

# [Financial ratio and costco](https://assignbuster.com/financial-ratio-and-costco/)

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#### Acct Info for Decision Making Project on Costco

Sinegal had started in wholesale distribution by working for Sol Price at both FedMart and Price Club. Brotman, an attorney from an old Seattle retailingfamily, had also been involved in retail distribution from an early age. Wal-Mart founder Sam Walton had plans to merge Sam's Club with Price Club. In 1993, however, Costcomerged with Price Club (called Club Price in the Canadian province of Quebec). Costco's business model and size were similar to those of Price Club, which was founded by Sol and Robert Price in 1976 in San Diego, California. Thus, the combined company, PriceCostco, was effectively double the size of each of its parents. Just after the merger, PriceCostco had 206 locations generating $16 billion in annual sales. PriceCostco was initially led by executives from both companies, but then Sol and his son Robert Price founded Price Enterprises and left Costco in December 1994.

In 1993, when growing competition threatened both Price Club and Costco Wholesale, they entered into a partial merger just after Price’s earnings dropped to 40%. The new company, named PriceCostco, Inc., focused heavily on international expansion, opening stores in Mexico, South Korea, and England. Despite best efforts to recover losses, sales continued to drop. The disagreement between the two leaders, Robert Price and Jim Sinegal, regarding company direction and recovery policies soon left the merger in tatters.

In 1994, the breakup was formally announced. Sinegal continued to manage PriceCostco while Price’s breakaway company was named as Price Enterprises. The first Price Club location was opened in 1976 in an old airplane hangar, previously owned by Howard Hughes, and is still in operation today (Warehouse No. 401, located on Morena Boulevard in San Diego). In 1997, the company changed its name to Costco Wholesale and all Price Club locations were rebranded Costco. As of December 011, the Company operated a chain of 598 warehouses in 40 states and Puerto Rico (433 locations), nine Canadian provinces (82 locations), the United Kingdom (22 locations), Korea (seven locations), Taiwan (eight locations, through a 55%-owned subsidiary), Japan (eleven locations), Australia (three locations), and 32 warehouses in Mexico through a 50%-owned joint venture.

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| Financial Highlights Net Revenue  | Year  |  |  |
|  | 2012  | 2011  | 2010  |
| Costco Net Revenue  | 12, 314, 000  | 11, 176, 000  | 9, 951, 000  |
| Costco Net Income|  | 1, 709, 000  | 1, 462, 000  | 1, 303, 000|  |
|  |  |  |  |
| Total Assets Year  |  |  |  |
| Costco Total Assets  | 27, 140, 000  | 26, 761, 000  | 23, 815, 000  |
| Costco Total Liabilities  | 14, 779, 000  | 14, 759, 000  | 12, 986, 000  |

The total assets and liability of COST show that the company purchased a lot of assets on its credit during these three years. That might be not a good sign, because COST might not have enough cash.

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| --- | --- | --- | --- |
| Earnings per Share  | Year  |  |  |
|  | 2012  | 2011  | 2010  |
| Costco EPS  | 3. 89  | 3. 3  | 2. 92  |

It’s increasing every year. It means the COST is profiting every year so that they can pay the EPS.

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| Return on Assets (ROA)  | Year  |  |  |
|  | 2012  | 2011  | 2010  |
| Costco  | 5. 78%  | 5. 69%  | 5. 09%|  |

The return on assets ratio is calculated by dividing net income by average total assets. Return on assets represents the cents in profits for every dollar of assets. This measures how efficiently and effectively the company uses its assets to generate profits. These numbers tell the ability of Costco to make a profit. Costco has a positive net income so that its ROA is increasing the past 3 years.

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| Return on Equity (ROE)  | Year  |  |  |
|  | 2012  | 2011  | 2010  |
| Costco  | 12. 81%  | 12. 50%  | 11. 31%  |

The Return of Equity is calculated by dividing net profit by total shareholders’ equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with themoneyshareholders. The number above shows that Costco is with stable growth in the past 3 years, however, ROE; 15% that will attract more investors to invest.

Effectiveness Ratios

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| --- | --- | --- | --- |
| Asset Turnover Year  | Year  |  |  |
|  | 2012  | 2011  | 2010  |
| Costco  | 3. 52  | 3. 40  | 3. 35  |

Asset turnover is calculated as sales divided by average total assets. It measures a firm's efficiency in using its assets to generate sales. The higher the asset turnover is, tells the better the company does. Costco’s assets turnover tells us that it did a better job in 2011 because the ratio increased 0. 12 compared with 2010 which only grew about 0. 05.

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| --- | --- | --- | --- |
| Inventory Turnover  | Year  |  |  |
|  | 2012  | 2011  | 2010  |
| Costco  | 12. 67  | 12. 31  | 11. 94  |

Inventory turnover is calculated as COGS divided by average inventory. It measures how many times per year the company sells its inventory. Firms with a low-cost strategy want a high inventory turnover, while firms with a differentiation strategy will experience a lower inventory turnover. The ratios for Costco are increasing during the three years, and Costco seems to have done a better job in selling its inventory because it sells its inventory faster and faster.

