Core analysis of morrison supermarkets marketing essay

The purpose of this paper is to analyze the company WM Morrisons through the technique of C. O. R. E analysis. For this purpose a range of different sources of information were employed. Trade journal, industry and market reports, journal articles as well as company website and their publications and financial reports were used as the data using which the C. O. R. E analysis technique was utilized. The following depict the different aspects and results of the analysis.

Context External

The UK grocery retail industry has four main competing giants operating in the market. One of these four retail giants in Morrison’s with its Supermarkets. The company primarily operates in the food, grocery and retail industry which is limited to the region of United Kingdom only. Previously the company operated mostly in Northern England, however by utilizing the acquisition strategy the company has expanded significantly to the entire United Kingdome with its stores and distribution centers now in Scotland, South Eastern England, and Whales as well.

The main competitors of the company are the other three retail giants in the grocery industry. These include big names likes Tesco which owns the largest market share of 30. 9%, followed by ASDA having the market share of 16. 8%, and Sainsbury’s with a market share of 16%. The share of the Morrison’s Company in the market is about 12. 3% as at 2011 year end. The main strengths of the competitors of Morrison’s are their economies of scale from operations, their extensive distribution networks and the strategically location stores in prime location across the United Kingdome. In addition the competitors of Morrison’s also have a significantly string brand and related associations. ASDA is the UK business of Wal-Mart, while Tesco is well known in the UK, being the company holding the largest market share. Sainsbury's is also internationally known with a significant brand image and goodwill associated with it. The other thing which differentiates these companies from Morrison's is that Morrison does not have an online shopping or online service provision yet. However the company plans on providing its products and services online to customer in 2013.

The company is well aware of its social responsibility and strives to be an ethical and responsible corporate citizen. In this regard the company strives to reduce its limited resource usage of water, energy and other resources by employing green management and administration policies. Aside from this the company also strives to foster the local economy my having its food division collaborate with local produce growers in supplier agreements to encourage trade and consumption of local regional product. In terms of environmental concerns as well the company strives to reduce its ecological carbon footprint while contributing to the environment and regional communities through development projects. The CCR committee established at the company meets up four times a year to strategically plan, monitor and discuss CSR initiatives and projects while adhering to the regulations and compliance.

Context Internal

The key members of the senior management team at Morrison's includes Mark Gunter as the Group Retail Director, Phillip Cox as the Chair of Audit Committee, Brian Flanagan who stepped down at the year end of 2011, Penny Hughes as the Chair of the Corporate Compliance and responsibility

Committee, Nigel Robertson as the Senior Independent Director, and Johanna Waterous as the Chair of Remunerations Committee. The representative of the founding family, Ken Morrison sought retirement in 2008. Moreover the previous CEO of the company Marc Bolland sought to become the CEO of Marks and Spencer's and therefore he was replaced by Dalton Phillips. The board of directors and the senior management team has an on average experience of about 20n years in trading, business, management or retail.

The company was initially founded 1899 by William Morrison, which later in 1952 when under the ownership and directorship of his son, Ken Morrison. The company has its headquarters in Bradford UK, with the first launch of its retail supermarket store in 1961. Since then the company which primarily operated in the Northern England region of the United Kingdom only expanded significantly through the acquisition of 479 Safeway stores. Through this acquisition the company expanded its operations and its reach of distribution to Scotland as well as lower England. The functional areas of which comprises the Morrison's Group for its operations include the more generic business divisions of Finance, Marketing, Customer Service, Human Resource Management and Administration for the corporate. Other more specialized business divisions at Morrison's include retail store management, food and materials procurement, supply chain and value chain management as well as food preparation. In order to be efficient and have productive business divisions, the company makes use of vertical integration. The company has a strong level of vertical integration in its retail model, especially for produce and fresh made products which are made by the company itself on a daily basis. This is the strength of the company which makes it significantly different from the existing competition in the market.

The overall business strategy that is undertaken by Morrison's is to reinforce their difference and be proactive in seizing any available or existing opportunities. As mentioned previously the company was family owned and run, but it became a public company through an IPO. Now the company is a PLC which means it is publicly traded, therefore the owners of the company are the shareholders of the company who have vested their respective stakes with Morrison's. Presently approximately 15. 5% of the company's shares are held by the Morrison Family while the rest are held by other investing shareholders.

Overview

The Morrison's Supermarkets initiated business as small shops in the local neighborhoods in the early 1900s. Over the period of time however the company has significantly grown to become one of the top four grocery and food industry based retailers in the United Kingdom. Despite the level of growth, the company retains the position of being then smallest company in the top four retailers in UK both by operation size as well as in terms of the market share held by the company. The market share of the company at the end of the financial year 2011 was recorded as 12. 3%. However in 2012, the record provides that the company has seen a decline in its share of the market which reduced by 1% to arrive at the level of 12. 2% as represented by the 2012 records. The total revenues for the company since 2007 have been increasing significantly going from 12, 462 million pounds in 2007 to 16, 479 million pounds in 2011. The profits after tax experienced by the company on the other hand depict a more fluctuating trend with 248 million pounds reported in 2007 which increased significantly to 554 million pounds in 2008, which again decreased to 460 million pounds in 2009, increasing yet again to 598 million pounds in 2010.

Ratios

The following table depicts the excerpt of key financial items that have been taken from the year end financial statements of Morrison's and Sainsbury's. For the purpose of the ratio analysis, Sainsbury's Plc has been selected as this is the retailer in the market having the third largest share and the closest amongst the main competitors of Morrison's in terms of size and market share. The ratio analysis is performed using the 2011 annual financial reports of the respective companies and using the two years of 2011 and 2010 for comparison and trend analysis of the ratios.

