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Optimizing Sales Revenue to Enhance the Profitability Growth of Listed Brewery Companies in Nigeria (2011-2020)

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ABSTRACT

This study examined the optimization of sales revenue to enhance the profitability growth of listed brewery companies in Nigeria. The population of the study is made up of the seven (7) brewery firms listed on Nigerian Stock Exchange. A sample of three (3) firms was purposefully selected. The study adapted an ex-facto design and used secondary source of data to obtain data from the annual accounts and reports of the firms between 2011 and 2020. The data gathered were analyzed using correlation analysis and ordinary least square regression model. Findings from the study revealed that the co-efficient of return on sales is positively and significantly signed (0.143097, P-value of 0.0014 < 0.05). The study concluded that sales revenue has a positive relationship with the profitability growth of listed breweries firm in Nigeria The study recommended that the managements/managers of breweries firms should look in to advertising strategies that can exploit market to increase their turnover.

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Introduction

Achieving an adequate profitability growth is imperative for the survival of a business. Profitability growth can be achieved in the short run through the sales of assets but in the long run, it is through the optimization of sales revenue. Optimizing the firms' sales revenue is a way of determining the profitability level of a business is. Any firm that fails to optimize its sales revenue may cease to exist as no much activities could be financially carried out in a business without making enough sales [1]. Breweries industry has contributed positively to the economic growth of Nigeria through the employment generation, industrials growth and production of drinks for entertainment and for the social well-being of the people in the country. Brewery world market has been on an increase with diversified investments outside their operational geographical locations [2]. Apart from the oil and gas sector, and telecommunication industries, brewery happened to be the next industry that has recorded the largest source of foreign direct investment (FDI) in Nigeria [3]. Optimization of breweries' sales revenue is essential as most the successful business organizations around the world are those with superb selling merging [1].

Sales revenue is the income a company generated before deducting any expenses. Sales revenue is a vital component that determine and responsible for about 85% of business failure in Nigeria and all over the world [4]. Companies may post revenue that is higher than the sales figures given the supplementary other come sources. Sales revenue is the economic value received when goods are sold or services are rendered to another party for money consideration [5]. Sales could be done on cash sales, credit sales and advance payment. Cash sale is cash on delivery. Although, firms will like to be selling goods or deliver services on cash basis all the time, but if only cash basis policy is applied in a company, sales volume will be drastically impaired. Receivables are therefore enhances increase in the volume of sales which may switch up the sale level [6]. That means if the company could achieve the same level of sales without receivables, needless to sell on credit [7]. The aim of maiming receivables accounts is to maximize sales, speed up cash flow and improve firms' profitability [1].

However, optimizing sales revenue for profitability growth is sustainable. Therefore, a firm must have a business model that will allow its on-going normal operations to generate profits. The most common measure of profitability growth is the profit ratio by dividing net income from sales revenue. This metric will tell you how much of every naira in sales flows to the bottom line [8]. A company's profitability growth can be measured using net profits ratio, earnings per share, return on investments and return on sales. Net profit ratio is the ratio of net profit after tax divided by net sale or net income. Profitability growth could also be measured based on return on sales. Mansa is of the opinion that the profitability can be measured as the return on sales which is the earnings' before interest and tax divided by sale figure [5].

Measuring return on sales is an evaluation of the percentage of total company's revenues that can be actually converted into company profits [9]. Profit is the hero of every business entity all over the world as a measure of revenue growth. Firms cannot do without making enough sales revenue that will generate cash inflow to meet their short term obligations and invest the excess profits in corporate assets. What has happened to brewery as an industry in the past should be a great concern to researchers as the literature revealed that recently around 1980's in Nigeria, brewery industry was operational, but in the early 1990's, most of firms in the industry ceased to operate because the industry was beset by whims of Nigeria economy which pull-down the number of operating brewery to almost eleven firms [2].

A review of literature revealed that some related studies such as Ball et al.. Alao and Oloni, Rashidul, Tahsan, Tonmoy and Ashique, Mansa have concentrated on using return on asset, earnings per share, return on investment among others to measure the relationship between the sales revenue and the firms' profitability growth apart from return on sales model used by this study. It is based on this background and the identified gaps that this study was examining the optimization of sales revenue to enhance the profitability growth of brewery industries in Nigeria [1,5,7.8].

