



# Morrisons

*Critical Analysis on the Morrisons pre-released material provided by Edexcel*

# A GOOD CAUSE

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You will notice, if you ever take a look at my heading, that there are an extra two names on the header. Suleiman and Abdullah have both been a source of great inspiration and help for me, when I was in the process of making this analysis. Through the use of Google could-connect for MS Office, we were able to collaborate in making this analysis a reality. We talked over Google Talk, and you would be surprised to hear how much fun the three of us have had in making this benediction a reality.

We discussed nearly everything from how much we hated the way business teachers mark our papers and never have a clue about what they are doing to how we wanted to give Tutor2u a run for its money. We discussed the potential hazards of expansion to more subtle issues such as life in our regions of the world and the regions in which we lived.

And that is the magic of the internet, the magic of science and most importantly information technology. It brings people together, and makes distribution problems a thing of the past. What we did, can be replicated all over the world. All we did is work together to make something that potentially all business students can benefit from.

The resources that come out of sheer will to give come out to be the best, because the people that made them have no obligation to make money – at least we did not. After all, aren't the best things in life free?

We all worked together to make this project, whereas if I had kept all the knowledge and information to myself, creating something through international collaboration would not be possible. That's a barrier we need to break down, we are not trying to achieve competition with each other, we are trying to make progress, and this is a problem throughout the world.

What if, all the students in a class sat down together and tried to solve each other's problems; it would lead to one actually understanding the subject matter better because the extent to which we learn something is fully tested when we teach. That class, in which all the students help each other, will actually be helping themselves, they both gain something, and they gain more. It's not about losing, it's about gaining something.

When a smart student gives up something to perhaps people who had fewer opportunities than him/her, he/she becomes far more respected as well as being given the choice to refine his/her knowledge through teaching. And that my friend is the greatest magic of all. Human co-operation through establishing a system of comparative advantage will only bring good.

In the creation of this document, I designed, and wrote more of the things on it. But if you look at it that way, you will only help to make yourself superior, and will lead to the degradation of the team. Whereas, because I helped them and because they helped me, we were able to create something better than if I alone were to create it. In the end, we come up with something better that everyone benefits from. Again, we should stop competing and start to make progress together to make better things for ourselves and for others.

# MORRISONS PRE-RELEASED MATERIAL

## OVERVIEW

### 1. EVIDENCE A & F – NEWSPAPER ARTICLE ON MORRISON'S PLANS TO EXPAND AND MARKET SHARE

- a. Basic facts
- b. Critical analysis

### 2. EVIDENCE B – PROFIT AND LOSS ACCOUNT FOR 2008 & 2009

- a. Ratio analysis
- b. Critical Analysis
  - i. What this tells us about growth prospects

### 3. EVIDENCE C – MORRISON'S STAFF VALUES

- a. Critical analysis in comparison to other rivals i.e. TESCO, ASDA and Sainsbury's

