Marks and spencer 2009-2010 financial analysis

This report aims to perform a financial analysis of Marks and Spencer's, between 2009 and 2010. Generally, a company's financial statements reflect a certain period of changes in financial position and operating results. Thus, by analyzing the company's financial statements will be able to operate throughout of a basic understanding with its strength, financial adaptability and performance of company. As the annual report is provided information and content to all ranges of users, which includes the company's existing shareholders, potential investors, creditors, government and the nature of other users. Therefore different users of accounts may concentrate in only a few important parts of accounting data and business information.

Ratios

To compare the revenues across two years, M&S has gained 9062. 1m in 2009 and then growing to 9536. 6m in 2010. It is also likely to continue to trend upward due to their long-term strategy and improved market share. M&S managed their costs cautiously, paid attention and responded to their customers' changing needs.

Profitability Ratios

Gross profit % 3618. 5/9536. 6 3371. 9/9062. 1

= 37. 94% = 37. 21%

The figures show on the gross margin has increased from 37. 21% to 37. 94%, this increase may have arisen from the production costs or from a sales with a good sales value. Thus, M&S is able to control its production costs and achieve and optimum sales price and sales quantity. It can be an indication of marketing effectiveness.

Pre-tax profit % 702. 7/9536. 6 706. 2/9062. 1

= 7. 37% = 7. 79%

The net profit margin is 7. 793% in 2009 and decreased to 7. 368 % in 2010. This shows the amount of the net profit from each £1 turnover a business has earned.

After-tax profit % 523/9536. 6 506. 8/9062. 1

= 5. 48% = 5. 59%

Performance Ratios

After tax profit as a 523/2168. 6 506. 8/2081. 7

shareholders funds = 24. 12% = 24. 35%

Return on Investment 523/7153. 2 506. 8/7258. 1

= 7. 31% 6. 98%

The ratio indicates that from 6. 98% in 2009 which has increase to 7. 31% in 2010. This is a very important ratio for all users of financial statements. Along with the rate of the degree is more efficiency on production, higher profitability M&S will get.

Earning per share 33. 5p 32. 3p

This ratio used as indicator of financial performance. Compare to 2010 since 2009, there has been 1. 2p increased from 32. 3p to 33. 5p.

Dividends per share 15p 22. 5p

Return on capital 523/ (7153. 2-1890. 5) 506. 8/ (7258. 1-2306. 9)

Employed = 9. 94% = 10. 24%

This ratio indicates the amount of capital invest in the company in the long term and with the return achieved on that capital. Based on the figures above, the percentage in 2010 has been decreased compare to year 2009.

Overall business activities and corporate profitability, the stronger the higher the profitability; return on assets reflects shareholders and creditors profitability of investment funds; return on equity reflects the profitability of the shareholders to invest.

Liquidity Ratios

Current ratio 1520. 2: 1890. 5 1389. 8: 2306. 9

= 0. 804: 1 = 0. 602: 1

According to the rule says that the current ratio must be at least 2 which mean the current asset needs to be double to meet the current liabilities. the quick ratio is a relatively safe, low efficiency of the suspected high, too low, there may be poor management. In 2009 Marks and Spencer’s only had 0. 602 worth of current assets for every pound of liabilities. Even though it has been increased to 0. 804 in 2010, they were still unable to support its short term debt from its current assets. The company has considerably less cash in 2010 than in 2008.

Quick ratio (1520. 2-613. 2): 1890. 5 (1389. 8-536): 2306. 9

= 0. 48: 1 = 0. 37: 1

This ratio provides severe test of liquidity by omitting stocks. The ratio has increased from 0. 37 to 0. 48.

Gearing 2278/2185. 9 x 100% 2117. 9/2100. 6 x 100%

= 104. 2 = 100. 8

The ratio concerns on long term capital structure. It indicates the relationship between debt and shareholder funds. If borrowings is bigger than equity, there will be a highly gear and this can raise more money as the higher the level of gearing, the greater the risk.

