

Woolworths essay sample

Business



The purpose of this report is to provide a strategic analysis of Woolworths in its Australian retailing and grocery industry. There are some external factors can be affected to Woolworths strategy. To be analyzed how these factors impact to Woolworths strategies we would use Porter forces five models as a framework for analysis. They are threats of new entrants and substitute products, rivalry among competing established competitors, threat of substitutes and bargaining power of Woolworths' suppliers and customers.

This report also provides the company situation analysis which will be analyzed the internal environments of Woolworths. In this analysis, we will use SWOT analysis which includes the strengths, weaknesses, opportunities, and threats Woolworths possesses. Woolworths' scope of operations, size of business is also one of the internal analysis Woolworths has to analyze in order to grab opportunities and avoid threats. Besides, it is also given a brief analysis of Woolworths current strategy in order to response their competitor's strategies.

This report also provides some recommendations for Woolworths in order for it to stay competitive in its retailing industry, such as establishing loyalty programs for its customers and managing its efficiency in order to sustain its core competencies for its long-term success. Finally, analyzing the financial performance and stakeholder analysis by using graphs and quantitative data have been used to support the report. The major finding this analysis is proving the stable financial conditions of Woolworths as well as the interests of stakeholders. , It means that Woolworths have a good economy condition based on its financial position, so it caused to the benefits for its stakeholders.

2. Introduction

The purpose of this report is to define how successful is Woolworths in the their current respective industry sector – Consumer Goods Retail in Australia; and to predict and analyze how Woolworths will perform in the future. Only secondary data are used in this report as there is very limited primary data in public databases. Various sources are used to provide analysis from different point of views. These include journals, news articles, and company annual report, collected from Internet databases, websites and Woolworths' official Website. The report also investigates the fact that the analysis conducted has limitations. Some of the limitations include: •Forecasting figures not provided

- Nature and type of company unknown
- Data limitations for current economic conditions due to insufficient information or details provided i. e. monthly details not known, results based on past performances

3. Industry Analysis

In order to succeed in its retailing industry, Woolworths need to analyze and understand its external industry environment. Understanding enough about the external environment is very important for the success in competitive advantage of Woolworths. In this case, analyzing and understanding of Woolworths' external environments, matched with the analysis of Woolworths' internal environment will allow Woolworths to create and develop its strategic planning and actions to get the best result in market share battle with other rivals. Finally, external information will also allow

Woolworths to adapt and change accordingly to its surrounding in order to stay competitive.

Porter's Five Forces Analysis

Michael E. Porter's five forces analysis can be used as a framework for the industry environment analysis of Woolworths. It comprises of rivalry among competing established companies, threat of new entrants, threat of substitute products or services, bargaining power of suppliers and bargaining power of customers (Hill et al, 2007).

3. 1 Threat of new entrants

As the Australian retail industry with Woolworths and only a few other major players dominate the industry. Therefore, it is seems to be very difficult for new companies to compete on the same level. As the result, the threat of new entrants for Woolworths in the industry is seems to be low. There are some reasons can be explained for this reason. Firstly, Woolworths have a high market share in the industry. In addition, its business size is very big which includes Australian overall market and some other foreign markets. A lot of selling stores around Australia are good example. Moreover, the expensive start-up costs are another barrier for new competitors. Finally, the high annual profit of Woolworths is hard for others to enter the retail and grocery industry in Australia.

3. 2 Rivalry among established companies

The Australian retail and grocery industry has a high level of concentration ratio because the available of some major competitors competing in the

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industry such as Woolworths Ltd, Myer or Coles (Beaumont, 2004). It means Woolworths have a high concentration of market share in the Australian retail and grocery industry. In addition, the intensity of those strong competitors is boosting Woolworths Ltd have been continuously creating a competitive advantage. Using effective strategy such as low price, selling fresh food, and 24 hour delivery service, Woolworths Ltd and its subsidiaries such as Safeway, Dicksmith and so on are continuously competing with other rivals for a strong position in the industry (Porter, 1979).

3. 3 Bargaining powers of buyers

Woolworth's customers have a highly powerful bargaining power. The reason is most of Woolworths selling goods are from individual customers. They can easily change to other major competitors that offer similar product but with cheaper price. According to Miranda, Konya & Avila (2005), it was found that customers are drawn towards price and convenience as special attributes of making a purchase at a store. Price is strongly connected with customers' relationship and the store. In addition, there are a lot of substitutes to Woolworths's goods and products, so customers of Woolworths possess a strong bargaining power.

