

Comparative and Development Study of Woolworths (WWS) & Coles Based on Financial Analysis

Xuying Zheng *

Department of Business School, University of New South Wales, Sydney, Australia

* Corresponding author: z5328367@zmail.unsw.edu.au

Abstract. WWS and Coles are the duopoly of grocery retailing in Australia, with a combined market share of more than half. The advent of the e-commerce era has brought both crisis and opportunity to the traditional grocery retailing industry. The purpose of this paper is to explore the optimization proposals of the financial situation of the two companies in the new retail era, while also providing recommendations for the sustainable development of the industry. According to the financial statements of the two companies, the analysis was conducted index through solvency, profitability, and operating capacity. The analysis shows that both WWS and Coles are slightly behind the global industry leader-Walmart (WM), in terms of solvency. In terms of profitability, Coles has a slight edge, while the two companies are closely matched in terms of operating capacity. Based on the analysis results and reasons, provide targeted improvement suggestions for the companies and industry, including optimizing inventory management, accounts receivable management, etc.

Keywords: Australian Grocery Retailing Industry, Financial Analysis, Solvency, Profitability, Operating Capacity.

1. Introduction

With the development of the global economy, the importance of the consumer industry in the global economic system is increasing. As a significant part of the consumer industry, the grocery retailing industry has developed from scattered traditional street grocery stores to modern retail chain supermarkets. With the advent of the new retail era, consumer consumption habits have changed, and the grocery retailing industry is facing new opportunities and challenges in the integration of online and physical. In this context, continuously meeting the needs of consumers to upgrade will become a winning weapon for the sustainable development of retail supermarkets. WWS and Coles, as the duopoly of Australian grocery retailing chains, have a market share of 37% and 28% respectively in 2023 [1]. The above two companies are representative of the industry, and the healthy development of leading enterprises will play a pivotal role in improving the quality of life of the people, so it is of practical connotation to study these enterprises.

According to Xu's research, the grocery retailing industry is a weighty part of the Australian economy, and the sustainable advancement of leading companies is considered to play a key role in the overall health of the industry and even the national economy [1]. WWS and Coles are the duopoly of the grocery retailing industry in Australia, with a combined market share of more than half [2, 3]. Concurrently, the industry has always been highly competitive and at a mature stage of the industry development cycle, with WWS leading the way in the health food sector and Coles excelling in providing Australian specialty products [4]. Given the particularity of the industry, some scholars have analyzed the competitive environment and corporate positioning of those two companies [5] and researched them using DEA and VAIC™ analyzed that WWS performs well in intellectual capital, while Coles is slightly better in product innovation [6]. Not only the grocery retailing industry in Australia has attracted scholars' attention, but the situation in other countries is attractive. Du analyzes the risks that China's Yonghui supermarket may face during the online retail era [7]. Costco as a global leader in the grocery industry, Wang discussed its business and financial model, pointing out the potential risks Costco may face in its international development [8]. Meanwhile, Sarisa made a comparative case analysis of the business strategies of Costco and Aldi and concluded that the two companies respectively gained competitive advantages in different markets through membership

systems strategies and low-cost strategies [9]. Financial analysis and research on other industries are not uncommon. Zhong debated and compared the financial situation of two new energy vehicle companies, Ningde Times and Xiaokang Shares, aiming to evaluate the financial health of those companies with various indicators [10].

So far, there are few comparative studies on the duopoly of the grocery retailing industry in Australia based on financial analysis, and the positive development of their financial position will have a pivotal role in the overall economy of Australia. Therefore, it is meaningful to conduct a comparative and developmental study on WWS and Coles based on financial analysis.

In this article, WWS and Coles, the leading chain retail enterprises in Australia, will be selected as the research objects. Based on the background of the current new retail era, financial data from 2020-2023 are selected to compare and analyze their financial status from solvency, profitability, and operating capacity. To optimize the financial situation of the two companies, and offer suggestions for the evolution of the grocery retailing industry.

2. Basic Information of WWS & Coles

2.1. WWS

WWS was established in 1924, which is a sizable Australian grocery chain directly owned by the Woolworths Group. It is a momentous market participant in the Australian grocery retailing industry and the largest grocery retailer by market share (37%) [1]. The major products that WWS sells include packaged foods, vegetables, meat, etc., but also deals in household items, pet supplies, and health products.

