

Performance of sainsburys plc marketing essay



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This report analyzes Sainsbury's performance and makes recommendations concerning Carrefour's acquisition of the company in order to enter UK market. Based on the following findings, it is suggested that we should make a bid for Sainsbury. Sainsbury is the third largest retailer in UK, with 16% market share in 2009. Its strong competitive advantage is based on diversified product items, long-established brand recognition, a broad customer base and a wide channel network. Sainsbury follows low price strategy to fit into the current trend of retailing industry and concerns about customers' changing lifestyle and desires. Sainsbury is on the track of expansion, ambitious to compete with its rivals.

Its historical financial data presents an upbeat trend in its development, with growing sales and profit, increasing operational efficiency and vigorous investment of cash.

Assessing Sainsbury against Morrison and Carrefour, we find that Sainsbury's financial strength is careful management of working capital and sufficient utilization of assets. Its weakness lies in profitability and potential liquidity problem. Low price strategy is the major reason behind low profit and large borrowing required by expansion plan results in possible liquidity problem. However, we believe Sainsbury's financial weakness is acceptable and can be conquered. Due to its upward trend in profitability, and attractiveness of low price strategy, we predict that Sainsbury's profit ratio will increase steadily. Currently, its liquidity problem is not able to form threat to the company and it can be improved by paying back debt and changing capital structure after Sainsbury completes expansion and gains great profit. Moreover, Carrefour can provide capital for Sainsbury's development if

acquisition is achieved and we can benefit from Sainsbury's competitive advantage.

It is believed that acquisition of Sainsbury will add value to our development and expansion into UK market. Therefore, Carrefour should make a bid for Sainsbury.

Introduction

This report aims to analyze the strength and weakness of Sainsbury's Plc by using CORE framework, assess their performance against Morrison and Carrefour, and give suggestions regarding whether Carrefour should make an offer for Sainsbury.

Findings

Based on CORE framework, the following findings are made:

Context:

External

Founded in 1869, Sainsbury's plc is a long-established player in retailing sector. As the third largest retailer in UK, it enjoys a market share of 16% in 2009, compared with Morrison's 12.3% of market share, and it serves 18 million customers per week [1]. Sainsbury's broad presence with 502 supermarkets, 290 convenience stores and growing online home delivery service which covers 88% of UK households enhance its the brand recognition and competitive advantage [2]. Specializing in food retailing and financial service, Sainsbury also invests heavily in non-food sale to diversify

its business. According to Investors Chronicle [3], half of Sainsbury's new store space has been allocated for non-food products.

Over the recent years, there have been significant changes in UK retailing industry. First of all, UK witnessed a jump in unemployment and food inflation during financial crisis 08/09. With less disposable income, customers have a tighter control over their family budget. In face of this situation, retailers have been engaged in fierce price battles to attract price-conscious customers. Another characteristic is customers' preference for healthy eating; thus, organic and low-fat food products are highly welcome [4]. Finally, a strong trend of this sector is the popularity of online shopping. According to Data Monitor [5], it is expected that online sales in UK will be £44.5 billion by 2012. All these factors require retailers to carry out transformations so as to fit into the market.

Internal:

Sainsbury consistently attaches great importance to the offering of healthy, safe, fresh and tasty food products. Moreover, it has adapted its strategies in response to changes in financial market. First of all, in view of decreasing disposable income and high unemployment, Sainsbury shift its strategy to low cost. It introduced Nectar Card and rolled out "Coupon at Till" scheme to offer discount to card holders, so as to compete with Tesco's loyalty card scheme and attract more customers. Apart from that, Sainsbury launched own-label products with "good, better, best" price architecture to ensure that they can meet different needs of various customers, from cash-strapped ones to those who care about values. They also extended "Basics" range to