3. 4 Bargaining power of suppliers

Safeway Supermarket's suppliers have a weak bargaining power. According to Porter (cited in Hill et al, 2007), one of the characteristics of strong and powerful suppliers is that if the buyer in the industry is not an important customer to suppliers. As in the retail and grocery industry, Woolworths's business like Safeway Supermarket holds a big size of market share, so it is

an important customer to its suppliers. Safeway Supermarket is also a dominant player in the retail industry, which means that supplying goods to Safeway Supermarket is one of the suppliers' important earnings. Therefore, the suppliers of Safeway Supermarket do not have a strong bargaining power.

3. 5 Threat of substitute products or services

There is a high threat of substitute products for Woolworths Ltd's businesses like Safeway supermarket or Dicksmith. Let's make an example with Safeway in supermarket industry. All of the major supermarkets in Australia offer substitute products. Therefore, Safeway need to create effective strategies to keep their customers and build brand loyalty. According to Hill et al. (2007), the most important thing in the supermarket industry is price competition. In order to maximize the profits, Safeway have been buying goods from its suppliers and selling to customers. As the result, substitute products of Safeway will have less attention or attractiveness from its customers (Porter, 1979). For example, the product is supplying at Safeway are food which can be bought easily at other competitors In addition, Safeway's rivals can be applied low price strategies in order to response with Safeway pricing strategy For instance, Alde offers imported brands at very low prices

4. Company Situation Analysis

4. 1Size and Scope of Operation

Woolworths limited is the second largest retailer in Australia which have primary activities in Supermarkets and Liquor. Grocery represents 85. 6 percent of Woolworth's business. Woolworths Ltd has annual sales of \$38

billion. Woolworths's major brands are as follows: Woolworth's supermarket, Safeway, Metro, Big W, Dick Smiths Electronics and Dan Murphy's. Besides, supermarkets are also operated in New Zealand

4. 2Objective and Strategy

Woolworth's main strategies are to increase efficiency and be cost effective. To achieve this Woolworths has been using an every-day low price strategy

Woolworths' strategy is to offer customers very low prices all the time, not just sale specials. The every-day low prices strategy addresses this, and attempts to offer customers everyday lower prices through price reductions on all products. For Woolworths Every-day lower prices strategy to deliver as it promises to customer, while also making a substantial profit from price cutting, an everyday lower cost strategy must be in place.

4. 3SWOT analysis

4. 3. 1 Strengths

Woolworths has the advantage of having the largest percent of market share in the Australian retail and fresh food grocery industry. Woolworths is a powerful retail brand and has a reputation of low prices, convenience, quality of service, wide range of products as well as fresh food According to the Woolworths 2010 annual report, Woolworths has over 3000 stores supermarkets and serve million customers in Australia and New Zealand. Woolworths is available in almost every major metropolitan shopping centre in Australia. In addition, a huge number of supermarkets create a mobility, convenience and accessibility for customers.

4. 3. 2 Weaknesses

Woolworths Ltd is very popular in Australia and New Zealand. It creates a high competitive advantage for Woolworths when compared with other competitors in Australian and New Zealand market (Datamonitor, 2007, p. 15). If Woolworths want to have more success, they have to open more stores in other new markets like Asian countries. However, this is one of Woolworths' weaknesses. When compared Woolworths with other powerful international competitors such as Wal-Mart, which are available in Asia, Europe, US, Canada and so on, Woolworths does not have any chance to compete unless it also expand internationally. With the rapid growth of technology, especially is the Internet, Woolworths have introduced the Woolworths's Internet store, (e-business). However, it immediately caused to the decline of sales in stores, especially at Christmas.

Besides, Woolworths offers many similar products under one roof which may make it harder for Woolworths to differentiate its " fresh" or " select" brands. Woolworth's size may present potential weaknesses due to the huge span of control. 4. 3. 3 Opportunities

Woolworths is growing rapidly in the Australian retail and grocery industry. They are moving into new markets segments within Australia as well as international markets such as New Zealand and Asia. Woolworths are always looking at merging or forming alliances with other global organizations for example wow joint venture with the Tata group in India (Datamonitor, 2007, p. 16). 4. 4. 4 Threats

Woolworths experiences ongoing competition threats from other major retailers such as Myer or Coles. In order to response to Woolworths' s everyday low price strategy, Coles have introduced the price rewind strategy. In addition, with the objective to expand its business to other new markets like India, Woolworths will be faced with the high competition with already growing competitors such as Wal-Mart (Datamonitor, 2007, p. 17). Selling goods widely using the Internet have a high competition. Woolworths have an online store, but it doesn't sell everything in the shops. In addition, the products are quite expensive and postage and packaging is far higher priced over other stores. Therefore, customers prefer to purchase at other cheaper stores.