2.2. Coles

Coles is an Australian grocery chain founded in 1914 and part of the Coles Group. It is one of the key players in Australian grocery chains, with a 27% market share, second only to WWS in market share [1]. The company has more than 2,500 stores across Australia. The main sales of Coles include fresh food, beverages, household goods and so on.

From Table 1, the development trend of WWS from 2020 to 2023 is benign, with a certain increase in Sales Revenue, while the other three items have changes to varying degrees. The change rate of total assets in 2021-2023 compared with the previous year is 1.99%, -15.20% and 1.13%. The realized Sales Revenue heightened by 4.92%, 9.26% and 5.66% respectively over the past year. Gross Profit in 2021 and 2022 increased by 6.51% and 10.50% respectively compared to the previous year, while in 2023 it decreased by 4.80% compared to the last year. Basic Earnings Per Share (Basic EPS) in 2021 and 2022 increased by 77.99% and 293.70% from the previous year, while in 2023, it plunged by 79.48% from the last year.

In contrast, Coles will have a better development trend from 2020 to 2023. In addition to the change rate of Total Assets, Sales Revenue, Gross Profit and Basic EPS will all increase to varying degrees. Total assets in 2021 and 2023 decreased by 1.23% and 2.89% from the previous year, respectively, and increased by 3.93% from the previous year in 2022. In terms of Sales Revenue growth rate, it will increase by 3.08%, 2.09% and 2.83% respectively from 2021 to 2023. The Gross Profit in 2021-2022 will achieve growth of 4.29% and 3.71% respectively compared with the last year, while the growth rate in 2023 will achieve growth but 0.20% compared with the previous year. From 2021 to 2023, Basic EPS increased by 2.73%, 4.65% and 4.44% continuously over the past year.

Table 1. WWS's & Coles's Key Financial Data

Items	WWS				Coles			
	2020	2021	2022	2023	2020	2021	2022	2023
Total Asset (\$M)	38,472	39,236	33,273	33,648	18,349	18,123	18,836	18,292
Sales Revenue (\$M)	53,080	55,694	60,849	64,294	37,408	38,562	39,369	40,483
Gross Profit (\$M)	15,330	16,328	18,042	17,176	9,741	10,159	10,536	10,557
Basic EPS (cents)	92.7	165.0	649.6	133.3	73.3	75.3	78.8	82.3

3. Financial Analysis

3.1. Solvency

As shown in Table 2, from 2020 to 2023, the CR and QR of WWS show a trend of first increasing and then decreasing. WWS's nearly four-year average (Ave.) CR (0.60) is below WM, another well-known global grocery chain (Ave. CR is 0.88), while WWS's Ave. QR (0.32) is slightly above WM (Ave. QR is 0.30) [11]. It indicates that WWS's solvency performance is acceptable.

Table 2. WWS's Solvency Data

Items	2020	2021	2022	2023
Current Ratio (CR)	0.60	0.68	0.57	0.54
Quick Ratio (QR)	0.27	0.55	0.23	0.23

Coles has seen a decrease first and then an increase in CR over the past four years (as listed in Table 3), with an Ave. of 0.61. QR also showed a similar trend to CR (Ave. QR 0.23). The Ave. for both indicators is below the last four years' Ave. level of WM (as described in the data above). It proves that Coles's solvency is weak and the investment in unproductive current assets is deficient.

Table 3. Coles's Solvency Data

Items	2020	2021	2022	2023
Current ratio (CR)	0.67	0.59	0.58	0.59
Quick ratio (QR)	0.28	0.23	0.20	0.22

In conclusion, WWS has a slight edge over Coles in terms of solvency. But overall, both are mediocre in terms of solvency. They may face a shortage of funds, and be unable to repay debt pressure.

3.2. Profitability

Given the data in Table 4, ROE, ROA and Leverage of WWS in the past four years all show a trend of first rising and then declining, among which Leverage fluctuates greatly. The increase in ROE is mainly due to increased Leverage, not ROA. It shows that WWS's profit generation is mainly owing to the extra capital investment through borrowing, which gives more funds to invest in projects with higher profits.