Debt ratio 4967. 3/7153. 2 5157. 5/7258. 1

= 0. 694 = 0. 711

The ratio indicates debt is covered by shareholders' funds. The debt to equity ratio shows for every £1 of shareholders funds in 2009 there was £0. 711 of debt. This compares to £0. 694 in 2010, it has decreased.

Short-term liquidity refers to the ability of companies to repay short-term debt. Short-term solvency deficiency, not only will affect the credit, increasing the future cost and difficulty of raising funds, but also enables companies in financial crisis, or even bankruptcy.

The impact of internal factors

Profitability is the core concern in all aspects, as well as the key to success. Hence, only profitable companies can survive and achieve long-term sustainable business. This is the reason whether investors or creditors are both reflected very seriously in the rate of profitability of the business. Views at 3 April, 2010, group revenues were increased 5. 2% to 9. 5bn, this is benefited from the growth of market share in the clothing and food market conditions improve. Based on UK sales of 2. 9% and international sales of 5. 7% increase, from the Singer Capital Markets analyst, Matthew McEachran, said ‘ M&S non-food business has a good performance to some extent offset by a large-scale impact of profit sharing, making the company’s annual earnings expectations basically reached the outside world.’

Firstly, as a result of improving consumer confidence has seen the clothing market return to growth. Womenswear value market share grown to 10. 7%, due to M&S seems expanded their focus group of all ages and lifestyles. Chairman of M&S, Stuart Rose said: “ In the past year, we achieved all the core areas of performance improvement, reflecting M&S has a good brand influence. In bringing the company out of economic crisis, we focus on the factors that consumers care about, namely, quality and value. At the same time, the economic outlook as consumers is still worried about a certain degree, so we are also cautious about the operation of current fiscal year.” Therefore by way of retain their position as market leaders, it needs to deliver clothing for ‘ Every Women, Every Time.’ Which means every customer can have the product they want, in the right size, color and style every time when they shop in M&S. Furthermore, lingerie has grown volume market share to 18. 9% and value market share to 25. 9%. This significant indicate that one out of four women buying M&S underwear. This gain benefits continued emphasis on innovation and provides lingerie solutions women want. Similarly for menswear and kidswear, in order to become ' fashionability', M&S has more focused on improving the style and designs, putting effort on deliver the best quality.

Secondly, food sales of M&S is another main revenue income, there was increased 1. 8% to 4. 3bn in 2010. One of the reasons is deflation with falling food prices and customers were buying more. According to M&S annual report shows share of the apparel market in the UK rose 0. 3% to reach 11. 2%. At the same time, with the level of consumer spending recovery, all branches of M&S's sales are to achieve growth.   Since the summer of 2007 M&S achieved comparable sales growth for the first time. However, despite the implementation of price-cutting strategy, M&S's market share from 3. 9% to 3. 8%.   ' Shop Your Way' is another reason of changes in profitability. It is a new ordering service, allowing customers either shop in stores, place orders online or over the phone. This makes an advantage that increasing the efficiency, delivered a strong performance, hence, sales grown by 27% to 413. 3m.

During 2009/10 international sales were up 5. 7%, accounting for 10. 2% of total revenues. Although it is hard trading in the Republic of Ireland and Greece, M&S insists international growth plans. India and China considered as two key regions overseas expansion. As India are convinced that with the tremendous economic development, in the next 5-10 years, there will be a large number of middle class appear in the community, and they will become M&S's potential customers. The reason placed such high expectations on overseas markets, due to the financial crisis of this hundred years old business in the local enormous challenges encountered. Because of customers are choosing cheaper cost goods supermarket such as TESCO and other procurement, caused M&S this past Christmas sales worst since 1998, the year, M&S was forced to close up more than 25 franchised food supermarkets and lay off thousands. Viewing the clothing market trends in China, M&S seem to underestimate the Shanghai consumers fashion needs. According to the survey of Financial Times, consumers were disappointed with M&S selling the old fashion of T shirt. Similarly as Daily Mail survey, most of the female consumers thought the only items M&S worth buying is lingerie. And other clothes are too old and boring, prices also expensive with little choice. From the above reflects the consumer's point of view, M&S clothing market in China is still in a position of British middle-aged level, they did not know the elderly in China has been spending very little on clothes, even though they chose are the cheaper ones. Therefore in order to build a platform of long term growth, M&S is continuing international expansion. Ensure creating sustainable business in these countries; represent a great opportunity for M&S. However, on the premise of that, plan for regional variations and accurately stock with right colors and sizes are important.

