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Profit, Cost, and Revenue

According to the article '*Nintendo Raises Profit Forecast on Wii Strength*' and *wii.nintendo.com*, the makers of the console have had a very pleasant surprise. The newly released Nintendo Wii has outsold the Sony Play station 3 by several hundred millions. This article states that the revenue from the Nintendo Wii increased 160% over the past three months. The company sold 3.43 million Wiis in order to achieve this revenue making the cost of each system around $400. It now expects a rise in profit to $2.2 billion for the next year and to have a cost of 1.3 billion for the year.

Applying some concepts that I have learned in MAC2233 I can determine the companies expected revenue for the upcoming year. Profit is defined as what remains of the revenue when costs are subtracted and revenue is defined as quantity multiplied by price. The profit equation is revenue minus cost, thus-

Revenue- 3.5 billion

Cost- 1.3 billion

Profit= 2.2 billion

If Nintendo wanted to achieve a profit of 3 billion dollars next year they would have to increase their revenue .8 billion. I can figure out how many systems they would have to sell in order to increase revenue by (assuming there are no additional costs)-

System Price $400

Revenue= quantity * price

.8 Billion= X*400   Solve for X

Also, this is not taking into consideration the money Nintendo generates from the sale of each game. This would increase their costs and also increase their revenues. For example if it cost Nintendo $20 to make each game and they turned around and sold the game for $50 this would leave them with a profit of $30 per game sold.

If all goes as expected for Nintendo they should not ever have a problem generating a profit. The mark up on games and systems leaves them with enough profit to cover themselves for years to come. However, if sales radically decline over the next few months then the costs they face could be greater then the revenue they generate. Another possible scenario is Nintendo only selling enough systems in order for them to "break-even." This occurs when revenue is equal to cost (no gain/loss). For example- Assume Nintendo wanted to break-even for the month of August. The total cost for the month is $4,000 and the price per system is $400. They would need to sell 10 systems to break-even.

$$400X = 1,000 \qquad \text{Solve for X}$$