**COMPARATIVE FINANCIAL ANALYSIS OF J SAINSBURY AND TESCO**

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# INTRODUCTION

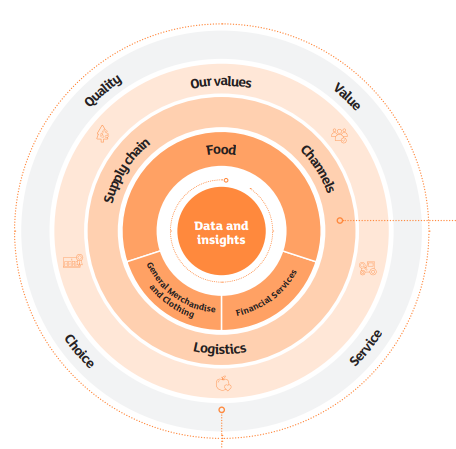
This study is intended to do a comparative ratio analysis of the J. Sainsbury PLC and Tesco PLC financial statements for the year-end 2013. The financial information supplied in the annual report of each firm and the comparison between them will enable potential consumers of this study not only to comprehend the differences between these two companies but also the flaws and strengths of individual companies. To have the proper financial data to examine, the profiles of the two firms, as well as eight accounting ratios, should be given for each company below. In addition, J Sainsbury Plc's business model is explored, and the analysis of the industry is compared. The five-power industry model of Porter is explored thereafter. The potential users of this analysis will be identified and their various requests for information will be indicated. Finally, a brief discussion on the significance of complementing non-financial financial analysis will be held and an overview will be concluded that will include a summary of the key conclusions of this study.

# J SAINSBURY PLC’S BUSINESS MODEL

With 16.3 percent of the market share, Sainsbury is one of the major retail shops in the UK. Qatari royal family investment is the major stakeholder. John James and Mary Ann created the Sainsbury store, which is the largest supermarket chain in the United Kingdom in 1869 (Architects, 2018). The enterprise is listed on the London bourses and forms part of the FTSE100 index. Alone in the United Kingdom, Sainsbury has 1,415 stores, the largest of which hold more than 23,000 goods and 40% brand name. The firm works exclusively in the UK and handles items including food, clothing, and furnishings. It also offers internet and financial services (Collins-Dodd and Lindley, 2003). More than 186,000 employees work in Sainsbury's around the UK. Group revenues of the firm amounted to £31,735 million in 2019-2020. From their supermarkets is the major source of income. The Argos shop, the Habitat, the Nectar, and the Sainsbury bank also owned Sainsbury (Giles, 2006).

J Sainsbury supplies items from more than 70 nations to our quality, safety, and ethical requirements according to the ability of suppliers. Investing in UK agriculture through 1,300 farmers' and farmers' development groups and participating in 12 research projects aimed at enhancing agricultural production and reducing British agriculture's environmental effects (Wilkinson, Buhrkuhl and Sainsbury, 1997).

Companies in the same business, who operate in the same national and international context, are so often adopting quite distinct strategies with dramatically varied results. For years there were search engines such as Yahoo and Alta Vista before Google came onto the scene and swallowed it all. In the face of a general skepticism, Toyota, a Japanese automaker founded soon after World War II, joined the US automobile industry. For a couple of decades, Toyota coordinated a strategy to overcome the legendary behemoth, Ford. The retailer Tesco has been rising and growing among British firms during the previous two decades. The firm reversed its "high-pile, sell cheap" market perception to emerge as the country's largest retailer, by surpassing Sainsbury's far older market leader, and then extending the gap until its market proportion was twice that of its former condescending opponent. This task will investigate and analyze the various tactics implemented by those firms with similar products and services and operating in the same environment Although this approach does not aim to eulogies. The significant difference in the operations of Tesco's and Sainsbury's management practices or their planned and detailed exploitation of existing possibilities tend to consider a comparative study of strategy and management practice. Although Tesco made tremendous contributions to its product line by leveraging feedback from its card system, Sainsbury sought to defend its profits firmly and reduce the quality of services, actions which eventually resulted in more customer discontent and loss of market share. Only in 2004, nine years after Tesco's overtaking did it recognize that its main problem is the inventory of its shelters, weak logistics, and bad management of its supply chain. While the approach of Sainsbury was one of risk prevention and moderate expansion it was similar to that of an oyster in the face of risk (Jonah, 2018). The firm is still a recognized and profitable distributor, though. After changing the management system, recent efforts have witnessed a shift in priorities and resulted in renewed sales, decreased expenses, and increased profits. The company's heart lies in its proper position and gives far more to charity than Tesco's post-tax profit.



