

Business essays - business financial tesco



**ASSIGN
BUSTER**

Business Financial Tesco

Introduction

Topic chosen

This report analyses the business performance and financial position of Tesco. Tesco has been the market leader in UK grocery market for years and is still growing steadily. This analysis is made from an investor's point of view. By both quantitative and qualitative analysis methods, in a way of comparison with itself before and its peer group in the same market in UK, the author presented a detailed analysis of its strength, weakness, opportunities and threats. Tesco is a company listed on London stock exchange.

Reasons for choosing the topic

The reason why the author chose to study the topic of analysing the business performance and financial position of Tesco are as follows:

1. Major part of Tesco's business is UK grocery market.

This is a market worth £133.3bn in the calendar year 2008 with an increase of 4.0%. Groceries account for 12.8% of all household spending, making it the third largest area of expenditure, first is housing and second is transport. The UK's leading grocery operators create 10% of jobs. (IGD research 2007)

From above data we can have an impression of how important is grocery sector's contribution to economy and society.

2. Tesco has been the market leader in UK grocery market for many years.

Tesco has been keeping a faster growth pace than its competitor for a decade and widening the gap with its nearest runner ASDA. Although it lost some field to Morrison, Tesco still holds over 30% market share, nearly twice than its

closest rival ASDA. This is a remarkable achievement in business world especially in a mature market like UK grocery sector. What strategies Tesco adopted to achieve and maintain its market share attract the author to choose this topic.

3. UK economical slowdown had many effects on grocery sector

Customers become more prices sensitive and tighten their spending.

Competition is getting stiff, some of customers have tempted by discounted store such as ASDA, Morrison. Price campaigns in grocery sector have enormous pressure on Tesco's profit margin. For last decade Tesco have proved its competence in booming period, however when economy slow down, can Tesco still keep its pole?

4. Personal experience

The author has personal experience with Tesco both as a customer and a former employee. This allows the author to have a close look on how Tesco runs. The author has just take Paper P3 recently. Applying this relevant knowledge, skills, and exercising professional judgement in a business case would help author have a good understanding of the book knowledge.

5. Easy to gather information needed

As a public listed company Tesco has to provide much more detailed financial information to its investor than other private and unlisted company.

Tesco has made many efforts to ensure this information accessible, for example Tesco has an online investor centre where investors can find the last information of Tesco to help them understand Tesco's business.

Tesco also has investor relationship department dedicated to maintain their relationship with its investor.

Aims and objectives of the report

This report attempts to present a thoughtful analysis of Tesco's current business performance and financial position and its future development.

The main aims of this report are as follows:

1. To understand how Tesco is run, for example Tesco's liquidity, profitability and its ability to compete.
2. To find out what aspects Tesco is doing well and why it can manage to do that.
3. To find out what risks Tesco facing and the impacts on Tesco's development in future.
4. To understand how Tesco manage these risk and evaluate whether these strategies are adequate to solve those issues.
5. 4. To give a forecast of future development of Tesco and generate some ideas for possible improvement.

Overall research approach

- Establish aims and objectives of this project
- Describe how to collect information and the methodology used. Due to the time limitation most of data using in this project will be secondary date.
- Process information collected including internal information and external information for further analysis

- Using accounting and business technique to carry out a critical analysis with an explanation of my findings.
- The final step is drawing conclusion which derived from and consistent with date analysis, and providing recommendation.

Information gathering

Sources used and reasons:

1. Annual report of Tesco

These annual reports are made up of reports and financial statements, which include directors' report, corporate governance, directors' remuneration report and group financial statement including statements of directors' responsibilities, independent auditors' report, group income statement, group balance sheet, group cash flow statement.

The financial date extracted from annual report is important information used to further analyse Tesco's financial position and further direction.

As these reports are audited by PricewaterhouseCoopers LLP of its compliance with relevant law and regulation, the date from annual can be seen as reliable source.