### 4. EVIDENCE D – CRITICAL PATH ANALYSIS OF MORRISON'S NEW STORE

- a. The critical path diagram

### 5. EVIDENCE E – MORRISON'S CHANGE IN LEADERSHIP AND CORPORATE CULTURE

- a. Basic facts
- b. Critical analysis

### 6. EVIDENCE G – CREATIVE APPROACH TO CSR

- a. Critical Analysis



## EVIDENCE A & F– NEWSPAPER ARTICLE ON MORRISON'S PLANS TO EXPAND

### BASIC FACTS

1. Survived credit crunch with strong growth figures
  - a. 7% net profit and defied the credit crunch.
2. Expansion plan
  - a. 48 stores to open within 12 months timeline
  - b. 38 taking over from Co-op group
  - c. Further 100 sites looking at acquiring
3. Looking to compete more aggressively with top competitors
  - a. Main rivals sought out to be ASDA, TESCO and Sainsbury's
  - b. Will compete with M&S when it comes to
4. CEO statement for more Growth in floor space
5. Massive expansion mainly focused with external growth.
  - a. But will grow organically from years 2011-2012.
  - b. Organic growth of 40% from 350 000 to 500 000
6. Massive growth over the past two year
  - a. Double capital expenditure to 1.1bn
  - b. They made a net profit of about £655m in 2009
  - c. 7.9% to 8.1% - increase over 52 weeks
  - d. Over 4 years will expand 2 million square feet.
  - e. Total Sales up 12% to 14.5 billion
  - f. CEO statement delivered growth across UK – corporate objective, still staying true to their aim.
7. Sales across Product range
  - a. Value range Sales up 50%
  - b. The Best (premium goods) down 5% but ahead of competitors
8. More market Share from Rivals CEO only one not to lose share to discounters
  - a. Lucrative to investors
  - b. Challenging high end clothing like M&S.
9. Resisted moving into non-food or online market
10. Launch of 500 non-food home ware lines this year; complementary to its food products.



Figure 1 - Sir Ken Morrison stepped down from the post of CEO in 2008. He led the company for 50 years. His successor, for the first time will not be from the Morrison's family. ↑



Figure 3 - 'The Best' is Morrison's premium line of goods. Sales have slowed by 5%, but, that is better performance compared to most rivals. ↑



Figure 2 - One of Sir Ken's biggest decisions was the takeover of Safeway in 2004. ↑





## CRITICAL ANALYSIS

In order to understand the importance of the information, and its consequences, we are going to have.



Morrisons is a **family owned** business and has been owned for a long time; just recently, has the business had a CEO that was not related to the family. They have some experience in takeovers, as they have taken over Safeway in 2004. However, the **sheer magnitude of the new expansion plan is going to be a challenge**, as the business has never expanded so rapidly and so greatly ever in its history.

What more, the corporate culture that Morrisons thrives on will be hard to implement on the new workers on such a short basis – it can be foreseen that there will be a **cultural gap**, what we need to **determine is the extent** to which this rift between workers can damage business operations. If the worst comes, Morrisons will have to recruit a large number of workers which would require far more financing.

However, since the **financial crisis has hit the UK very hard and jobs are hard to find**, it may be one of the greatest opportunities that Morrisons can **exploit**. Unskilled labour will be easy to employ.

The main mode of expansion that Morrisons has chosen is **vertical integration**: meaning that the business is going to expand mainly through the takeover of other rival companies. **Organic growth is still going to be a part of the whole process** and from **2010-2011**, organic growth is going to be given the most importance. They are going to take over co-op stores, which may be to their advantage because these stores are made up of different stores across the UK, and do not have a strong corporate culture. Thus, the problems that the business faces with a potential culture gap may be avoided – with regard to potential redundancies: Morrisons can press forward with confidence in their current scheme.

The business has had accelerated growth throughout the credit crunch meaning, that it will be a **top pick for investors** especially those that seek to make large long term returns.

If this operation is successful, then Morrisons will be able to take up a considerable portion of the co-operative market share as well as rival Sainsbury's for the 3<sup>rd</sup> position in terms of market share; that would give it a huge command over the market as well as confidence to its managers to take bigger and more ambitious projects. Sainsbury's has continued to lose market share to TESCO and ASDA, and it not partly owned by the

Qatari royal family; Sainsbury has seen market share fall over the past few years from **16.5% to 15.9%**. The weakening of Sainsbury's, the fall of sales in international markets that have affected for TESCO and ASDA, gives Morrisons to expand with little risk as TESCO, ASDA and Sainsbury's need to divert attention to large international operations, simply to maintain them, Morrisons can aggressively make advances on market share as it has growing profits.



Figure 4 - A Sainsbury's store. Sainsbury is also named after a family, and was originally a family owned business



Part of the Morrisons success has been from value range products; however the question remains whether this was simply due to the reduction in wages and rising of job insecurity or the success of the products itself remains a question to be answered. However, some confidence can be gained from the fact that sales of premium food has now slowed down significantly, this is good news as premium goods are usually price elastic.