# INDUSTRY ANALYSIS

Supermarkets sell a variety of foodstuffs including fruits, vegetables, bread, tinned food, dairy, alcohol, and cigarettes. The industry is not covered by off-licenses, greenhouses and symbols, and independent non-affiliated convenience shops. The industry is expected to achieve a combined annual revenue rate of 1.7 percent of £207.1 billion for the five years through 2021-22. Due to an increasing change in customer tastes and purchasing patterns, the supermarket business has endured a highly competitive climate during the last five years (Grimmer, 2017). Government laws placed taxes on unhealthy items, such as alcohol and soft drinks, which are difficult for operators to transfer directly to consumers. Furthermore, increased environmental consciousness has fostered the demand for veganism and vegetarianism. As a result, operators, like Waitrose, have been allowed to charge higher costs for quality and verified items from higher sources. Over the next five years, the competitive power of the e-commerce sector will increase sharply and encourage operators to strengthen their logistical capabilities, offering consumers more comfort and savings. Discounters are predicted to maintain fast growth plans as supermarkets will utilize their market strength to control suppliers' lower prices (Luke, 1975). However, commodity pricing inflation is projected to adversely influence the capacity of operators to accomplish this in the near term. In addition, the gradual recovery in consumer confidence and available revenue from the COVID-19 epidemic will strengthen competitiveness in the hospitality sector. Tesco plc, J Sainsbury plc, Asda Stores Limited, Wm Morrison Supermarkets plc, and Aldi Stores Ltd are among the biggest market share firms in the UK market .

## PORTER’S FIVE FORCE MODEL

Four large grocery chains – Asda, Morrisons, Sainsbury, and Tesco – have serviced the UK for many years. Conventional high street stores have been taking market share for many years. You established your mega shops from the city and quickly flourished. They possessed considerable purchasing power due to their size and volume. Since customers travel only to a business so far, they competed in the local market. The distance from the nearest rival was typically regulated by competition. That looks to have changed lately, though (at the time it was written in early 2020). Firstly, clients seem to have changed their buying patterns; they buy less each shop, but shop more often. This decreases the benefit of city shopping (Azadi and Rahimzadeh, 2012). There were new entries. In the first place, Marks & Spencer Food is on the highway. We're expanding Waitrose and then we have new entries, Aldi and Lidl, that have extremely high prices. The market is likewise mature, such that the new shops, sizes, and competitiveness are closer to each other. The outcome is a reduction in prices. What will happen next isn't simple to forecast, but it seems that the market is less appealing than two or three years ago.

### “BARGAINING POWER OF BUYERS IN THE UK SUPERMARKET INDUSTRY”

Powerful customers reduce prices and at present pricing may want more items and services. But to that end they have to be organized, their numbers have to be limited and the costs of changing from competitor to rival have to be cheap. Taking these parameters into consideration, many experts say that UK supermarket firms' negotiating strength is rather weak to make the industry appealing and lucrative for current players. The client can, however, move between competitors because the items in this sector are mostly homogeneous.

### “BARGAINING POWER OF SUPPLIERS IN THE UK SUPERMARKET INDUSTRY”

In industry, if there are a few suppliers, they might use more electrical energy. In the UK supermarket business, the supply power is not especially strong because there are thousands of local and foreign suppliers that meet the demands of the supermarkets. Supermarkets may thus negotiate better agreements with suppliers to improve the profitability of these products.

### “THREAT OF NEW ENTRANTS IN THE UK SUPERMARKET INDUSTRY”

In industry, the danger of new entrants is defined by entry barriers. Of course, entering the United Kingdom grocery industry is quite tough for a new firm, making it extremely tempting to established businesses. Imagine Tesco, Asda, Sainsbury's, Morrisons, Lidl, and Aldi's brand image. How might a fresh firm fight the titans of today? It took Aldi and Lidl several years to reach a significant level. Moreover, it might cost hundreds of thousands of pounds to start a firm as big as Tesco without any success guarantee.

### “THREAT OF SUBSTITUTE PRODUCTS OR SERVICES IN THE UK SUPERMARKET INDUSTRY”

In the UK grocery business, the danger of replacements for foodstuffs is very low. Customers are certainly unable to eat food. Similarly, local businesses, off-license shops, corner stores, and shops offering organic items that are not in a position to satisfy every consumer requirement are the replacements for supermarkets. The danger of replacements is so modest, attracting current firms to the grocery sector.

