**OPERATIONS MANAGEMENT**

**Learning Outcome 3: ACTIVITY 2**

## **Impact of purchasing on operating profit**

A manufacturing company made $1,500,000 profit in 2016. The sales and expenditure details were:

|  |  |
| --- | --- |
| **Total sales** | **$30,000,000** |
| Purchases (materials and services) | $21,000,000 |
| Salaries | $6,000,000 |
| Overheads | $1,500,000 |

Which of the three approaches will result in maximum increase in operating profit, assuming that there is no opening stock?

* 1. Decrease total purchases bill by 10%
  2. Increase sales by 10%. This will increase the purchase bill by 5% and also overheads by 3%
  3. Decrease salaries by 10%