Figure 5 - M&S has an impeccable image for food and clothing.

Morrisons is also being quite cautious and ambitious at the same time. It is taking over businesses that do not have a strong corporate culture and thus will not show much resilience. Also, the expansion budget is not very high; as it is simply double that of its net-profit. They are trying to go for product development instead of market development, which is the less risky of the two. They are using their strengths in food items to sell their non-food items which as mentioned are ahead of their rivals in terms of sales. However, not being aggressive enough may mean that potential growth is sacrificed for reduction of risk.

Morrisons will have trouble battling the strong brand image of M&S, which has an extremely strong image for quality food and clothing.

## SUMMARY

- They have always been Family owned.
- Aggressive Expansion holds high risk. They have never expanded so quickly
- Vertical Integration by acquiring Safeway.
- Trying to increase Market position and share
- Catching Tesco, ASDA and Sainsbury's off guard in the UK while they concentrate on their international stores.
- Change in Corporate Culture can cause a culture gap.
- Long Term investment through heavy expansion. Refer to 3<sup>rd</sup> Paragraph.
- Investment in IT – Customer care and satisfaction which is part of their culture. CAD
- Trying to increase their Market share by building Co-Op stores.
- Prospects for growth seem good since they have survived the hardest part of the recession and are accelerating in terms of growth. Growth rate of 8.1% in the 2<sup>nd</sup> half after the worst of the credit crunch. – refer to paragraph 5
- Increased turnover of £2bn from 2008
- Their 12% sales rise could be from a result of heavy marketing, aggressive expansion and increased sales.
- Part of their culture is low priced value for money goods and that has been their catalyst for strong sales. A 50% sales growth from their value range sales. Using their strengths in food items to sell their non-food items which as mentioned are ahead of their rivals in terms of sales. Price Elastic
- Ansoff Matrix – They are part of the Product Development section of the matrix – New products in existing markets, for example M&S relies of a strong brand image of their foods to create sales, even though Morrison's has taken 2-3% of their market share.
- Referring to the quote on paragraph 8 – Attracts investors by showing confidence in the market.
- Trying to get their basics right and build a solid foundation to increase growth, sales and market share.

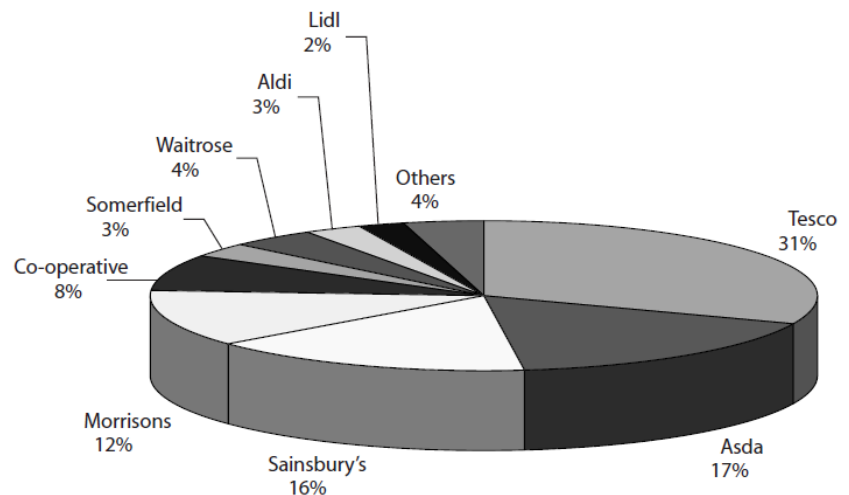


Figure 6 - Market share pie chart as shown in the pre-released material.



