

Safeway financial analysis essay sample

[Food & Diet](#)



In today's economy consumers are concerned about making every dollar count, especially when it comes to purchasing groceries for their families. Although there are many grocery stores available to consumers, each person (or family) tend to gravitate to those that offer savings and products that are reasonably priced. This paper will discuss the financial health of a popular grocery store chain - Safeway. Financial ratios will be used to determine if Safeway is performing well in comparison to one of its competitors or if they need to make some changes to its business practices.

Introduction

In today's market, it is essential to have at least a minimal understanding of financial information and its impact on us as consumers and investors. Each person is surrounded by financial information each day with his or her own finances. In this paper, I have chosen to do a financial analysis on the company Safeway. It is a grocery store chain I have frequented for many years including during my childhood. I value the quality products and their bonus card program and truly believe you get what you pay for. The company operated 1, 694 stores in the Western, Southwestern, Rocky Mountain, Midwestern and Mid-Atlantic regions of the United States and in western Canada (Safeway 2010 Annual Report). The varieties of products are endless and in the past five years, the variety allergy free products have increased.

I know this because my daughter has five food allergies and it is challenging to shop at one store and find items that do not include the allergies she has. Safeway, in my opinion, has done an outstanding job of recognizing the need and made significant efforts to make those products available for purchase.

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With all of this success, I have witnessed, I will take a closer look into their financial statement for 2010 and determine if their success is also in the numbers. The following ratios will be analyzed in an attempt to make a sound judgment regarding the financial health of Safeway in 2010: current ratio, acid test ratio, debt to net worth, coverage, cost of goods to sales, profit to assets, and sales to assets. Below is an overview of the financial ratios of Safeway compared to Whole Foods Market.

Current ratio: This ratio gives an overall idea of a company's capability to pay back its short-term debt and payables with its short-term cash, inventory, and receivables. Since Whole Foods has a higher the current ratio, they appear to be more capable of paying its obligations versus Safeway. This does not necessarily mean that Safeway would not be able to fulfill its obligations if they had to do so. Safeway may be able to improve this ratio by ensuring they collect their receivables within 30-60 days and ensure the inventory turnover is efficient.

Acid test ratio: Since Whole Foods ratio is 1.12, they appear to be more reliable than Safeway. However, Safeway is not too far behind. Safeway can improve their ration by eliminating some of its inventory by marking down the inventory that does not move expeditiously and consider eliminating it altogether. Since this ratio subtracts the inventory from the assets, it provides a true picture of Safeway's financial reliability more than the current ratio does.

Debt to net worth: The data shows that Whole Foods is significantly riskier to invest in versus Safeway. Whole Foods may have higher financial obligations because of them having more organic products than Safeway. Organic food products are usually higher in price because they cost more to produce and

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manage. Safeway appears to be effectively managing their debt by ensuring timely payments are being made. Coverage: Safeway's coverage ratio is worse than Whole Foods. In order to improve their coverage, the company should review their operating expenses and revenue sources. The operating expenses increase slightly by \$100 thousand and the sales increased by \$200.7 thousand. Safeway should consult with the marketing and operating managers to increase sales and find efficient ways to eliminate unnecessary operating expenses. Profit to assets: Safeway is slightly worse by appearing to not have as much cash available as Whole Foods. Safeway can improve in this area by ensuring they are pricing their products accordingly.

If their products are underpriced, they may be losing revenue although their sales increased in 2010. Safeway should have their sales managers review the products prices to ensure they are being priced effectively. Sales to assets: Safeway is exceling in its earning power over Whole Foods. Safeway is effectively managing it assets in relation to the revenue they are generating. Even though the products may not be priced adequately, the sales managers are performing well and ensuring sales goals are being met which ultimately enhance the profitability of the company overall. Although Safeway has some improvements to make regarding price points and operations expenses, they are performing well overall. Based on the chairman's letter to Safeway shareholders, the company focused on improving the shipping experience for its customers. The company continued to offer outstanding service along with lower prices. In 2010, the total sales for the company were \$41.1 billion versus \$40.9 billion in 2009.

The company noticed the spending habits of the consumers decreased in food products but remained steady in the purchase of fuel. Without the fuel purchases, the sales decreased by 2%. The net income for Safeway in 2010 was \$589.9 million which equated to \$1.55 per diluted share. In 2009, the net income was \$1,097.5 million with a diluted share of \$2.66. Although this appears to be a significant decrease in share price, the amount for 2009 includes the goodwill impairment charge of 1,818.2 million. Without this, the diluted share would have been \$1.74 in 2009 (2010 Safeway financial report). The chairman, Steven Burd, seemed to reassure the shareholders that although the share amounts decreased since last year, the company still continued to push through the difficult economic times. The company donated over \$200 million to various charities and improved programs for its employees' health and well-being. The company truly seems to value not only the consumers but also the employees. The company enhanced the employee incentive based health plan through a Safeway Health subsidiary. Safeway continues to improve its ability to be profitable by ensuring it maintains its quality and sound customer service. With some minor financial improvements, Safeway will continue to be profitable and ensure they maintain their quality image and profitability.

References

Safeway

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Whole Foods

<http://www.wholefoodsmarket.com/company/pdfs/ar10.pdf>