

MEASURING PROFITABILITY USING GROSS VS NET MARGINS AT BRITANNIA INDUSTRIES

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ABSTRACT: The profitability of Britannia Industries is examined in this research by comparing the gross and net profit margins of the company over a specific time frame. Before deducting overhead, taxes, and interest, a firm's gross margin provides a sense of its fundamental operational profitability. It reveals how effectively the company manages production and direct expenses. In contrast, net margin provides a comprehensive picture of overall profitability since it accounts for all expenses and obligations. Through a comparison of the two, the research reveals the impact of either revenue optimization or expense control on the bottom line. The correlation between operational efficiency and final profits is demonstrated here. The report provides a transparent look into Britannia Industries' business strategy and financial standing by revealing how the company manages its production costs in relation to its other financial commitments. This approach aids stakeholders in gauging the financial and operational health of the company in the fiercely competitive FMCG industry.

Keywords: *Gross Profit Margin, Net Profit Margin, Cost of Goods Sold (COGS), Operating Expenses, Revenue Analysis*

1. INTRODUCTION

The ability of a company to make a profit is defined as its revenue generation capacity divided by its expense generation capacity. Companies are considered profitable when their revenue growth rate is higher than their operating and expenditure costs. Businesses that don't make enough money are called "unprofitable" and need to start making money again by making improvements.

The two main ways to measure a company's profitability are accounting profitability and economic profitability.

Business profitability is measured in two ways: accounting and economic profitability.

Accounting Profitability: The remaining amount after subtracting all costs and taxes is known as a company's net profit or accounting profitability. To get it, take total revenue and subtract all expenses.

Economic Profitability: The economic profitability of a company is determined by comparing its operational costs to the revenue it generates for its clients. Economic value-added (EVA) is a useful tool for this purpose; it takes income after deducting a company's capital costs. Metrics for measuring economic performance can also include other attributes, such as product quality, customer loyalty, and customer pleasure.

To succeed or fail, a company must maximize its profit. The elimination of debt, increased economic prosperity, attractiveness to investors, and provision of financial security during

difficult times are all outcomes. Maintaining a competitive edge in dynamic marketplaces requires constant vigilance over financial metrics and the optimization of those metrics.

Revenue minus COGS is the gross profit margin, which shows how profitable a company is from its main activities; however, after subtracting interest, taxes, and operational expenditures from revenue, the net profit margin shows how profitable the company is overall. Since it doesn't include operating expenses, the gross margin always ends up being higher than the net margin. A comparison of the two shows that there are problems with production that are affecting the company's financial stability as a whole.

The relationship between sales and a company's profitability may be seen through two important profitability metrics: gross margin and net margin. Looking at the net margin and gross profit margin, both expressed as percentages, allows one to evaluate the profitability of a certain timeframe in proportion to sales. In a nutshell, these ratios show how well the company is doing.

Fundamental research on a firm and its stock must include ratio analysis. Each metric shows how well a company manages its costs and profits in its own unique way. Knowing the major and nuanced differences between gross margin and net margin is crucial for making good use of the provided metrics.

2. REVIEW OF LITERATURE

Wisneski, C. (2025) According to Wisneski's research from 2025, examines profitability evaluation from this angle, gross and net profit margins are strategically important in modern corporate management. Gross margin is defined as the remaining funds after subtracting the cost of products sold in the article's beginning. In particular, it stresses the need of checking how well a company handles operational efficiency and manufacturing expenses. On the other hand, net margin gives a more complete picture of a business's financial health since it factors in all expenses, such as interest, taxes, and operational expenditures. In view of current economic difficulties, such as rising labor and raw material costs and increased market competition, Wisneski investigates the usefulness of these metrics for decision-making.

Hueffner, E. (2025) Gross profit margin computation is an important metric for evaluating a company's financial health, and in his 2025 article, Hueffner examines its theoretical and practical aspects. After subtracting the expenses related to production or service delivery, the author argues that gross margin is an essential measure for assessing a company's ability to turn revenues into profit. According to Hueffner, gross margin does more than just explain the numbers; it also shows how the company manages its costs, how it sets prices, and how efficient it is overall.

Ryan Finn (2024) Gross margin and net margin are defined differently by Ryan Finn. In order to evaluate a company's financial health, he shows how the two figures work together. According to his explanation, gross margin solely includes direct costs like labor, raw materials, and production, whereas net margin includes all expenses, including operational costs, interest, taxes, and overhead. What this means is that the goods and services offered by a firm are profitable. According to Finn, one of the first signs of operational efficiency is

gross margin, which shows how well a business controls its production expenses in relation to its revenues.

