Analyse the impact on a budget of changes in costs and selling prices for morriso...

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An analysis of Morrison's profit & loss account and how the impact on a budget of changes in costs and selling prices for Morrison's: Morrison's has not been shy to invest money in acquisitions and store expansions• Morrison's is a top 50 UK company by market capitalisation. Analysts value the property, plant and equipment portfolio at about £7. 5 Billion.

The share price has fluctuated between £2. 60 and £3. 00 in last 12 months. As a public limited company, it can raise significant sums of money through the sale of shares and/or through borrowing in order to expand – e.

g. Acquisition of Safeway in 2004 – e. g. Acquisition of Somerfield stores from Co-op in 2009• Profits in 2009 were impacted by Summerfield/Co-op store integration. Morrison's made charitable donations of £1. 18M last year tutor2uMorrison's key ratios show real financial strength, although it must be careful about short term liquidity 2010 2009 2008 Current ratio 0.

51 0. 53 0. 49 Quick ratio 0. 24 0. 28 0.

25 Gearing ratio (%) 20. 0 27. 1 24. 3 Earnings per Share (p) 22.

8 17. 4 20. 8 Dividend per share (p) 8. 2 5. 8 4.

8ROCE (%) 13 12 12P/E ratio (times) 14. 3 15. 6 15. 2 The low gearing ratio (Debt to Equity) is the strongest in the supermarket sector and means that Morrison's could borrow money in order to expand, especially given that interest rates are currently quite low and look set to stay low for some time – Morrison's owns about 90% of its store portfolio. ROCE is healthy, given that the opportunity cost of investing the same money in the bank is about 4% A strong dividend has been paid to shareholders in the last three years,

especially in 2010 but although the PE ratio (an indication of future growth) is higher than J Sainsbury, it is lower than Tesco Although EPS is higher than Sainsbury (16. 4p), it is lower than Tesco (27.

3p). Morrison’s current and quick ratios are low and may reflect short term liquidity issuesMorrison operates only within the UK retail supermarket industry and is therefore directly affected by the macroeconomic environment. The UK economy has been under recession over the past few years, which means contraction in the economy, leading to unemployment and weak consumer spending power due to reduction in disposable income. The direct effect of this is that customers look for bargain shopping rather than spending on premium quality products. But as Morrison operates in the retail grocery market the demand for most of its products remains largely in-elastic due to the fact that people have to feed themselves and provide for their daily needs no matter how hard their budgets are squeezed.

Additionally people tend to buy food from supermarkets and eat at home rather than spending money in restaurants. Morrison has massively improved its own brand products which offer value for money and appeals to consumers who are willing to buy bargain products rather than premium quality products especially during tough economic times. Annual Statement (2010) states Sales of our own label “ Value” range grew by 34% as consumers tightened their belts in a challenging economic environment. The following table taken from the Annual Statement 2010 further illustrates how Morrison’s has consolidated its position in the UK market during the past few years: Therefore it can concluded on the basis of the above figures that Morrison’s was able to enhance its position with the retail supermarket

industry during adverse economic climate due to the fact it was able to supply quality products at modest prices than its competitors. During pricing, cost is a key to think about, but the manager should also know better about the relationship between cost, volume and profit. As we know, Morrison's processes most of the fresh food though our own manufacturing facilities and sell it in its stores.

Every day Morrison's receives many big orders. Because of limited machines, the manager has to make decision to choose the order with richer profits. At this moment, he needs to predict unit contribution margin of each order for making decision, then analyse this decision by sensitivity analysis. In addition, the manager should use standards to management. When there is variance between the standard cost and actual cost of the fresh food, the manager should analyse and solve this issue. The relationship between cost, volume and profit help the manager to analyse and make a decision on opening another Morrison's store, farm, and manufacturing factory, or replacing old machines or adding new machines.

Sensitivity analysis is able to help the manager to decide which parameters are the most important to make correct decisions. For example, by using sensitivity analysis in the relationship between cost, volume and profit of fresh food, the manger will know about which influences the break-even point and desired profits the most among unit price, unit variable cost, fixed cost and sales volume. Then the manager will make decisions and planning according to the information. In addition, sensitivity analysis can also assist the manager in analyse if it is necessary to change the made decision when the prediction on vital parameter is proved to be wrong, thus helping the

manager to avoid making blind change as soon as he sees the prediction on vital parameter is proved to be wrong. Variance analysis will bring two kinds of result.

One is advantageous variance and the other is disadvantageous variance. Advantageous variance from direct labour will show the employee may create a more efficient method of work. The manager will praise this employee for his innovation by some way, such as award money, which will encourage all employees in Morrison's to improve efficiency. Meanwhile, the manager can know more about this efficient method of work by investigation and see if it is feasible to implement this new method to other processing departments of Morrison's. Disadvantageous variance from direct material makes the manager understand the cost change of materials so as to control cost and budget precisely for the future, while disadvantageous variance from direct labour will give the manager a hint to investigate the reason and take actions in time preventing the issue from enlarging.

Conclusion: Cost concept is very essential for decision making process. As the manager is the higher authority of any organization, they are to develop different types of policies and strategy to run the business successfully. So development of cost reduction procedures is one of the most important strategies. It is very important to develop cost reduction procedures because it increases the profit of the firm through reducing cost of production. If the manager cannot control cost their operating expense will be higher and higher and therefore reducing the profit of the firm.

A firm which cannot control cost cannot sustain in the competitive business world. So to make proper investment decisions financial managers should have clear knowledge about financial principles and techniques for better performance.