## EVIDENCE B – PROFIT AND LOSS ACCOUNT FOR 2008 &amp; 2009

<b>Summary Income Statement</b>	<b>2009 £ m</b>	<b>2008 £ m</b>	<b>Change %</b>
Turnover	14528	12969	12
Gross profit	913	818	12
Other operating income	37	30	23
Administrative expenses	(281)	(268)	5
Property transactions	2	32	–
Operating profit	671	612	10
Finance income and cost	(16)	–	–
Taxation	(195)	(58)	236
Profit/(loss) for the period	460	554	(17)

(Source: WM Morrison preliminary accounts, 12 March 2009)

## RATIO ANALYSIS

## GROSS PROFIT MARGIN

$$GPM = \frac{\text{Gross Profit}}{\text{Turnover}} \times 100$$

2008

$$GPM = \frac{818}{12969} \times 100$$

$$GPM = 6.31\%$$

2009

$$GPM = \frac{913}{14528} \times 100$$

$$GPM = 6.28\%$$

## NET PROFIT MARGIN

$$NPM = \frac{\text{Net Profit}}{\text{Turnover}} \times 100$$

2008

$$NPM = \frac{612}{12969} \times 100$$

$$NPM = 4.72\%$$

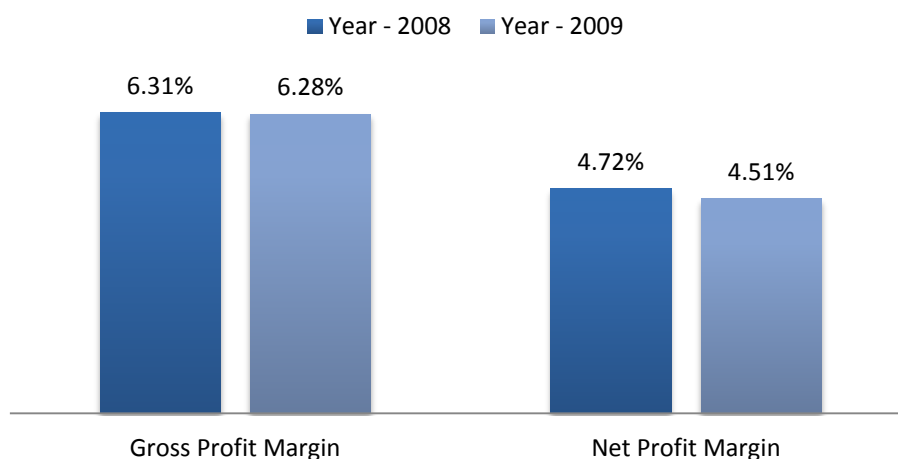


2009

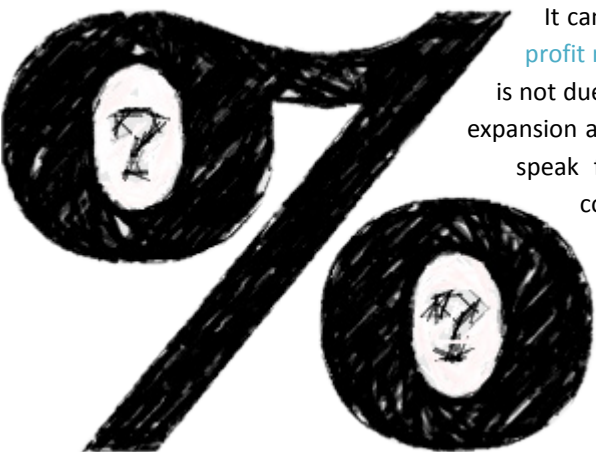
$$NPM = \frac{655}{14528} \times 100$$

$$NPM = 4.51\%$$

## Profit Margins



### CRITICAL ANALYSIS



It can be noted that both the **gross and net profit margin has fallen**. Although, the **net profit margin has fallen far more significantly** than the gross profit margin. However, this is not due to the inefficiencies of the business, but rather the **increased taxation** due to the expansion and the massive order for new building material as well as employment. So, as to speak for net profits, it has actually been quite well if the context is taken into consideration. However, more accurate judgements can be made if the balance sheet for Morrisons was provided. This would allow the **comparison of the ROCE** to the interest rates, and we could then assess the reward for risk.