Table 4. WWS's Profitability Data

Items	2020	2021	2022	2023
Return on Equity (ROE)	13.39%	123.00%	130.14%	24.81%
Return on Asset (ROA)	3.14%	5.45%	23.88%	4.84%
Leverage	426.00%	2256.00%	545.00%	513.00%

Coles's 2020-2023 both ROE and Leverage have shown a downward trend, while ROA has shown a steady upward trend (seen from Table 5). It shows that Coles has gradually reduced its dependence on borrowing to obtain additional funds. Meanwhile, according to Coles's annual reports in the past four years, the sales revenue and profit have increased continuously, indicating that Coles's profitability has continued to increase and its development momentum is favourable.

Table 5. Coles's Profitability Data

Items	2020	2021	2022	2023
Return on Equity (ROE)	37.40%	35.73%	33.55%	32.72%
Return on Asset (ROA)	5.33%	5.55%	5.56%	6.00%
Leverage	701.68%	644.26%	602.94%	545.05%

To sum up, the profitability indicators of WWS are mostly lower than Coles, but WWS has a larger base since. Therefore, its profit situation is not that bad in general, but the growth rate has slowed down, and the profit situation has stabilized. The situation of Coles is favourable and exceeds WM's profitability level, indicating that its current growth rate is pleasing, and the effect of using assets to create profits is marvellous.

3.3. Operating Capacity

According to Table 6, in the past four years, the ART increases first and then decrease, the IT increases first and then decrease and then slightly increases, while the TAT has shown a steadily increasing trend. The overall trend of ART indicates that WWS is gradually tightening its credit policy. On IT, WWS shows a positive trend, which proves that the company can sell more inventory goods and create income in each cycle. The increasing TAT reflects the further improvement of WWS's ability to use assets to achieve sales.

Table 6. WWS's Operating Capacity Data

Items	2020	2021	2022	2023
Accounts Receivable Turnover (ART)	71.73	85.88	71.09	63.28
Inventory Turnover (IT)	8.51	12.58	12.49	12.74
Total Asset Turnover (TAT)	1.38	1.42	1.83	1.91

As demonstrated in Table 7, Coles's ART has a trend of first increasing and then decreasing, while IT and TAT have shown a trend of first increasing and then decreasing and then increasing. The ART has shown a significant downward trend since 2021, indicating that the company's debt collection ability is constantly deteriorating. The fluctuation of TAT indicates that the efficiency of the company's use of assets has gradually increased, but the rising trend has been affected from time to time, and there may be slight operational risks such as bad debts.

Table 7. Coles's Operating Capacity Data

Items	2020	2021	2022	2023
Accounts Receivable Turnover (ART)	86.19	104.79	83.76	66.91
Inventory Turnover (IT)	12.95	13.66	11.93	12.93
Total Asset Turnover (TAT)	2.04	2.13	2.09	2.21

All in all, in ART and TAT, Coles has been basically higher than WWS in the past four years, while in IT, the two companies are evenly divided and the gap is not enormous. However, the fluctuation range of WWS indicators is relatively stable. Relatively speaking, Coles's rising trend of indicators is relatively strong, indicating that its operation situation is constantly improving.

4. Analysis of Causes and Optimization Suggestions

4.1. Analysis of Causes

In summary, WWS and Coles have defects in the above three aspects, and it is crucial to find their causes. Nonetheless, being profitability and operation capacity are closely related to the management level of companies themselves, and this paper is mainly based on the analysis of the financial index. The next part will mainly analyze the reasons for the problems in the solvency. In terms of solvency,

WWS and Coles can be seen that although they are duopolies in the Australian market, it is still behind the world's leading company - WM (although WWS's Ave. QR is slightly better than WM).

4.1.1. Internal Influencing Factor

Firstly, because the industry generally needs abundant inventory to meet the various needs of customers, it is more obvious during peak season. Although inventory is a short-term asset, its liquidity is far less than cash, and it takes a certain amount of time to be realized. This means that a large proportion of the companies' current assets will be occupied by inventories, thus lowering their CR and QR.

Secondly, profit from the brand value of large grocery chains, suppliers expect to reach a long-term stable relationship, so they generally sign a deferred payment agreement. For WWS and Coles, the agreement will ease cash flow pressures, but will, in turn, generate accounts payable and increase current liabilities. Pull down CR and QR.

Finally, given the ample size of WWS and Coles, investment in other areas may be needed, such as advertising, online platform upgrades, etc. Therefore, the company will have only a handful of cash reserves, which makes the cash and its equivalents on the company's books relatively small. The CR and QR are lowered below the general safety index range. Simultaneously, the company need generous fixed assets, such as buildings, equipment, etc. Although many fixed assets meet the long-term business needs of the company. Due to the poor liquidity of fixed assets, listed as non-current assets, which non-direct increases CR and QR.

