Overview Of Two Companies Entering Uk Markets

Domestic distributors and retailers are trying desperately to expand market share in their own backyard and are ahead of the increasing foreign competition. Therefore, these days understanding competitors and their operations became one of the most crucial factors to UK retailers. That is the reason why this assignment looks into the Information and Finance Management of Morrison and Tesco. Tesco is used for Information Management, whilst Morrison and Tesco are analyzed in Finance Management.

Morrison and Tesco, two giants in retailing, have their specific advantages when entering UK retail market. They can be listed as huge capital sources, modern technologies, experienced executives, and skillful business strategies. Together with the opportunity of having various goods with competitive prices brought to UK customers, there are some concerns about domestic small shopkeepers, who currently account for the majority of retail sales. How should they prepare for the fierce competition? Does the government have to do anything to harmonize the growth of international and domestic companies? Looking at each company separately, Morrison various retail formats compete against Tesco’s strategies. However, are there any chances that the two giants will shake hands to dominate the market, just like the duopoly of Pepsi and Coke?

Finance Management:

This is the comparative report of Ratio Analysis of Morrison and Tesco that is, the two organizations are evaluating same retailing industry. The figures are taken from their Annual Reports in 2008 and 2009 and are available on each company’s official web site.

Company background:

Tesco plc: Tesco superstores are standard large supermarkets consists of stocking groceries and smaller range of non-food goods. Previously the store was simply branded as 'Tesco', however a new store at Liverpool is the first to use the format brand 'Tesco Superstore', above the door. The Tesco's brand is built upon a heritage of providing customers with healthy, safe, fresh and tasty food. Today it differentiates itself by offering a broad range of great quality products at fair prices with particular emphasis on fresh food, a strong ethical approach to business and continuous leadership and innovation.

Morrison plc: UK's fourth largest food retailer with 403 stores. Its business is mainly related to food and grocery – the weekly shop. Uniquely the sources and process most of the fresh food that they sell though their own manufacturing facilities, giving close control over provenance and quality; and they have more people preparing more food in store than any other retailer does.

Ratio analysis: Please refer to Appendix for the calculation.

Profitability Ratios:

According to Jones, (2006) the profitability ratios identify how profitably business is operating. Profit is key measure of business success and therefore ratios are keenly watched by both internal users such as management and external users such as shareholders.

Gross Profit Margin:

According to Jones, (2006) the gross profit margin ratio tells us about the profit a business makes on his cost of sales, or cost of goods sold. It is a very simple idea and it tells us how much gross profit per £1 of turnover a business is earning.

Gross profit is the profit we earn before we take off any administration costs, selling costs and so on. So we should have a much higher gross profit margin than net profit margin.

2008

2009

Tesco plc

6.74

7.32

Morrison plc

11.41

15.65

Net Profit Margin:

According to Jones, (2006) the net profit margin ratio tells us the amount of net profit per £1 of turnover a business has earned. That is, after taking account of the cost of sales, the administration costs, the selling and distributions costs and all other costs, the net profit is the profit that is left, out of which they will pay interest, tax, dividends and so on. The net profit is another key financial indicator. Whereas gross profit is calculated before taking expenses into account; the net profit is calculated after expenses.

2008

2009

Tesco plc

3.00

3.61

Morrison plc

1.63

3.91

Return on Capital Employed Ratio:

According to Jones, (2006) Return on Capital Employed Ratio (ROCE) tells us how much profit we earn from the investments, the profit that a shareholder has made in his company. This ratio considers how effectively a company uses its capital employed. It compares net profit to capital employed.

2008

2009

Tesco plc

5.81

7.51

Morrison plc

-0.12

5.00

Return on Total Assets Ratio:

According to Jones, (2006) the rate of return Assets ratios are thought to be the most important ratios by some accountants and analysts. One reason why the rates of return ratios are so important is that they are the ratios that we use to tell whether the managing director is doing their job properly or not. It will give an indication whether management of company is managing their assets properly or not.

2008

2009

Tesco plc

4.95

5.60

Morrison plc

1.71

4.60

Evaluation:

As evaluating the profitability ratios of both the companies, performance of company in terms of it cost and revenue can be measured. In both years, Tesco produced a lower level profit than Morrison. However, two consecutive years of 2006 and 2007, we can see the increase in Gross Profit Margin of the both the companies. In fact, Morrison had a quite increase (from 11.41% to 15.65%) than Tesco did (from 6.74% to 7.32%). The increases in Gross Profit Margin imply the increases in profit before interest payable and taxation of both Tesco and Morrison. Compare to Tesco, Morrison have good gross profit margin in two years and also they are increasing their profit margin in the coming years.