In simple terms, the financial situation of the business seems **quite good** taking into account the **financial circumstances** that the business faced; analysis would be made more accurate given more financial information.





## EVIDENCE C – MORRISONS STAFF VALUES

## CRITICAL ANALYSIS

	MORRISONS	TESCO	SAINSBURY'S	ASDA
PAY (18+)	Competitive	Very High	High	Competitive, but they do not see age as a problem, they pay the same for above and below 18
DISCOUNT	10%	10%	15%	10%
TRAINING	Very good	Very good	Very good	Very good
SHARE PURCHASE WITH EARNING	Present – after a period, and in the form of profit sharing	Present – very good, as you are given bonus shares the longer you work	Present – can be bought with pre-tax earnings	Present
CANTEEN	Known to be the best of all the stores and is also subsidised	Good	Good	Good
PENSIONS SCHEME	Present	Present	Present	Present
SOCIAL	Fundraising charities each year. Social committees	Discounts to theme parks, has a gym, however there was no mention of communities on TESCO's website	Social association (SSA)	N/A
HEALTH CARE PLANS	Present	Present – extensive with gym and dental care	N/A	Only for senior managers
LIFE ASSURANCE	Present	Present	Present	N/A
DISCOUNTS AT CERTAIN STORES	Present	Present	Present	Present
PENSION PLAN	Present	Present	Present	Present
PAID PATERNITY AND MATERNITY LEAVE	Present	Present	Present – even has childcare	Present
HOLIDAY PLAN	29 days paid leave	Present, also discounts at parks and stores	Present, no specifics	N/A

TESCO is on top for a very good reason, it has the **best staff care policies**. However, Morrisons still remains competitive and as staff are mostly graduates and there are few job opportunities due to the credit crunch, Morrisons odds of recruiting a good team is not bad. However, what this also means, if the sudden change in company culture were to affect Morrisons strongly, they would have to make a more lucrative staff benefits programme. If the business needs to resort to a **contingency plan, under competitive circumstances, then they would have a problem**, but as there are more job losses and far more competition for jobs, they are not likely to have a problem even if they come face to face with cultural resistance. Also, cultural resistance is unlikely as co-operatives stores are made of loose stores that **do not have a strong corporate culture** hence their benefit programme to staff should be of little worry to Morrisons.





## MORRISONS CHANGE IN LEADERSHIP AND CORPORATE CULTURE

- Sir Ken Morrison stepping down as Chairman
  - Impact on culture of Business when succeeded by Ian Gibson
- History of Morrisons
  - Takeover of Safeway and organic and Growth
- Business Culture Change
  - It would be safe to assume that Morrisons has a power culture, but there are also rules in place making it a hybrid.
- Business Culture Change
  - Impact on Operations
  - Labour Productivity
  - Previous [culture clashes](#) with Safeway
- Morrisons has been changing
  - Appointment of Marc Bolland
    - Marc Bolland left the job to become the CEO of M&S
    - Newly appointed CEO is Dalton Philips
      - Has immense international experience
- Safeway Shoppers desert Morrisons
  - Safeway was not a success for Morrisons
- Television Adverts show change of approach to Advertising and Marketing
  - Revamped television adverts featuring new stars



## CRITICAL ANALYSIS

*"Sir Ken Morrison will step down as chairman, to be succeeded by Ian Gibson, after more than 50 years in charge"*

1. Had Huge influence on Corporate Objectives
2. Conflict with Modern Day managers
3. Divorce between Ownership and Control
4. Shareholder Approach and Long Term aims have been accomplished
5. Ian Gibson- Different Personality Lets Business do talking
6. Ian left the business in 2010, and Dalton Philips took over the business
  - a. Sir Ken was not too disappointed, so this did not have a major impact.

