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____ ___________ 20___ .

QUALIFICATION WORK
towards attaining a Master's Degree

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The qualification work contains the results of own research. The use of ideas, results and texts of other authors are linked to the corresponding source.

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CONTENT

ABSTRACT

The Master's qualification thesis titled "Management of Profit and Profitability in Small Business" is dedicated to analyzing the main approaches to managing financial indicators and developing recommendations to improve the performance of small enterprises.

The thesis provides a detailed analysis of factors affecting the profit and profitability of small businesses, using correlation-regression analysis, which allowed for the identification of key relationships between revenue volume, cost structure, and profitability level.

Particular attention is paid to the use of modern digital financial management tools such as CRM systems, automated accounting software, and analytical platforms. It was found that the application of digital technologies improves the accuracy of financial forecasts and reduces risks in the decision-making process.

The study analyzes the experience of successful small businesses in Ukraine, specifically the Sole Proprietor Oliinyk-Karpets Tetiana Yuriivna (bakery "Zdoba"), located in Sumy, in using innovative financial management methods. Based on this, the main directions for improving profit and profitability management in small businesses in Ukraine were identified, including:

1. Optimization of cost structure;
2. Implementation of digital solutions for financial analysis;
3. Development of financial planning and budgeting;
4. Improvement of customer service through product and service profitability analysis;
5. Enhancement of staff qualifications in financial management.

The recommendations of the thesis can be used to form a financial management strategy for small enterprises aimed at increasing their competitiveness.

INTRODUCTION

The Master's qualification thesis titled "Management of Profit and Profitability in Small Business" is dedicated to analyzing the main approaches to managing the financial indicators of small enterprises and developing recommendations to increase their profitability in the context of the modern economy. The thesis explores methods and tools for optimizing the profitability of small businesses, analyzes factors affecting profit management effectiveness, and identifies ways to ensure the financial stability of enterprises.

The thesis is presented over 53 pages, containing 13 tables, 2 figures, and 31 references.

The object of the research is the processes of managing profitability and profitability in small businesses.
The subject of the research is the approaches and financial management tools used to ensure effective profit management and improve profitability.
The goal of the Master's qualification thesis is to develop scientifically grounded recommendations for improving the profit and profitability management system in small enterprises, taking into account the specifics of their activities.

To achieve the stated goal, the following tasks were set:

- To reveal the economic essence of the terms "profit" and "profitability";
- To identify key issues in managing the financial indicators of small businesses;
- To analyze modern methods of managing profit and profitability;
- To assess the impact of external and internal factors on the financial results of small businesses;
- To develop recommendations for improving the profitability of small enterprises based on the use of modern financial tools and strategies.

During the research, the following methods and tools were used: economic-statistical analysis for evaluating the dynamics of financial indicators; a system-structural approach for analyzing influencing factors; modeling methods for forecasting financial results; expert evaluation for developing recommendations.

The practical significance of the Master's qualification thesis lies in the possibility of using the proposed recommendations to increase the profitability and financial stability of small businesses in real-life conditions of their activities.

Keywords: PROFIT, PROFITABILITY, SMALL BUSINESS, MANAGEMENT, FINANCIAL INDICATORS, EFFECTIVENESS, ANALYSIS, MODELING.

CHAPTER 1: THEORETICAL ASPECTS OF PROFIT AND PROFITABILITY MANAGEMENT IN SMALL BUSINESS

1.1. Economic Essence of Profit and Profitability

Profit is a fundamental economic category that determines the effectiveness of the operation of business entities, especially in the small business sector. The study of the theoretical foundations and practical aspects of profit formation is particularly relevant in the context of current market transformations.

Profit is a key indicator of the success of entrepreneurial activity, particularly in the small business segment. It is defined as the difference between revenue from the sale of goods or services and the costs of their production and distribution. Profit reflects the efficiency of resource use and the financial stability of the enterprise, as well as serving as the main indicator of its competitiveness. Economic theory treats profit as the reward for the entrepreneur's risk and the implementation of innovations, emphasizing its role in stimulating business development. [1].

The structure of profit in small business consists of several key components. First, there is gross profit, which is formed as the difference between net income and the cost of goods sold [2]. Operating profit is formed after deducting operating expenses related to the company's core activities. The most important indicator is net profit—the financial result that remains after paying all taxes and other mandatory payments [2; 3]. These elements of the profit structure enable entrepreneurs to assess the effectiveness of their activities and make informed management decisions [1].

The formation of profit is influenced by a variety of internal and external factors. Internal factors include the quality of managerial decisions, the efficiency of production processes, the cost structure, and the expense control system [3]. Effective cost management allows financial results to be optimized even in difficult economic conditions. External factors encompass the economic environment, tax policies, the level of competition, and the regulatory framework [1]. For small businesses, adapting to changes in the market environment and using innovative strategies that provide additional competitive advantages are especially important [2].

Understanding the essence of profit and its structure forms the foundation for effective management of small businesses. Considering the various factors affecting profitability allows entrepreneurs not only to ensure financial stability but also to develop growth strategies [3]. Thus, optimizing the profit structure and implementing effective management decisions contribute to enhancing the competitiveness of small businesses in the modern market.

Modern economic science identifies a multitude of classification features of profit that enable its comprehensive analysis. According to research, profit classification is a complex and multifaceted process [4].

Table 1.1 – Main Classification Features of Profit

Source: Compiled by the author based on [5].

Classification Feature	**Types of Profit**
By sources of formation	Profit from operating activities, investment activities, financial activities
By calculation method	Accounting, gross, net profit
By nature of taxation	Taxable, tax-exempt profit
By frequency of receipt	One-time, regular profit

Table 1.1 classifies profits based on various criteria. By sources of formation, profit is categorized into operating profit, investment profit, and financial profit. Based on the calculation method, profits are divided into balance profit, gross profit, and net profit. By taxation nature, profit can be either taxable or tax-exempt. By frequency of receipt, profits are classified as one-time or regular. This approach allows profits to be systematically categorized for further analysis and effective financial management.

Profit is a key financial indicator that determines a company's operational efficiency and market competitiveness. In financial theory, various types of profit are distinguished, each of which plays a significant role in analyzing the company’s economic condition, strategic planning, and decision-making processes. Understanding the structure of profit enables managers not only to evaluate the current state of affairs but also to develop a long-term growth strategy. To visualize the types of profit, a diagram can be created consisting of three levels: overall profit, its main sources of formation, and detailed subtypes of each profit category.

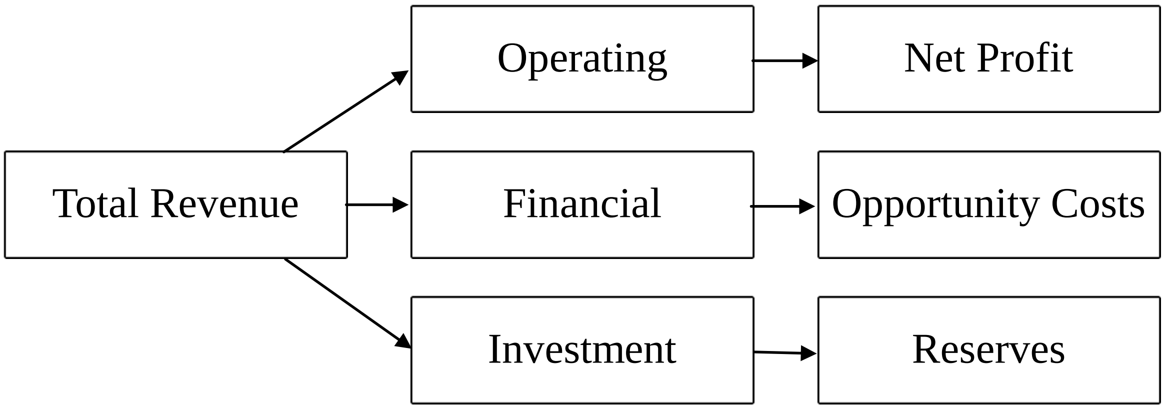

Figure 1.1 – Structure of a Company's Profit

Source: Summarized by the author based on [5], [6]

At the top level of the diagram (Figure 1.1) is the company’s total profit, which represents the sum of the financial results from all areas of its activities. Total profit provides an integrated assessment of the company's economic condition and its ability to generate income. The main sources of total profit formation are operational, financial, and investment activities. At the second level of the diagram (Figure 1.1), the types of profit are categorized by their sources of formation, namely operational profit, financial profit, and investment profit. Each type is derived from specific activities of the company.

