inability to purchase new needed equipment, inability to meet debt obligations and also reduction in the business operations. The interviewees also stated that one of the company’s branches was closed due to the decline in profits and also the company was under-going a retrenchment process since it was finding it difficult to reward its employees.

5.2.4 **Strategies that can be put in place to curb the decline in profit**

It was noted that increasing sales through the expansion of the distribution channel is the best strategy to curb the decline in profits. This was as a result of the inadequacy of distribution channels. The company was mainly targeting cities and surrounding towns therefore it was suggested that by expanding the distribution channel, more clients are obtained thereby increasing our sales revenue which in turn boosts profits.

5.2.5 **What can be done to manage profit more effectively**

Deriving from the study, it was discovered that profits are managed by increasing turnover. Turnover can be increased by locating new markets and distribution channels.

5.3 **CONCLUSION**

The major objective of the study was to analyze the causes of a decline in profitability. It was noted that the major cause of the decline in profitability was a decline in sales revenue as a result of inadequate sales. Deriving from the findings, turnover can be increased by locating new markets and distribution channels.

It was also reviewed that the inadequacy of distribution channel affects profit therefore there is need to expand the distribution channels so as to enlarge the consumer base. The research was successful as all the objectives of the study were achieved. These were to identify the causes of a decline in profitability, to identify factors that affect profitability, to identify effects of this decline on business
performance, to assess the effect of distribution channels on profitability and to analyze strategies that can be put in place in order to curb the decline in profitability.

5.4 RECOMMENDATIONS

Based on the research findings, the researcher is therefore recommending the following:

- The company should expand distribution channels. Sam Ashe-Edmunds (2014) portrays that expanding the distribution channel increases profits. Targeting new markets can significantly boost sales and revenues without any alterations to pricing or marketing strategies. A new distribution channel increases the consumer market thereby increasing sales, which in turn boosts profits.

- The organization should hire a professional to help boost profits. Ralph Hariss (2010) portrays that hiring a professional to help boost business profits can be effective. The professional equips the business with consultation services, business coaching sessions that comprise providing the client with strategies and tools necessary to enhance profitability. These strategies can include expansion of distribution channels. By attaining these mentoring services, the company gets highly specific, customized assistance necessary to take it to greater heights.

- The profit and loss statements should be assessed and in that way changes in gross profit are seen in absolute terms, not just changes caused by sales increases or decreases. The gross margin should be tracked on at least a weekly or monthly basis so as to take action. (Steve Lefever, 2008)

- The company should administer the training of employees on profit related issues. A profit improvement department should be opened so as to continuously improve and monitor profits.
5.5 SUGGESTED AREAS OF FURTHER STUDY

An area of great interest which has been overlooked in this study was brought up by the human resources manager in an interview. This entails managing costs accruing to the company. Rising costs in terms of overhead costs, especially as the pay of long-term employees is increased each year and this ought to be managed. (Sam Ashe-Edmund, 2014).
REFERENCES

Books


**Journals**


**Internet Sources**

[http://www2.cedarcrest.edu](http://www2.cedarcrest.edu), retrieved 2 August 2014.


([www.wisegeek.com](http://www.wisegeek.com)), retrieved 14 September 2014

([www.marketingmo.com](http://www.marketingmo.com)), retrieved 15 September 2014

[http://www.ehowhelp.com](http://www.ehowhelp.com), retrieved 18 September 2014

[http://www.demandmedia.com](http://www.demandmedia.com), retrieved 22 September 2014

**Company Internal Sources**

Statement of comprehensive income
Appendix 1

Midlands State University
P. BAG 9055
Gweru
14 September 2014

Dear Sir/ Madam

RE: Research Project Assistance
I am a student at the above mentioned university. In partial fulfilment of the requirements of my Bachelors of Commerce Accounting Honours Degree, I am required to undertake a research project of my choice and my chosen topic is: “An analysis into the causes of a decline in profitability. (A case study of Innscor Bread Company)”.