### “RIVALRY AMONGST EXISTING COMPETITORS IN THE UK SUPERMARKET INDUSTRY”

In the UK grocery sector, competition is quite strong. For established firms, it is thus a less profitable industry. Whilst Tesco is the market leader, Asda and Sainsbury compete fiercely for second place. Also, Aldi and Lidl's pricing battles are eroding profit margins for everyone else (Jaiswal, 2021).

# RATIO ANALYSIS

Sainsbury plc, which established its first store in 1869, is one of the oldest and leading retail firms in the UK. Sainsbury has evolved into a multisector corporation consisting of 537 supermarkets in Sainsbury, including 281 supermarkets at Argos, 335 convenience stores, and Sainsbury's Bank. The most recent financial ratios for 2020 include the liquidity and solvency ratio profit- and efficiency ratios. A financial relations analysis is an examination of the financial statements of the firm which is critical for detecting negative and positive patterns in five groups, across time and in five categories; cost-effectiveness, asset or turnover, short-term solvency or cash, and value of the market. Furthermore, financial ratios indicate abnormalities, anomalies, and surprises that demand further research to determine the company's current and future financial health. In addition, the company's current financial performance about prior years and similar firms in the same Industrial sector is an excellent approach to assess and compare. However, while financial ratios are crucial instruments for analyzing different sorts of organizations, figures cannot be utilized without assessing if they are meaningful. The comparative J Sainsbury and Tesco study with industry are shown in Table 1 below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **J SAINSBURY PLC** | **TESCO** | **INDUSTRY** |
| **PROFITABILITY RATIOS** | | | |
| **GROSS PROFIT MARGIN** | 7.49% | 6.85% | 13.59% |
| **NET PROFIT MARGIN** | -0.96% | 1.25% | 1.49 |
| **EFFICIENCY RATIOS** | | | |
| **ASSET TURNOVER RATIO** | 1.09 | 1.17 | 1.36 |
| **INVENTORY TURNOVER RATIO** | 16.01 | 23.95 | 18.53 |
| **LIQUIDITY RATIOS** | | | |
| **CURRENT RATIO** | 0.6 | 0.65 | 0.71 |
| **QUICK RATIO** | 0.46 | 0.52 | 0.44 |
| **SOLVENCY RATIOS** | | | |
| **DEBT TO EQUITY RATIO** | 103.57% | 126.95% | 142.51% |
| **LT DEBT TO EQUITY** | 91.73% | 113.55% | 126.63% |

The major purpose of the financial statement analysis is to assess the company's stock securities, which means that the company must guarantee its future profitability. Financial information consumers employ profitability and efficiency measures to evaluate the operating performance of the company. They tell on the company's profit for its sales and the efficiency with which it uses its assets to create income. Profitability ratio is a financial ratio that evaluates the percentage rates of return on total firm funds and demonstrates how efficient management is in terms of revenue generation and cost control.

## “GROSS PROFIT MARGIN”

The examination of the gross profit margin is a measure of the financial health of an enterprise. Investors are told how much gross profit a firm earns every dollar of income (Ferdian, Suryadi and Safitri, 2018). A smaller margin could suggest that a firm is under-priced compared to the industry norm. A larger gross profit margin means that, provided that it has control over overhead expenses, an enterprise may earn a respectable profit on sales. For a firm with a larger gross profit, investors tend to pay more. The two firms, however, have a lesser margin of gross profit in comparison with the industry. The industry ratio is 13.59%, whereas Tesco has the lower J Sainsbury ratio of 6.85% with a gross profit margin ratio of 7.49%.

## NET PROFIT MARGIN

The margin of profit is a ratio that compares the profit of an enterprise to the total money that it generates. It assesses the way a firm functions successfully. This ratio provides analysts with a sense of the financial stability of a firm (MOELJADI, 2017). More efficient companies generating more profit per dollar of sales. This effectiveness makes it easier to endure if a product line fails to fulfill expectations or when an economic downturn affects the wider economy. As for the net profit margin ratio, Tesco performs effectively as compared to J Sainsbury however both of the companies have a lower ratio than the industry which is 1.49%. Tesco has 1.25% higher than J Sainsbury which has a negative ratio of -0.96%.

## ASSET TURNOVER RATIO

The turnover ratio of assets (or capital) reflects how often the capital used has been returned in the year to generate the income indicating the efficiency of the deployment of the assets of the firm (Aison and Suryaningsih, 2013). The preceding statistics indicate that while the two businesses exceed 100%, meaning that their employee capital was returned for at least a period in 2020, TESCO exceeds J. Sainsbury's 1.17%. This shows that TESCO uses its assets more time than J. Sainsbury and is justified in accounting terms by the fact that $ 1.09 every dollar of assets has been created.