At present there are more than 30 countries around the world with approximately 760 branches of M&S, became the most representative of the UK chain stores and clothing retailers. In the global environment from being damaged under the impact, M&S in November 2007 implement a 5 years eco-plan called “ PLAN A” to cope with climate change and other environmental conservation issues and the implementation of waste reduction, conservation of natural resources, fair trade, etc. to create the correct concept of environmental protection of the health state. In 2010 the scheme had already reached five main objectives which are become carbon neutral, send no waste to landfill, extend sustainable sourcing, help improve the lives of people in supply chain and help customers and employees live a healthier life-style. This five main goals represent five key areas (climate change, waste, sustainable raw materials, fair partner and health and safety), and they divided for environmental protection and ecological 100 commitments.

From the promotion of “ PLAN A” of the past twelve months, M&S has been achieved: reduce carbon dioxide emissions by 55, 000 tons within the shops and offices , supporting small-scale farmers feel investing in renewable energy production, the creation of three “ eco-store” testing, purchase 140 air-powered environmental goods, the carbon footprint of the implementation of food programs to reduce waste activities, M&S has begun to allow customers to reduce the use of shopping bags and to promote recycling and reuse of old clothes. In addition, M&S is also working to reduce product packaging, not only to increase the use of recycled materials, and improve the recycling rate of building materials. In the development of sustainable resources, introduction of more fair trade higher goods, such as organic cotton, organic linen and recycled polyester material. Furthermore, increase 48% in sales of organic food. In a fair partner part of the promotion of fair trade certified products. ‘ PLAN A’ was successfully established with suppliers trading patterns, and increased by 20% fair trade food sales. In terms of health, M&S remove those 99% with artificial colors and spice rack food from sale and reduce the sodium content of food. ‘ PLAN A’ advocated by the environmental program has become internationally recognized as the practice of business ethics, but also by the Financial Times reported in March 2007 recognize as’ the best understanding of consumer needs, and focus on the popular social and environmental enterprises. According to the choice of partners, to promote social responsibility, health view on behalf of the establishment, removal of unhealthy products, able to recognition M&S to improve the environment, green determination and enthusiasm. As a result, ‘ PLAN A’ gained 50m additional profit for M&S.

Ensure M&S become succeeds, governance also affect the profitability. Focus on how to get things right across the business during 2009/10, a trusted brand, strong leadership, clear plan, motivated employees and delighted customers as well as right checks and balances.

The impact of external factors

One of the impacts of external factors on the profitability of M&S will be their competitors. 40% compared to a decline in profits last year has been a great improvement though, but as the UK’s largest clothing retailer, M&S is far behind Next, John Lewis and Debenhams.

M&S in the economic crisis hit, especially deep, as it has been the face of competition from discount chain Primark clothing market share and strive to maintain. It also recognizes too late to adjust their own high-end food business.

The company as it started in full force, in terms of the introduction of cheap Wise Buys food products, such as the introduction of a new clothing line Indigo.

in order to reduce size of the deficit, the British newly formed coalition government plans to value-added tax rate from the current 17. 5% to 20%, which will have a significant impact on M&S. Ross said the analyst meeting, M&S almost certainly raise prices by the way the VAT increase onto consumers. Ross also pointed out that since the budget announcement from Ireland, the country's trade situation to achieve a steady improvement.