

# Profitability and sustainability analysis of superstore industry marketing essay



There are several framework on the financial performance have been became apparent during last couple of decades and most of them relates to social and financial performance, which are mainly associated around the corporate social responsibility and performance concept .

Only few of the study emerged to evaluate financial performance and the sustainability of competitive advantage. Furthermore, most of the work has been associated with industry level but not the firm level, which is also more important to consider in the study on micro level. This is one the strong reason to investigate the firm level financial performance and the competitive advantage. However, there are some limitation related to data gathering for the industry analysis but it seems feasible to gather or access company level data and their availability.

## **World Food Retail Overview**

After development in technology and policies in 1990, huge change in food industry has begun. With evolution in business globalisation, activities like mergers and acquisition has amplified which resulted growth of big players in efficient and dominant way. Globalisation also resulted an increase in tours and travel activities across the world. The expenses incurred on food and drink by a tourist is 30p on every £1. 00, as per survey conducted by regional tourist bodies of England, UK (IGD Global Retail Outlook Survey, August 2007).

Among various sector, retail food sector create more value than that of others. The Organized food sector is such an area where both strong management system and sectorial operational specialization i. e. human and

technology are mainly affected by large volume, Daily splitting in physical operations and lower margins, food retail in world are acumen and influenced by six basic trends:

Uncertainty

Variable Demographics

Growth will/necessity

Low Price Madness

Technology

Globalization

It has been forecasted that the speed in retail globalization will further accelerate. In order to success, the competition between retailers and suppliers are more likely to increase in a diversified range of capability. Even though in retail sector, huge opportunities still exist, but success will depend on managing the risk and challenges at the same time by capturing the opportunities.

According to IGD, In order to obtain sustainable growth, Retail Globalization has shifted its focus from ' flag-planting' to ' targeted expansion'. IGD conducted a survey in 12 countries where senior retailers and supplier has been questioned to derive the above statement (IGD's Global Retail Outlook Survey in August 2007),

The top five supermarket companies in United Kingdom control a 50 percent share in market where as in Germany it is 60 percent and in France 90 percent (AC Nielsen).

## **Industry Overview**

The top five biggest United Kingdom retailers and food selling companies influence the whole market, which are Tesco, Morrison, Sainsbury's, Asda and Co-operative Group. In 2004, the whole market size was £115 billion which includes the retailers from small shops who has store to the biggest supermarkets which have the full-scale operating chains.

In 2004, Morrison ranked at 4th position among other 12 supermarkets in UK, which is illustrated below in Table (1). Whereas in 2008 February 79. 4% market share captured by top 5 retailers i. e. 30. 9% by Tesco, 16. 4% by Sainsbury's, 11. 6% by Morrison, 16. 9% by Asda and 4. 0% by Waitrose. Only 20. 6% of market share has been left for others. With the above positioning Morrison can be concluded as upper-medium size food and grocery retailer in United Kingdom.

Supermarket

2004 (%)

2005 (%)

Aldi

n/a

2. 2

Asda

16. 7

16. 5

Co-op

4. 8

n/a

Iceland

2. 1

1. 9

Somerfield

n/a

5. 7\*

Lidl

1. 8

n/a

Marks and Spencer

3. 5

n/a

Morrison

14. 6\*\*

12. 2\*\*

Netto

0. 6

n/a

Sainsburys

15. 7

15. 9

Tesco

29

29. 8

Waitrose

3. 5

3. 7

To create portfolio, in same industry, five companies has been selected i. e. Tesco, Finsbury Food, Sainsbury's, Thottons and Falkaland. In segregation, Sainsbury's and Tesco are biggest supermarket, whereas Finsbury Food and Thorttons are the medium ones and Falkaland is small stores in UK. According to total asset, these portfolios almost represent the industry. Hence it is tried to increase the sample for closer representation of the population which is illustrated below in Table (2):

**UK Companies****Size (£)****Falkland****24. 25****Finsbury Food****102. 60****Thorntorns****106. 02****Morrison****7, 370. 90****Sainbarys****9, 576. 00****TESCO****24, 775. 00** **Table(2): the position of Morrison in the whole UK's industry according to total assets (2008)****Business Drivers for sustainability strategies:**

There are various internal and external factors which might drives the growth in sustainability strategies in WM Morrisons and major supermarkets:



**Employees**

**Communities**

**Sustainable Product Development**

**Competitors**

**Green Buildings**

**Waste Transportation and Logistics Costs**

**Carbon Efficiency**

**Rising Demand for Certified Products**

**Expectation for Reporting and Performance Measurement**

**Product Safety**

The above mentioned drivers are the key to change the retail sectors outlooks and providing competitive benefit to the retailers in terms of sustainability performance. Furthermore, competitive benefit can be drive by working with more innovative solution provider; brand owner and supply chain partners, which leads to reduce the cost the increases efficiency.