Operating profit is the primary source of income for most businesses, reflecting the results of their core production and commercial activities. Its value is calculated as the difference between operating revenues (income from the sale of products, goods, or services) and operating expenses (cost of goods sold, administrative expenses, etc.). Operating profit serves as a key indicator for evaluating the efficiency of a company's core activities. If this indicator is negative, it may signal insufficient production efficiency, excessive costs, or an ineffective marketing strategy.

Financial profit is generated from income derived from financial operations, such as interest earned on deposits or bonds, dividends, income from foreign exchange transactions, and similar activities [10]. This type of profit is important for companies that actively invest in financial assets. Financial profit can significantly impact the overall financial stability of a company, especially in cases where the core business activities are not sufficiently profitable.

Investment profit is generated from income derived from the sale of fixed assets, intangible assets, or other long-term investments. It also includes the increase in asset value resulting from their revaluation. Investment profit holds strategic significance as it enables a company to obtain additional financial resources for modernizing production capacities, diversifying the business, or ensuring a financial cushion in case of crisis situations.

At the third level of the diagram (Figure 1.1), the subtypes of each type of profit are detailed. For operating profit, the main subtypes are gross margin (the difference between revenue and the cost of goods sold) and net profit from sales. [11]. For financial profit, key indicators include profit from foreign exchange transactions and income from investments in financial instruments. Investment profit can be represented as the result of asset revaluation or income from asset sales.

Each type of profit has a different significance for the company. For example, operating profit is the main indicator of business viability, while financial and investment profits reflect additional income sources that can provide financial flexibility. Analyzing the profit structure allows managers to identify weak points in the company's activities, determine the most profitable areas of work, and make informed management decisions. Additionally, evaluating the various types of profit is important for external stakeholders, such as investors, creditors, or shareholders, who are interested in the financial stability and prospects of the business.

Profitability is one of the most important characteristics of a company's performance, which allows for assessing the effectiveness of resource utilization to generate profit. This indicator defines the company's ability to generate income in relation to costs, assets, or other comparative bases. Profitability ratios are widely used in both management accounting and financial reporting for making strategic decision

Profitability characterizes the relationship between the profit earned and the resources used to generate it. Profit can be represented in various forms, including net profit, operating profit, gross profit, etc. Each of these categories has its significance for analyzing the effectiveness of different aspects of a company's operations. Profitability indicators are important tools for assessing the company's performance and making management decisions. They not only allow for the analysis of the financial condition of the business but also help forecast its development. Using a comprehensive approach to calculating and analyzing these indicators contributes to enhancing competitiveness and financial stability.

1.2 Factors Affecting the Formation of Profit and Profitability in Entrepreneurship

The formation of profit and the ensuring of profitability in a business are complex, multifactorial processes that depend on a wide range of internal and external factors. A comprehensive analysis of these factors allows companies to develop effective strategies for managing financial and economic activities, optimizing costs, and maximizing potential income [12]. Successful management of these factors determines the stability of the business in the market, its ability to generate income, and ensure long-term development.

Internal factors are those that are directly influenced by the activities of the enterprise, its strategies, and decisions. They include organizational, operational, and managerial aspects that form the basis of financial results. External factors, on the other hand, are independent of the company, but their influence can significantly alter the conditions of operations. They encompass economic, political, and market components.

Operating expenses are one of the key elements that determine the profitability of a business. The impact of these expenses on financial results can be assessed through several important aspects. For a better understanding, the key aspects of the impact of operating expenses on financial results are represented in the table (Table 1.2).

Effective management is a determining factor in shaping a company's profitability. Management decisions impact all aspects of operations, including labor productivity, organizational structure, and planning processes.

The alignment of the organizational structure with the needs of the company is critical, as flexible management models allow quick adaptation to changes in the market environment, whereas traditional hierarchical structures may stifle innovation and slow down decision-making. Planning is the foundation of effective financial management, and the development of realistic budgets, monitoring their implementation, and implementing control systems contribute to achieving financial goals. The use of key performance indicators (KPIs) enables the assessment of employee performance and enhances overall productivity [13]. The integration of digital solutions, such as ERP systems, CRM, and automated accounting platforms, enhances the transparency of financial flows and accelerates management processes.

Table 1.2 – Key Aspects of the Impact of Operating Expenses on Financial Results.

Source: Compiled by the author based on [7].

Operating Expenses	**Impact of These Expenses on Financial Results**
Cost Structure (Fixed and Variable Costs)	Fixed costs remain unchanged regardless of production volumes (e.g., rent, administrative expenses), whereas variable costs change proportionally with changes in production activity (e.g., raw material and energy costs). An optimal balance between fixed and variable costs enables increased profitability and ensures stability during periods of economic uncertainty.
Resource Utilization Efficiency	Maximizing the efficiency of material, labor, and financial resource use helps reduce costs and improve financial performance. Particular attention is given to productivity analysis and loss minimization.
Cost Optimization Methods	Adopting modern approaches such as automation implementation, outsourcing, or lean manufacturing allows a company to reduce costs and enhance competitiveness.
Impact of Costs on Financial Performance	Reducing costs without compromising product or service quality is one of the key strategies for improving profitability. Developing cost analysis models aids in making well-informed managerial decisions.

External factors significantly influence the formation of profit in small businesses, as they determine the conditions for their operation in the market. One of the key factors is the economic situation in the country, which affects consumer purchasing power, access to credit resources, and the overall stability of the business environment. During periods of economic growth, entrepreneurs have more opportunities for investment and expansion, while in times of crisis, they must find ways to optimize costs and adapt to reduced demand.

Legislative regulation plays an important role, particularly tax policy, the level of bureaucracy, and the quality of government support for small businesses. For example, preferential tax rates or grant programs can stimulate entrepreneurial development, while frequent changes in legislation or complex registration procedures negatively affect profitability. In addition, the success of small businesses is influenced by sociocultural factors, such as consumer preferences, the level of trust in local brands, and market trends. Together, these aspects form the external environment in which small businesses must adapt, seek new opportunities, and strategically plan their activities to ensure stable profit. The impact of tax legislation is especially noticeable for small and medium-sized enterprises, for which even minor changes in tax rates can significantly affect profitability. Rising resource prices due to inflation force companies to reassess their pricing strategies.

Small businesses face unique challenges, including limited financial resources, income instability, and reliance on external sources of funding. Small enterprises often have limited options for financing. The main alternatives include personal funds, bank loans, and external investments. However, due to high risks, banks may offer less favorable lending conditions. Long-term planning is essential for ensuring business stability. An important aspect is forecasting cash flows and utilizing financial tools such as budgets, financial reports, and profitability analysis. To examine the specifics of financial resource management in small businesses, let's consider the diagram (Fig. 1.2).

