

## Case Study: From Annual Loss of CNY 10 Million to Annual Profit of More Than 50 Million, in 2 Years

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**Abstract:** This paper analyzes, studies and summarizes the real case of an old small- and medium-sized foundry's operation from net loss to greater profit, adopts the method of 'Cost and gross profit analysis, referred to as **Value analysis**, guide profit improvement strategies', lists the corresponding improvement measures with their implementation, which greatly improved the actual operating profit of this foundry.

The case shows that old small- and medium foundries, through the implementation of appropriate improvement measures of management, are entirely possible to significantly boost profits in a short time.

**Keywords:** small and medium-sized enterprises; operation; profitability; improvement countermeasures

### 1 Introduction

Old small and medium-sized foundry enterprises sometimes have poor operating efficiency and even losses. This is of course directly related to the external economic environment, customer conditions, product category, process technology level, production conditions and other factors, but in the case of the above conditions are unchanged, how to find their own weak points and improve, to obtain better profits, is also a special concern of small and medium-sized entrepreneurs. This paper describes a practical case of an old small and medium-sized foundry enterprise. Based on the in-depth analysis of cost and gross profit, the weaknesses of the enterprise are found and the corresponding improvement measures are accurately found. Therefore, the profit of the enterprise has been rapidly improved.

This kind of thinking and method has a positive reference value for enterprises to improve their profitability.

### 2 Case background

Enterprise age: more than 20 years;

Equipment and their services life: 45 sets of die casting machine, 400 sets of CNC machines. Most of the equipment has been used for more than 6 years, some even more than 10 years;

Customers and products: most are parts and components for traditional fuel vehicles;

Employee: About 720 people.

Operating status: In the first three quarters of 2021, the revenue was nearly CNY 400 million, but the net loss exceeded CNY 10 million.

### 3 Method of analysis

Data analysis of the actual cost and gross profit for all products -- referred to as **Value analysis**, and comparing with the level of outstanding enterprises in the market, accurately identifying the weak points that affect the profit of each type of product.

### 4 Weak points

Through the **Value analysis**, the following weaknesses of the enterprise were found:

The understanding of the composition of profit is more abstract; Lack in in-depth data analysis of loss; People often rely on intuition to judge;

The financial department only plays the statistical function of "financial accounting" and does not play the function of "management accounting" <sup>[1]</sup>.

The advantages of the enterprise are not fully utilized;

The management team lacks the necessary thinking and methods of profit analysis;

### 5 Countermeasure

(1) Total Profit Orientation (TPO): Correlate all business activities with data to profit objectives.

(2) Give play to the management accounting function of finance : In addition to the statistical accounting function, finance should also play the three functions of "statistics - analysis - profit improvement guidance".

(3) Use our strengths: Identify and create our existing greatest competitive advantage.

(4) Adhere to the 20/80 principle: 20% of the business (or activity) often brings 80% of the benefits; Prioritize 80% of our limited resources on 20% of our quality customers or core business.

(5) Give full play to team strength: enhance the profit awareness and execution ability of management team members.

### 6 Result and discussion

The fourth quarter of 2021: Spend about 2 months to analyze the main reasons for the loss, and study the improvement plan;



Q1 2022: Advance and implement concrete measures for improvement;

Q2 2022: Earnings effect begins;

Second half of 2022: Steady improvement in earnings;

End of 2022: Turn a loss into a profit, and achieve a net profit of more than CNY 28 million.

The whole year of 2023: Continued to improve according to effective measures, and finally achieved a net profit of more than CNY 50 million that year.

## **7 Conclusion**

This case study shows that the old small and medium foundries, through the implementation of appropriate improvement measures of management, are entirely possible to significantly boost profits in a shorter time. And the **Value analysis** method of cost and gross profit is an effective tool to accurately find improvement countermeasures.

## **Reference**

- [1] Li Jian. Cutting Costs: 12 Financial broadsword for Entrepreneurs, China Machine Press, 2006.