



## Measuring Profitability

You need to be able to learn and use profitability ratios to help you draw conclusions on the performance of an organisation.

The ratios that you need to learn are;

### Gross Profit Margin

Gross Profit

\_\_\_\_\_ X 100

Revenue

This is the percentage of profit that is left over once the cost of sales has been taken away from sales revenue.

This figure should always be greater than the net profit margin.

### Mark Up

Gross Profit

\_\_\_\_\_ X 100

Cost of Sales

This is the percentage that is added to the price of a product to cover overheads and also to enable the business to make a profit.

The greater this figure, the greater the mark up.

### Net Profit Margin

Net Profit

\_\_\_\_\_ X 100

Revenue

This is the percentage of profit that has been made once all costs have been deducted from the revenue.

This figure will typically always be smaller than the net profit margin.

### Return on Capital Employed

Profit

\_\_\_\_\_ X 100

Capital Employed

This shows the percentage return an organisation is achieving from the money that is being invested into it.

The greater this rate, the better the organisation is performing.





## Supermarket Sweep

You are going to conduct some profitability ratio analysis on 4 different well known UK supermarkets. All of the financial information that you will need will be included in the annual reports.

You can find the annual reports for each of these organisations in in the F3 section of this page; <http://www.beebusinessbee.co.uk/index.php/business-qualifications/btec-nationals-business-level-3/btec-nationals-2016>

You should focus your ratios on **one year** for each organisation and keep this the same for all organisations once selected.

You should use this information to complete the table below.

**Chosen Year:**

Organisation	Gross Profit Margin	Mark Up	Net Profit Margin	ROCE
Tesco				
Sainsbury's				
Morrison's				
Marks and Spencer				

Now that you have completed this ratio analysis.

**Evaluate in your option which supermarket is performing the best when focusing on profitability?**