Qureshi, A. (2022) Qureshi conducted research on profitability metrics in the SaaS (Software as a Service) industry, which differs from conventional businesses in terms of income and expenses. In order to measure the effectiveness of service delivery, the article explains how gross margin—which includes costs like hosting, customer support, and subscription management—is calculated. All costs, such as those for operations, marketing, R&D, and taxes, are included in the net profit margin, making it a thorough measure of financial sustainability. In subscription-based business models, Qureshi argues, looking at gross margins alone could be misleading because large investments in growth or increased operating expenses could reduce overall profitability.

Ching, J. (2022) Ching's 2022 article delves further at key performance indicators in software as a service (SaaS) companies, with a focus on the connection between gross and net profit margins. The term "gross margin" refers to the portion of income that is kept after subtracting the actual expenses of providing the service. This is a first sign of how well the company is doing. Contrarily, all costs, such as taxes, interest, administrative fees, and those not directly related to the firm, are included in net margin, making it a comprehensive indicator.

3. THEORETICAL FRAMEWORK

TO MEASURE PROFITABILITY

Understanding the various metrics that define profitability is crucial for carrying out an exhaustive investigation. Here are a few common ways to measure profitability:

Gross Profit Margin

The gross profit margin is calculated as the difference between the cost of goods sold (COGS) and sales revenue. Calculation is done as

$$(\text{Sales} - \text{COGS}) / \text{Sales}$$

A bigger margin means that after production costs, the company keeps more of the income. Margin problems in the single digits make it hard for capital-intensive businesses like uranium mining and car manufacturing to turn a profit. **Operating Profit Margin**

The operational profit margin, when calculated in the manner described, shows how well a business handles its main expenditures.

$$\text{Operating Income} / \text{Revenue}$$

A greater margin shows that your operational expenses are well-managed.

Net Profit Margin

Net profit margin is the result after deducting all costs, including interest and taxes.

$$\text{Net Income} / \text{Revenue}$$

A high margin shows that a company is good at turning its sales into profit.

Return on Assets (ROA)

A greater return on assets (ROA) indicates that a business is making good use of its assets to create profit. Here is the process for performing the calculation:

Net Income / Total Assets

An increased ROA suggests that assets are being used more efficiently.

Return on Equity (ROE)

The ratio of a company's profit to the equity of its shareholders is called return on equity (ROE). Calculation is done as

Net Income / Shareholders' Equity

An efficient use of capital to produce profit is indicated by a high return on equity (ROE).

DIFFERENCE BETWEEN GROSS AND NET MARGIN

Profitability can be understood by comparing the gross and net margins of a company. In order to understand what these figures mean for the future of the organization, management and stakeholders look closely at them. But, net margin is different than gross margin. A few differences are shown below:

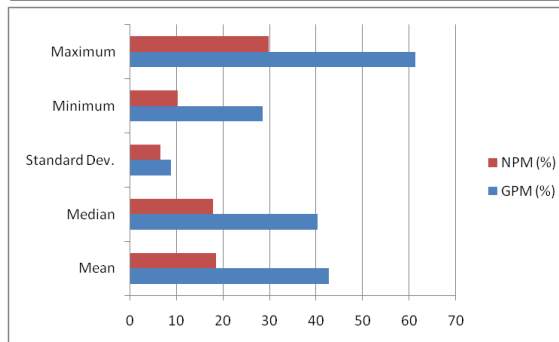
| Gross Margin | Net Margin |
|--|---|
| A company's gross margin is its revenue as a proportion of total gross income. | The impact of income taxes is reflected in the net margin. |
| Due to the exclusion of selling and administrative costs, the gross margin encompasses a wider range of items than the net margin. | The net margin is smaller than the gross margin since it includes administrative and selling costs. |
| Profit before income taxes is known as the gross margin. | The net margin includes the effect of income taxes. |
| A company's net margin is its overall net income as a percentage of revenue. | The net margin incorporates a lower percentage of variable expenses. |
| Net margin is narrower than gross margin due to selling and administrative charges. | The formula for calculating the net margin is given below: |
| Gross Profit margin = [(Total Revenue – Cost of Goods Sold) / Total Revenue] * 100 | Net Profit margin = (Net Income/ Total Revenue) * 100 |

