

Walmart vs target essay sample



Internal and external stakeholders of a company require ways of looking at how a company operates to determine the viability of that company. The best way to approach stock valuation is by using many different methods, the same way you would if you were valuing a used car or a house. Checking out what similar houses in a neighborhood have sold for is akin to relative valuation, and walking through a house you're interested in-looking at the construction and quality of materials-is similar to intrinsic valuation. A judicious mix of both methods serves the investor and senior management well. Various forms of analysis are available by using the financial information reported by a company. These reports are called financial statements and include the balance sheet which reports a companies current assets, liabilities and owner equity. The income statement reports and organizations revenues and expenses during a given period. Cash flows help to identify how cash in entering and leaving the company.

All these statements are provide to the public when a company publishes mandatory Quarterly and annual reporting to the Securities and Exchange Commission. These reports are know as 10Q and 10K reports respectively. Our team has elected to review Wal-Mart and Target for these analyses. Wal-Mart was able to report record sales and record earning in one of the most difficult business environments. Wal-Mart took a leadership position in its industry and in the country to help bring the country back into positive financial position since Sept 11, 2001. The cash flow statement shows a steady growth of the business and tight controls of their cash. It appears that the company elects to maintain approx 2 billion in cash or cash equivalent for flexibility and operations. Any addition cash earned above the 2 billion is

used for adding store locations, renovation, or buying back company stock while the stock market was depressed.

Key financial activities to note for Wal-Mart over the last reporting year that affected the company's cash position included their sales increased by 1.5 billion and an larger than normal write-off of approximately 3 billion a year. Accounts payable represented a 400% percent increase and tax write-off increased by 300% over the previous years. In the financing area Wal-Mart brought back their own company stocks on the market. The dividends stayed consistent with the previous years. In prior years Wal-Mart raised money by issuing bonds to support their store growth. The bonds are maturing and the bond payments have shrunk compared to previous years. Wal-Mart has become the world's largest retailer by offering low prices and one-stop shopping.

Supercenter stores, which combine groceries with general merchandise, have been the company's fastest-growing division over the past five years. Wal-Mart is also expanding overseas through acquisitions. Target Corporation generates cash from its three major store brands (Target, Mervyns, and Marshall Fields) and its credit card business. Target is the number two store in the general retail industry behind Wal-Mart. Both companies are growing and have well managed business plans, yet they approach their financial handling of the business differently. Target has drastically increased its financing activity and has elected to become much more liquid. This liquidity will help to position them for future turn-arounds in the market and take advantage of market growth, should it continue.

Target has maintained their focus on merchandise and fashion excitement and intensified focus on being stocked and prices right throughout the store. Target has invested billions in new stores, remodels, and technology to improve the shopper experiences, expand their market share and maintain their competitive advantages. The vision of Target is to engage in creating greater value for our guest, for the employees, for the shareholders and the community. The shoppers at Target experience a store that is value oriented, yet maintains a clean décor and environment. Target has done a nice job of carving out a sizable and profitable retail niche for itself, and its fashion-forward sense in apparel and home decor should continue to win customers. They strive to have a few unique, upscale brands at lower cost than competitors. The introduction of “cheap chic” products with exclusive name brands (like Michael Graves, Danskin, and Eddie Bauer) leads to higher margins and a way to differentiate Target stores from the competition.

The company also vows to match pricing on like items that Wal-Mart would carry. Their plan is to cater to those who wish value without the crowds and minimal service of their competitors. The internal events that affected Target included significant increase of net earning by three hundred million, increased depreciation of about 2 million over previous years, and paid much less taxes. Short term assets gained fifteen million dollars. Target has no outstanding loans or bonds. Like Wal-Mart, Target also has been buying back their stock but to a much lesser degree. The company also generates considerable revenue from its credit card operation. So how do these two retailers compare in the way they structure their financial business? To determine this and make like comparisons, ratio analysis must be employed.

We will take a look at a few key ratios for comparison. Current ratio is one measure of liquidity and is calculated by dividing current assets by current liabilities. The lower the companies current ratio, the less the liquidity of their assets.

Return on Sales (ROS), also known as Profit Margin measures the value is the Net Income After Taxes for the trailing 12 months divided by Total Revenue for the same period and is expressed as a percentage. This indicator is very useful when comparing stocks within similar industries. A higher profit margin indicates a more profitable company. On the other hand, a low profit margin can indicate pricing strategy and/or the impact competition has on margins.

These numbers would indicate that Target is slightly more profitable or has less pricing pressures upon them than Wal-Mart.

Earnings Per Share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Companies are required to use new reporting requirements that use diluted earns per share which subtracts dividends paid to preferred stockholders from net income.

Debt Ratio is a ratio that indicates what proportion of debt a company has relative to assets. It is calculated by dividing total debts by total assets. A debt ratio greater than 1 indicates that a company has more debt in relation to assets, and a debt ratio less than 1 indicates a company has more assets relative to debt.

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