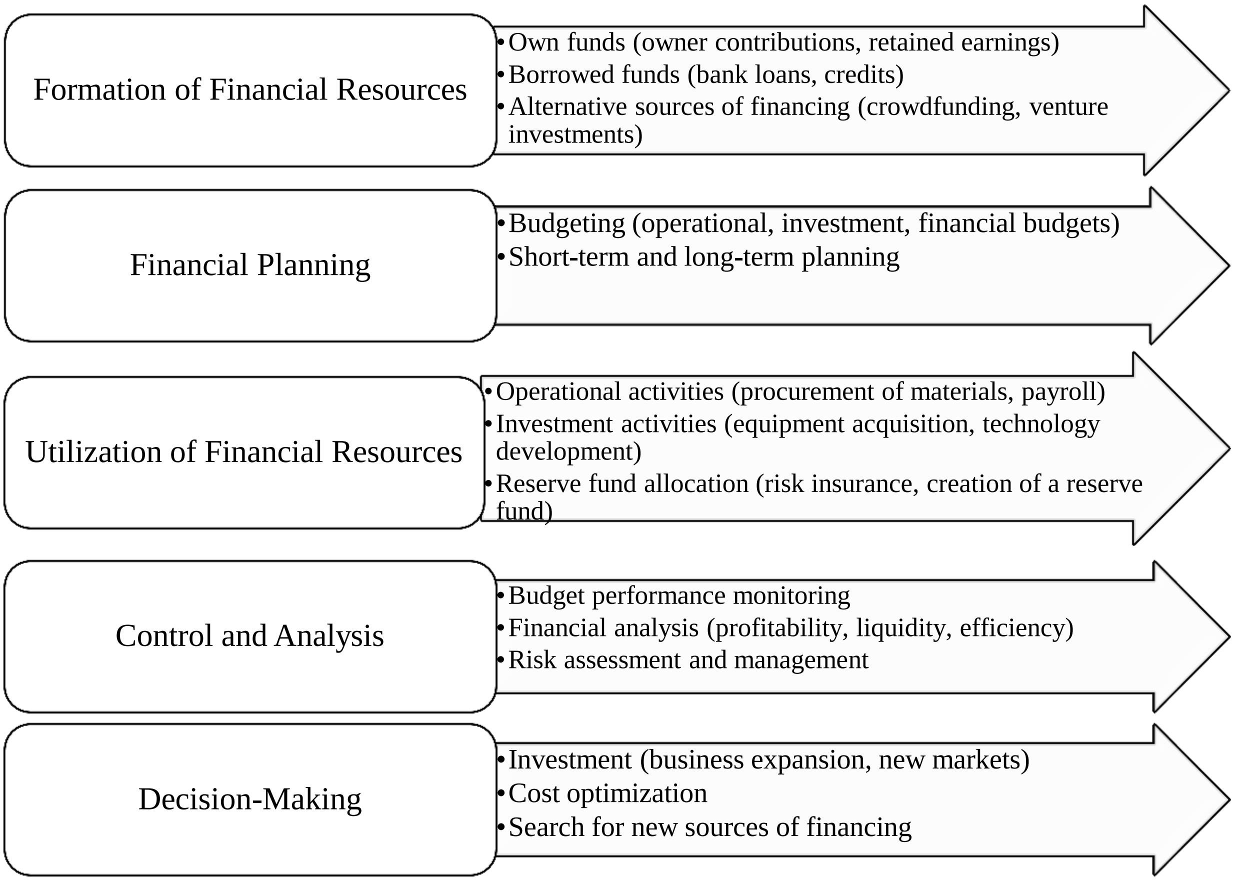

Figure 1.2 – Features of Financial Resource Management in Small Business

Source: Compiled by the author based on [8]

The formation of profit and profitability in small businesses is a complex process that largely depends on the characteristics of the business activities and their adaptability to the conditions of the modern economy [14]. Small businesses have their advantages, such as flexibility, quick decision-making, and the ability to rapidly respond to market changes. However, they also face a number of specific challenges.

One of the key factors influencing small businesses is the effective use of limited resources. For small enterprises, it is particularly important to allocate material, labor, and financial resources efficiently, as their volume is typically limited. The implementation of modern technologies and cost optimization allow businesses to minimize production costs, which is crucial for ensuring competitiveness.

Market conditions pose both challenges and opportunities for small businesses. Competition with larger companies often requires small businesses to adopt innovative approaches and narrow specialization. At the same time, small businesses have the advantage of entering niche markets that are overlooked by larger players. Flexibility and the ability to quickly adjust the product or service range are important factors for survival and growth.

The external environment significantly impacts the profitability of small businesses. Government policy, tax regulation, and access to funding and credit play a crucial role in creating favorable conditions for small enterprises. The availability of grants, preferential loans, and training programs for entrepreneurs greatly increases the chances of success for small businesses.

The human factor is another important aspect for small businesses. The qualifications of employees and their level of motivation are crucial for the success of the company [14]. Due to the small size of the company, there is an opportunity to build close working relationships and engage employees in management processes, which positively impacts productivity and the quality of products or services.

Modern small businesses must also consider the impact of digitalization. The use of online platforms, social media, and digital tools for marketing and sales helps reduce operational costs and increases the reach to potential customers, directly influencing profitability. This digital shift allows small businesses to remain competitive, expand their customer base, and optimize their operations, all of which contribute to improving their overall financial performance [14].

Thus, the successful formation of profit and profitability in small entrepreneurship depends on the ability to adapt to market conditions, efficiently utilize available resources, implement innovations, and establish strong connections with customers. With government support, the development of digital tools, and strategic management, small businesses can become a key driver of the economy and ensure stable financial outcomes.

1.3 Modern Methods of Profit and Profitability Management

The modern economic realities pose extremely complex and multifaceted challenges to the management of enterprises across various industries and scales. Managing profitability and profitability has become a sophisticated intellectual activity that requires a comprehensive, systemic approach and constant adaptation to changing market conditions. Transformational processes in the economy, intensified competition, technological revolutions, and globalization trends create a fundamentally new environment for doing business, where traditional management methods give way to innovative strategies.

The profitability of an enterprise is an integral indicator of its economic efficiency, reflecting the ability of the business entity to generate profit and rationally use available resources. The formation of effective strategies for improving profitability requires a deep, multi-vector analysis of both internal and external influencing factors, as well as an understanding of the complex interrelationships between various aspects of financial and economic activities.

A fundamental element in increasing profitability is a comprehensive analysis of factors that directly or indirectly affect the financial results of the enterprise. This analysis includes a detailed study of the cost structure, its dynamics, and the potential for optimization. It is important to view costs not as a static figure but as a dynamic system that requires constant monitoring and improvement.

Cost optimization involves not only their direct reduction but also improving the efficiency of their use. This can be achieved through the implementation of modern technological solutions, automation of production processes, the introduction of lean technologies, and business process reengineering. Special attention needs to be paid to the analysis of fixed and variable costs, identifying opportunities for their rationalization without compromising the quality of products or services.

Equally important is the identification and development of the company's competitive advantages. Competitive advantages are unique characteristics that allow a business entity to stand out among similar market participants. These may include innovative technologies, a unique product range, high service levels, an effective management system, and strong human resources potential.

Diversification is considered a strategic tool for reducing risks and increasing the stability of financial inflows. Expanding the product or service range enables the business to reduce dependence on the market conditions of individual market segments, creating a more resilient business model.

There are several key directions of diversification:

- *Horizontal diversification* – expanding the product range within the existing industry.
- *Vertical diversification* – entering new stages of the production chain.
- *Conglomerate diversification* – entering fundamentally new industries and business sectors.

Entering new markets requires careful marketing research, assessing the potential market size, analyzing the competitive environment, understanding consumer behavior specifics, and regulatory features.

The implementation of modern technologies is a critical factor in improving operational efficiency and, consequently, profitability. This includes not only technical modernization but also the introduction of smart technologies, artificial intelligence systems, machine learning, and the Internet of Things (IoT) [15], which allow for radical transformation of production processes. For a more detailed analysis, let's examine the key aspects for optimizing work processes to enhance the profitability of small businesses (Table 1.3).

Increasing labor efficiency is achieved through the implementation of systematic analysis of work processes, which allows identifying key problem areas and bottlenecks that reduce productivity. An important step is the optimization of tasks and the reduction of unnecessary stages in the workflow, which can be achieved through Lean methods and automation. Additionally, significant impact on improving efficiency comes from training employees in new technologies and work methods, as well as setting up feedback systems for continuous process improvement. Resource allocation, clear definition of key performance indicators (KPIs), and regular strategy adjustments also contribute to significant improvements in productivity and profitability of the business [16]. Target market analysis involves a deep study of the needs of the target audience, their behavior, motivation, and consumer preferences. Modern marketing technologies allow for a personalized approach, creating unique offers for different consumer segments [17].

