In 2007, the five largest U.S. oil companies earned a combined revenue of almost $1 trillion.

Some would say that this is the result of the oil conglomerates exercising monopoly power and reaping excess profits at the expense of U.S. consumers.

But, $1 trillion is the oil companies revenues not their profits.

The combined profits of the five largest U.S. oil companies totaled $74 billion in 2007.

That's a lot less than $1 trillion, but still a lot of money and (some say) likely the result of monopoly profiteering.

But, where “profiteering” is concerned, the <u>amount</u> of profit a company makes is not relevant. What is relevant is the amount of profit <u>relative</u> to the size of the company.

For example, a company that requires $100,000 in assets to generate $1 million in profit is truly remarkable compared to one that requires $1 million in assets to generate $1 million in profit.

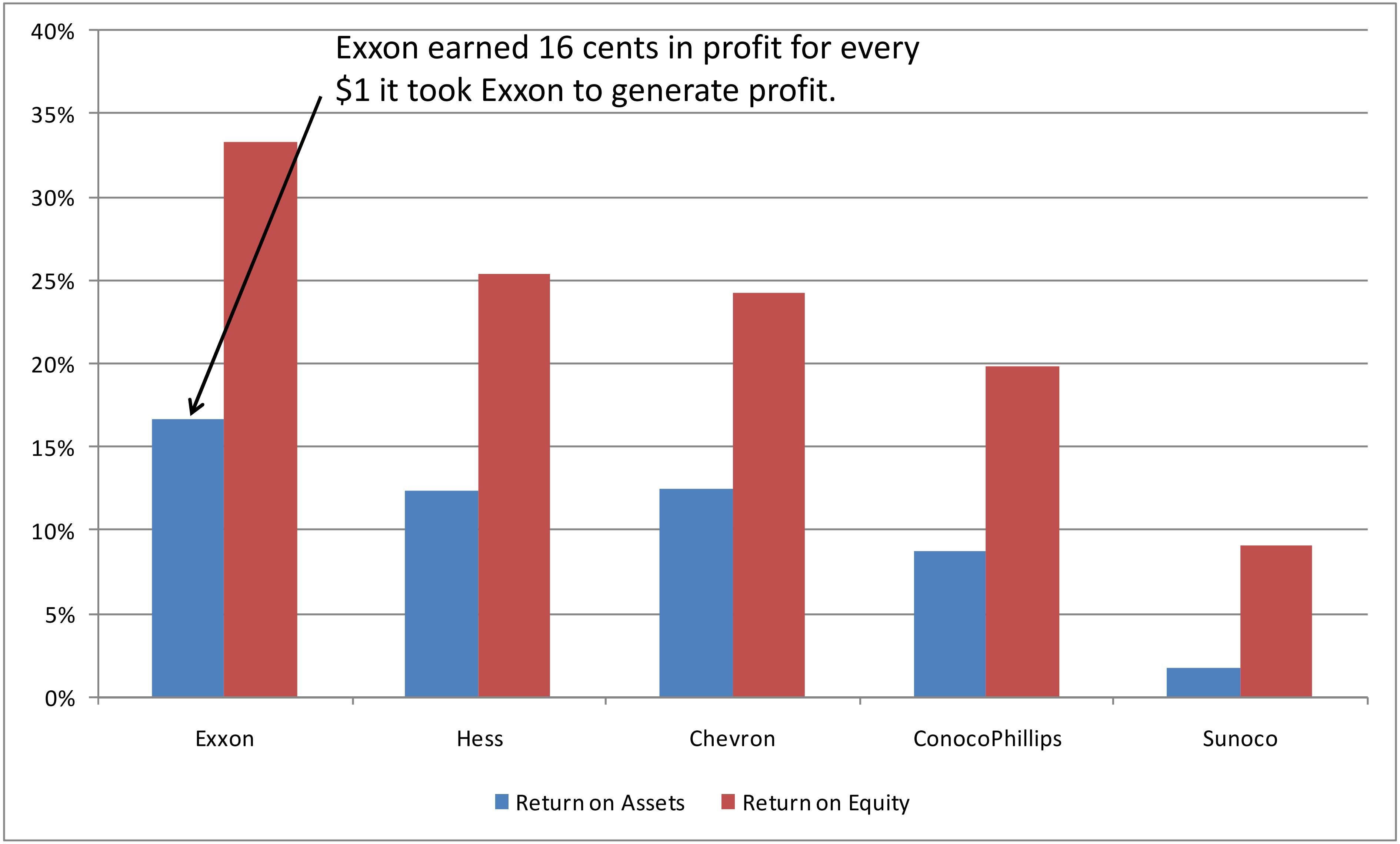
There are two ways to measure the amount of profit generated relative to the size of a company.

