

Case study on wesfarmers



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Introduction

Found in June 1914 as a farmers' co-operative with the major function in providing services and agricultural merchandise to Western Australia's rural community, Wesfarmers started the road to diversification since 1950s with the pioneered program of distributing liquefied petroleum gas. Then continued to move into fertilizer production and distribution in 1984, coal mining in 1989, launched insurance business in 1991, also hardware and forest products one in 1994, became a supplier of home improvement, building, industrial and safety products in 2001 and especially got in the retail section by 2008.

During the period to penetrate many diversified fields was the transformation in terms of the size and shape of its business operations through strategic acquisitions and divestments[1], Wesfarmers now becomes a leading public company in many various business activities including retailing, insurance, industrial, energy[2] with about thirty three famous brands present not only in Australia but New Zealand as well.

Business Description

Wesfarmers' business is currently divided into two main segments. The Retail segment comprises of four divisions in which are Coles (a food, liquor and convenience retailer), Home Improvement and Office Supplies (a home improvement, outdoor living and office products retailer and a building materials supplier), Target (a clothing and housewares retailer), Kmart (a discount department store and automotive service retailer). The remaining Industrial and Other Businesses one consists of five divisions and those are

Resources (a coal miner and producer), Insurance (operates in the general and financial service insurance sector), Chemicals – Energy and Fertilizers, Industrial and Safety (mainly supplies the products and services serving this industry), and Other Activities lastly.[4]

Year 2008 marks the major milestone in the company's development history. Acquiring Coles Retail Group in this year has made Wesfarmers become one of Australia's largest retailers with the rate of the contribution to the total revenue of the company is greatest during the following years. More detailed, the revenue of 27, 688 million USD (taking 82. 6% total revenue of the company) in 2008, 43, 736 million (85. 9%) in 2009 and 45, 688 million (88. 2%) in 2010. Inside, the Coles division holds the biggest contribution rate with 16, 876 million (50. 3%) in 2008, 28, 799 million (56. 6%) in 2009 and 30, 002 (58%) million in 2010.

Not only generating the largest revenue, but also the Retail segment brings the highest profit to the company. And the evidence is that EBIT of 1, 432 million (61. 4%) in 2008, 2, 021 million (62. 2%) in 2009 and 2, 341 million (78. 8%) in 2010. However, the contribution rank, for the divisions, is different each year such as the highest EBIT in 2008 is of the Home and Office Supplies division with 625 million (26. 8%) but the Resources division comes to the top by 2009 with nearly 885 million (27. 2%) and year 2010 is the come-back of the Coles division with 962 million (32. 4%).

As a listed company with the portfolio of diversified business, Wesfarmers concerns to invest in all potential activities in which it operates[10].

However, looking at the increasingly great contribution and growth to the

company about both of revenue and EBIT during years from 2008, it is said that the Retail group is the main business which will drive the growth of the company in the future[11]. This is currently quite true with the expectation of acquiring Coles Group as the core potential to underwrite earning growth through margin expansion during ahead hard years next decade for maximizing returns to shareholders[12].

In general, the road to the diversification is not really easy for Wesfarmers, especially from 2007 on. Beside some difficulties such as the increase of net debt after acquiring Coles Group in December 2007, the negative impact of global financial crisis and gas crisis in 2008 or flu crisis in 2009, Wesfarmers has also obtained some great achievement in business. By applying the appropriate policies and strategies, the company has driven its business out of crisis step by step and together continued to maintain the unbroken and strong growth in revenue and profit each year as below.

Corporate Responsibility

“ As one of Australia’s leading companies, Wesfarmers is committed to continually improving the sustainability of our business to the benefit of all our stakeholders. Our strong economic, environmental and social performance, within a sound governance framework, is central to our objective of providing value to shareholders, customers, employees, suppliers and community partners. Our businesses interact with millions of people every day and our sustainability performance is central to maintaining and enhancing our reputation, which in turn allows us to make a substantial positive contribution to the communities in which we work.” [17]

said Richard Goyder, managing director. Once again, Wesfarmers sent to its shareholders an engagement for performing CSR in 2010.

During years over the last decade, many global issues, like greenhouse emissions, have become more pressing, bigger and demanded strategic responses in long terms. As a listed company in diversified business, Wesfarmers has changed significantly during this time. The company has performed a huge responsibility by getting its sustainability efforts through focusing five key areas (in which are the importance of people, efficient energy management and carbon reduction, community investment, the overall environmental footprint reduction and the contribution of a strong economy) to create values providing to all shareholders and communities across all its businesses.