Financials

Morrison's

Sainsbury's

2011

2010

2011

2010

Pounds in millions

£

£

£

£

Revenue

16, 479

15, 410

21, 102

19, 964

Cost of Sales

15, 331

14, 348

19, 942

18, 882

Gross Income/Profit

1, 148

1, 062

1, 160

1, 082

Net Income Before Tax

874

858

827

733

Receivables

268

199

343

215

Inventory

638

577

812

702

Total Current Assets

1, 138

1, 092

1, 708

1, 797

Total Assets

9, 149

8, 760

11, 399

10, 855

Accounts Payable

1, 914

1, 845

2, 597

2, 466

Total Current Liabilities

2, 086

2, 152

2, 942

2, 793

Long Term Debt

1, 052

1, 027

2, 339

2, 357

Total Liabilities

3, 729

3, 811

5, 975

5, 889

Shareholders Equity

5, 420

4, 949

5, 424

4, 966

Working Capital

-948

-1, 060

-1, 234

-996

Capital Employed

7, 063

6, 608

8, 457

8, 062

The following table depicts the computed ratios. The ratio analysis has been conducted in terms of a liquidity analysis of the company, their efficiency analysis, financial leverage analysis, and profitability analysis. This is done to address an analysis of solvency, performance and financial position of the company over the period of time and as compared with a competitor in the market.

Ratios

Morrison’s

Sainsbury’s

2012

2011

2012

2011

Liquidity Ratios

Current Ratio

0. 55

0. 51

0. 58

0. 64

Acid Test Ratio

0. 24

0. 24

0. 30

0. 39

Efficiency Ratios

Fixed Asset Turnover (in times)

0. 49

0. 50

0. 46

0. 45

Asset Turnover Ratio

0. 56

0. 57

0. 54

0. 54

Stock Turnover Ratio (in times)

25. 24

49. 73

26. 34

53. 79

Average Days to Sell Inventory (in days)

14. 46

7. 34

13. 86

6. 79

Debtor Collection Period

5. 17

2. 36

4. 83

1. 97

Creditor Collection Period

44. 75

23. 47

46. 33

23. 83

Financial Leverage Ratios

Debt Equity Ratio

19. 41%

20. 75%

43. 12%

47. 46%

Propriety Ratio

59. 24%

56. 50%

47. 58%

45. 75%

Profitability Ratios

Gross Profit Ratio

6. 97%

6. 89%

5. 50%

5. 42%

Net Profit Ratio

5. 30%

5. 57%

3. 92%

3. 67%

Return on Investment ROI

12. 37%

12. 98%

9. 78%

9. 09%

Position Metrics

EPS

£0. 24

£0. 23

£0. 34

£0. 32

The liquidity ratios of the two companies depict that when it comes to being more solvent and better able to cover the short term liabilities with the current assets, Sainsbury's is in a better position to do so. Sainsbury's has a better solvency position in terms of both the current ratio as well as the acid test ratio which are higher comparative to Morrison's. The year on year trend depicts that Morrison's solvency position is improving while Sainsbury's is decreasing from 2010 to 2011 The optimal ratio for the current ratio is supposed to be 1: 1, while the acid test ratio is optimally supposed to be 2: 1. However both companies depict that they are unable to cover their current liabilities completely with their current assets.

The efficiency ratios depict that when it comes to inventory turnover as a measure of inventory management efficiency, Morrison's is more competent and efficient compared to Sainsbury's. The Asset turnover ratio also depicts a stronger position of Morrison's over Sainsbury's when it comes to generating payback on investment mad in assets in the form of revenue earned. The cash flow from debtor toe creditor in number of days is depicted by the debtor and creditor collection period which shows that in terms of both debtor collections and creditor payments the range of days has increased from 2010 to 2011 for both the companies. However Sainsbury's is in a better position with a higher range between debtor and creditor collection reported in 2011 as opposed to Morrison's.

The leverage ratios depict that Sainsbury's utilized a concentration of debt financing, with equity based financing is still higher than debt but in a nominal ratio. The year on year trend depicts a decrease in the company's debt level. Morrison's on the other hand uses more equity than debt, with the debt concentration being small. Year on year trend also depicts a decreasing debt level for the company as well.

The profitability ratios provide that the gross profit ratio for Sainsbury's is smaller than that reported for Morrison's with Sainsbury's gross profit margin increasingly nominally from 2010 to 2011. Comparatively, the gross profit for

Morrison’s increasing in a larger percentage from 2010 to 2011. The net profit margin for Sainsbury’s is significantly less than that of Morrison’s, with Sainsbury’s net profit margin increasing from 2010 to 2011, while Morrison’s shows a decreasing trend from 2010 to 2011. The overall ROI is also less for Sainsbury’s compared to Morrison’s. The working capital for both companies is also in the negative as the current liabilities exceed the current assets. However the negative value for Sainsbury increases significantly from 2010 to 2011, while for Morrison’s, the working capital position improved from 2010 to 2011.

Evaluation

The CORE analysis of Morrison’s conducted for the purpose of assessing Morrison’s as a potential customer of the company depicts that despite being the smallest of the big four retailers in the UK, Morrison’s is a significantly attractive prospect as a customer. This is revealed through the strategic position of the company in the UK market, the history and the strengths of the company in terms of the management which are sought after in the market. The ratio analysis on the finances of the company compared to one of its competitors, Sainsbury’s’ Plc depicts that Morrison’s is comparatively more efficient, more profitable and therefore better performing and having a better leveraging position with low concentration of debt. Based on the analysis it can be proposed, that the positive ratios of the Morrison depict its good potential to be a viable and profitable customer for the company.