Loyalty programs are evolving from simple discount accumulation systems to complex multi-level ecosystems of interaction with consumers. These include personalized offers, cashback, bonus programs, exclusive services, and an emotional component of communication.

Table 1.3 – Optimizing Work Processes to Enhance the Profitability of Small Business

Source: Compiled by the author based on [16].

Stages	**Tasks**	**Tools**
Analysis of Existing Processes	Performance evaluation (time, resources, human effort)	Workflow analysis, time measurement
	Identifying bottlenecks (issues slowing down processes)	Ishikawa diagram, 5 Whys method
	Profitability assessment (cost-to-profit ratio)	Cost analysis, profit forecasting
Planning	Setting goals (formulating strategic objectives)	SMART method, KPI setting
	Resource allocation (optimizing resource utilization)	Optimization models, resource tables
	Defining key performance indicators (KPIs)	KPI matrices, benchmarking
Process Optimization	Simplifying tasks (streamlining processes and eliminating unnecessary steps)	Process mapping, Lean methods
	Process automation (implementing technologies	ERP systems, CRM systems

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	to improve efficiency)	
	Outsourcing (delegating tasks to external performers)	Contracts, market research for services
Implementation of Changes	Introducing changes (integrating new processes into existing workflows)	Project management, change control
	Employee training (preparing staff for changes)	Trainings, workshops
	Technology integration (implementing new technological solutions)	IT strategies, digital platforms
Monitoring and Adjustment	Collecting feedback (evaluating results and gathering input)	Surveys, interviews, analytics
	Adjusting strategy (modifying strategies and processes)	Performance analysis, KPI adjustments
	Continuous improvement (ongoing process optimization)	PDCA (Plan-Do-Check-Act) cycles

Creating a reserve fund is a critically important tool for ensuring the financial stability of a business. The optimal size of the reserve depends on the specifics of the industry, business scale, and the level of uncertainty in the external environment.

Currency risk hedging involves various financial instruments, such as forward contracts, options, and swap contracts. The choice of a specific instrument depends on the structure of cash flows, the company's currency position, and forecasts regarding the currency market's conditions.

Financial planning becomes a complex intellectual activity, requiring not only mathematical accuracy but also strategic thinking, the ability to foresee long-term trends, and potential challenges.

Short-term plans typically cover a period of up to one year and focus on operational tasks. Long-term plans may be developed for 3-5 years and involve strategic transformations, entering new markets, and fundamental changes in the business model.

Small businesses require particularly flexible and adaptive profit management strategies. The limitation of resources is compensated by mobility, the ability to quickly respond to changes, and the implementation of innovations [14].

In summary, it can be said that managing profit and profitability in modern economic conditions demands a high level of adaptability, innovation, and systemic thinking. The success of an enterprise depends on its ability to combine technological innovations, marketing strategies, financial analytics, and human potential.

CHAPTER 2: ANALYTICAL SECTION: STUDY OF PROFIT AND PROFITABILITY MANAGEMENT BASED ON THE EXAMPLE OF SOLE PROPRIETOR OLIINYK-KARPETS TETIANA YURIIVNA (BAKERY "ZDOBA")

2.1 Financial Analysis of the Enterprise

Small businesses in Ukraine, including sole proprietor (SP), often face a number of challenges such as limited financial resources, competition from larger producers, and seasonality of demand. For the analysis, it is essential to take into account the specifics of the bakery's operations, where key costs include raw materials, energy resources, wages, and logistics [18].

The financial analysis of the activity of SP Oliinyk-Krapets Tetiana Yuriivna is a comprehensive study of entrepreneurial activity in the food production sector. The bakery "Zdooba," located in the city of Sumy, is a typical example of a small food industry enterprise that demonstrates stable development dynamics and growth potential.

The study is based on a thorough examination of the financial and economic activities of the enterprise using modern methods of economic analysis. During the period under review (2021-2023), a detailed analysis of financial indicators, income and expenditure structure, profitability, and financial stability of the enterprise was conducted.

The analysis of the company's income reveals a consistent positive growth trend (Table 2.1). In 2021, the total income amounted to 1,200,000 UAH. By 2022, it increased to 1,560,000 UAH, representing a 30% growth. In 2023, further growth was observed, with income rising to 1,950,000 UAH, marking a 25% increase compared to the previous year. This stable growth trend highlights the success of the business development strategy.

Table 2.1 – Consolidated Financial Indicators for 2021-2023

Indicator	**2021 рік**	**2022 рік**	**2023 рік**	**Change 2022/2021(%)**	**Change 2023/2022(%)**
Net Revenue, UAH	1 200 000	1 560 000	1 950 000	+30%	+25%
Cost of Goods Sold, UAH	840 000	1 040 000	1 235 000	+24%	+19%
Gross Profit, UAH	360 000	520 000	715 000	+44%	+37%
Operating Expenses, UAH	270 000	360 000	495 000	+33%	+38%
Net Profit, UAH	90 000	160 000	220 000	+78%	+38%

The income structure of the enterprise demonstrates clear geographical differentiation. The majority, approximately 80%, comes from sales in the local market of Sumy. Online sales and delivery account for 15% of the income, while wholesale supplies constitute the remaining 5%. This structure indicates a certain concentration of business activities within the local market, which serves as both an advantage and a potential limitation for further development.

The expenditure structure of the business provides detailed insights into the primary financial allocations (Table 2.2). In 2023, the largest share of expenses was allocated to raw materials and supplies—37.7% of total turnover, or 735,000 UAH. The second-largest category was salaries, accounting for 18.5% (360,000 UAH). Rent expenses amounted to 13.8% (270,000 UAH), utilities to 6.2% (120,000 UAH), and marketing and advertising to 4.6% (90,000 UAH).

The profitability indicators of the enterprise demonstrate a stable positive trend (Table 2.3). The return on sales increased from 7.5% in 2021 to 11.3% in 2023. Particularly notable is the growth in return on equity, which rose from 45% in 2021 to 75% in 2023, indicating efficient use of internal resources and investments.

Table 2.2 – Consolidated Financial Indicators for 2021-2023

Expense Category	**Amount (UAH)**	**Share (%)**
Raw Materials and Supplies	735 000	37,7%
Premises Rent	270 000	13,8%
Utilities	120 000	6,2%
Salaries	360 000	18,5%
Marketing and Advertising	90 000	4,6%
Other Operating Expenses	375 000	19,2%
Total:	1 950 000	100%

Table 2.3 – Dynamics of Profitability Indicators

Indicator	**2021**	**2022**	**2023**
Profit Margin	7,5%	10,3%	11,3%
Return on Equity (ROE)	45%	65%	75%
Return on Assets (ROA)	40%	55%	65%

The financial stability of the enterprise is characterized by a positive trend in key ratios. The equity ratio steadily increased from 0.6 in 2021 to 0.8 in 2023, indicating a growing level of financial independence. Similarly, the current liquidity ratio showed an upward trend, rising from 1.2 in 2021 to 1.7 in 2023, reflecting the company's ability to meet short-term obligations on time.

However, the study identified several problem areas and potential risks. These include high dependence on the local market, limited distribution channels, and significant seasonal fluctuations in demand for bakery products. An additional challenge is the high cost of raw materials, which constitutes a substantial portion of operating expenses.

Based on the analysis, several strategic recommendations have been developed. First, diversification of distribution channels is necessary, including expanding online sales, entering regional markets, and developing wholesale operations. Second, optimizing costs is critical, which can be achieved by sourcing alternative suppliers, implementing energy-saving technologies, and automating production processes.

Innovation in the product line has been identified as an essential area for development. This includes creating new types of baked goods, introducing a focus on healthy eating, and launching seasonal and themed product collections.

