

Financial Analysis and Development Study of Tesco PLC

Wenxuan Gan ^{1,*†}, Chuyue Yan ^{2,†}

¹ Business School, University of Huddersfield, Huddersfield, United Kingdom

² Business School, Durham University, Durham, United Kingdom

* Corresponding Author Email: U2271244@unimail.hud.ac.uk

† These authors contributed equally

Abstract. Since the development of the modern retail industry, there have been many different business models, such as traditional retail and new online retail. The emergence of these new models has provided people with new ways of shopping. Taking Tesco, a representative British retail company, as an example, we can better analyze the future of the modern retail industry. In this paper, our research object is Tesco, a British retail company, and our research goal is the financial analysis and development research of Tesco. Our research result is that from the perspective of financial analysis, Tesco has recovered its overall profit from the impact of the epidemic, but its current liabilities are a little high and its cash flow is low. From the perspective of development research, Tesco's online sales increased a lot after the epidemic, and online shopping mode is a sustainable development strategy. In general, the financial performance of Tesco is that its operating efficiency and profitability have improved. In terms of future development, Tesco is worth being the investment choice of investors, and Tesco will provide stable returns for investors.

Keywords: Tesco; Financial analysis; Retail industry.

1. Introduction

1.1. Background

Because humans have the basic need to eat, there are different forms and different kinds of stores. With the new development of urban infrastructures, such as the mode of transportation, a new business model of proxy retail has gradually emerged. From the emergence of the modern retail industry to today, this business model has replaced most of the old retail business models in the world. The sudden outbreak of the global epidemic in 2020 has brought a considerable impact on the traditional retail industry. The development of the new retail industry is accelerated under the condition that people go out less. Tesco is currently the largest retail company in Britain. Tesco has actively developed new retail methods to face the special challenges of the epidemic. Taking Tesco, a representative British retail company, as an example, we can better analyze the future of the modern retail industry.

1.2. Related research

Stanton provides an in-depth analysis and study of the development of the food retail sector. The author considers that the direction of retailing is clear, but that the nature of these retail outlets is different from the corner shops of the past. At the same time, street markets and wet markets are still the main types of food retailing for underdeveloped or partly developing countries, and there is much room for modern food retailing [1]. Laura provides a horizontal and vertical study of the changes in retailing, including a study from the past to the present to the future, as well as research on sales channels and technology. The author argues that developments in the Internet and other technologies have had many effects on people's shopping behavior. This has led retailers to constantly adapt their sales strategies to face the challenges posed by the changing market environment [2]. Pantano has conducted an in-depth study of the drivers of innovation in the retail sector, including innovation management methods, the impact of technology, and demand. According to the author, the success of innovation in the retail sector is largely a function of customer acceptance. At the same time,

anticipating trends is an ability that retailers need to have in order to face the changes and turbulence of the current market environment [3]. In the EU, the retail industry is an essential source of employment, which has made a great contribution to GDP growth. In many EU member states, the growth of major companies has been inspected. Second, there are remarkable differences in the development of retail structures in distinct countries. The third retail industry has had a big socio-economic influence on the economy [4]. The UK is generally recognized by the world as the country with the highest workload of groceries supply chain in a certain period. In the early 1980s, the British retail industry experienced a "logistics transformation". After 20 years of confrontation, it has been updated to a more cooperative supply chain management approach. At the same time, Fernie pointed out that the key challenge of the logistics supply chain in the future is related to political, environmental, and technological changes [5].

Tesco is a British shopping center, that makes money by investing in and selling high-quality products. It is also a leading retail company, providing online and offline store services. The financial analysis of Tesco and Benedict shows that Benedict is short of competitiveness and has big financial and commercial risks, which cannot produce profits for investors [6]. Compared with Sainsbury and Morrisons which are the competitors in the same period, we can find that the development of Tesco is slow by analyzing the financial analysis of Tesco from 2010 to 2014. Although the online shopping business has strong potential and increase, gross profit, return on employment capital, dividend payment and share price are falling year by year. The performance is unsatisfactory, and the profit of shareholders is also decreasing [7]. In 1995, Tesco launched its membership card Clubcard. Tesco's loyalty program aims to set up a relationship or brand network by interchange customer data and information with moderate rewards. Since the development of Tesco's Clubcard, it has created a brand website and an electronic version, which is developing towards transforming consumers' illusory loyalty into sustainable loyalty [8]. Haddock-Millar provides an analysis of Tesco's financial situation, including the financial situation from 2010-2014, Tesco's market position and business strategy, an analysis of the decline in Tesco's performance and recommendations. The authors argue that during this period, changes in consumer shopping habits caused larger retailers to lose market share. The market became unstable under the influence of the external market environment. At the same time, the company's internal decisions have caused sales and profits to fall [9]. Rosnizam uses PEST analysis and qualitative methods to analyze the opportunities and challenges faced by Tesco in the market. According to the author, Tesco needs to consider new strategies such as globalizing its business, improving the training and reward system for its employees, or changing the marketing strategy of the business in order to cater to the changes in the market [10].