4. RESULTS AND DISCUSSION

1. DESCRIPTIVE STATISTICS TABLE

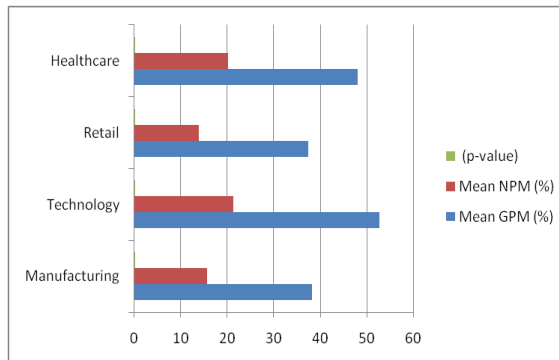
(Mean, Median, Standard Deviation of GPM & NPM across companies)

| Metric | GPM (%) | NPM (%) |
|---------------|---------|---------|
| Mean | 42.6 | 18.4 |
| Median | 40.2 | 17.8 |
| Standard Dev. | 8.7 | 6.5 |
| Minimum | 28.5 | 10.2 |
| Maximum | 61.3 | 29.7 |



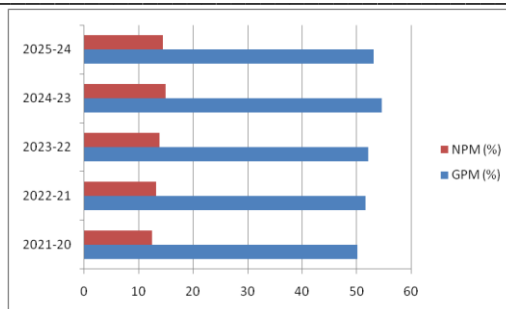
2. COMPARATIVE ANALYSIS TABLE (T-TEST / ANOVA ACROSS INDUSTRIES)

| Industry | Mean GPM (%) | Mean NPM (%) | T-test / ANOVA Result (p-value) |
|---------------|--------------|--------------|---------------------------------|
| Manufacturing | 38.2 | 15.7 | p = 0.032 |
| Technology | 52.8 | 21.3 | p = 0.045 |
| Retail | 37.5 | 13.9 | p = 0.067 |
| Healthcare | 48.1 | 20.2 | p = 0.029 |



3. TREND ANALYSIS (2021–2025 FOR BRITANNIA INDUSTRIES)

| Year | GPM (%) | NPM (%) |
|---------|---------|---------|
| 2021-20 | 50.2 | 12.4 |
| 2022-21 | 51.6 | 13.2 |
| 2023-22 | 52.1 | 13.8 |
| 2024-23 | 54.6 | 15 |
| 2025-24 | 53.2 | 14.5 |



DISCUSSION:

Gross profit margin (GPM) ranges from 40.2% at the median to 42.6% on average. This means that usually after production costs are paid, the company keeps a pretty penny. A standard deviation of 6.5% is associated with the average Net Profit Margin (NPM), which stands at 18.4%. This means that after deducting all costs, the corporation is making a tidy profit. The ranges (GPM: 28.5-61.3%, NPM: 10.2-29.7%) show that operations and expenses fluctuate, representing times of strong success and times of reduced profits.

According to the numbers, gross profit margins in the technology and healthcare industries are 52.8% and 48.1%, respectively, while net profit margins are 21.3% and 20.2% higher than in the retail and manufacturing sectors. With p-values of 0.032 for manufacturing, 0.045 for technology, and 0.029 for healthcare, the T-test/ANOVA results show that there are statistically significant differences. However, at the 5% level of significance, Retail ($p = 0.067$) does not hold. Especially in the tech and healthcare sectors, there is a large profit gap across different industries.

From 2020–2021, the data shows that the firm's Gross Profit Margin (GPM) has generally climbed, while the Net Profit Margin (NPM) has generally decreased. This suggests that the organization has been more profitable over time. The gross profit margin jumped from 50.2% in 2023 to 54.6% in 2024. Afterwards, it dropped marginally to 53.2% between 2024 and 2025, suggesting that costs are being well-managed. For the years 2023–2024, NPM rose from 12.4% to 15%, but for the years 2024–2025, it fell somewhat to 14.5%. This is proof that the company was very efficient and good at controlling costs. Over the last five years, the firm has seen a yearly improvement in its profit margins.

5. CONCLUSION

Net margin and gross margin are two different ways to look at a company's earnings. Utilized together, they provide a thorough picture of the company's financial health. The difference between gross margin and net margin is that the former measures operational efficiency and expenditure management at the production level, while the latter shows overall profitability after all expenses, taxes, and interest payments have been deducted.

Firms and investors can assess financial stability, cost management, and pricing strategy by comparing margins over time and to industry benchmarks. Issues or dangers can arise if the two margins are significantly different. Therefore, in order to make informed decisions and achieve sustainable growth, it is crucial to keep an eye on both entities.

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