Return on sales (also known as the profit margin) measures a company's profitability. The return on sales reflects the efficiency of the company's sales operations.

Return on sales is calculated by dividing net income by total revenue, both of which can be found on the income statement.

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Net income ÷ Total revenue = Return on sales
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ROS provides insight into how effectively a company converts revenue into operating profits. Efficient companies have a high (and/or rising) ROS while those with lower (and/or declining) ROS could indicate a higher level of risk.

Because ROS varies widely across sectors, this ratio is particularly useful when comparing two companies in similar industries. Retail companies tend to have an ROS of 2–4%, while tech companies may have an ROS of 20% or more. That's because, after the initial development of a tech product is complete, it's relatively inexpensive to sell and distribute many copies of the product.

Let's take a video game, for example. A significant amount of time and capital is required upfront to develop a video game, but once the game is complete, consumers can download it with little additional investment from the company. On the other hand, buying a carton of eggs at the grocery store will always require the grocery store to buy the eggs from a supplier, transport them to the store, pay rent for the storefront, in addition to wages for someone to stock the shelves and check out customers. Big box and grocery stores need to have a massive volume of customers each day to be profitable, because they are in a low profit margin business.

According to the income statement, Yummy Stuff, Co. had a net income of $2,557 and total revenue of $40,314.

$2,557 ÷ $40,314 = 0.0634, so Yummy Stuff Co. has an ROS of 6.3%. Not too bad!