

# Financial Performance

8 marks

## AS Paper 2 2019

### 2 Planet Internet (PI)

PI is a public limited company. It is an internet service provider. The business provides fast internet connections to households within country X. Customers pay an average of \$10 per month for the service. More than 80% of the households in the country can access PI's services.

The business offers new customers 3 free months of internet service, if they sign a contract for a minimum of 12 months. Very few of PI's customers switch to a competitor's service after the minimum 12 month contract has finished. 5

The internet service market is very competitive. PI has an objective to become the largest internet service provider in country X. The Marketing Director, Alisha, believes that if PI is going to achieve its objective then the company needs new customers. She thinks that the key to gaining more new customers is to focus on promotion. 10

Alisha has prepared some secondary market research comparing PI with its main competitors in country X (See Table 2.1). Some of the directors are disappointed with the financial performance of PI compared to its competitors.

**Table 2.1: Research about the Internet service providers In country X, 2018** 15

	Planet Internet (PI)	Totally Broadband (TB)	W Solutions (WS)	
Market share	31%	32%	15%	
Value of market share	\$12.4bn	\$12.8bn	\$6bn	
Gross profit margin	74%	70%	70%	20
Net profit margin	8%	12%	16%	
Working capital	(\$45000)	\$300000	\$0	
Current ratio	0.9:1	3:1	1:1	

(d) Refer to Table 2.1. Evaluate the financial performance of PI compared to its competitors. [11]

## **Solution**

Gross profit margin. PI has the highest GPM. This means that they have low direct costs, which could mean they have more efficient production. Working capital Is the only one of the three that has a negative working capital Which may mean they can struggle to pay their debts And not have enough money to spend on marketing. PI has a good margin which is essential for a profitable business However they may still face liquidation This depends on whether their creditors insist on immediate payment.

---