Research Question

What is the relevance of sales revenue optimization in enhancing the profitability growth of brewery industries in Nigeria?

Objectives of the Study

The major objective of this study is to examining the optimization of sales revenue to enhance the profitability growth of brewery industries in Nigeria. Specifically, the study:

a. evaluates the optimization of net sales revenue to improve the return on sale of brewery industries in Nigeria.

Hypotheses of the Study

The following hypotheses are formulated:

a. Ho: net sales cannot optimize the return on sale of brewery industries in Nigeria

Sales Revenue

Sales revenue is the economic value received by a business entity in return for goods delivered and or services rendered during its ordinary cause of doing business. Sales revenue is the income received by a company from its sales of goods [5]. In accounting, the terms "sales" and "revenue" can be, and often used interchangeably to mean the same thing. It is important to note that revenue does not necessarily mean cash received [8]. Revenue is the return on sales of assets, products and properties [1]. Revenue means the top line number that appears at the top of the firms' income statements [9]. The price of goods or services sold to customers is recorded as revenue for the activity in the period of sale and delivery regardless of the period in which the corresponding cash is collected [10].

Sale revenue is one of vital means of generating cash flow to upkeep of small, medium and large business enterprises as to settle their financial obligation [9]. Sales revenue is the inflow of economic gain and a product of income statement, which is the total income that the entity receives as cash flows from the sale of its commodity products or services [8]. Revenue is measured at fair value or at the cash equivalent of assets received in accordance with International Financial Reporting Standards (IFRS). In the case of the sale of goods or the rendering of services for goods or services that are not identical, the process is considered revenue generating. Revenue in this case is measured on the basis of the fair value of the goods or services received and adjusted for any cash or cash equivalents to be exchanged. If the fair value of the goods or services cannot be reliably measured, revenue must be disclosed on the fair value of the goods and services that the entity relinquishes [10].

Sale revenue is the amount realized by a business from the sale of goods or services [8]. Sales are the proceeds a company generated from selling of goods or rendering a service to its customers. Sales is a process that resulted in a transaction between two or more parties where the buyers receive goods or services and the sellers get something worth of economic value in return usually money. A portion of sales revenue may be paid in cash and a portion may be paid on credit, through means such as account receivables. Cash sale is an immediate payment for the goods and services [1]. Credit sale in the other hand leads to the creation of account receivable represented by trade accounts receivable in the statements of financial position of a the firms [9]. Credit sales are purchases made by customers for whom payment is delayed which may lead to the risk of bad debt losses.

Profitability Growth

Profitability growth is a situation where by a company is generating continuous higher profit. Profitability growth is one of the measures that can be used to derive the valuation of a business [5]. Profitability growth can be defined as part of benefit accrued to the company in ordinary course of business. Profitability growth can be defined as the profit generation based on a comparative measure [1]. An increasing return on sales is an indication that a company is growing more in term of profitability, while a decrease in return on sales could sound as a signal of impending financial troubles.

Return on sales is an evaluation of a company's profitability growth that provides an insight into how much profit is being generated from sales [8]. Return on sales could be estimated to evaluate a company's operational efficiency [5]. Profitability growth is the heartbeat of a business. Profitability is the degree to which s business or activity yields profit or financial gain. Profitability is the index that shows the efficiency of an organization [11].

Profitability growth is the measure of efficiency that will guide management to achieve success in business [11]. Profitability growth is the ability to generate profit from the business activities [1]. Profitability growth is the ability of a given investment to earn a return from its use [8]. The main objective of firms is to maximize profit. Due to the prevailing market competitive conditions, business managers need to learn how to achieve a sustainable level of profitability for business survival [11].

Theoretical Review:

Dynamic Theory of Profitability

The Dynamic Theory of Profitability was coined by Harrod in Helen, Yusha'u and Idris [11]. According to the theory, profit in an organization is the difference between the price of a commodity and the produced cost invested. The Dynamic theory of profitability also views profitability as a result of dynamic change in the firms' performance [11]. In a state of having a static economic condition, there can be no pure surplus profit that will improve performance.

Also, the quantum of capital employed, methods of production and technological inventions still remains constant. This theory explains that in a competitive setting, higher performance can e recorded with a greater profitability [11]. Performance is a function of the six dynamic changes such as changes in population, changes in taste and preferences, changes in capital structure, changes in technology, changes in the multiplication of wants, and the changes in the size of the firms. Thus the theory fits this study.