more products, which attract more than 70% of its customers and became the group's fastest growing sub-brand [5]. Secondly, Sainsbury successfully satisfied customers' desire for healthy eating by promoting the company's "Sainsbury's SO organic" brand [data monitor]. In addition, in pace with the online shopping trend, it operates 169 stores with online home delivery service. To broaden its geographical coverage, Sainsbury raised £432 million in June 2009 for its store network expansion in the next two years [David]. Besides its effort to increase sales, Sainsbury also attempts to control costs. For example, under "MSGA" program (Making Sainsbury's Great Again) which was implemented since 2004, Sainsbury consolidated stores, eliminated duplicated roles in head office, improved stock availability and increased operational efficiency [BBC News]. Based on its heritage of providing customers with a combination of good quality and fair price and its quick response to market change, Sainsbury secures its competitive advantage and occupies a strong position in UK retailing sector. According to market research group TNS, Sainsbury even took market shares from Tesco in 2009 since Tesco's market share declined from 31.8% to just over 30% while Sainsbury's market share reached the highest level for many years—16.3% [8].

Overview

Table 1 shows a summary of Sainsbury's financial performance from 2006-2009. Over the past four years, Sainsbury has witnessed a steady increase in revenue, matched by growth in operating profit and cash generated from operating activities. Improvement in revenue is mainly driven by growing sales resulted from expansion in new space and low cost strategy. According

to its Annual Report (2009), sales growth during the past three years is 7.3% in 2007, 5.8% in 2008 and 5.7% in 2009. Number of new stores (including supermarkets and convenience stores) opened is 40 in 2007, 43 in 2008 and 29 in 2009 [10]. It helps Sainsbury reach more customers. High sales growth and effects of "MSGA" program result in the increase in operating profit. "MSGA" initiated cost saving and activities to improve operational efficiency. For example, in 2009, Sainsbury carried out restructuring at its store support center in London, eliminated duplicated activities, and improved its distribution network which generates cost savings [11]. Though Sainsbury's revenue and operating profit increases in 08/09, its profit for the financial year 2009 falls by £40 million compared to that in 2008. It is mainly caused by rising level of borrowings. Net debt in 2009 goes up by 11.18% from £1503 million to £1671 million; in addition, net return on pension schemes is £30 million lower due to the increase in interest on pension liabilities and lower rate of return on pension assets [Annual Report 2009]. Looking at cash flow, we find that though cash generated from operating activities enjoys a sustained growth, matched with the increasing operating profit, cash and cash equivalent decreases steadily. Major reasons behind this are expansion of new stores, extension and refurbishment of existing stores as well as investment in joint venture and property, such as £274 million investment in British Land JV. As for gross profit, because the total number of stores in 2008 rose to 823, the highest level, expense increased faster than sales. Whereas, in 2009 Sainsbury's consolidated its store network and the total number of stores reduced to 792. Moreover, it also improved distribution network and introduced new transport management system to deliver cost savings. Therefore, gross profit recovered in 2009.

According to Sainsbury's strategy, it will focus on food products while developing non-food ranges, it will further invest in new store expansion and online channel building; meanwhile, continue to cut cost and improve efficiency to compete with rivals [12]. Therefore, it is predicted that revenue and operating profit will follow an upward trend.

Table 1 (£m)

(Figures from Sainsbury's Annual Report 2006-2009)

Table 2 is Balance Sheet of Sainsbury from 2006 to 2009. It represents the common features of a big retailer. There are large tangible fixed assets because Sainsbury has a great number of retail outlets, distribution centers, etc. Stock is kept at a medium level so that product availability can be maintained while the freshness of products, especially food products can be guaranteed. Also, Sainsbury enjoys high creditors due to its bargaining power as a big retailer, and debtors are low because most sales are made in cash. Another feature is cash and cash equivalent accounts for a small part because cash is reinvested into opening new stores, improving existing stores, etc. From the four years' balance sheet, it is identified that tangible fixed assets will keep increasing while cash and cash equivalent will be kept at a low level due to Sainsbury's continuous investment in store network expansion. Debtors will reduce and creditors will increase because Sainsbury is making progress in managing working capital and attempts to get cash as much as possible from different sources to support their further development. Long-term debt is likely to rise, as predicted from Sainsbury's

growing capital expenditure entailed by store expansion, property purchase, joint venture investment, etc.