By performing some policy such as providing a safe, ethical and stimulating working environment or improving the talent management systems, Wesfarmers has used human as a key competitive factor for developing. Not just that, the company has invested in four areas of communities (including indigenous communities, arts and innovation, medical and education) to create a long-term cohesion through the projects about conservation, land care, welfare, schools... Further, the company has minimised the negative impacts to the environmental footprint from its operations by reducing used water, packaging, emissions, waste... Concurrently, maintaining annual growth in business to intensify the contribution to national economy.

One more very important thing is the carbon reduction and the efficient energy management. Aside from using the solutions for reducing the

environmental footprint as above, Wesfarmers has penetrated further into the efficiency by investing strongly in new energy methodologies and technologies. In this way, the company has contributed to making a new low carbon economy. Furthermore, this has also contributed in reducing significantly greenhouse emissions which have been considered as a main reason causing climate change on the world through applying these techniques for the whole company. Especially, aiming to improve the refrigerant system efficiency and reduce the loss of gas for the Coles' giant supermarket system.

Crisis Management

On June 3rd 2008, a big explosion had occurred at a gas processing plant of Apache Energy on Varanus Island, which annually has supplied a third of the national gas, and caused a major disruption in supplying natural gas for almost three months. This plant was resumed at the end of August, run with 85% of normal capacity in mid-October and totally recovered by December. In a country as Australia, where most of industries heavily has depended upon gas, the above incident is really a crisis. The loss was estimated about 35% of gas supply and immediately affects many aspects of economy and society. Many businesses must cease or curtail operations, leading to workers being stood down or taken annual leave. Some large gas users was forced to switch to diesel for generating power making the fuel in transportation become insufficient and the government had obliged to release the fuel reserves at the Garden Island naval facility in emergency...

For Wesfarmers,

Strategy

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As mentioned in the introduction part, Wesfarmers, which is a public company and operates in many various sections, has the scope of business nearly all in Australia and New Zealand. After acquiring Coles Group in 2007, the company started to speed up its investment in the retail market with many diverse kinds of products in which are food, convenient food, liquor, petrol, home building, software, stationery, clothing, home outfit, automobile and the accompanied services. In addition, the company has still invested in the insurance market, the industrial one such as coal mining, chemical, fertilizers, energy, industrial safety and other activities.

After nearly 100 years for survival and development, the company is now owning the broad retail network with the potential consumer market across Australia and New Zealand through store, department stores, dealer, supermarkets and websites. Westfamers has become a reputation and credit company by the way to satisfy customers through the best quality, service and convenience of products also the variety of type and the suitability in price. Together with the staff of talented employees within the sound governance system, the company is step-by-step performing the sustainable development to create extra value which will contribute to shareholders, stakeholders, and communities, also one which is certified by government and population, and one that is used as an advantage for developing the business activities in the future.

Initiative (2010 Sustainability Report- p81)

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Vision, Mission and Goal

Ever since becoming a listed company in 1984[1], Wesfarmers had stated to pursue its long objective also primary priority as a provision of satisfactory returns to shareholders. That is today be remaining and will continue to remain in the future with the central focus of the whole company's effort. Besides, Wesfarmers also wants to have a reputation as a company which operates according to the highest ethical standards and one which contributes strongly to the communities and society in which the company operates. Especially over and above the benefit, Wesfarmers aims to create value in the sustained and responsible way[7].

In order to provide satisfactory returns to shareholders, Wesfarmers has set the goal for the development of a unique, highly-focused and disciplined working culture in its business through adhering to integrity, openness, accountability and boldness[5]. Simultaneously, providing value to shareholders, customers, employees, suppliers and community partners based on ensuring the strong economic, environmental and social performance also the sound governance framework that their contributions will drive the company's business to the success in a broad and complex society[7]. Moreover, Wesfarmers also aims to the national reconciliation with Aboriginal people as a way to enhance the importance and equality of people[8].

Wesfarmers believes that the accomplishment of the goals must focus on the following key principles and actions:

Maintaining and enhancing the physical environment in which the company operates including strategies to minimize carbon missions, improve water and energy efficiencies and minimize commercial by-products and waste.

Providing a safe and secure work environment for all employees, customers and stakeholders.

Treating stakeholders including employees, customers, shareholders, suppliers and the broader community with respect and decency.

Investing in the community through partnerships, programs and sponsorships over and above the direct economic and commercial benefits Wesfarmers provides.

Acting in accordance with high ethical standards[7].