Apart from above factors, supermarkets have already implemented a number of growth/sustainability strategies to achieve high growth. These are:

Increasing focus into own label products.

Expansion by organic growth and acquisition

Convenience Sector Expansion

Focus into non-€ food items

<https://assignbuster.com/profitability-and-sustainability-analysis-of-superstore-industry-marketing-essay/>

## **Graph 1 : Profit Margins of UK Supermarkets**

### **About Wm Morrison Supermarkets**

With acquisition of larger rival Safeway plc., Wm Morrison Supermarkets moved up in UK food chain. Founded in 1899, from 125 stores Wm Morrison runs approximately 425 stores in England and Scotland. It has already made a history beating UK supermarket giants like Tesco (the UK's No. 1 food retailer) and ASDA (Wal-Mart owned supermarket) in high concentrated acquisition battle. Through its Market Street specialty, Morrison's offer various food and non-food items. Morrison sell gas about 290 locations. With acquisition of Safeway, Wm Morrison enhanced its market presence with more than 12% share of grocery market.

### **Aim of the Study**

The aim of this research is based on two objectives. The first objective is to examine the profitability of the WM Morrison within the superstore industry context in the UK market and secondly to examine the firm's sustainability of competitive advantage on retail performance.

### **Preliminary Literature Review**

The analysis of firm profitability is a bit difficult task because the majority of the performance indicator models focus on the success of various key financial indicators i. e. return on investment (ROI), return on assets (ROA) or return on capital employed (ROCE). These performance indicator models have been disapproved or criticized due to lack in the multiple dimensional approach of the performance as well as the its competitive advantages to organization's growth (Brignall and Ballantine, 1996).

There are number of studies (Dawson, 2005; Dess and Robinson, 1984; Reynolds et al., 2005; Venkatraman and Ramanujam, 1986) have faced challenge to consider right variables as a financial performance indicator. The understanding of the correct information and its non-availability to the public are the most common problems (Ailawadi et al., 1995). However, a number of alternative approaches have been implemented to getting best financial performance indicator in to order to handle above discussed problems. Therefore, subjective financial indicators are designed to measure firm's performance i. e managers forecast on financial performance to compare with competitors performance. Although, some financial indicators has been considered in the number of empirical study (Capon et al., 1990; Dawson, 2005; Reynolds et al., 2005), which was significantly positive with the economic models. The most frequently used profitability indicator in the various studies could be return on equity, return on sale and return on investment etc. But still it is unconcluded regarding the best financial indicators to measure retail financial performance ( Ailawadi et al., 1995; Dawson, 2005; Reynolds et al., 2005). On the other hand, the most commonly used performance indicators are rates of return, gross margin (Bradley and Taylor, 1992; Dobson, 2005; Reynolds et al., 2005) and sales growth, sales revenue (Doyle and Hooley, 1992; Dobson, 2005; Greenley, 1995; Hooley et al., 1992; Reynolds et al., 2005).

The accepted distinction between competitive advantage and sustained competitive advantage is matched by a range of studies which forward and debate the factors determining the sustainability of a competitive advantage (see Coyne, 1985; Williams, 1992). Whilst many of the studies of advantage

sustainability are conducted from a resource based view, Porter (1980, 1990) contributes a number of observations at a more macro level. Briefly, Porter (1980) suggests that competitive advantage can only be sustained over time if consistent strategy is developed and applied promptly.

## **Research Objective and Data Methodology**

An attempt has been made in this paper to analyze the profitability and examine the sustainability of competitive advantage on retail performance of the WM Morrison during 2005 -2010. Eventually top players will be identifying on the basis of total asset in UK superstore market. To identify competitors, Lexis-Nexis and Hoovers will be used. 5 years Balance sheet and other financial data will be extracted from Thomson One banker. The profitability of Morrison will be analyzed through decomposition method in context to peer group. Statistical analysis may be conducted as a support to the thesis.

After performance analysis of Morrison, Industry performance will be compared to target company performance to analyze abnormality if any in the behavior pattern and the reason behind the pattern will be scrutinized.

Analysis Factors:

Return on Net Operating Assets (RNOA)

Net Borrowing Cost (NBC)

Operating profit margin

Operating Liability Leverage

Financial Liability Leverage (FLEV)

Asset Turnover (ATO)

Return on Common Equity (ROCE)

Spread

However one of the main aims is to analyze the driving factors for the performance of the firm and the industry and simultaneously to discuss the sustainability strategies of the firm for the competitive advantage.

## **Conclusion**