Assessing Sainsbury's financial performance against Morrison and Carrefour, we find that Sainsbury outperforms the other retailers in terms of tight control over inventory and quick recovery of debts from customers.

However, Sainsbury's creditor days is shorter than Morrison and Carrefour's, therefore, they should try to fully execute their bargaining power towards suppliers. Sainsbury's another strength lies in its utilization of non-current assets and management of working capital, because financial ratios such as sales to working capital, sales to non-current assets indicate that Sainsbury's expanded store network has worked hard and contributed to the increase in sales. However, profit ratio reveals Sainsbury's weakness. Profitability is of great significance in retailing sector, which determines retailers' market position and future development. Even though Sainsbury's revenue increases throughout 2008/2009, its gross margin and sales margin are unable to match with Morrison and Carrefour's. It is mostly due to the company's shift of strategy towards low-price and high-volume. As reported by Investors Chronicle [13], Sainsbury's " basics" ranges has been expanded to 650 products and rolled out in more stores. In addition, Sainsbury has potential liquidity problem. Since it increases borrowings to invest in long-term activities, such as space growth and joint venture investment, Sainsbury's financial cost rises. Sainsbury's ROE and EPS are low compared to Morrison, mainly caused by its pricing strategy and loss in property joint venture.

Conclusion

Based on the above analysis, we find that Sainsbury is a big retailer occupies a strategic position in UK market. In terms of strategic management, Sainsbury follows low price strategy in response to the changes in financial market and customers' lifestyle by launching promotional activities and promoting own label product, especially " basics" range. It focuses on meeting customers' demands for healthy eating and increasing its availability by building various channels.

Concerning financial performance, Sainsbury's historic figures show that the company is growing and its profitability is on an upward trend; therefore, we can hold an upbeat view about the company's financial prospect. Moreover, its balance sheet corresponds to the trend of retailing industry with large non-current assets, well-managed working capital, and low level of cash due to quick reinvestment in store expansion. And the trend of assets & liability movement from 2006 to 2009 is indicative of Sainsbury's expansion and development.

We conclude Sainsbury's financial strength and weakness by assessing its financial ratio against Morrison and ourselves. Sainsbury's strength lies in well managed working capital and adequate utilization of assets. Its weakness is profitability and liquidity. Low gross margin and sales margin is caused by pricing strategy, and potential liquidity problem is mainly due to high level of borrowings for the sake of further expansion and development. In addition, financial crisis hit Sainsbury's property joint venture, which leads to low return on equity and earnings per share.

Based on the analysis of Sainsbury's strategy and financial performance, it is recommended that it's worthwhile to make an offer for Sainsbury. Though Sainsbury has weakness in terms of profitability and liquidity, we think it's acceptable. According to Sainsbury's trend of development, we are optimistic about its prospect. Moreover, its relatively low profit margin is caused by low pricing strategy, which is designed to accommodate the current industry sector. We believe that Sainsbury's strategy will help it attract more customers, build customer loyalty and contribute to its steady increase in profit in the long run. And liquidity problem is caused by the company's expansion plan which requires high level of borrowings. In our view, we think expansion is necessary for Sainsbury's future development and can be an important cause for profit. In addition, Carrefour performs regarding current ratio and acid test ratio. If we acquire Sainsbury, we can use our strength to relive Sainsbury's liquidity problem and support their development and Sainsbury's tight control over its working capital is complementary to us. Finally, Sainsbury is the third largest retailer in UK, it has broad presence, occupies an important market position and has established brand awareness and fixed customer base. We will benefit from all these advantages and fulfill our objective to successfully enter UK market. Therefore, we make the recommendation and believe that acquisition of Sainsbury is conducive to our development.