5. Financial analysis

5. 1 Performance/ Profitability

Profitability ratios measure the efficiency in which the company its resources to generate profit (Hill et al, 2007). The following uses the profitability ratios of Gross profit margin, Net profit margin, Return on Assets and Return on Equity as indicators on the measures of the company's profitability capabilities.

This table shows the various annual profit ratios of Woolworth Limited

20102009200820072006

Profitability (%)

Gross Profit Margin25. 9125. 6625. 3025. 3225. 03

Net Profit Margin3. 893. 693. 443. 042. 68

Return on Asset 11.99 11.88 11.59 10.42 9.16

Return on Equity 26.69 26.95 27.15 24.52 25.19

Gross profit margin shows us the percentage of sales to cover general expenses and operating costs (Hill et al, 2007). According to this chart, the Gross Profit Margin of Woolworth Limited holds an increase trend. With slight decrease between 2007 and 2008, this could be the result of many factors. Such as the Global Financial Crisis (GFC) that was in motion since 2007 and finally erupted in late 2008. However, worry not, as the following years showed Woolworth Limited adjusted to the GFC and steadily grew into an increase trend. This suggests that Woolworth limited recuperated from the GFC to maintain a strong market share and strengthen their defenses against the GFC.

Net profit margin shows us the percentage of which profits are earned through sales (Hill et al, 2007). Similar to the Gross profit margin ratio, we see that the profitability performance in relation to this ratio also on an increase. A worthy mention is that the increase is very smooth and very stable. From this we can see that Woolworth Limited is able to maintain a very steady growth rate even throughout the Global Financial Crisis. Various factors on how Woolworth limited can achieve such feat can be that their Budget management is incredibly accurate. Only with a plausible forecast can a company that big to maintain their posture throughout the GFC.

Return on assets measures the profit generated before tax by the available assets to the company (Hill et al, 2007). According to this chart we see another increase in trend. Nothing really stood out in this ROA chart, just

very steady growth of profit generated as well as remained in a positive growth trend

Return on equity measures the percentage of profit earned using the shareholder's equity in the company (Hill et al, 2007). According to this chart, the recent three years spike compared to the earlier years shows that more is returned to the shareholders. That the investors were able to receive better returns for the years 2008 to 2010. And this show that Woolworth Limited is able to be more efficient and able to improve on their earlier years on productivity levels.

Overall the company's profit generating capabilities have increased not only smoothly but also dramatically. Especially during the last few financial years, Woolworth limited really recuperated from the GFC to still show signs of growth injected with confidence to expand further.

5. 2 Liquidity and Capital Structure (Leverage)

Liquidity ratios measure a company's ability to meet short-term obligations such as debt. Liquidity is determined by how easily an asset is able to be converted into cash (Hill et al, 2007).

2010 2009 2008 2007 2006

Liquidity

Current Ratio 0.730. 760. 700. 760. 85

Quick Ratio 0.250. 240. 230. 260. 37

The current ratio measures the extent in which the short-term are covered by liquidated assets (Hill et al, 2007). Unlike Quick Ratio only measures the

liquid assets, Current ratio includes all the current company assets.

According to this chart the Current Ratio mostly at 0.7 to 0.8, the benchmark in Australia is at 2.0. Therefore, it is seen that these company current assets cannot cover their current debt. Also if any sudden downturn in the company investment sector such as a failed business venture then the company will be plunged into bankruptcy.

Quick ratio is similar to current ratio. It is the liquid asset that can be immediately converted for cash on a short order. The current benchmark for quick ratio among Australian companies is at 1. With that in mind, the quick ratio of Woolworth Limited show that dramatically below the benchmark.

This means that at the best it is only at 0.85 and the worst period is at 0.23. Woolworth Limited's ability to quickly repay is very poor. And at the slightest downturn investment will face bankruptcy.

Overall, Woolworth Limited does not seem to show a strong liquidity ratio to efficiently cover their debt if the worse came to the worst.

Leverage

A company is said to be highly leverage if it uses more debt than equity. (Hill et. al, 2007)

20102009200820072006

Leverage

Debt to Asset 0.58 0.59 0.60 0.62 0.68

Debt to Equity 1.36 1.42 1.51 1.61 2.14

Debt-to-Assets ratio measures the extent to which borrowed funds have been used to finance a company's investments (Hill et al, 2007). According to this chart, the debt to asset ratio declines annually meaning that Woolworth Limited's debts are getting less every year.