4.1.2. External Influencing Factor

Firstly, the impact of seasonal sales fluctuations on the liquidity of large grocery retailing cannot be ignored. Generally, a company's sales are limited by seasonal demand which means during holidays or promotions, sales may surge, and the amount of inventory it needs will skyrocket accordingly. But during periods of low ebb sales, inventories might be overhung as customer demand weakens. It makes it difficult for companies to accurately estimate their required inventory levels, affecting liquidity.

Secondly, as the Australian grocery retailing industry is in a mature stage, competition in the industry is fierce, and price wars appear to increase sales. Although this price war to reduce the sales price can play a role in attracting customers to increase sales, it will further compress the company's profit margin. This in turn affects the company's profitability and cash flow. The low gross margin will affect QR's performance as it strips out the impact of current assets such as inventory which is on the solvency assessment.

In addition, macroeconomic factors will also affect the financial performance of WWS and Coles, including inflation rates, economic cycles, and interest rates. Given that the global economy is still in recession, the negative impact of COVID-19 is continuing. Consumers may have less disposable income, which could lead to inventories piling up at grocery retailers. Meanwhile, WWS and Coles also have B2B sales, so given the current economic recession, the number of receivables will increase, resulting in the poor performance of CR and QR.

Finally, as e-commerce becomes mainstream and the shift in consumer preferences, both WWS and Coles face the challenge of rapidly building online retail platforms and enhancing their digital capabilities has become a valuable goal. The enhancement of digital retail requires mass capital investment, which reduces the proportion of cash in the company's current assets, resulting in CR and QR being lower than 1.

4.2. Optimization Suggestions

4.2.1. Suggestions for Solvency

As WWS and Coles are slightly less solvent than WM, there is a need to improve their solvency and catch up. First, improve solvency by optimizing inventory management. Optimize the inventory management process, ensure that the inventory level is in line with the actual business needs, and try to avoid inventory overhang. Simultaneously, review the inventory management strategy, make sure-

timely grasp the inventory dynamics, and minimize the impact of expired or unsalable inventory on the company's solvency.

Second, strengthen the management of accounts receivable, establish and improve the accounts receivable recovery system, shorten the account recovery cycle, communicate with customers promptly, and urge them to repay on time. Also consider tightening credit policy, and reducing the risk of bad debt. Meanwhile, improve the management of accounts payable to ensure timely payment of due debts and avoid cash flow problems.

In addition, via the progression of customer online shopping platforms to increase sales. Optimize the company's digital platform, cater to consumers' new online shopping needs and improve customers' online shopping experience. Develop sales strategies and promotions according to the new retail era to increase online sales and profit margins.

Finally, strengthen the cooperative relationship with suppliers, and optimize the supply chain, to reduce raw material procurement costs and delivery cycle. At the same time, through more in-depth cooperation, companies sign longer deferred payment agreements with suppliers via negotiation, which can better improve the company's capital utilization efficiency, relieve cash flow pressure and improve its solvency.

4.2.2. Suggestions for Profitability

According to previous analysis, WWS performs worse than Coles only in numerical terms; to improve its future profitability, it can be improved from the following aspects. First, the ROE of WWS over the past four years is generally good, but there is still room for improvement. Growth in ROE can be achieved by increasing capital turnover, reducing costs, raising product prices within a reasonable range, and changing sales strategies appropriately. Secondly, in terms of ROA, the volatility in the past four years is large, indicating that the asset utilization rate of WWS is unstable. Increasing inventory turnover, review and sale of unnecessary assets can effectively improve the utilization of assets, and thus improve its profitability. Finally, WWS need to reduce its Leverage. The company's financial risk has increased since 2020-2023, given the large volatility in its Leverage. Thus, the balance sheet can be managed to reduce liabilities, or Leverage can be balanced by attracting outside investment and increasing equity.

For Coles, although it is slightly better than WWS in terms of profitability from the data, improvement is necessary. Firstly, because Coles' market share is less than that of WWS, it is unrealistic to blindly rely on increasing sales to surpass WWS. Therefore, Coles can improve the company's profit level by effectively controlling the cost. Re-examine the company's cost items and look for opportunities to reduce costs, such as selling expenses, operating expenses, etc. Secondly, through strengthening the brand image and marketing, the company's brand awareness can be effectively improved. Simultaneously, using marketing activities can also collect customer opinions, which is conducive to providing products and services based on customer needs, increasing sales, and thus promoting the increase of profitability.