The net profits are calculated after expenses and the profit which is left is used to pay taxes. After comparison, Tesco (from 3.00% to 3.61%) is in good position similar to Morrison (from 1.63% to 3.91%) and successfully pays its future taxes. After observation it can be seen that Morrison has show quite good growth when compared to Tesco that is, in two years. In 2006 Morrison was facing problem on capital employed, but in 2007 it has shown a drastic improvement and Tesco is performing well in terms of Return on Capital Employed. Morrison had started utilizing its asset fully and is showing improvement in it. Tesco has consistent performance in terms of its asset turnover. According to Robertson (2007), retailers tend to operate on low margins which mean cost control can be very important to their success. This can be applied to the case of Tesco and Morrison.

Liquidity Ratios:

According to Robertson, (2007), Liquidity ratios are derived from balance sheet and seek to test how easily a firm can pay its debt. Loan creditors, such as bankers, who have loaned money to a business, are particularly interested in these ratios.

The Current Ratio:

According to Robertson, (2007), this ratio tests whether the short-term assets cover the short-term liabilities. If they do not, then there will be insufficient liquid funds then immediately we need to pay the amount creditors.

2008

2009

Tesco plc

0.86 : 1

0.80 : 1

Morrison plc

1.80 : 1

2.15 : 1

Acid Test Ratio:

According to Robertson, (2007), this also called quick ratio, It measures the short-term liquidity. The quick ratio excludes stock and consider only liquid such as cash to arrive at immediate test of business survival of company.

2008

2009

Tesco plc

0.70 : 1

0.63 : 1

Morrison plc

1.54 : 1

2.00 : 1

Evaluation:

Both the companies increased their current ratios during the following two years that is, 2006 to 2007. It can be assumed that the companies were to increase its inventories and increase its trade receivables. The ratio reveals that in 2006, the current assets cover the current liabilities by 0.86imes and 1.80 times for Tesco and Morrison. In acid test ratio, it can be seen that Morrison is efficient in paying its debt and when compared to Tesco, the ratio of Tesco has decreased from 2006 to 2007, while ratio of Morrison has increased.

Gearing Ratio:

According to Broadbent et al, (2003) Gearing is concerned with the relationship between the long terms liabilities that a business has and its capital employed. The idea is that this relationship ought to be in balance, with the shareholders' funds being significantly larger than the long term liabilities. This ratio is derived from balance sheet of a company. However, generally Gearing is concerned with long – term borrowing.

2008

2009

Tesco plc

0.91

1.00

Morrison plc

0.43

0.57

Evaluation:

Tesco and Morrison are both considered to be less geared due to their borrowing ratio. Gearing ratio of both the companies has increased from 2006 to 2007. This means that both the companies rely on long term borrowings. But compared to Morrison, the borrowing ratio of Tesco is high which is 0.91 in 2006 and 1.00 in 2007 and Morrison, 0.43 in 2006 and 0.57 in 2007.

Efficiency ratios:

According to Broadbent et al, (2003), these ratios are primarily concerned with the efficient use of assets. These ratios also identify how long debtors and creditors take to pay.

Total Asset turnover ratio:

According to Broadbent et al, (2003), this ratio compares sales to total assets employed (i.e., fixed asset and current asset). Some Businesses with large asset infrastructure have lower ratios than business with minimal assets.

2008

2009

Tesco plc

1.70

1.60

Morrison plc

1.05

1.20

Stock Turnover Ratio:

According to Broadbent et al, (2003), this ratio effectively measures the speed with which stocks sail in the business. This varies from business to business and product to product.

2008

2009

Tesco plc

17.32

17.23

Morrison plc

24.11

17.30

Debtor’s Turnover Ratio:

According to Broadbent et al, (2003), this ratio seeks to measure how long customers take to pay their debts. It is obvious that quicker a business collects and banks the money; the better it can sponsor the mount for the company. This ratio can be worked out on a monthly, weekly or daily basis.

2008

2009

Tesco plc

11.56 days

8.50 days

Morrison plc

118.84 days

117.52 days

Creditors Turnover Ratio:

According to Broadbent et al, (2003) this ratio calculates how long a company takes to pay its creditors. The slower the business pays the creditors the longer will it generate the cash

2008

2009

Tesco plc

98.20 days

108.04 days

Morrison plc

101.10 days

93.12 days

Evaluation:

By deriving efficiency ratios it can be analyzed that how often the stock sailed out in company and how long it takes for the company to collect its money from debtors and how slow they pay their creditors. This ratio will also show us that are resources fully utilized by making full use of assets. As it can be seen from Total Asset turnover ratio that, both the companies are utilizing their assets efficiently, but there is a reduce in ratio of Tesco from 1.70 to 1.60 while there is an increase in ratio of Morrison from 1.05 to 1.20. Both companies face problem of stock run out, In comparison with the Stock Turnover Ratio for both the years. In case of collection of funds from debtors Morrison is very weak because it takes more than 100 days to get money back from their debtors. This shows that there is weak relation of Morrison with their debtors. But in case of Tesco it can be seen that they are very strong in collecting money back from their debtors as they take less than 30 days to get money back. In case of creditors both companies are inefficient to pay their creditors. From ratios it can be observed that Morrison is facing a tough time in collecting money and at same time paying back that to its creditors.