Return on Assets (ROA)

The amount of profit a company makes for every $1 in assets the company has.

Return on Equity (ROE)

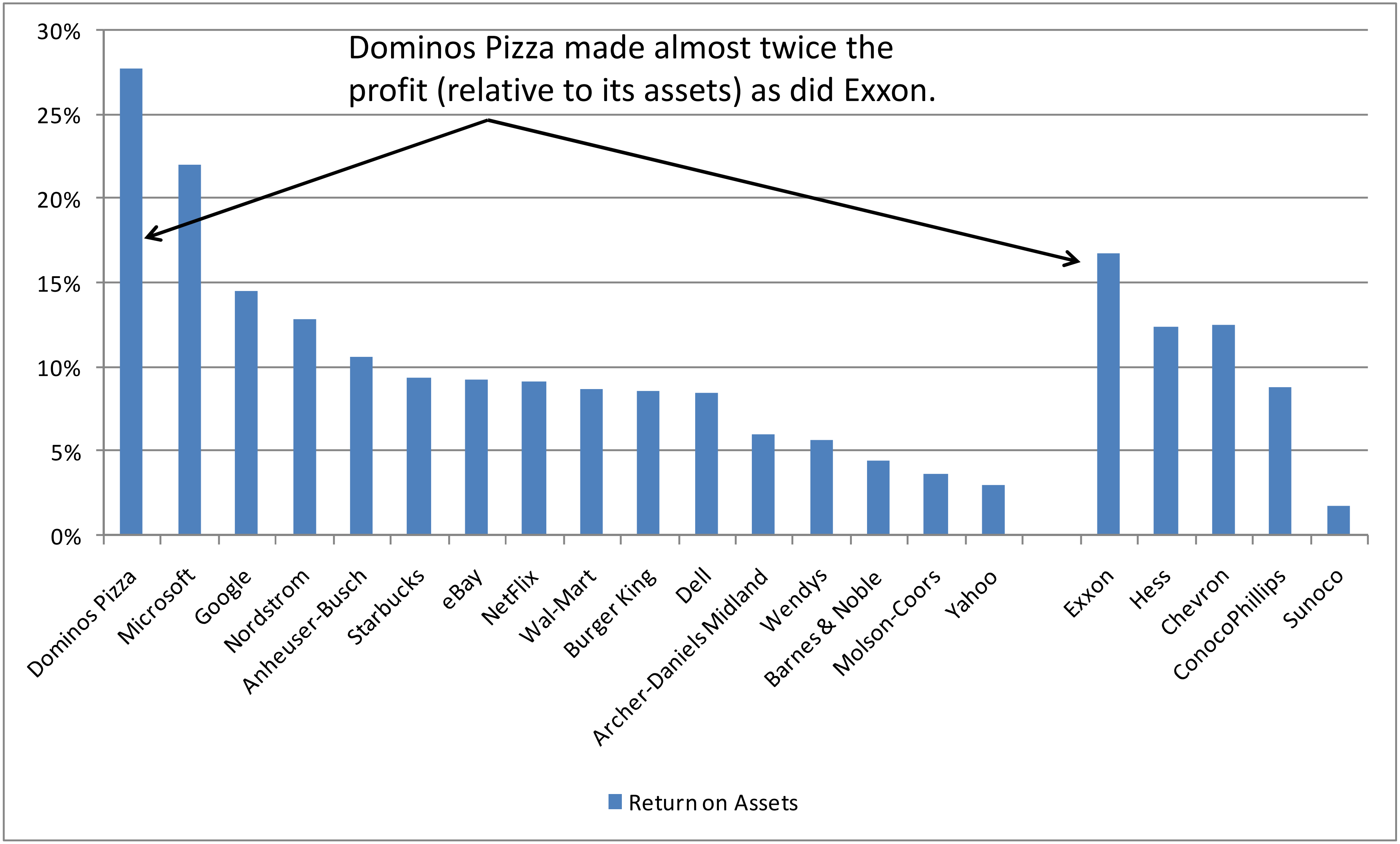
The amount of profit a company makes for every $1 in assets-less-liabilities.