1.3. Objective

This paper will study the financial analysis and development of Tesco company. The second chapter uses the swot model to analyze Tesco's internal and external competitive environment. The third chapter uses various ratio models to analyze Tesco's finance. The fourth chapter discusses the financial analysis of Tesco and Tesco under epidemic situation. The fifth chapter is the summary of this paper.

2. SWOT Analysis

The Swot model is used to analyze Tesco's strengths, weaknesses, opportunities, and threats. Tesco's biggest advantage is that it has the largest supermarket chain in the UK and a leading retail brand in the UK. Tesco dominates the UK grocery retail market with a market share of 27.9%. Tesco has 4673 stores worldwide and is expanding. Tesco has opened different forms of stores to achieve diversified stores. Tesco also has diversified markets and products across many areas from food to financial services. The development of Tesco Technology Department has gone from automatic barcodes to online shopping to unmanned stores. Tesco's biggest weakness is that it must withdraw from the global stage. although Tesco operates in several countries in the United States and Asia, its

performance in some of these countries is not as expected. These failures (several years) clearly show that Tesco has failed to adapt to and operate in markets outside Europe. In addition, the food expired in 2015-2017, the audit fraud scandal in 2017 and the negative publicity of the senior management reduced the reputation of Tesco. The controversy over the arbitrary adjustment of Clubcard and the scandal of exploiting migrant workers also brought Tesco's reputation to the bottom. Secondly, the operating profit of Tesco has been declining slightly from 2021-2022. Tesco's biggest opportunity is online grocery sales. Because of the epidemic, many customers prefer to shop online. Tesco has launched an hour-long door-to-door delivery service to more than 100 stores. It plans to expand its stores to at least 600 by the end of 2023. This method can provide door-to-door service to attract more customers. In competition with competitors, Tesco recently launched a new form of store discount stores to seize the market of cheap food supermarkets, and Tesco also promoted price matching to regain the market share that was taken away by competitors. Tesco has gained the qualification and ability to enter emerging markets, expanding its stores to more developing countries such as South Korea and Turkey. Tesco also proposed to form alliances with other brands and establish some joint ventures to attract more customers in different regions. Tesco is currently facing the greatest threat of economic recession, which is caused by the epidemic. It will continue to threaten global market share and profitability and reduce the number and scale of consumer purchases. The second threat is the rapid expansion of local supermarket ASDA after it has a new owner, threatening Tesco's leading position in the market and seizing many Tesco markets. At the same time, with the UK's separation from the EU, Tesco was forced to adopt new trade agreements such as tariffs and customs inspection, which harmed Tesco. Tesco has some food safety problems. If they cannot be solved in time, regular food safety and hygiene inspections from the government will always threaten Tesco's reputation and self-development. Recently, problems have also occurred in Tesco's supply chain. Tesco's operation and profitability are threatened by shortages due to supply chain problems.

3. Financial Analysis

3.1. Ratio

This paper will compare data from the company's financial statements to perform a ratio analysis and reveal the profitability, liquidity, and operational efficiency of the company. The following are the formulae for the relevant ratios.

3.1.1 Profitability Ratio

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Revenue}} \times 100\% \quad (1)$$

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Revenue}} \times 100\% \quad (2)$$

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Equity}} \times 100\% \quad (3)$$

$$\text{Return on capital employed} = \frac{\text{Profit before interest and tax}}{\text{equity+long term liabilities}} \times 100\% \quad (4)$$

3.1.2 Liquidity ratio

$$\text{Current ratio} = \frac{\text{Current asset}}{\text{Current liability}} \times 100\% \quad (5)$$

$$\text{Quick ratio} = \frac{\text{Current asset-inventory}}{\text{current liability}} \times 100\% \quad (6)$$

3.1.3 Efficiency ratio

$$\text{Inventory holding period} = \frac{\text{Inventory}}{\text{Cost of sales}} \times 365 \quad (7)$$

$$\text{Receivables collection period} = \frac{\text{Receivable}}{\text{Revenue}} \times 365 \quad (8)$$

$$\text{Payables payment period} = \frac{\text{payable}}{\text{Cost of sales}} \times 365 \quad (9)$$

3.2. Results

Table 1. depicts Tesco's profitability ratios, including gross profit margin, net profit margin, return on equity and return on capital employed. in 2020, these figures are 7.07%, 1.27%, 5.55% and 2.99% respectively. Compared to 2020, all figures have decreased in 2021. In particular, the return on equity decreases significantly by 1.14%. However, between 2021 and 2022, these figures have increased significantly and are higher than the previous levels. Return on equity and return on capital employed reach 9.74% and 6.12% respectively.