Summarizing the results of the study, it can be stated that the sole proprietorship of Olijnyk-Krapets Tetiana Yuriyivna (bakery "Zdoba") demonstrates stable growth in its key financial indicators. The average annual revenue growth is approximately 27.5%, while net profit growth stands at 58%. The enterprise exhibits well-defined competitive advantages, including positive financial performance dynamics, high return on equity, and stable financial standing.

At the same time, to ensure long-term sustainable development, the enterprise must consistently implement the proposed strategic initiatives, continuously monitor market conditions, and remain prepared to flexibly adapt its business model in response to changes in the external environment.

2.2 Factors Influencing the Formation of Profit and Profitability of the Enterprise

The efficiency of an enterprise's operations in modern market conditions directly depends on the comprehensive influence of internal and external factors that shape its economic potential and determine its development strategy [19]. This issue is particularly relevant for small businesses, especially in the food production sector, where the competitive environment is extremely dynamic and demanding.

A comprehensive analysis of the factors affecting the formation of profit and profitability involves their systematization according to various classification criteria. A summarized classification is presented in the table (Table 2.4).

Table 2.4 - Classification of Factors Influencing Enterprise Profitability

Groups	**Description**	**Components**
External Factors	Factors that are not directly influenced by the company's activities	- Economic conditions - Legislative regulations - Political stability - Competitive environment - Demographic changes
Internal Factors	Factors that are fully or partially controlled by the company	- Production capacity - Product quality - Marketing strategy - Human resources potential - Financial planning

External factors create a complex and multifaceted system of influence on the economic processes of an enterprise, establishing the context in which its activities take place. These factors operate at both macroeconomic and microeconomic levels, influencing strategic planning, operational management, financial performance, and market behavior. Understanding and analyzing these factors is crucial for making informed managerial decisions that enable enterprises to not only survive but also thrive in a changing external environment [20].

One of the most important areas of influence is economic factors, which shape the overall business environment [20]. For example, the **inflation rate**, which reflects the rise in prices within a country, directly impacts the purchasing power of consumers and the costs for businesses. High inflation can reduce the real demand for products, forcing companies to adjust their prices and optimize costs. At the same time, moderate inflation can stimulate economic activity as it is often accompanied by income growth.

The **exchange rate** is another significant factor, especially for businesses operating in international markets or dependent on imports. Fluctuations in exchange rates can increase the costs of purchasing raw materials or equipment, affect the competitiveness of products on global markets, and alter a company's financial outcomes. To avoid risks related to currency fluctuations, many businesses use hedging tools or create reserve funds.

Tax policy affects the amount of funds available for reinvestment and development. Changes in tax legislation, such as the introduction of new rates, benefits, or taxes, can either stimulate business growth or create additional burdens. For instance, reducing taxes on small businesses can foster growth, while increasing tax rates may lead to a decrease in profitability for enterprises.

The overall economic market conditions form the foundation for business planning. During periods of economic growth, businesses have more opportunities for investment, expanding their product range, and entering new markets. In contrast, during economic downturns, companies face reduced demand, the need to optimize costs, and the search for alternative sources of income.

Equally important are the market factors that define a company's position in the competitive market. Intense competition drives companies to innovate, improve product quality, and develop new marketing strategies. For example, in the food industry, competition forces businesses to offer healthier, organic, or functional products, adapting their offerings to the changing needs of consumers.

Solvent demand is another decisive factor for a company. Sales volumes depend on the income levels of the population, while consumer priorities determine the structure of demand. Companies that understand the needs of their target audience can not only satisfy existing demand but also create new market segments. For example, the active development of e-commerce meets the demand for convenience and accessibility, which is becoming increasingly important for modern consumers.

The market price conditions set the framework for pricing products. In a stable market, businesses can plan their revenues long-term, but during price instability caused by changes in raw material, fuel, or energy costs, companies must quickly adjust their strategies.

It is also important to consider consumer behavior trends, which reflect social, cultural, and technological changes. For instance, in today's world, there is an increasing demand for eco-friendly products, which encourages companies to invest in innovative production technologies. Additionally, consumers are increasingly focused on convenience and personalization, prompting companies to use digital platforms to communicate with customers.

Regulatory factors deserve particular attention as they shape the regulatory environment for businesses. Legislative restrictions, such as regulations in advertising, ecology, or employment, require companies to comply with certain standards. For example, strict environmental regulations encourage businesses to invest in low-emission production, which, in turn, can enhance their reputation in the market.

Regulatory policies in the food production sector, particularly quality and safety standards, also pose a range of challenges for businesses. Compliance with international standards opens up new opportunities for export, but it requires significant resources to implement the necessary changes in production processes.

The complexity of the regulatory environment is further compounded by tax regulations. For small businesses, tax policy is often a decisive factor, as its flexibility determines the ability of enterprises in this category to develop. Tax incentives, for example, can facilitate the creation of new businesses, but frequent changes in tax legislation create additional uncertainty.

Overall, the impact of external factors on a business is multifaceted and complex. To function effectively in a dynamic market, companies must continuously analyze these factors, forecast their potential development, and quickly adapt their strategies. Integrating such analyses into the decision-making process allows businesses not only to avoid risks but also to identify growth opportunities in a timely manner [21]. In the modern world, competitiveness and business sustainability largely depend on the ability to adapt to changes in the external environment. This, in turn, determines the long-term success and stability of the company's operations.

Internal factors are a set of elements directly related to the business activities of the company. For example, in the case of the "Zhdoba" bakery, the following key internal factors can be identified (Table 2.5).

Table 2.5 – Internal Factors Influencing Enterprise Profitability

№	Factor	Influence Characteristic	Optimization Potential
1	Production Capacity	Volume and speed of product manufacturing	Modernization of equipment, optimization of technological processes
2	Product Quality	Compliance with standards and consumer expectations	Quality control, implementation of innovations
3	Marketing Strategy	Effectiveness of promotion and customer communication	Diversification of sales channels, targeted advertising
4	Human Resources Potential	Professionalism and motivation of employees	Training, motivation systems, corporate culture
5	Financial Planning	Efficiency of financial flow management	Budgeting, cost control, investment policy

Cost optimization is one of the most important aspects of business management, as it ensures the ability to maintain high profitability, efficient resource use, and sustainable business development. In today's environment of intense competition and market instability, companies are forced to find new approaches to reducing costs while simultaneously improving product quality and customer service. Effective cost management allows a business not only to save resources but also to ensure its long-term competitiveness [22].

Rationalizing production processes is one of the key areas of cost optimization. This means that the company must continuously analyze all stages of production, identify weak points, and eliminate them. For example, technical processes can be improved, new labor organization methods can be implemented, or modern automation tools can be used. Timely repair and modernization of equipment, as well as the implementation of innovative technologies, help prevent downtime, reduce maintenance costs, and shorten production time. With these approaches, the company has the opportunity to significantly increase labor productivity and reduce costs per unit of production.

Modern realities require businesses to pay special attention to environmental sustainability and the efficient use of resources. The implementation of resource-saving technologies is a step towards reducing production costs and ensuring long-term stability.

Costs associated with purchasing, storing, and using raw materials are among the largest expense items for a company. Therefore, effective inventory management is an essential element of optimization. The use of automation systems, such as ERP (Enterprise Resource Planning), enables businesses to better forecast raw material needs, avoid surpluses or shortages of materials, which reduces the risks of waste and unnecessary costs. Additionally, modern technologies allow for the creation of integrated management systems that synchronize all departments of the company, greatly improving decision-making efficiency.

Each company must constantly monitor and analyze unproductive expenses to eliminate them in time. Such costs include equipment downtime, production defects, excessive logistics costs, or unjustifiably high administrative expenses. It is also important to automate routine processes, such as accounting, planning, and reporting, freeing up resources for strategic tasks.

To mitigate risks associated with reliance on a single supplier, companies should diversify their raw material supply sources. This ensures stability in case of disruptions or delivery failures and creates opportunities for better pricing through competition between suppliers. Entering into long-term agreements with multiple partners will help create more stable cooperation conditions and reduce dependency on market fluctuations.