Data source: www.finance.yahoo.com. Data is for calendar year 2007.

When profits are viewed relative to the size of the assets required to generate the profits, the profits don't look so large.

How do the oil companies compare to other companies?



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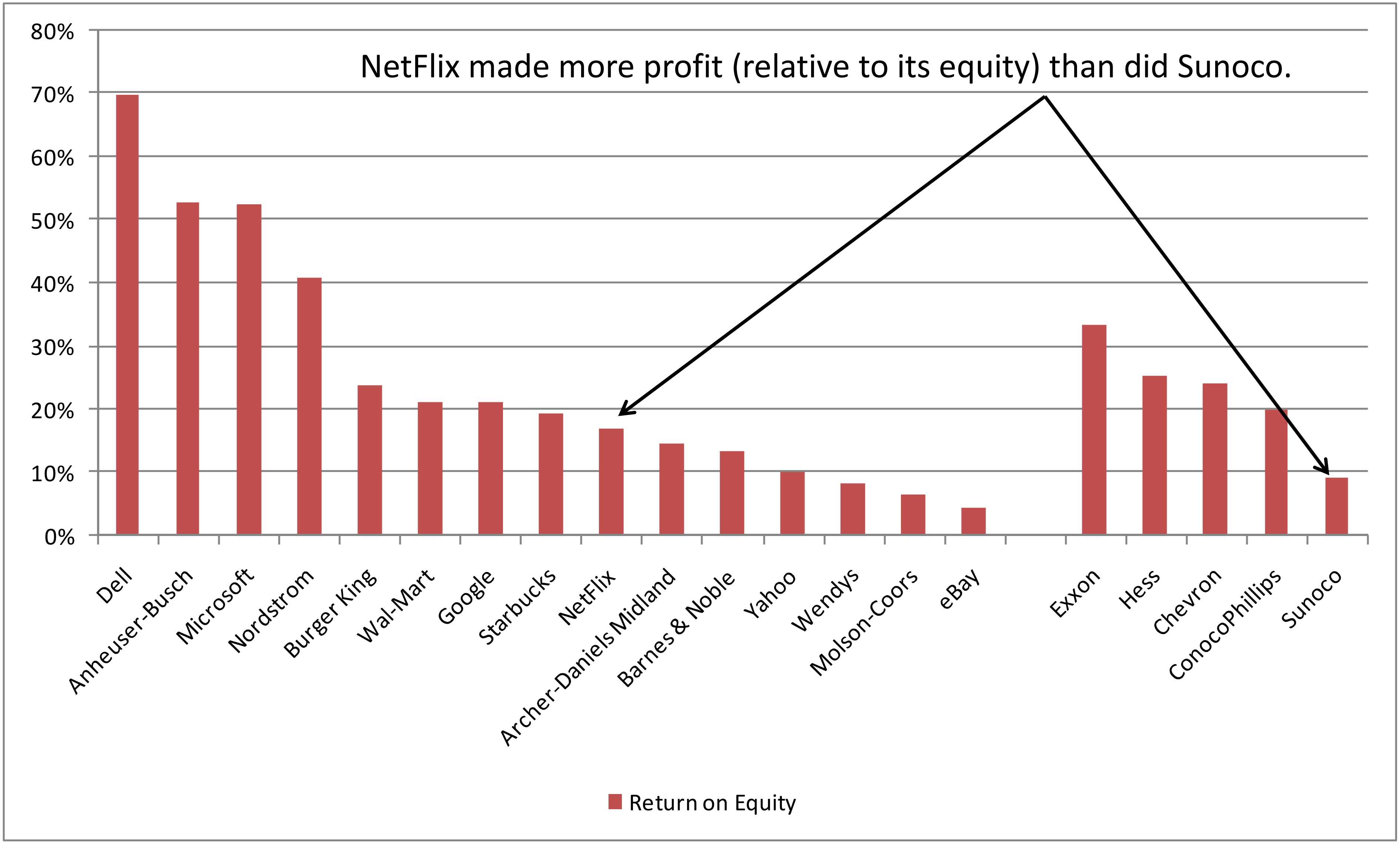

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