Taking into account the previously mentioned profitability ratios, we can determine that the company has a heavy reliance on outside funding such as lenders, creditors and loans to finance and generate company sales and profits. As previously mentioned, the company's profitability ratio percentages have decreased over the last few financial years, which can be said to be contributed to the increase in the amount of expenses within the company.

5. 3 Peer Analysis

Woolworth Limited compared to other industry leaders through peer analysis result in a healthy and prospectable future. After comparing Return on Equity of Woolworth average to the industry average; Woolworth Limited is by far the leader in returning profit to their shareholders and investors alike. At 11.99 percent Woolworth Limited has truly lead the pack with an average of only 4.96 percent. Further on with Return of assets, the industry average is at 1.23 percent compared to the Woolworth Limited 0.73 percent low. This reflects on Woolworth's commitment to better utilize their assets better and more efficiently in the future. And urge a better resource management movement for Woolworth Limited. As seen previously regarding an extremely low current ratio with Woolworth Limited is also seen averaged throughout the industry with an average of 7.34 percent suggest that low liquidity is universal in this industry. Lastly, through peer analysis we focused on

Woolworth Limited's imminent rival in Australia Wesfarmers Limited to finalize this summary.

This chart shows the difference between industry leaders Woolworth and Westfarmers Limited compared to the industry average. This proves that Woolworth Limited is indeed leading the industry with strong investor return and above average utilization of assets. However, need to improve on ability to liquidate assets to cash. But that seems to be a universal industry hazardous zone.

6. Stakeholder analysis

Hanson (2010) defines Stakeholders as 'the individuals and groups who can affect and are affected by the strategic outcomes achieved and who have enforceable claims on firms' performance.' Primary Stakeholders (Refer Appendix 1) are employees, customers, investors, and shareholders, whose continuous affiliation are essential to the firm's survival (Ferrell, Fraedrich & Ferrell 2009). All news articles are dated within financial year 2010, to reflect better analysis of the stakeholder satisfaction with the company consistent with their Corporate Responsibility Report 2010 (Refer Appendix 2).

In 2010, Woolworths conducted market research studies (including in-store, helpline and website feedbacks), customer focus groups and customer immersion programs to better understand the needs of customers. The outcome identified interest of Customers in quality, choice, good service, value for money and healthy options. Sensory Kitchen (Refer Appendix 3) was also created in bid of further satisfying customer's quality expectations. Woolworths also reported in the Green Shopper Survey that 84% of

consumers are environment-conscious with shopping decisions (Woolworths Limited, 2010). It was reported that Woolworths no longer provide plastic bags for purchases of three items or less to reduce impact on the environment (Fineran, 2010). However, a market research conducted by Colmar Brunton reported that Woolworths(12%) is behind other supermarkets such as Aldi(9%) and Coles(9%) in terms of customer satisfaction but customers were generally satisfied with pre-packed fresh food and store access (Burton, 2010). Investors for Woolworths are interested in competitive returns, governance, transparency and long-term business sustainability. Woolworths responded with quarterly investor briefings and AGM for all shareholders and participated in the Carbon Disclosure Project for transparency.

The company also provides call center service, written contact with senior management and email contact with the Investor Center to reassure investors of their governance (Woolworths, 2010). As for returns, NamNews reported a 5.5% share rise late February 2010, recording the biggest share rise in 15 months with a A\$1.1bn net profit in 6 months prior 3 January 2010 (NamNews, 2010). However, looking deeper, it was also found that this is mostly due to governmental support and investors are worried about the company's financial performance without governmental help (Hyam & Janda, 2010).

Woolworths found that employees desired job security, training, safe and healthy working environment, and leadership for engagement (Woolworths, 2010). Although the company claims to take work safety seriously, a recently settled compensation case with a butcher who had back injury in 2003 raised

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doubts of the validity of that statement (Hurst, 2009). Employees also wish to contribute to the environment and the community during work, in which the company responded with Eco Ambassadors where training is provided and pay rise with active engagement (Woolworths, 2010; Oglivy, 2008). Woolworths also reported engagement average levels over the Australian CLC benchmark, covering discretionary effort, rational commitment and emotional commitment along with introduction of leadership qualities for improved team performance (Woolworths, 2010). Woolworths' Suppliers expected fair treatment and long-term relationship opportunities.