An important element of cost optimization is working with human capital. Companies that invest in employee training not only support an inadequately skilled workforce but also motivate personnel to implement innovative solutions. Furthermore, the development of digital technologies, such as big data analytics, allows for better understanding of customer needs, optimizing marketing campaigns, and reducing operational costs. For instance, the use of artificial intelligence in production and logistics can significantly enhance demand forecasting accuracy and reduce excess costs.

Overall, cost optimization is a multifaceted process that requires a comprehensive approach. It encompasses all aspects of a company's operations—from production and logistics to human resource management and customer interactions. Continuous improvement and the search for new opportunities to reduce costs enable businesses to achieve their strategic goals and strengthen their leadership positions in the market [23]. It is important to remember that cost optimization is not just about budget cuts; it is primarily about rational resource management, which includes a balanced approach to expenditures on development, marketing, and technical support.

The current market conditions create a complex competitive environment that requires companies to constantly adapt, maintain a high level of flexibility, and apply a strategic approach to management [24]. Businesses face numerous challenges, including shifting consumer preferences linked to the dynamic development of technology, changes in lifestyle, and evolving value orientations. Another significant factor is the intensifying competition, driven by the increasing number of market players and the rise in innovative solutions implemented by competitors. Fluctuations in raw material prices also play a key role, influenced by both global economic trends and local factors, such as legislative changes or natural disasters. Additionally, economic instability, manifested through inflation, currency fluctuations, or crises, creates substantial barriers to the stable functioning of businesses.

To effectively overcome these challenges, businesses must implement a series of strategic measures. First, it is important to regularly conduct market research, which allows companies to track market changes, analyze consumer behavior, and identify promising development directions. This helps in making proactive decisions and avoiding potential risks. Second, it is essential to ensure a quick response to market changes by introducing flexible management mechanisms that allow companies to rapidly adapt to new conditions. An innovative approach to product line formation is another crucial aspect: creating new products, modernizing existing ones, or applying unconventional solutions can significantly enhance a company's competitiveness. A flexible pricing policy, which takes into account both demand levels and consumer capabilities, helps optimize profit and maintain customer loyalty even amid instability.

Thus, for successful operation in the modern market environment, companies must be prepared for continuous improvement, the analysis of both external and internal factors, and the implementation of innovative solutions that will contribute to their sustainable development and strengthen their market positions.

The formation of profit and ensuring the profitability of the sole proprietorship "Olijnyk-Кlarець Tetyana Yuriyivna" (Bakery "Zdoba") is a complex, multifaceted process that requires a comprehensive and systematic approach to managing financial and production resources. The main aspects of this process include the analysis of internal and external factors, market condition monitoring, and the implementation of effective management tools.

Profitability is directly dependent on the balanced interaction between internal and external factors [25]. Internal factors include cost management efficiency, labor productivity, product quality, and the level of technological advancement. External factors cover changes in the economic environment, competition, consumer purchasing power, and fluctuations in raw material prices. It is important to consider that any of these factors can significantly impact financial outcomes, so management strategies must be continuously adapted to changes.

Profitability is achieved through the rational use of resources, cost optimization, and the enhancement of production processes' efficiency. Implementing modern cost management mechanisms allows for reducing production costs and ensuring stable revenue levels. Particular attention should be paid to process automation, logistics optimization, and quality control.

Ongoing monitoring and adaptation to market changes are essential for the stable functioning of the business. This involves analyzing consumer preferences, studying the competitive environment, and promptly responding to legislative and economic changes. By doing so, the business can remain competitive even in unstable conditions.

The role of innovative development should be highlighted. Investments in the latest technologies, the development of new product types, and continuous improvement of existing production processes are the foundation for long-term success [26]. Innovation enables the company to ensure the uniqueness of its products, which, in turn, contributes to expanding sales markets and strengthening market positions.

Bakery "Zdoba" should focus on improving its competitiveness, which includes both expanding the product range and enhancing service quality. Success in the modern business environment is determined not only by product quality but also by the company's ability to create additional value for consumers. Thus, balanced management, strategic planning, and openness to innovation are key to achieving high levels of profitability and profitability for the enterprise.

2.3 Analysis of the Effectiveness of Current Profit Management Methods

Profit management is a complex, multifaceted system that requires a comprehensive approach and continuous improvement. In the context of the operations of FOP Olijnyk-Кpaрець Tetyana Yuriyivna (Bakery "Zdoba"), it is crucial to conduct a thorough analysis of the existing profit management methods to identify potential reserves for enhancing economic efficiency.

The process of managing a company’s profit is a key element of financial management, which determines the success and stability of the organization in the context of the modern economy. It is based on a systemic approach that encompasses a set of interconnected elements, each of which plays a critical role in achieving financial efficiency and stability. This process includes strategic planning, operational control, analysis of financial indicators, market environment monitoring, and the adaptation of financial policy. Each of these stages not only complements the others but also forms a unified mechanism that enables the enterprise to function effectively in a competitive environment.

Strategic Planning is the starting point in the profit management process, as it is at this stage that long-term goals, the mission, and strategic priorities of the enterprise are defined. This includes analyzing internal resources, assessing potential risks and opportunities, and developing a development strategy based on market trend forecasts. Strategic planning provides the enterprise with a clear direction and enables the efficient allocation of resources to achieve financial objectives.

Operational Control, on the other hand, is a tool that ensures the alignment of current actions with the chosen strategy. It involves monitoring the implementation of plans, assessing the achievement of intermediate results, and taking corrective actions in case of deviations from the planned course [27]. Operational control allows the enterprise to avoid significant financial losses and ensures the stability of cash flows.

The analysis of financial indicators is another important step that allows evaluating the effectiveness of the company’s operations. This analysis includes the calculation of key ratios such as profitability, liquidity, solvency, asset turnover, and others. Through this step, management is able to identify weaknesses, develop specific measures to address them, and direct resources to the most promising areas of activity.

Market environment monitoring is an integral part of profit management. In the context of constantly changing external factors such as fluctuations in demand, changes in the competitive environment, regulatory innovations, and other challenges, the company must constantly adapt. Monitoring allows for timely identification of changes that could impact profitability and respond accordingly by adjusting strategies or operational activities.

Financial policy adaptation is the final stage of the process, enabling the company to respond flexibly to internal and external changes. This may include revising the cost structure, optimizing financial flows, changing approaches to managing receivables, or reinvesting in promising areas. Successful adaptation of financial policy ensures the company’s competitiveness and sustainable long-term development.

In addition to the main components, an important aspect of modern profit management is the implementation of digital technologies. Automated management systems, software solutions for analyzing large amounts of data, and forecasting are powerful tools that allow companies to improve planning accuracy, reduce decision-making time, and minimize the human factor's impact on critical processes. For example, the use of artificial intelligence and machine learning technologies helps better predict market changes, identify the most effective investment directions, and avoid unnecessary expenses.

Thus, profit management is a multifaceted and complex process that requires a high level of professionalism, clear strategy, and modern technologies. Its successful implementation ensures financial stability, sustainable development, and long-term competitiveness of the company in the modern economy (Table 2.6).

Table 2.6 – Comparative Characteristics of Profit Management Methods

Method	Characteristics	Advantages	Disadvantages
Cost-Based	Focuses on cost control	Simplicity of implementation	Limited potential for prof-it growth
Revenue-Based	Aims at maximizing revenues	Flexibility in management	Risk of reduced product quality
Integrated	Combines various management tools	Systematic approach	Complexity of implementation

An important aspect of the theoretical analysis is understanding the interconnection between different components of profit management. Economic efficiency depends not only on production volumes but also on the ability of the enterprise to adapt to changes in the external environment.

Analyzing the current profit management strategies of the bakery "ZdoBa," several key features can be identified that allow the business to maintain stable market positions and ensure effective operation. Firstly, the bakery demonstrates high operational efficiency, achieved through careful optimization of production processes. This includes reducing operational costs, implementing modern equipment, and rational use of resources, which ultimately contributes to lowering the cost of goods sold.