Table 1. Profitability ratios

	Feb. 29, 2020	Feb. 27, 2021	Feb. 26, 2022
Gross profit margin	7.07%	6.52%	7.55%
Net profit margin	1.27%	0.92%	2.48%
Return on equity	5.55%	4.41%	9.74%
Return on capital employed	2.99%	2.15%	6.12%

Table 2 depicts the liquidity ratio. According to the chart, Tesco's current ratio is around 70% between 2020 and 2022, fluctuating up or down by 5%. The average figure for the UK retail sector is around 1.2, which is below the average for the UK retail sector. On the other hand, Tesco's quick ratio figures for 2020 to 2022 are 61.43%, 55.58% and 61.09% respectively. Despite the fluctuations, this indicates that the company's quick ratio is remaining healthy, indicating that the company can easily meet its short-term obligations in the future.

Table 2. Liquidity ratios

	Feb. 29, 2020	Feb. 27, 2021	Feb. 26, 2022
Current ratio	74.47%	67.56%	75.53%
Quick ratio	61.43%	55.58%	61.09%

Table 3 depicts the efficiency ratio of Tesco. In it, the Inventory holding period and the Receivables collection period are decreasing. This indicates that Tesco can sell goods and collect payments more quickly. Conversely, the payables period is decreasing from 62 days in 2020 to 59 days in 2022. This means that the company will need to pay its bills more frequently.

Table 3. Efficiency ratios

	Feb. 29, 2020	Feb. 27, 2021	Feb. 26, 2022
Inventory holding period	17	15	14
Receivables collection period	10	9	8
Payables payment period	62	58	59

4. Discussion

4.1. Financial Analysis

For profitability, Tesco was affected by the outbreak and the cost of goods and other expenses have increased. As a result, this figure for Tesco was down somewhat for all of the 2021 settlement dates. Benefiting from a change in strategy, Tesco is gradually recovering from the impact of the outbreak and is above its previous levels. Secondly, the current ratio, which was around 70% for Tesco over the three years, did not fluctuate much. The average for the UK retail sector is 1.2, which is therefore negative news for Tesco's managers and investors. This is because the current liabilities

may be a bit high. In terms of efficiency ratios, the figures for stock retention periods and receivables recovery periods are both shrinking. This is a good sign that Tesco can sell its goods faster as well as collect its accounts to ensure adequate cash flow. However, the decrease in the accounts payable payment period is a bad sign, which will lead to a decrease in cash flow.

4.2. Impact of Covid-19

The global economy has been deeply troubled by Covid-19 in recent years. Also, the retail sector has been significantly impacted by policy decisions that have been taken to contain the spread of the virus. According to the survey, total retail sales in the UK fell by 1.9% at the end of the 2020 year-end settlement compared to 2019. This is the largest annual decline on record. Tesco has also been impacted by this environment, which has seen a significant drop in the UK inflation rate. Tesco's annual profit before tax for the period to the 2021 settlement was £825 million, down 19.7% in 2020. This includes higher costs associated with the coronavirus pandemic, such as hiring more staff. During the height of the crisis, Tesco adapted to its new strategy by recruiting almost 50,000 new temporary staff to support those already working on the shop floor, in distribution centers and as delivery drivers. Secondly, Tesco is spending more to secure its shops than before. In this case, consumers' spending habits and patterns have also changed. Benefiting from the closure of restaurants and bars has meant that consumers have had to eat and drink more of the products they buy in shops. Consumers now prefer to shop closer to home, buy more food, or shop online. Tesco has also adapted positively to this change. In the company's 2021 results report, the company said sales (excluding fuel) to £53.4 billion, up 7% compared to the previous. Online sales in the UK grew to £6.3 billion, up 77 % compared to the previous year. This was due to the company's increased distribution capacity to accommodate the gradually rising demand from household consumers.

5. Conclusion

This paper provides investors with financial information about Tesco in recent years. The paper applies a SWOT analysis and ratio analysis to discuss the growth of Tesco and the impact of the epidemic. Overall, the data shows that Tesco's operational efficiency and profitability have improved and are better than in previous years. According to forecasts, this trend will be maintained. This is due to Tesco's aggressive strategic alignment and its membership card policy, where Tesco can utilize resources more efficiently. This has helped Tesco to capture market share and maintain a leading position. Conversely, Tesco had some shortcomings, such as a poor liquidity ratio. Despite this, Tesco can still be an investment option for investors as the company can provide stable returns.

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