

Sainsbury's swot analysis

[Finance](#), [Financial Analysis](#)



The aim of this report is to analysis the financial performance of J Sainsbury plc by compare several ratios, in the view of an investor who seeking long term investment. Four sections will be illustrated, the background of Sainsbury, 10 ratio analysis, a suggestion of whether the company is worth to invest and a limitation of current financial statements and ratio analysis. J Sainsbury plc is the third largest chain company of supermarkets in the UK, which is generally known as Sainsbury's. It takes over around 16. % in the UK supermarket sector and also has interests in property and banking (Bloomberg, 2011). Sainsbury's was established by John James Sainsbury and his wife in London in 1869, and got a fast development during the Victorian era. SWOT analysis As one of the leading retailers in the UK, Sainsbury's has a market share of around 16. 1% and serves over 19 million customers per week (J Sainsbury plc annual report, 2011).

It has strengths in offering various services such as internet-based home delivery shopping services, which reach out to nearly 90% UK household. Strong presence in the UK imparts distinct competitive advantage and favorable market dynamics for Sainsbury's, which facilitates revenue and business expansion growth prospects '(Datamonitor, 2010). It also has a significant advantage of providing portfolio renders that enables the company to have an increased sale. Besides, the company has a strong complete performance with offering discounts, compared to other retailer chains such as ASDA. However, Sainsbury's has several weaknesses as well.

One of them would be the limitation of market share. The company has generated all of its sales from UK, while the competitors, such as Tesco and Wal-Mart, have more equitable revenue generation from international

operations, including areas of central Europe, Asia, and the US. They also have increased revenue in other industries like Tesco Bank, however, Sainsbury only has involved in retail industry (Datamonitor, 2010). Other weaknesses would be raising inflation and credit crisis resulted from the global economic showdown in recent years.

As for some opportunities in the future, besides strategic shift in focus on expansion in emerging countries, the growth potential in the online distribution channel gets a jump. The potential market of the organic food in the UK has gotten an increase in recent years. ' The UK organic food market grew by 3.5% in 2010 to reach a value of \$2,968.3 million. By 2015, the market is forecast to have a value of \$4,180.8 million, an increase of 40.8% since 2010'. The survey from Datamonitor said.

As for Sainsbury's, it is one of the largest companies of organic food market in the UK. The company markets more than 800 organic food product lines, with major growth about grocery, frozen foods and fresh meat. Threats always follow with opportunities. Sainsbury's has to face competition from other major retailers like M&S and Tesco which have substantial operating base with Sainsbury's (Datamonitor, 2010). The company might have to increase its cost for advertising or reduce prices because of such a competitive situation.

However, it will cause declined profits and cannot get a great development for Sainsbury's. The opportunities of Sainsbury's growth might be limited by declined profits and sales growth. Relevant ratios analysis: The current ratio of Sainsbury's has decreased from 66% in 2010 to 58% in 2011, resulted

mainly from enhance current liabilities. It is evident to find that the number of trade and other payables increased from 2, 466 million pounds to 2, 597 million pounds from the data of financial position.

It might be because of global financial crisis of 2010 and purchasing 24 stores from the Co-operative (BBC, 2010). In short, it seems to decline the ability of debt paying. As for the Quick ratio, which assumes that inventory is not available as a part of the asset base to meeting the demands of immediate liabilities, there was a decrease from 41% to 31% between 2010 and 2011. It is fairer to consider investments for measuring the ability of meeting liabilities when combining the current ratio and the acid-test ratio.

According to these figures, the funding liquidity of J Sainsbury plc is an indicator of plain performance in liquidity, because the data of current ratio is lower than 1 and that for quick ratio is lower than 0. 5. For instance, New Bristol Sainsbury's store is unstable in local business, and the study said the negative impact of the store, on Bristol City Football Club's ground, would outweigh any benefits (BBC, 2011). The gearing ratio displays the level of risks when investments happen.

From the financial report of Sainsbury's, it has an inconspicuous fall from 47% in 2010 to 43% in 2011 because the total shareholders' equity got an increase from 4, 966 million pounds to 5, 424 million pounds. It looks that investors have to get lower profit margin, but it provided lower risks of investments and investors because higher gearing means a larger proportion of profits are used to pay interest on loans, instead of being reinvested or

paid to shareholders. Therefore, it might be a good situation for most investors.

In addition, Sainsbury's will create 20, 000 new jobs over three years and the new jobs, which come after the creation of 13, 000 jobs created in the last two years, will be at supermarkets and convenience stores across the UK(BBC, 2011). Most investors become more confident for Sainsbury's. The operation capacity of Sainsbury's can be reflected by the operating profit margin, which was 3. 56% in 2010 and 4. 03% in 2011. It is obvious to find that the ability of profit taking in Sainsbury's went up between 2010 and 2011.

The reason for this might be higher sales from 19, 964 million pounds to 21, 102 million pounds and higher profits. It is easy to find that from the news,' In May 2010 Justin King announced that Sainsbury's pledged to involve each of its 850 stores in the promotion of the Paralympics after the multimillion-pound deal with the London Organizing Committee of the Olympic Games and Paralympic Games to be the main sponsor of the London 2012 Paralympic games' (SkyNews, 2010) In terms of the return on capital employed ratio, it was 6. 4% in 2010 and 7. 47% in 2011. It is a result of increased total assets and some increasing in non-current assets such as property, plant and equipment between 2010 and 2011. According to the ROCE, the ability of value creation in J Sainsbury plc is very strong and fine management could be expressed. The asset turnover ratio plays a significant role in the target system of financial analysis. In the financial results of Sainsbury's, it has a slight increase from 184% in 2010 to 185% in 2011.

It means that the operating efficiency of total assets and marketing capacity in Sainsbury's has become better, and then the company generated more profits. For example, Sainsbury's plans to open Whitchurch store and not only offer more jobs, but also get more profits (BBC, 2010). Conclusion In conclusion, J Sainsbury plc gets a great development in industries of supermarkets in UK, and it has an increase in its sales and higher profits. On the other hand, Sainsbury's has utilized assets effectively and efficiently and had a strong management.

However, compared to other competitors such as Tesco and Asda, it is lack of enough evident advantages such as profits of fast growth and strong capital turnover. The stable profit and lower risks can be provided if there are not better options. Limitation This report of J Sainsbury plc is limited by some factors such as quality of financial statements and inflation. Firstly, although all ratios from this report are based on financial statements of J Sainsbury plc annual report, some data which is excluded from usual financial statements such as human assets and internally-generated goodwill and brands is absent.

Secondly, J Sainsbury plc annual report is between 2010 and 2011 so that the record from ratios only is a 'snapshot' of the business from 2010 to 2011. Thirdly, inflation is one of the most significant factors which affect the veracity and authenticity of this report. In recent years, the rate of inflation has kept up because of energy sources so that there is a time lag and it might cause the data of same parts in different years to display different trends.