Empirical Review

Ani, Nwankwo and Ugwu examined the "relationship between sales revenue and the profitability of brewery industries in Nigeria"

[9]. The study adopted an ex-facto design and used panel secondary data from the financial statements of the firms for a period between 2010 and 2018. The study used regression model, ANOVA and Correlation for data analysis. The study found that sales revenue does not have significant impact on return on sales and return on investment but it has significant effect on earnings per share of brewery industries in Nigeria. The study concluded that there is no significant effect of sales revenue on return on sales and return on investment but there is on earnings per share of brewery industries in Nigeria.

Al Hayek assessed "the relationship between the sales revenue and net profit and net cash flows from operating activities in Jordanian industrial joint stock companies". The study carried out an analytical study using a descriptive analytical technique. Data gathered was analyzed using multiple regression equation. The results from the study revealed that there is a significant relationship between the sales revenue and net profit and net cash flows from operating activities of the companies [12].

Helen, Yusha'u & Idris conducted a study on "the determinants of profitability in listed consumer goods firms in Nigeria". The study adapted an Expo facto research design. Secondary source of data was used to gather a time series data on firm size, leverage, market share and return on asset between 2006 and 2015 which were sourced from the annual accounts and reports of the selected firms. Data gathered were analyzed using Pearson correlation and ordinary least square regression. Findings from the study indicated that there is strong relationship among the variables used in the study [11].

Abdullahi researched into "the effectiveness of advertising expenses on the sales revenue and profitability of some selected food and beverages firms in Nigeria". The objective of the study was to determine the extent to which advertising costs impact on the sales revenue and profitability of the selected companies in Nigeria. Data collected was analyzed using correlation analysis and Ordinary Least Square regression model. The findings from the study showed that advertising expenses has no positive significant relationship with the sales revenue of the selected companies. While the result showed a positive significant relationship between advertising and the profitability of the companies. The study concluded that advertising is one of the most important medium of communication influencing the companies' performance in many ways. The study recommended that not only advertising should be given adequate attention while formulating sales revenue and profitability promotion policy and strategies, other related factors such as sales promotion, personal selling, publicity among others should be considered in order to increase the sales revenue and profitability [13].

Methodology

Sources and Nature of Data

This study uses secondary data to collect data from the financial records of some selected listed breweries from 2011-2020. The study adopted an expo-facto research design and focused on breweries industry to examine the relationship between the sales revenue and the profitability of listed breweries firms in Nigeria.

Population of Study

The study's population comprises seven (7) quoted Nigerian Brewery firms as at 31st Decameter, 2020. The companies are Champion Breweries Plc, Guinness Nigerian Plc, International Breweries Plc, Jos International Breweries Plc, Nigerian Breweries Plc and Premier Breweries Plc.

Sample and Sampling Technique

A sample of three (3) breweries firms were purposively selected based on the availability of data.

Methods of Data Analysis

The study employed the correlation analysis and ordinary least square regression for data analysis.

Variables Identification

The study used an explanatory independent variable of sales revenue in term of net revenue (NREV) (log of turnover figure). While the return on sales (ROS) is used as the dependent variable, the proxy for profitability growth, Return on sales is the earnings' before interest and tax divided by sale figure.

Independent Explanatory variables

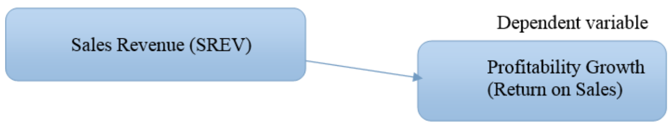

Figure 1: Conceptual Model of the Study
Source: Author's Design (2022)

The conceptual model in figure 1 showed the effects of sales revenue measured in terms of log of net revenue (turnover) of listed breweries firms in Nigeria.

Model Specification

This study adopted the work of Ani, Nwankwo and Ugwu (2019). The adopted model is specified in it linear representation form as follow:

$ROS_{it} = \beta_0 + \beta_1 SREV_{it} + e_{it}$.................................1.1

Where:

$SREV_{it}$ = Sales Revenue at time t (independent variable)
ROS_{it} = Return on Sales at time (dependent variable)
β0 = Constant
β1, β2
et = Schochastic error associated with the model.