2. Interim report of Tesco

These reports are reviewed by PricewaterhouseCoopers LLP providing reasonable assurance to Tesco's investors.

These reports provide a more pictures on how Tesco is running and how much outside environments affect the performance of Tesco. Also we can

compare it with the annual report of last year. They are necessary for the complete analysis of the company.

3. Quarterly report of Tesco

These reports provided the status of Tesco in a shorter period of time than interim. Although these reports are normally concise, they are necessary for analyst to make detailed analysis of a company. By report of each quarter, the analyst can pursue the track of the thoughts of the managers.

4. Annual reports of other main grocery stores in UK

They can help the analyst to make comparisons of Tesco with other main competitors in relative field so as to locate the position of Tesco in its main business portfolio. They are good yardsticks to measure Tesco's performance.

5. Newspaper

Comments on newspapers are sources of up to date information about the company of Tesco. Along with the analysis from skilled experts, they contribute much to my analysis on this company.

6. Student accountant magazine and Kaplan textbook for paper P2 and P3.

These textbook is the source of author's reading for the paper. They provided the author with useful ideas and ways to make much a detailed analysis on Tesco.

7. Viewpoints made by the managing levels of Tesco

They contribute much to the analysis on Tesco. They give the thoughts on further development direction in managing levels' head. They can help the analyst to make a good forecast on its future prospects.

8. Journals

Information in relative journals gives us knowledge on the situations of Tesco and research, development and study in grocery retailer field. They help the analyst to realize the trend of grocery retailing development both in UK and world.

9. Analysts' evaluation reports of FMC.

They provide profound professional study results on FMC in aspects of current situations, problems met by it in company running and future prospects by the viewpoint of the skilled professionals. They are great references for the coming analysts.

Limitation

- Changing accounting framework

Accounting policy has been made changes during these 3 years which made the year on year result less comparable. For example underlying profit for 2005 using IFRS is different from the figure using UK GAAP.

- Lack of qualitative data

i. e. customer satisfaction, demographic descriptions of users, clients, and stakeholders.

There is no such secondary data available. Limited to time and resource, this kind of resource can not be acquired in this project.

- Lack of insider information such as terms of contract

Terms of contract can decided the accounting treatment for specific events. Due to lack of this kind of information the author can only assume Tesco had made correct treatments.

4. Inflation effects

Inflation has effects on some figures in annual report such as sales revenue and value of fixed assets so on. This project did not consider the inflation effects due to the complexity of bringing in inflation. This may affect the accuracy of some figures in this project.

6. Different companies use different accounting treatments

In current international accounting framework company have option to choose their treatment for same accounting event. These different treatments could make the figures in different company incomparable and meaningless.

For example: Ratios such as ROCE are not well defined which made comparisons with other competitor difficult.

Methods used to collect information

Website visited

Tesco's corporate website, regulators' website, online discussion board and any other financial organizations' website were methods to gain important information materials. The information materials include press releases and financial reports on Tesco and its competitors. Though the website provided much important information materials, but it took time to pick up the essential information for the analysis report from the abundant information

These website provide most updated information, and covered wide rage of information from political to environmental.

Site visiting

Observation in Tesco store gives first hand information on how Tesco implemented its strategies and whether these strategies have met their objectives. Observation can also help to identify customer and employees reactions to these strategies.

Library research

General reading

Look up all the information materials related with related sectors and Tesco in the libraries. Generally read different books, newspapers, magazines, journals relative to the topic to understand in detail the company and its operating environments. The information materials helped me to know the situation of the grocery sector in the world.

And the UK competition commission provides the detailed information on all grocery retailers. Also, abstracts, brokers' reports and forecasts for Tesco and industries worldwide were included.

- Environmental scans help identify emerging trends and issues that may have strategic importance for the initiative.
- Give rich contextual information
- Help identify emerging opportunities and problems.
- Specific reading

On searching through some unclassified information materials relative to Tesco in the 'information materials' section of Tesco and found detailed financial data, ownership, other descriptive information of the company and some comments from the advisors and analysts. Annual reports, interim reports and quarterly reports were all included.