## INVENTORY TURNOVER RATIO

Inventory sales measure how rapidly an inventory sells. Low turnover suggests weak sales and perhaps a surplus stock, also referred to as excess stock. It may suggest a problem with the products being sold or may be due to insufficient promotion (AMANDA, 2019). High sales or inadequate stocks, on the other hand, imply a good ratio. The former is desired, whereas the latter might lead to business being lost. The industrial ratio is 18,53 less than Tesco, which implies that it performs well and sells its stock quicker than J Sainsbury, which has a ratio of 16,01.

## “CURRENT RATIO”

The current ratio is the ratio of liquidity that gauges the company's capacity, with short-term assets such as cash, claims, and inventory, to fulfill its debt commitments (i.e. liabilities) (Wulantika, Hariyanto and Safitri, 2018). In contrast to Sainsbury Company, which now has an estimated ratio of 0.6:1, there is an actual TESCO ratio of 0.65:1 and it certainly seems to have any liquefaction problem in the enterprise. In particular, these figures reveal that TESCO had current assets of 0,65 dollars for every dollar of current liabilities while J. Sainsbury's current assets were 0,6 dollars for each dollar of existing obligations. These results show that J. Sainsbury has a liquidity problem which indicates that the company can't adequately fulfill its short-term obligations. This does not, however, necessarily imply that the company will be in bankruptcy shortly if it will not pay its bills for a short period, but is a poor indicator of poor financial health and the firm needs to have access to extra funding to solve the problem.

## QUICK RATIO

The fast ratio is another liquidity ratio that is very much like the current ratio; but, in comparison with the other ratio, it demonstrates the relationship between liquid assets (which exclude inventory) and current liabilities, the difference between both ratios being that they are more conservative (Nurdiwaty and Faisol, 2017) The results are almost the same except for the ratio numbers. TESCO has 0.52 dollars of liquid assets available per one dollar of current liabilities and J. Sainsbury has 0.46 of liquid assets for each dollar of current liabilities. The problem for J. Sainsbury remains the same as the company has bad financial health because it cannot meet properly its short-term obligations

## “DEBT TO EQUITY RATIO”

The debt-to-equity ratio is a measure of financial and solvency compared to the total equity of a firm. The debt-to-equity ratio illustrates the proportion of corporate funding provided by lenders and investors. More creditors (bank loans) are utilized than investors' financing imply a greater debt to equity ratio (shareholders). The firms are 142.51 percent lower than the industry. While Tesco has 126.51% and J Sainsbury has 103.57%.

## “LT DEBT TO Equity RATIO”

The long-term equity debt ratio is a leverage ratio compared to the shareholder equities of a firm with the total amount of long-term debt. The objective of this ratio is to assess the company's leverage. A greater ratio is to increase the company's debt. This demonstrates, in contrast to Tesco and the market, that J Sainsbury takes fewer loans. The industry ratio is 126.53% compared to 1113.95% for Tesco and 91.57% for J Sainsbury.

# (N)ON FINANCIAL STATEMENTS

Non-financial aspects have always been a wonderful tool for firms that have the skills to apply them. The company develops a better relationship between the long-term objectives by complementing the financial analyses with non-financial data. In addition, non-financial data allows firms to communicate various information goals to managers, motivating them to plan their plans for the future. They also mentioned that some critics argued that the success drivers for many firms in different industries are intangible assets, such as customer loyalty and intellectual capital, and that both had to be paid greater attention to. Lastly, both writers emphasized the accompanying cacophony of non-financial information that managers need to be aware of to assess how successful they will be if they take action that would maximize organizational performance.

# CONCLUSION

In their reports, the two firms have distinct formats, which makes it tiresome that information is compared efficiently. Further distortion is the employment of distinct accounting methods and methodologies by both firms. Some of the estimated ratios provide negative numbers which confuse the meaning of the users In the last year the firms have had upturns and downturns with each improvement and loss in a wide range of areas, however, Tesco has performed better than Sainsbury for the following reasons: The income of Tesco is more than twice as much as that of Sainsbury which shows that Tesco made a lot more in sales than that of Sainsbury. Tesco grew its income, gross profit, profit before tax and finally earned substantial profit from a loss whereas Sainsbury made profits, although in all of the above-mentioned areas it saw a general drop. Tesco has been able to pay dividends again and Sainsbury has again been reduced in this regard its shareholders

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