Investment Ratios:

According to Jones, (2006), the investment ratios differ from other ratios as they focus specifically on returns to the shareholders (earning per share and price/earning ratio) or the ability of a company to sustain its dividend or interest payments(divided cover and interest cover).

Earnings per share: EPS

According to Jones, (2006), earning per share is a key measure by which investors measure the performance of a company. Its importance is shown by the fact that it is required to be shown in the published accounts of listed companies. It measures the earnings attributable to a particular ordinary share.

2008

2009

Tesco plc

£0.0014

£0.0001

Morrison plc

£0.000007

£0.0001

Dividends per Share: DPS

According to Jones, (2006), The DPS ratio is very similar to the EPS: EPS shows what shareholders earned, and the ways of earning profit for a period, whereas DPS shows how much the shareholders were actually paid by way of dividends.

2008

2009

Tesco plc

£0.0001

£00.0001

Morrison plc

£0.0003

£0.0002

Dividend Cover:

According to Jones, (2006), the dividend cover ratio tells us how easily a business can pay its dividend from profits. A high dividend cover means that the company can easily afford to pay the dividend and a low value means that the business might have difficulty paying a dividend. This represents the safety net for ordinary shareholders. It shows how many times profit available to pay and how ordinary shareholders dividend covers the actual dividend?

2008

2009

Tesco plc

1.01

1.28

Morrison plc

-0.02

0.64

Interest Cover:

According to Jones, (2006) this ratio is of particular interest to those who have loaned money to the company. It shows the amount of profit available to cover the interest payable on long-term borrowings.

2008

2009

Tesco plc

6.75

12.65

Morrison plc

9.47

18.10

Evaluation:

The earning rate per share of both the companies is not attractive. The investors will not be happy with return on per share from both the companies. Morrison has shown improvement in its EPS from £0.000007 to 0.0001, when compared to Tesco. DPS is major concern for shareholders, the ratio for DPS for both companies are not a point of attraction for shareholders. By dividend cover ratio and interest cover ratio it can be observed that most of the profits earned by both the companies are spent on expenses and interest to 3rd parties on loan. That's why shareholders and investors are getting very less return and are sometime facing loss as in case of Morrison.

Information System:

Like other retailers, Tesco has to get the customers' information so that they can adjust their policies or design new strategies to meet customers' expectations. The information can be collected whenever customers make transactions with Tesco, and can be collected through Tesco credit cards or through online shopping. The company needs this information to analyze what items are selling well and what are not, so that they can tune the variety of particular goods in stores. Customers' personal details are also important in informing updates or any promotions from the company. In short, the company needs database to know their customers, satisfy their needs and grow the business.

To prepare effective and accurate database the company need perfect business information systems. This system will help to run business in efficient way without any error and frauds in organization. The most important business information system of Tesco is:

Transaction processing systems (TPS):

According to Stair & Reynolds, (2003), transaction processing systems (TPS) is the automated handling of data about business activities or it's the transactions and events in the life of an organization. Data about each transaction are captured, transactions are verified and accepted or rejected and validated and are stored for later decision. Reports may be produced immediately to provide standard summarizations of transactions and they may be moved from process to process in order to handle all aspects of the business activity. TPS means focusing on the firm's current procedures for processing transactions, whether those procedures are manual or automated. For over a decade Tesco has made major IS investments and business process changes in order to improve its basic transaction processing system and some of the types of investments are business operations, primarily inventory and warehouse management.

Key to Tesco success is it pricing strategy is based on everyday low pricing strategy, which results in much more predictable customer demand, also helps Tesco in enabling and improving its inventory control systems and processes while lowering costs. Tesco have also build an e-business system to regularly communicate sales and inventory data from every store to thousands of suppliers and buyers. The success to its basic transaction processing system has lowered Tesco costs and much of the savings will be passing on to the customers in the form of lower prices. TPS at Tesco will help to capture process and store transactions such purchases made by customers through debit or credit card, stock run out and total sales etc. this will help Tesco to produce variety of documents related to routine business activities. Processing orders, purchasing materials, controlling inventory, billing customers, and paying suppliers and employees are all business activities that result from customers orders. These activities result in transactions that are processed by the TPS. Inventory and warehouse management will be improved in Tesco with good

Quality security system.