Libraries used for general reading and specific reading includes:

Loughborough University Library.

Accounting technique used and their limitation

- PESTLE would be used to analyse macro environmental variables - political, economic, social, technological, environmental and legal.
- Ratio analysis would be used to analyse the extract of annual report

Benchmarking would be used to compare the performance and financial position of Tesco in order to improve its competitive position.

Because some ratio has different definition this made comparison between different companies difficult.

- SWOT

SWOT analysis is a very useful tool for position analysis including internal and external factors.

- BCG matrix analysis

This model would be used to perform position analysis using two measures- market growth and market share.

This model has some limitations:

A. only two measures are considered. Other factors can be important such as strength of competition.

B. a danger that a product is treated differently depending on which 'side of line' it is

- Ansoff's matrix analysis

This model is usually used to generate product/market strategy.

Analysis

Structure

Tesco was set up in 1919 by Jack Cohen. Over several decades, it grew up from a stall in east end of London to a World 3rd largest retail store and operates over 2, 500 stores in 13 countries. It is listed on London stock exchange and its market capital worth over £29 billion. Its sales revenue in 2008 is £51. 8 billion and it made £2, 846 million underlying profit.

Tesco is the biggest private sector employer in UK employing over 260, 000 across UK. It has nearly 2, 000 own brand primary suppliers in 98 countries.

Tesco set up a business strategy to ensure that a long term benefit can be delivered to all of its shareholders.

This strategy has four elements, which was as follows:

- To grow the core UK business
- To become a successful international retailer
- To be as strong in non-food as in food

- To developing retailing service (annual report 2006)

Over years Tesco has been expanding its product and market coverage to suit its customer needs.

As a leading supermarket Tesco is not only selling the staples such as food and drink, clothing, consumer electronics, but also introduced some new products to adapt the changing world i. e consumer financial services(2007 joint venture), retailing and renting DVDs, CDs, Music downloads, Internet service, consumer telecoms, consumer health insurance.

Tesco has already established the biggest market share in U. K. According to recent market analysis report, Tesco has over 30% market share with 51 billion pounds sales which almost the twice of its nearest competitor.

It is still expanding its territory, in 2007/08 118 new stores has been opened. 92 of them are Tesco express which is neighbourhood convenience store providing food and drinks alongside with everyday essentials and 28 are Tesco Extra which is supermarket situated on the edge of cities providing full range of products.

Tesco. com, the ecommerce operation of the supermarket, is the leading online grocery retailer who enjoys rapid growth in recent years thanks to technical and social changes.

Tesco is also aiming to compete in global market. International expansion has played a significant part in Tesco's strategy. Tesco has been investing heavily in foreign market and it has over 1000 stores over 13 countries.

Analysis of information

Financial analysis

Sale revenue

Over the past three years sales revenue has increased from £43 billion in year 2005 to £51.8 billion in 2008. The year-on-year growth rates are 8% (06-07) and 11.1% (07-08).

U. K market is still the core segment of Tesco, however its contribution of total revenues slightly drops from 76% in 2006 to 73.7% in 2008.

The sales growth rate of U. K market is slowing down from 9% to 6.7%. That is understandable because U. K market is mature it can not grow like the emerging market.

Non-food sales in U. K grew from £7.9 billion in year 2007 (Y2006 6.8 billion) to £8.3 billion, however the growth rate is getting slower from 11.6% to 9%. Since its market share in non-food sale has been improved from 8.0% in 2007 to 8.5% in 2008, Tesco is still outperformed the general competitors in non-food market.

The market condition in U. K has become more and more challenging due to economical downturn and fierce competition from discounted retailers.

The international market shows a more encouraging picture, over 20% growth at constant rate both in rest of Europe and Asia in 2008. This figure is even higher when counting at actual exchange rate. They delivered £13.8 billion sale revenue in 2008.