4.2.3. Suggestions for Operating Capacity

WWS performed slightly worse than Coles in ART and TAT but was higher than Coles in account receivables, inventory, total asset volume and size. Therefore, if many WWS assets fail to turn over in time, it will have a serious adverse impact on the company's operation. Therefore, it is necessary to optimize the management of accounts receivable and strengthen the assessment of customer credit risk, also increasing the proportion of advance payment. Further, optimize the tracking and collection measures of overdue accounts to ensure timely recovery of accounts receivable and reduce bad debt expense.

For Coles, although the performance of various indicators of operating capacity is better than WWS and the overall trend is positive, to cope with the fierce market competition, still needs to advance. First, it can be achieved by improving the efficiency of asset utilization. Develop a timely and effective asset evaluation mechanism to ensure the effective use of assets, and timely divest and dispose of assets with poor profitability. Meanwhile, focus on human resource management, and

improve employee productivity. Through staff training and reward mechanisms to stimulate employees' subjective initiative, motivate employees to improve asset utilization efficiency. Secondly, strengthening the supervision and analysis of the financial situation is conducive to enhancing the company's operating capacity. Implement a regular financial analysis mechanism, monitor changes in various operating capacity indicators, and timely detect and take effective measures to correct abnormal items. Improve Coles's internal control system, ensure the reliability and accuracy of financial data, prevent potential fraud from affecting decision-making, improve the correctness of the company's strategy, and thus improve its operational capacity.

5. Conclusion

According to financial analysis, this paper comparative analyzes the Australian duopoly WWS and Coles and proposes the improvement suggestions. Mainly from the Solvency, Profitability, and Operating Capacity of quantitative analysis. The results indicate that WWS and Coles both marginally lag WM, the global leader in the industry, in terms of solvency. Coles has a slightly better in terms of profitability, and the two companies are too close to call in terms of operating capacity. With online shopping becoming a new trend in the industry, to meet the challenge WWS and Coles still need to advance in their financial position. Overall, the above research guides the long-term positive development of the grocery retailing industry in Australia. In the future, more data will be obtained and considered, to make the analysis results more forward-looking.

References

- [1] Xu L. Coles Supermarket and the Australian Grocery Industry. In 2023 2nd International Conference on Economics, Smart Finance and Contemporary Trade (ESFCT 2023), 2023, 367 - 376.
- [2] Banerjee S. A Review on Strategic Analysis of Australian Supermarkets. Journal of Production, Operations Management and Economics, 2022, 2 (06): 36 - 45.
- [3] Merrett DT. The making of Australia's supermarket duopoly, 1958–2000. Australian Economic History Review, 2020, 60 (3): 301 - 321.
- [4] Jones A. Supermarket wars-Woolworths still healthiest, but Coles the most Aussie. Journal of the Home Economics Institute of Australia, 2022, 27 (1): 46 - 47.
- [5] Malik R. Analyzing the Competitive Environment and Corporate Orientation of Coles Group in Australia: A Brief PESTLE and Corporate Social Responsibility Assessment. SSRN 4517573, 2023.
- [6] Kampen TV, Kirkham R. Assessment of the supermarkets and grocery stores sector in Australia: a case study of Woolworths and Coles using DEA and VAIC™. Journal of New Business Ideas & Trends, 2020, 18 (1): 1 - 11.
- [7] Du J. Financial risk analysis and prevention research of Yonghui Supermarket under the background of new retail transformation. Beijing Foreign Studies University, 2024.
- [8] Wang H. The Strengths and Weaknesses of Costco's Business and Financial Model as well as the Potential Risk of Costco's International Development and Outlook', Highlights in Business, Economics and Management, 2024, 24: 75 - 80.
- [9] Sarisa L. Business strategies in the retail supermarkets industry: A comparative case study analysis of Costco and Aldi. Southern Institute of Technology, 2021.
- [10] Zhong XQ. Financial analysis of new energy listed companies-based on comparison between CATL and Sokon. Hebei Enterprise, 2023, (05): 110 - 112.
- [11] Agudelo CS. Walmart's five-year period financial performance analysis using the financial ratios analysis approach. 2023.