

Tate and Lyle performance analysis essay sample



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BSCs are used extensively in business and industry, government, and nonprofit organizations worldwide. Gartner Group suggests that over 50% of large US firms have adopted the BSC. More than half of major companies in the US, Europe, and Asia are using the BSC, with use growing in those areas as well as in the Middle East and Africa. A recent global study by Bain & Co listed balanced scorecard fifth on its top ten most widely used management tools around the world, a list that includes closely-related strategic planning at number one.

BSC has also been selected by the editors of Harvard Business Review as one of the most influential business ideas of the past 75 years. One of the most powerful elements in the BSC methodology is the use of strategy mapping to visualize and communicate how value is created by the organization. A strategy map is a simple graphic that shows a logical, cause-and-effect connection between strategic objectives (shown as ovals on the map).

Generally speaking, improving performance in the objectives found in the Organizational Capacity perspective (the bottom row) enables the organization to improve its Internal Process perspective (the next row up), which, in turn, enables the organization to create desirable results in the Customer and Financial perspectives (the top two rows). For each objective on the strategy map, at least one measure or Key Performance Indicator (KPI) will be identified and tracked over time.

KPI's indicate progress toward a desirable outcome. Strategic KPIs monitor the implementation and effectiveness of an organization's strategies,

determine the gap between actual and targeted performance and determine organization effectiveness and operational efficiency. The company's primary goal is to deliver long-term sustainable and profitable growth. In a year of slowing economic growth and considerable uncertainty in the Eurozone, 2012 was another decent year for Wolseley.

Underpinning this were three main factors: better customer service by their business units, continued like-for-like revenue growth trends particularly in the USA and Canada, and their ongoing focus on operational efficiency which has delivered further improvements in the trading margin of 40 basis points, despite challenging markets. Ratio Analysis Ratios are another analytical method that is used to find areas of strength and weakness by relating multiple line items.

Furthermore, there is no universally accepted set of ratios that will provide a complete picture of a company's prospects, and the selection of ratios should be based on clear objectives and a firm understanding of the ratios (Subramanyam & Wild, 2009). Ratios will be discussed under 5 categories as suggested by Fraser & Ormiston (2013); profitability, liquidity, leverage, activity, and market ratios.

a) Liquidity

Maintaining long-term profitability is the key to attracting financial capital, but it is necessary to survive the short-term by meeting the financial obligation on a timely manner. Liquidity ratios measures whether a company is liquid to pay its financial obligation. Liquidity ratios include current assets such as inventory which overestimates the liquidity status, and a more

contemporary method such as the cash flow analysis is more appropriate to make a more incisive interpretation.

b) Solvency

Market ratios are affected by inflation and earnings manipulations resulting in showing distorted figures. Furthermore, due to the market inefficiency and the ratio depending on market value, ratios will not show the true value of the company. Tate's EPS has a steady but slow increasing trend over the years, implying that it is strengthening its share value, T&L show a slope due reason discussed earlier but, has a higher amount compared Tate due to the size of company.

c) Working Capital Management

Known as asset utilization ratios, measures the efficiency of a company to convert assets, liability, and capital accounts into cash or sales. Inventory and asset turnover shows how many time inventory was sold and replaced over a period, and revenue generated relative to its assets respectively. Based on the illustrations, Tate has a higher inventory turnover due it being in the wholesale industry, while T&L has to manage inventory of manufactured goods. Tate also has higher asset turnover overall but with slightly decreasing trend since 2015, showing signs of inefficient use of assets, while T&L is increasing from 2016. Turnover ratios only show how well a company is earning profits but not how well it generated it and therefore, it lacks qualitative information.

d) Profitability

ROA measures how efficiently a company is generating profits from its assets. Tate has shown steady growth while T&L show similar slope which could be due to similar reasons. Profitability ratios such as ROA do not show the cause of increase making it hard to determine what caused the increase in profitability. The effects of inflation make comparison with the past difficult and require careful attention. Therefore, a better system should be used that shows the cause of the increase.

e) TATE Growth Ratio

NPM measures the percentage of revenue when all costs of sales are deducted. It measures how much a company retains as earnings for every £1 of goods sold. Based on the above figure, T&L has a higher margin due to the scope of the business, which is the manufacturing of food ingredients and having a global presence while Tate is present in the UK and India. However, Tate has a steady growth, while T&L's steep slope in 2015 could be due to the accident that occurred in Singapore and the US which caused supply chain issues [...].

Key Performance Indicators

There is a certain limitation inherent when using relative or absolute figures, where it does not account for the effects of inflation, structural changes, and not having a strategic direction that considers more than just financial measures when analysing. Therefore, using the company's internal Key Performance Indicators (KPI) is considered a more effective and strategic method. KPI measures the critical success factors determined by the company, where meeting those goals can achieve the strategic objective of the company [...].

KPIs are a product of the balanced scorecard method that includes four

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perspectives, namely financial, customer, internal process, and learning and growth [...]. It considers non-tangible factors which are important in value creation, making it a more strategic tool. It measures against future goals compared to the past, which makes more realistic and relevant, and overcomes limitations of using past data.

[DRAW HISTOGRAM ON TATE'S PERFORMANCE]

The above figure shows Tate's KPI, where customer satisfaction maintains a steady position and operating profit with an increasing trend since 2013. Sales change has grown 5%, showing a strong growth. However, net cash has shown a decreasing trend, where the slope in 2016 is due to the £61.9m paid in dividend and £45m spent on the acquisition of Budgens and Londis. There are certain limitation KPI's itself where the measures and goals are set internally, where easily achievable goals are set due to bias and attracting investors through false achievements.

Introduction