Liquidity Ratios

|  |  |  |  |
| --- | --- | --- | --- |
| Current Ratio  | Year  |  |  |
|  | 2012  | 2011  | 2010  |
| Costco  | 1. 14  | 1. 16  | 1. 11  |

The current ratio is calculated by dividing current assets by current liabilities. This ratio measures if a firm has enough in current assets to cover his current liabilities. The current ratios for Costco have gone up during 2009-2010 and decreased during 2010-2011. However, the ratio is greater than 1 which means Costco has enough assets to cover his current liabilities.

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| --- | --- | --- | --- |
| Quick Ratio  | Year  |  |  |
|  | 2012  | 2011  | 2010  |
| Costco  | 0. 55  | 0. 56  | 0. 49  |

The quick ratio is calculated by dividing the sum of cash, account receivable, and short-term investment by current liabilities. As with the current ration, an analyst would want to see a minimum of one for the quick ratio. However, the number above shows that Costco’s quick ratio is under 1, which means that Costco is not doing well on its job. It might because Costco has a too big liability to its business or Costco has a less current asset to cover its liabilities.

Solvency ratios

|  |  |  |  |
| --- | --- | --- | --- |
| Long-Term Debt to Assets  | Year  |  |  |
|  | 2012  | 2011  | 2010  |
| Costco  | 0. 05  | 0. 09  | 0. 10  |

The long-term debt to assets is calculated by dividing long-term debt by total assets. This tells us that if a firm can pay its long-term debt. If a firm does not the ability to pay off its long-term debt, shareholders might be left with nothing. The lower long-term debt is the better ability a firm has to pay its debt. Costco is doing well by keeping the long-term debt ratio (average) around 0. 08, which means its assets will be enough to pay the long-term debt. Costco’s debt to equity ratio is quite stable around 0. 10-0. 22 during 2009-2011. Summary According to Costco's 2011 annual report, Costco Wholesale has a growing rate of making profits. It is one of the largest retailer stores in the global market. Unlike most retail operations, it has built its model around providing only what people want to buy quickly or in volumes that make up for its discounting practices. As the economy has slowed, the warehouse discount strategy has come into focus as the go-to source for both consumers and small business supply needs. Costco and its subsidiary companies are mostly like engaged in the operation of membership warehouses in the United States, Canada, the United Kingdom, Japan, Australia, through majority-owned subsidiaries in Taiwan and Korea, and a 50 percent-owned joint venture in Mexico. Costco operates membership warehouses based on the concept that offering members low prices on a limited selection of nationally branded and private-label products in a wide range of merchandise categories will produce high sales volumes and rapid inventory turnover, management said in a recent filing. The company pays attention to details and has various strengths that add to its success. These factors include rapid turnover of the inventory, running an efficient operating structure, reduced cost of handling of merchandise, and generation of high sales volume at each of its stores. Costco Wholesale gives preferences to its customers and provides them the best value for the money.

Weaknesses: Costco’s business conditions constantly change because external and internal forces make other business participants alter their actions.

The driving forces in this sector are the major underlying causes of changing business and competitive conditions. Operating on a large scale means difficulty in bringing changes to grass root levels Opportunities Costco Wholesale is one of the first companies to have a growing acceptance of internet shopping. Costco created a website in the United States as well as a website in Canada to be more effective and competitive in the internet market. The company is constantly working to make its distribution channels stronger and enter new potential markets. By offering value and working more towards developing a strong loyal customer base the company can gain more market share. Threats Warehouse clubs not only compete in one sector or market but it competes with a wide range of other types of retailers which include Wal-Mart Dollar General, supermarkets, general merchandise chains, specialty chains, fuel stations, and internet retailers. They're competitiveness changes because of the different types of products they deal with. Due to its tremors growth and growing market share, the company has caught the attention of many of the market leaders and its competitors. The industry of wholesale has a number of individual companies that are highly competitive and have very effective strategies. They have developed loyal customer bases and everyone is relentlessly fighting for the greatest market share. Costco’s major competitors include Wal-Mart.

#### Recommendation

1. Develop more types of products. Costco involved every kind of product in the store, but we can see there are just a few types of each product, so the optional become less and less. Every customer wants a lower price at Costco, but they still want to have more choices on each product. And every single product just has the biggest packet so that it may cause to the waste. So the member of Costco doesn’t have many choices to select the same product, such as the size, color and so on.
2. Improve the quality of the products. The strategy of Costco is the right product in the right place for the right price, but the right price should be with good quality, but some customers said the quality of the clothes is not good. We cannot deny that most of the products have good quality, but the company should check on every product, or just a little customers' dissatisfaction will influence all the customer's choice.
3. Increase the number of stores. The company has 600 locations wide world. In the US, there are 433 locations. As an international global company, Costco should develop more locations out of the United States so that it can open a new market in the world. For other countries, the customers are still inconvenient to purchase in the Costco. It will decrease the confidence of Costco's members. Costco's strategy is the right products in the right place for the right price. If the members of other countries doubt the right place, the strategy will be broken.
4. Reduce the prices of some products. The company guarantees the low price and most of the products are, but we still can see a lot of products are more expensive compare to other stores, especially Jewelry. For most customers can understand that the high quality with the high price, but the huge amount of numbers, such as 12, 234. 99 will make the members confuse to the strategy of the company