Performance Metrics and Profitability Paper

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Sell through is the number of goods sold by a company expressed as a percentage of goods provided by the suppliers for sale. This concept is important in business because it will lead to a calculation towards inventory management. This percentage is usually calculated for a specified period of time which is normally one month. The importance of this concept is that it is another name for net sales amount. There are a large number of ratios based upon the net sales figure. This figure is especially important in case of a retail business because a retail business is typically affected by the inability of selling some inventory quickly. This figure is also important when a business wants to compare the sale of one product to another. An example can be given of a store having 120 items of a particular product in the store and sells 60 items over a period of 30 days. Sell through percentage is 50%. Purchasing items from suppliers needs considerable investment and sell through is a good way to calculate the return on these investments. A low percentage of sell through will mean that the company is either buying too much in the name of inventory or it is charging too high for its products. A higher rate of sell through may mean that the company is buying too less from suppliers or it has priced it products too low. A manufacturer will have a close look on sell through rates of its retailers because it will give them an idea of what they should make (Hudson, 2018).

Penetration is the fact that a company has a strong footing in a market in terms of sales. There are two concepts involved in calculating the penetration rate: total number of identified customers and number of customers that the company has actually acquired. The following formula is used to calculate penetration rate:

Penetration rate = Actual number of customers / size of target market \*100

A very small penetration rate may suggest that the company has wrongly defined the target market as being very wide. A very high percentage may suggest that company has not defined the target market properly. It is not possible for a company to cover the whole target market because of lack of resources. There will be a considerable fluctuation in penetration rate of company over a period of time. This is especially true in case of businesses which have more seasonal sales associated with them. A reasonable penetration rate will require that the company assesses its resources thoroughly before defining its target market. Another way of analyzing the situation is to compare penetration rate to competitors. If a competitor is above the penetration rate of the company, it will mean that the company has to rethink its criteria for segmenting the market (Leonard, 2019).

Markup is the amount added by a retailer to its cost price to reach its selling price. This concept is important in case of retailers because this will determine prices of their products. This can differ depending upon the nature of products and also the availability of substitutes. In case of retailers, a very high markup may result in a decline in overall sale of the company, whereas, a very low markup may result in too low profits. There may be a higher markup on durable goods as compared to daily use products.

Average weekly sales are calculated by dividing the monthly sales by four. This figure will give an idea of the speed at which the company is able to sell its products. In a retail business, it is acceptable to calculate this figure because sales are made quickly.

There is a strong relationship between all the concepts discussed above. A low sell through can point out that the company has kept a very high markup on the goods sold and in that case, weekly average sales will be low for the company. A high average sale can show that the company has some margin to increase the markup on goods. There are many ways to increase the average weekly sales for a company, in fact, any of these variables can be changed to achieve an increase in average weekly sales. In case of retail products of daily use, decreasing the markup can increase the volume of sales to a level where net profit of company is increased. In case of durable products, the company will have to focus on penetration rate. The reason behind this is that durable goods need more intensive marketing efforts as compared to daily use products of retail. Sales volume of durable goods will be lower so company will have to keep a higher markup on them. In general, the analysis will start from the average daily sales because this is the figure which is most readily available for a business. A business manager needs to know how one concept affects all others (Porter & Vallejo, 2017). A manager may be able to increase sell through but the average weekly sales may not increase over the same period of time. The reason will be that the company was not able to increase the penetration rate. This means that the target market of the company was saturated by increasing sell through rate. We assume that the company is able to increase its penetration rate. This should increase the average sales of the company at present level of markup. A higher markup may mean a higher net profit if the company is able to control expenses efficiently.

# **References**

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