I have chosen your department as part of my sample in gathering data for the purposes of my research. I kindly ask for your assistance in completing the attached questionnaire.

Please be assured that any information or data received will be strictly for general deductive academic purposes and will be utilized solely for this project. Your department’s confidentiality will not be in any way compromised.

Your contribution to this research is greatly appreciated.

Yours faithfully

Tsitsidzashe Nhamo

…………………..

0777468302
APPENDIX II

Instructions for completion

1. **tick where appropriate and use ticks only in each given box**

1. What is your position at Innscor Bread Company

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Chief executive officer</td>
</tr>
<tr>
<td>b.</td>
<td>Finance Director</td>
</tr>
<tr>
<td>c.</td>
<td>Finance Manager</td>
</tr>
<tr>
<td>d.</td>
<td>Accountant</td>
</tr>
<tr>
<td>e.</td>
<td>Sales Manager</td>
</tr>
<tr>
<td>f.</td>
<td>Human Resource Manager</td>
</tr>
<tr>
<td>g.</td>
<td>Production Manager</td>
</tr>
<tr>
<td>h.</td>
<td>General staff</td>
</tr>
</tbody>
</table>
2. For how long have you been working at Innscor Bread Company?

   Less than one year  

   1-5 years  

   6-10 years  

   More than 10 years  

3. Of the following qualification what is your level of education:

   a. High school education  

   b. Certificate level  

   c. Diploma level  

   d. Undergraduate degree level
4. How is your level of knowledge in terms of business profitability?

   Moderate

   Good

   Very good

   Excellent

5. In your own opinion, what are the causes of a decline in profitability at your company?

   (You can use more than one answer)

   □ Revenue decline
   □ Increase in expenses
   □ Low production
   □ Poor managerial decisions
   □ Other (please specify)
6. From the above causes, which one is the most detrimental?

☐ Revenue decline
☐ Increase in expenses
☐ Low production
☐ Poor managerial decisions
☐ Other (please specify)

7. What are the effects of a decline in profitability on company performance?

☐ Reduced production volumes
☐ Low employee salaries
☐ Reduced operations
☐ Inability to pay debts
☐ Other (Please specify)

8. Of the above effects, which one is the most unfavorable?

☐ Reduced production volumes
☐ Low employee salaries
☐ Reduced operations
9. What challenges is the company facing as a result of the decline in profit?

- Inability to pay debts
- Other (Please specify)

………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………

10. What strategies can be put in place to curb the decline in profit?

- Increasing sales revenue
- Lowering direct costs and overheads
- Hiring a professional to help
- Other (Please specify)

………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………

11. Of the above strategies, which one can be said to be the most effective?
☐ Increasing sales revenue
☐ Lowering direct costs and overheads
☐ Hiring a professional to help
☐ Raise prices
☐ Other (Please specify)

............................................................................................................................
............................................................................................................................
............................................................................................................................

12. How exactly should the sales revenue be increased?

☐ Raising prices
☐ Expansion to new markets
☐ Increase volume
☐ Other (Please specify)

............................................................................................................................
............................................................................................................................
............................................................................................................................

13. Which areas are currently targeted by the company?

☐ Rural areas
☐ Mining towns
☐ Cities
☐ Growth points
14. Are there any areas where there are no distribution channels?

□ Yes
□ No

15. Should the company expand its distribution channels?

□ Yes
□ No

16. In your own opinion, what is your view on new distribution channels?

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

17. In your own opinion, what should management do in order to manage profit more effectively?

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

………………
APPENDIX III

INTERVIEW GUIDE

1. In your opinion what are the factors that are affecting profitability in your company?

2. What can you say are the causes of the decline in profitability at your company?

3. What are the effects of this decline on the overall performance of the business?

4. What strategies can be used to curb a decline in profit?

5. What is your view on expanding to new markets?

6. What, in your own opinion, should be done by the organization to manage profit more effectively?