Results and Discussion

In this section, the panel data gathered was presented and analyzed in tabular forms with the study's results there-in.

Correlation Analysis

Table 1: Correlation coefficients, using the observations 1:01 - 3:10

	ROS	SREV	ATO
ROS	1.0000		
SREV	0.7096	1.0000	

Source: Data Analysis (2022), 5% critical value (two-tailed) = 0.3610 for n = 30

Table 1 shows the result of correlation analysis a positive correlation between ROS and sales revenue measured in term of log of turnover (r = 0.7096)

Ordinary Least Square Result
Table 2: OLS, using 30 observations

Included 3 cross-sectional units, Time-series length = 10 Dependent variable: ROS				
	Coefficient	*Std. Error*	*t-ratio*	*p-value*
Const	−3.62440	0.624512	−4.202	0.0003
SREV	0.143097	0.0402223	3.558	0.0014
Mean dependent var		−0.046316	S.D. dependent var	0.430014
Sum squared resid		3.649517	S.E. of regression	0.313257
R-squared		0.505912	Adjusted R-squared	0.469313
F(2, 27)		13.82307	P-value(F)	0.000074
Log-likelihood		−6.165855	Akaike criterion	18.33171
Schwarz criterion		22.53530	Hannan-Quinn	19.67648
Rho		0.820830	Durbin-Watson	0.319284
White's test for heteroskedasticity - Null hypothesis: heteroskedasticity not present Test statistic: LM = 15.7205 with p-value = P(Chi-square(5) > 15.7205) = 0.0768893 Wooldridge test for autocorrelation in panel data - Null hypothesis: No first-order autocorrelation (rho = 0) Test statistic: t(2) = 289.021 with p-value = P(|t| > 289.021) = 1.197				

Source: Data Analysis (2022).

Table 1 presented the results of pooled ordinary least square (OLS) regression to examine the effects sales revenue growth measuren in term of log of turnover and asset turnover on the profitability of listed breweries measured in term of return on sales. The result of White's test for heteroskedasticity with a LM statistic of 15.7205 and the p-value of 0.0768893 greater than 0.05 level of significant showing that there is no enough evidence to reject the null hypothesis that differential intercept corresponding to each cross-sectional time specific is equal to zero thus validate the appropriateness of pooled OLS regression estimates.

A close examination of the ordinary least square result in table 2 indicates that the coefficient of determination (R-Square) stand at 0.51 indicating that 51% of the systematic variation in return on sales (ROS) jointly explained by the variation in net revenue and asset turnover, while the other variables in the stochastic term accounted for 49% variation in ROS. The adjusted R-square of 0.469313 implies that even if other variables in stochastic parameter were included in the model, sale revenue and asset turnover will still account for 47% of the variation in ROS.

The F-statistics of 13.82307 as a measure of the overall goodness of fit has a p-value of 0.000074 less than 0.01 level of significant. Wooldridge test for autocorrelation with a statistic: t (2) of 289.021 and p-value of 1.19711> 0.05 level of significant indicates that there is no case of autocorrelation in the data. However, the results of pooled OLS model revealed that the co-efficient of net revenue of 0.143097 with the P-value of 0.0014 < 0.05 significant level is positively and significantly related to return on sales.

Discussion of Findings

From tables 1 and 2 the result of correlation analysis (r = 0.7096) reveals that there exist a strong correlation between sales revenue measured in terms of net revenue and the profitability growth of listed breweries firms in Nigeria measured in term of return on sales. Also, the result of R-Square indicates that 51% of the systematic variation in return on sales (ROS) can be jointly explained by the variation in net revenue and asset turnover, while the other variables in the stochastic term accounted for 49% variation in ROS. The adjusted R-square result implies that even if other variables in stochastic parameter were included in the model, sales revenue and asset turnover will still account for 47% of the variation in ROS. in the data. However, the results of pooled OLS model revealed a positive and significant relationship between the return on sales and profitability growth. Based on these results, optimizing sales revenue therefore has a significant effect on the profitability growth of listed breweries firm in Nigeria.

Conclusion

The study discovered that optimizing sales revenue has a significant and positive effect on the profitability growth of breweries firms in Nigeria. Therefore, the management of brewery industry should look in to advertising strategy to exploit market to increase their turnover. They should also concentrate on the creation of the new products to attain a reasonable firms' profitability.

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