Source: http://www.emeraldinsight.com/fig/2160070101002.png

Maintain high degree of accuracy and integrity:

According to Stair & Reynolds, (2003), TPS is an error-free data input and processing device. A business wants to have data integrity so that it can avoid fraudulent activities and Tesco has no exception to it. Half of the revenue is generated by e-commerce for Tesco such as online shopping through debit cards, credit cards and Tesco loyalty cards. Customers have to pass their personal information over the internet. So it is biggest challenge for Tesco to protect data of their customers purchasing over the internet. TPS avoids the fraudulent situation with the help of digital certificate. According to Stair & Reynolds, (2003) a digital certificate is a small computer file that serves as both, an ID and Signature. This signature makes a use of mathematical codes which are fraud proof. As due to huge volume of data is stored in information system of Tesco it becomes difficult to derive reports on activities of organization. TPS at Tesco makes the work easier because it handles huge volume of complex data from variety of departments such as human resource, marketing, operations, production, supply chain etc and produce accurate report for all individual departments.

Produce Timely Documents and Reports:

Manual transactions processing systems can take days to produce routine documents. The use of computerized TPS significantly reduces the response time and reports are generated much faster. According to Stair & Reynolds, (2003) the ability to conduct business transaction in a timely way can be very important for the profitable operation of the organization. In Tesco bills (invoices) are sent out to customers for online purchases. As customers make the payment through direct-debit or through debit or credit card the TPS will help to generate automated invoice with unique reference number on it, for customer’s security. In this way the Tesco generate reports more quickly saving their time as well as customer’s time. TPS includes various monitoring software’s which can also measures the timely performance of Tesco. The software collects data and statistics the system and component – levels the computer resources and provide snapshot of their usage, performance level and can also perform scripted actions in response to problems or events. As a result, TPS is helping Tesco’s customer’s transaction processing system to perform more reliably. Timing is also crucial for Tesco, mainly for related activities such as order processing, invoicing, Accounts receivable, inventory control and accounts payable. Due of the electronic data of sales, transactions can be processed in seconds rather than overnight, thus improving Tesco's cash flows.

Increase Labor Efficiency:

This feature of TPS will definitely benefit to Tesco, as Tesco often gives discount and offers on variety of products to customers. It can be offers on internet or in stores of Tesco. This discount has to be reflected on invoices of customers. Hence TPS produce such automated invoices which automatically calculate service fees, volume discount, sales incentives and it then audit each sales transaction to ensure that all terms of contract are being met. The system reduces and eliminates many billing problems and greatly reduces the amount of clerical efforts.

TPS Activities in Tesco:

Tesco goes through a transaction processing cycle that includes data collection, data editing, data correction, data manipulation, data storage and document production. According to Beynon-Davies (2002),

Data Collection:

The process of capturing and gathering all data necessary to complete transactions is called data collection. Scenario in Tesco, data is collected from a transaction for e.g. taking customers order. Source data automation is used at Tesco store and is checked to read the Universal Product Code (UPC) automatically. Reading the UPC code is quicker and more accurate than having a cash register clerk, who enters the codes manually. The scanner reads the bar code for each item and looks up its cost in the database. TPS uses the price data to determine the customer's bill. The number of units of this item purchased, the date, the time and the price are also use to update the store database. The inventory database is used to generate a management report notifying the store manager in order to reorder items and see that whose sales have reduced.

Documents and Reports

Data entry and input

System at Tesco Processing

Internally generated

transactions

Shipped orders Documents

Purchase orders Pick list

DatabasesEmployee time cards Checks to vendors

Externally generated Receiving notices

Transactions Pay checks

Customer orders Database update Operational Reports

Vendor invoices Customers orders finished product

Customers payments Inventory inventory status

Purchase orders

suppliers raw material

Customers inventory status

Source: Beynon-Davies (2002), Information Systems

Data Editing, Data Correction, Data Manipulation, Data storage:

Original Data

Data Collection

Good data

Bad data Data Editing

Data Correction Data Manipulation

Data Storage

TPS Reports Document Production

Source: Beynon-Davies (2002), Information Systems

An important step in processing transaction data is to perform data editing for validity and completeness to detect any problems with the data. For example, quantity and cost data must be numeric and names must be alphabetic otherwise data is not valid. In Tesco, codes associated with an individual transaction are edited against a database containing valid codes. If any code entered is not present in the database, the transaction is rejected. (It is not enough that Tesco rejects the data). The TPS system also provides an error message that alerts the data error. Error messages specify what problem is occurring so that corrections can be made. Another major activity of a TPS is data manipulation, the process of performing calculations and other data transformations related to business transactions. In case of Tesco, the TPS helps in data manipulation which includes classifying data, storing data into categories, performing calculations, summarizing results and storing data in the organizations database for the further processing. Tesco involves updating one or more databases with new transactions. Once the update process is complete, this data is further processed and manipulated by other systems so that it is available for management decision.