SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 406(B)
SUBJECT NAME: FUNDAMENTALS OF RETAIL MANAGEMENT

TOPIC NAME: MEASURES OF PERFORMANCE

To the investor in the business, financial performance is an indicator of the health of the organization. Analyzing financial performance is necessary for the following reasons:

- To help identify the gaps in the targets.
- To identify the opportunities for improvement.
- To evaluate past and present performance.

METHODS TO EVALUATE FINANCIAL PERFORMANCE:

1. Income statement:

The income statement is a record of the revenues earned by an organization and the expenses incurred. Income statement is the snapshot of a company's operational performance for a particular period of time. It takes the company's revenues and expenses and gives profits as the output. It is popularly known as the profit and loss statement and is always created for a particular period of time.

COMPONENTS OF INCOME STATEMENT:

- Sales
- Cost of good sold
- Gross margin
- The operating expenses
- The net profit

2. Balance sheet:

- The balance sheet is like a financial snapshot of the company’s financial situation at a particular point of time. It gives the details of company’s assets and liabilities at a particular point of time.
- The data shown in a balance sheet can be interpreted in two halves:

a) First half indicates the money being used in the business.

b) The second half shows the capital employed or where the money has been secured.

KEY ELEMENTS OF BALANCE SHEET:

- Fixed assets
- Current assets
- Long-term liabilities
- Short-term liabilities
- Net worth

HOW TO MEASURE RETAIL PERFORMANCE

1. Number of Customers (Customer Traffic):

- A number of customers are the most straightforward metric for your retail business. Even a child gets that the place that’s crowding with customers must be doing good. You normally don’t go to an empty restaurant, don’t you?
- Customers are the sole source of money for your retail business. As Karl Marx had it, human work adds real value to land and capital. For a retailer, the more potential customers you get into your shop, the more money they’ll likely leave behind.

2. Effectively (Retail Conversion Rate):

- Alright, we already had to distinguish retail visitors and retail customers. Some visitor doesn't buy anything. It's rather unlikely in a big shopping mall, but very common in specialty stores or luxury boutiques.
- In e-commerce, we're talking about customer conversion ratio. This shows how many visitors a retailer turns into a buyer. It's easy to calculate if you already know your retail customer traffic. Just take the number of retail transactions and divide in with the number of people who visited your store. And multiply by 100, if you want a percentage.

Customer conversion ratio = No of transactions / Customer traffic x 100

3. Average Sale (Average purchase value):

- Alright, now you have two essential retail metrics to watch. Going more in depth, you'll be interested in your average sale value. How money dollars, pound, yen or Euros your average customer spends in checkout? How has it changed over time?
- So you have been working on getting more people into your store, and tried to make them buy each time they visit your store? Calculate the average sale, also called average order value. It's the moment truth in many cases.
- Even a business with unsophisticated technology can very easily measure the average sale, but surprisingly they don't. It is measured by dividing the total sales value ($) by the number of transactions. Keep in mind the same customer could initiate multiple transactions; AOV determines sales per order, not sales per customer.

Average sales order value = Total sales value / Number of transactions

4. Items per purchase (Size of an average shopping cart):

- In the retail business, especially brick-and-mortar outlet, a sold item more roughly estimates for added revenue. It also brings along handling costs like inventory carrying costs, transaction time and salary of sales associates, needs for retail space.
- In general, terms, if your average purchases are going up, the item count rises, too. But it would be better if the item count is slower to rise than the sales value average. For the end of the day, you want to sell for more money, not just sell more.

5. Gross margin (Sales profit before costs):

- Gross margin is the difference between revenue and cost before accounting for certain other costs. Generally, it is calculated as the selling price of an item, less the cost of goods sold. It's rather basic math for business to know how much it took you to acquire or produce the thing you're selling.
- **Product price when sold = Product acquiring or making price + Gross margin**
- **Gross profit = Revenue per item – Cost of items and selling process**