Secondly, flexible pricing policies are one of the strengths of the business. This approach takes into account seasonal demand fluctuations, allowing the company to respond promptly to market changes. Such a strategy also ensures effective management of product costs, maintaining price competitiveness without compromising product quality.

Another important aspect is the product range policy, based on diversification of the product portfolio. Expanding the product range enables the bakery to attract a broader customer base and increase overall business profitability. For example, the development of new recipes or the introduction of products tailored for specific market segments (dietary or gluten-free items) helps to meet the growing needs of customers.

In addition to the aforementioned, it is also important to note that the bakery's success largely depends on the effective use of marketing tools, such as promotions, loyalty programs, and social media marketing. This comprehensive approach not only contributes to increased sales volumes but also builds trust in the brand. In conclusion, the strategies of "ZdoBa" bakery demonstrate a high level of adaptability to modern market conditions and serve as an example of successful profit management.

The financial control system of the bakery "ZdoBa" is a key element in ensuring the stable development of the business. It includes several management levels, such as daily tracking of income and expenses, monthly analysis of financial indicators, quarterly budgeting, and annual strategic planning. This approach allows timely management decisions and supports financial stability.

The analysis of the existing system identified both strengths and areas for improvement. Strengths include the speed of decision-making, low levels of non-productive costs, and the flexibility of financial planning. At the same time, there are opportunities for improvement, such as implementing more detailed management accounting, expanding analytical forecasting tools, and strengthening control over variable costs.

The assessment of profit management efficiency is based on a comprehensive approach that includes both quantitative and qualitative indicators. Quantitative indicators cover financial results, asset profitability, and financial stability ratios. Qualitative indicators focus on assessing competitiveness, market reputation, and the business's growth potential.

Thus, the conducted analysis allows for several important conclusions. First, the current profit management system demonstrates positive development dynamics, which indicates the effectiveness of the chosen approach. Second, there is significant potential for implementing more advanced financial management tools, which will improve control and forecasting. Third, constant monitoring and adaptation of the financial strategy are necessary to ensure alignment with the current market challenges.

Additionally, it can be noted that improving the financial system will not only strengthen the "ZdoBa" bakery's market position but also enhance its competitiveness amid growing competition. The use of modern digital technologies, such as automation of accounting processes and data analysis through artificial intelligence, could be a new step in ensuring the stable financial development of the business.

CHAPTER 3: RECOMMENDATIONS FOR INCREASING PROFITS AND PROFITABILITY OF THE ENTERPRISE

3.1 Development of a Strategy for Increasing Profit and Profitability

Modern transformational processes in the Ukrainian economy impose fundamentally new requirements for the efficiency of management in small businesses, especially in the food industry. "ZdoBa" bakery, as a dynamic business entity, requires a comprehensive approach to developing a strategy for increasing profit and profitability that considers both internal potential opportunities and external challenges of the market environment. The processes of globalization, increasing competition, technological transformations, and constant economic fluctuations require entrepreneurs to develop adaptive, flexible, and scientifically grounded strategic solutions.

The methodological foundations of the study are based on systemic and comprehensive approaches to managing the financial and economic processes of the enterprise. The theoretical basis of the research includes the scientific works of domestic and foreign scholars in the fields of strategic management, financial planning, and economics of the enterprise. In particular, the conceptual principles of profit management are based on the fundamental works of management and economic theory classics, including the works of P. Drucker [28], M. Porter [29], O. Hetman [30], A. Thompson, and A. Strickland [31].

The primary goal of the developed strategy is to create a comprehensive mechanism for increasing the profitability and efficiency of "ZdoBa" bakery through a system of interconnected strategic initiatives aimed at cost optimization, expanding market opportunities, and implementing innovative management and production approaches. Achieving this goal involves solving a series of interrelated tasks: diagnosing the current state of the enterprise, identifying strategic opportunities and potential threats, and developing specific measures to enhance operational efficiency.

A strategic approach to profit management involves a comprehensive vision of the enterprise's development, extending beyond traditional financial and economic indicators. It includes a thorough analysis of internal business processes, an assessment of market potential, research into consumer preferences, analysis of the competitive environment, and the development of innovative approaches to creating additional value for customers.

The key principles of the developed strategy are as follows: **scientific grounding**, which involves the use of modern scientific methods and financial management tools; **adaptability**, ensuring the flexibility of strategic decisions; **economic efficiency**, aimed at maximizing profit while minimizing costs; and **comprehensiveness**, which ensures the interconnection of all components of the enterprise's development strategy.

An important aspect of strategic profit management is understanding the specifics of the enterprise's operations within the food industry. "ZdoBa" bakery has a number of unique characteristics that define the features of its financial and economic strategy. First, it is a small business operating in a highly competitive environment with limited resource capabilities. Second, the industry's specifics imply a high dependence on the quality of raw materials, the speed of product turnover, the need for constant assortment updates, and strict requirements for food safety.

Table 3.1 - Directions for Optimization of Production Costs at the Bakery "Zdoba"

Direction of Optimization	Expected Effect	Implementation Mechanism
Improvement of Procurement Policy	Reduction of raw material costs by up to 15%	Diversification of suppliers, signing long-term contracts
Implementation of Resource-Saving Technologies	Reduction of electricity costs by 20-25%	Equipment modernization, introduction of energy-efficient technologies
Optimization of Production Processes	Increase in labor productivity by 10-12%	Implementation of lean technologies, improvement of work processes

Продовження таблиці 3.1

The strategy of diversifying the product portfolio is seen as a powerful tool for increasing profitability (Table 3.2). Expanding the product range involves not only a quantitative increase in product names but also a deep analysis of consumer needs, the introduction of innovative products, and the exploration of new market niches. Specifically, promising directions include the development of gluten-free baking, creating a premium line of bakery products, and introducing semi-finished goods of high readiness for corporate and hotel clients.

Table 3.2 - Potential Directions for Expanding the Product Range

Product Group	Expected Profit Increase	Strategic Justification
Gluten-Free Baked Goods	Up to 18% additional profit	Meeting the needs of customers with specific dietary requirements
Premium Bakery Products	Up to 25% margin growth	Capturing the premium customer segment
High-Preparedness Semi-Finished Products	Up to 15% customer base expansion	Targeting corporate and hospitality sectors

Digital transformation of business processes is considered a critical direction for increasing the company's competitiveness. Implementing modern information technologies will not only optimize internal management processes but also create new communication channels with customers, introduce more flexible and personalized service models. Specifically, promising directions for digitization include creating a proprietary mobile application, implementing a CRM system, developing online ordering and delivery services, and launching loyalty programs using digital technologies.

The company's marketing strategy is based on the principles of customer orientation and individualized approaches. Given the specifics of the food industry, communicative strategies aimed at forming a positive brand image, creating an emotional connection with consumers, and demonstrating the unique competitive advantages of the products are of particular importance. An important tool in the marketing strategy is the active use of social media, content marketing, and targeted advertising.

Technological innovations in production are seen as a powerful reserve for improving efficiency and competitiveness. Implementing modern quality control systems, using innovative equipment, and partially automating production processes will not only increase productivity but also ensure consistently high product quality, which is a critical factor for success in the food industry.

The personnel management system is considered one of the key strategic resources for improving the company's efficiency. Implementing modern approaches to training, motivation, evaluation, and development of employees will help form a highly professional, loyal, and motivated team capable of achieving the company's strategic goals.

The expected results of implementing the developed strategy include comprehensive positive changes in various aspects of the company's operations. A 35-40% increase in net profit is forecasted, along with a 15-20% increase in return on equity, strengthening competitive positions in the regional market, and the formation of a stable reputation as a reliable and innovative enterprise in the food industry.

Thus, the developed strategy for increasing the profit and profitability of the Sole Proprietor Oliinyk-Krapets represents a comprehensive, scientifically grounded approach to improving the financial and economic activities of the bakery "Zdoba". The proposed measures are based on modern management principles, take into account the specifics of the company's operations, and aim to ensure its long-term sustainable development in a changing market environment.