As to such, Woolworths drew up Annual Shared Objective plans for main suppliers, hold supplier briefings, and provide quarterly newsletters and vendor website for information access. They also hold annual awards dinners to acknowledge innovation and supplier relationships with a \$100, 000 Fresh Food Grant for companies with sustainable practices (Woolworths, 2010). However, several news articles reported dissatisfaction from suppliers on ethical audits early 2010, finding them imposing and their interest is in obtaining higher margins and less in ethical outcomes (Ockenden, 2010; Hall, 2010). Early 2010 also saw Woolworths receiving investigation on allegations for coffee and tea supply corruption with the sacking of their national coffee buyer (Speedy, 2010). Woolworths' decision to no longer source milk from National Food but from Parmalat and Murray Gouldburn raises questions with regards to long-term relationship opportunities seeing as National Food has been their sole supplier since 2002 (NamNews, 2010).

Business Spectator also reported rumors of Woolworths sourcing liquor from Independent Liquor to move away from Foster's Group Ltd and Lion Nathan

Ltd (Business Spectator, 2010). As for Community, it is expected that Woolworths contribute to the community and take into consideration the needs of the community in terms of new stores and existing store changes (Woolworths, 2010). Woolworths had continued to expand its online supermarkets in Northern Queensland and in South Australia (Adelaide) to serve more households (business. newsarticles. au; insideretailing. com 2010). The company's Dan Murphy's liquor label was also finally brought online to facilitate easier shopping (Stafford, 2010). Also, Woolworths announced it will now expand into the highly lucrative \$24 billion hardware sector by making a takeover bid for listed hardware chain Danks Holdings (Refer Appendix 4), the second biggest hardware distributor in Australia, providing a larger range of products for the community (Business. com. au 2009).

Moreover, with the program launching by Woolworths Gungahlin to convert surplus food from the store into meals for the needy, Woolworths is lending a helping hand with the social problem situation in Australia (katelundy. com. au, 2010). The Government's interest in Woolworths is that they are law and regulation abiding and active participation in providing valuable opinions in public policy discussions. To that, Woolworths reported that they consult government and regulatory bodies for advice before policy implementation (Woolworths, 2010). Yet, in late 2009 the Government was reported to threaten to take action against Woolworths and Coles for the fast-rising grocery prices, worried that the duopoly may cause consumers to lose out (Ja & Godfrey, 2009). Woolworths CRR also reported their engagement in Australian Government's Food and Health Dialogue where it was agreed that

salt levels in breakfast cereals and breads will be reduced (Woolworths, 2010; Ausfoodnews. com. au, 2010).

7. Summary and conclusion

The report is an analysis about the factors creating success for Woolworths in the Australia retail and grocery industry. It shows that Woolworths is one of the top brand names in the Australia, and now is more popular in other countries. The first parts of report are given a brief analysis about the competitive situation of Woolworths in the industry. Using Porter's five forces model as the framework of the analysis have showed that Woolworths have more competitive advantages than other competitors in the industry.

Another section is coming with the current situation analysis of Woolworths. By applying the SWOT analysis, we can see that Woolworths have more internal strengths and weaknesses to face. Woolworths is proud that they have been giving to the customers more quality products at the lowest price it. Applying the everyday lowest price strategy has made Woolworths or its subsidiaries like Safeway have more competitive advantage to compete with other major competitors. Besides, in the analysis, it is also given the opportunities and threats of Woolworths in the new markets when compared with other powerful international competitors like Wal-Mart.

Woolworths still need more effective strategies to win the completion with these strong competitors. Next, coming to financial analysis, the report specifically examine and analyze the current financial situation analysis of Woolworths based profitability ratio, capital structure and liquidity, and peer analysis when compared to other competitors such as West farmers. It showed that Woolworth Ltd is indeed leading the industry with strong

investor return and get more financial advantages than others in order to obtain a good reputation. Finally, ending with stakeholder analysis is given to us what the stakeholder elements such as customers, investors or suppliers need and want from Woolworths Ltd. Although they have different positions, but there are some common values that they can get from the Woolworths.

They are all desires for more benefits which raising their values. In short, facing with more challenges from other competitors in the industry, Woolworths should continue with the current store image as it meets the current customer's trend. It should continue to supply more quality goods with the best price in order to create more customers attractiveness. In addition, innovation and development of store structure should be focused. Besides, understanding of competitor's strategies and anticipate moves of retaliation in order to response their strategies is very important for Woolworths.