Bunzl plc: company profile and swot analysis

Business, Company

Abstract

Bunzl plc (LON: BNZL) is a specialist distribution and outsourcing company, ranked 93 in the FTSE 100 ranking (as at 6th September 2011), with market capitalisation of ? 2. 5 billion. The company reported a strong financial results in its 2011 half yearly financial report, with growth in revenue, operating profit and profit before tax, when its nearest competitor Amcor reported a decline.

This report aims to give a brief overview of the company, its internal strengths and weaknesses and its opportunities and threats within the industries and geographies the company is operating. The first section is an introduction to the company, its financial performance and business activities across geographies. The impact its recent acquisitions have on the company's competitive advantage in the industry is also covered as part of the second section of the report, SWOT (strength, weakness, opportunity and threat) analysis of the company.

Introduction

Bunzl plc (LON: BNZL), a specialist distribution and outsourcing company, is positioned at #93 in the FTSE 100 ranking, with market capitalization of ? 2. 5 billion, as at 6th of September 2011. The company mainly operates in the Americas, Europe and Asia Pacific. It engages in the distribution of non-foodconsumable products to various industries. Headquartered in London, it employs more than 13, 000 people (Datamonitor, 2010).

As indicated in the company’s half yearly financial report (2011), the first half of 2011 netted the company a reported ? 2. 4 billion in revenue, a 4% increase over the first half of 2010. The operating profit of the company was ? 125. 5 million, a 9% increase over H1 2010. The profit before tax was ? 112. 1 million, ? 12 million higher than H1 2010. Cash flow remained strong, with cash generated from operations partly used tofinancecash outflow for acquisition. This has minimize impact to the company’s net debt and EBITDA, with the latter reduced to 2. 0 ratio compared to 2. 1 at December 2010.

The company faced difficult sales in UK and Ireland; however this is offset by the strong organic growth in North America, Continental Europe and rest of the world. Bunzl also recently embarked on a string of acquisitions, to strengthen and expand its geographical and market presence. The company has acquired seven so far in 2011, and has committed ? 123 million to date.

Bunzl divested its vending business in the UK as it saw that the business was no longer a strategic fit within the portfolio of the Group’s businesses. Despite the company’s development effort, competition is strong from the high street coffee shops, which has led to reductions in vend volumes.

SWOT analysis

Bunzl caters to industries such as grocery store supplies, food service packaging, catering equipment and cleaning and hygiene products. Datamonitor (2010) analysed Bunzl’s main strength to be its well-balanced geographic presence and business spread over different industries. Through its presence across the world, Bunzl is able to take advantage of opportunities in any one market, and maintain presence in other markets to fend off threats. The diverse industries provide cross selling opportunities to Bunzl, which works in favour of the company as it boost the company's growth in difficult global economic situation, as shown in the past few years. Additional positive contributor to its strength is its diverse range of customers (individual, retailers and institutional) and its well balanced mix of high margin low volume business and low margin high volume business. The company also has a robust financial performance which adds to the strength of its market share. It has been registering strong financial growth in the past few fiscal years, while its competitor Amcor registered a decrease.

Its main weakness would be its lack of scale of operation, which reduces its collective bargaining power. Compared to other players operating in its market, Bunzl is relatively small. Its FY2009 revenue of ? 4. 6 billion is significantly lower than its competitors such as Supervalu's ? 40. 6 billion and C&S Wholesale Grocers' $19. 3 billion. Another weakness is their underfunded pension obligations, which require the company to make cash payments at regular interval thereby reducing its cash available for other business purpose.

Bunzl's acquisitions will expand its opportunities, through extending its product offering and increasing its customer base. It will also strengthen its growth and sourcing capabilities. Opportunity is also gained from changing customer's consumption habits and lifestyle, with the increase in demand for convenient, on-the-go packaging. The demand for food service disposables in the US is expected to increase by 3. 5% per annum through 2013, and the same trend goes for Europe as well. With this growth projection, Bunzl can leverage its wide product portfolio and distribution network to serve the growing demand in various geographies and benefit from increased revenue and higher profitability.

Another growing market is the private label consumer goods industry, which has been growing at a fast pace in the past few years. An online global survey conducted in 2010 revealed that due to the economic downturn 60% of consumers across 55 countries from Asia Pacific, Europe, North America, Latin America and Middle East/Africa has been increasingly purchasing private brands. The economic pressure has been driving consumers to value-oriented decisions. Retailers have also been pushing improvements in their product quality and selection of offerings; another contributor to the growing consumption.

Labour cost has been increasing in some key markets of the company, which contributes to its main threat as it will impact the company's cost structure and its profit margins. Another threat is the weak economic situation, which could reduce the company's margins. North America is Bunzl's largest market, whose economic activities have been slowing down due to the economic crisis. In addition, the level of unemployment in the US is rising, which will contribute to lower consumption expenditure as the disposable income of customers decrease.

Conclusion

Bunzl's strong first half of 2011 result continues the company's positive performance in the midst of economic downturn. Despite difficult economic situations in its key markets, North America and Europe, its strategic acquisition drive appears to bear fruit in expanding Bunzl’s presence and market share. It has also divested its vending business, which the company viewed as no longer a fit with the overall company strategy.

With its robust financial performance, diverse geographic presence, product offerings and customer base, Bunzl is poised to leverage on its strengths to capitalise on new opportunities, growing demand in convenient and on-the-go products and private brands. The company is well placed to meet the demand in various geographies and increase its revenues and profit margins.

Bunzl’s acquisition drive has increased its collective bargaining power and scale of operations. However the company has to keep generating cash in order to fund its underfunded pension obligations. The economic downturn poses a threat to demand growth in Bunzl’s key markets and the increasing labour cost will impact the company’s cost structure and profit margins.

Bibliography

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