3.2 Evaluation of the Economic Feasibility of Implementing the Proposed Strategies for Increasing Profit and Profitability

The economic efficiency of management decisions is a key aspect of the strategic development of an enterprise, especially for small businesses such as the "ZdoBa" bakery. A comprehensive evaluation of the feasibility of implementing the proposed measures involves a deep analysis of potential outcomes, risks, and the economic consequences of implementing the strategic recommendations.

The methodological approach to evaluating economic feasibility is based on a systematic analysis of financial and economic indicators, comparing the forecasted results with the current state of the enterprise, and considering a range of external and internal influencing factors (Table 3.3).

Table 3.3 - Criteria for Evaluating the Economic Efficiency of Proposed Measures

Criterion	Evaluation Indicators	Analysis Methods
Financial Performance	Increase in net profit, profitability of sales	Comparative, statistical analysis
Investment Costs	Amount of initial capital investment, cost structure	Estimation method, financial planning
Payback Period	Investment return period, discounted payback period	Calculative-analytical method
Risk Management	Identification of potential risks, assessment of probability of negative events	Qualitative and quantitative risk analysis

A comprehensive risk management system is a key component of successfully implementing strategic initiatives, as it allows for the identification, assessment, and minimization of potential threats. For the "ZdoBa" bakery, several groups of potential risks have been identified that could affect the effectiveness of operations and the implementation of changes.

Financial risks include:

- Insufficient working capital needed for innovation implementation;
- Potential fluctuations in raw material and supplies prices, affecting production costs;
- Risks of unforeseen additional expenses that could increase the financial burden.

Operational risks encompass:

- Difficulties in adapting the workforce to new technological processes, which may slow down modernization;
- Potential decline in product quality during the initial stages of change implementation;
- Logistic constraints in the supply of necessary ingredients, which could lead to production disruptions.

Market risks include:

- Changes in consumer preferences, which could reduce demand for products;
- Intensified competition, which creates additional pressure on the company’s market position;
- Economic instability in the region, affecting consumer purchasing power.

Timely identification and management of these risks will allow the "ZdoBa" bakery to maintain stability in a changing environment and achieve the set strategic goals.

Forecasting economic efficiency is based on a comprehensive analysis of the expected results from implementing strategic actions aimed at optimizing business processes, increasing competitiveness, and ensuring long-term sustainable development. The study examines the key economic parameters reflecting expected changes in the financial and operational activities of the "ZdoBa" bakery. A significant increase in financial indicators is anticipated, with net profit projected to rise during the first year of initiative implementation, driven by increased revenues and reduced costs.

The conducted analysis confirms the high potential for economic effectiveness in implementing the proposed measures for the "ZdoBa" bakery. Despite certain risks, the strategy is well-founded economically and creates favorable conditions for the development of the enterprise. To ensure the successful implementation of the initiatives, it is recommended to carry out the strategy in phases, with regular monitoring of intermediate results. Additionally, forming a contingency fund to minimize financial risks, providing ongoing staff training to enhance their qualifications and adaptability to changes, and flexibly adjusting the strategy based on external market conditions are essential. The proposed strategy will not only provide short-term economic benefits but will also lay the foundation for the long-term sustainable development of the business, increasing its competitiveness in a dynamic market environment.

3.3 Recommendations for Risk Minimization

Risk management is a critically important aspect of ensuring sustainable development and economic security for small businesses, particularly in the food industry. For Sole Proprietor Oleynik-Karpets Tetyana Yuriyivna (Bakery "ZdoBa"), the development of a comprehensive risk minimization strategy is especially important due to the nature of its activities and the conditions of the modern market. The risk management process involves prior comprehensive classification, which allows for a systematic approach to identifying and addressing risks.

In the context of "ZdoBa" bakery operations, it is advisable to distinguish four main groups of risks: economic, operational, marketing, and legal (Table 3.4). Economic risks include inflation fluctuations, changes in market conditions, financial and investment fluctuations. Operational risks cover technological production aspects, raw material supply problems, logistical challenges, and personnel management. Marketing risks are related to potential changes in demand, increased competition, pricing policies, and sales strategies. Legal and regulatory risks focus on potential legislative changes, tax transformations, compliance with quality standards, and product certification processes.

Table 3.4 - Risk Assessment Matrix of the "Zdoba" Bakery

Risk Group	Risk Name	Probability	Impact	Priority
Economic	Inflation	High	Critical	High
Operational	Supply disruptions	Medium	Significant	Medium
Marketing	Decrease in demand	Low	Moderate	Low
Legal	Change in legislation	Medium	Critical	High

The methodology for risk assessment at "ZdoBa" bakery is a multi-stage process that includes three key stages: identification, qualitative, and quantitative risk evaluation. Risk identification involves conducting a thorough internal audit, a comprehensive analysis of the external environment, and consultations with industry experts. Qualitative risk assessment is carried out through expert evaluation and the use of a scoring system to determine the impact and likelihood of risk events. Quantitative assessment includes statistical analysis, financial modeling, and the development of alternative scenarios for potential outcomes.

The developed risk assessment matrix clearly demonstrates the priority and potential impact of various types of risks on the business operations. Specifically, the highest priority is given to inflation risks and potential legislative changes, which require special attention and preventive measures. Operational risks related to raw material supply challenges are categorized with a medium level of risk, while marketing risks are given a relatively lower priority.

The risk minimization strategy includes a set of targeted measures for each identified risk group. For economic risks, it is recommended to diversify sales channels, establish a flexible pricing policy, create financial reserves through insurance, and implement a system for continuous monitoring of economic indicators. Operational risks should be minimized through long-term contracts with suppliers, modernization of production equipment, implementation of multi-level quality control systems, and investment in employee training.

Marketing risks require constant demand monitoring, gradual product line expansion, enhanced marketing communications, and the introduction of customer loyalty programs. Legal risks should be managed through regular legal monitoring, immediate response to legislative changes, business activity insurance, and strict compliance with all regulatory requirements.

The control system for implementing the financial strategy is also an essential component of risk management. It includes monthly financial monitoring with detailed analysis of indicators, comparing actual results with planned ones, and identifying the causes of any deviations. The implementation of a budgeting system, with the development of operational, investment budgets, and revenue and expenditure budgets, will ensure transparency and control over financial processes.

Particular attention should be given to the implementation of a Key Performance Indicators (KPI) system, which covers key performance metrics: profitability, sales volume, operational costs, and customer satisfaction. This allows not only to evaluate the current state of the business but also to forecast its future development.

The proposed risk management system for FOP Oliinyk-Krapets (ZdoBa Bakery) provides a comprehensive approach to identifying and assessing risks, developing preventive measures, creating mechanisms for adapting to changing market conditions, and enhancing the overall financial stability of the business. Further implementation and continuous improvement of the risk management system will not only minimize potential threats but also create a solid foundation for the stable and profitable development of ZdoBa Bakery in the modern competitive environment.

CONCLUSIONS

This master's thesis examines the management of profit and profitability in small businesses, specifically in the case of FOP Oliinyk-Krapets (ZdoBa Bakery). During the research, the main theoretical aspects of profit and profitability were identified, and modern methods for their management were explored.

The first chapter discusses the economic essence of profit and profitability, and analyzes the factors that influence their formation. It is determined that profit and profitability are key indicators of the financial health of a business, requiring a comprehensive approach to management.

The second chapter is dedicated to analyzing the financial state of FOP Oliinyk-Krapets (ZdoBa Bakery). An evaluation of the factors influencing profit formation and an analysis of the effectiveness of current management methods were conducted. It was established that there are significant reserves for increasing profitability through the implementation of modern strategies and resource optimization.

In the third chapter, recommendations for increasing profit and profitability of the bakery were developed. Strategies were proposed to improve business processes, implement innovative management methods, and minimize risks. The economic feasibility assessment confirmed the effectiveness of the proposed measures.

Thus, the results of the research confirmed the importance of a systematic approach to managing profit and profitability in small businesses. The implementation of the developed recommendations will contribute to enhancing the financial stability of the enterprise and its competitiveness in the market.

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