Sir Ken still remains the president of Morrisons, so he is still watching over. As more executive duties are handed over to the CEO, Sir Ken still has a strong say in the business. Also, we need to note that **he is the one that drove Morrisons to such a spectacular position**. So his departure does not really mean too much. Although Ian Gibson now has the highest profile retailing job in the UK – the CEO of M&S. The newer appointee was the CEO of the Canadian equivalent of J Sainsbury – so this should give Morrisons an **insight into what makes Sainsbury's work – their number one rivals**.

*"Sir Ken took over the company at the age of 26 (in the pre-released material wrong information is given) and ran it until 2006. His father, William, founded what is today a FTSE 100 company when he became an egg and butter merchant in Bradford, Yorkshire, in 1899"*

1. He has a lot of experience in bringing the company up
2. Accomplished a lot- Steady increase in Turnover and Profit every year in charge
3. Had Full power and control and knows Business from grass Roots
4. Shows us that he was a great leader and that when he took over from His father the business had not accomplished much

Sir Ken is undoubtedly the most important influence to Morrisons, but although he is retiring, he is still watching over the business and still has a strong say in the business and can take control of the business as he still owns most of the shares.

*"For the first time, no member of the Morrison family will be in charge or on the board, which may have an impact on the culture of the business."*

1. Change in culture
2. This culture was formed by behaviour of WM Morrisons
3. Change of Culture could be devastating to business and employees
4. Difficulties in changing culture are conflict in belief and a culture gap
5. Must be done slowly and implemented gradually
6. Culture leads on to change in strategy of business
7. Labour productivity may decrease

Culture can be a potential issue, but as far as Morrisons goes, they can recruit more workers as there is still a high demand for a job.



*His formula was successful when the supermarket was based in Yorkshire, but when Sir Ken bought the mainly southern-based Sainsbury's in 2003, many former Sainsbury's shoppers deserted Morrisons.*

This was a big problem and should be seen as a source of concern for Morrisons, as they have failed to takeover and go ahead with the takeover – it was not completely successful. This does make Morrisons decision to expand through taking down competition through vertical integration is a **bit of a gamble**, but as Morrisons promote value range products as well as there being a high demand for jobs with a high rate of unemployment, it could simply serve as an experience from which Morrisons takes learning from. In business, there are no profits without risks involved.

Morrisons is a business with a **strongly rooted company culture**, and that means that this culture is a big part of its success, it must be a culture that is **widely accepted**, or should be accepted as managing a successful retailing business requires a culture to be there that is practical as well as one that is coherent with the belief of most workers – thus it must be a strong culture that is at the core of the Morrisons success.

In conclusion, Morrisons have had problems with culture in the past as well as vertical integration, but they were at a **different time when jobs were abundant and shops offered very high wages**, right now the high insecurity that most people feel over their jobs mean that there will be more applicants for even the most basic of jobs. This should mean that integration has to be slow and carefully implemented, and that seems to be what Morrisons is doing as they are focusing on organic growth at the beginning and then slowly managing vertical integration.



*Ten years ago, Morrisons' Christmas television adverts featured the supermarket's pies, cut-price family-size packets of crisps and smiling in-house butchers. Last Christmas, singer Lulu was the star turn in its advert, which also starred celebrities Nick Hancock, Denise van Outen and football pundit Alan Hansen, as part of the supermarket's attempts to inject some glamour and modernity into its image and attract younger, more southern-based shoppers.*

Again Morrisons is focusing on **cheap and accessible products to consumers**, becoming a beneficiary of the credit crunch – something that may give them the edge over the other businesses as they have international operations.

It is also trying to use **advertising to penetrate the southern market**. This although changing its culture and image of being a traditional northern retailer does however mean that the company is ready to adopt change. However, with all the negatives such as failure with Sainsbury's hanging over Morrisons' heads, it will only mean a cautious approach to business, which it has taken.





## EVIDENCE G – CREATIVE APPROACH TO CSR

Although this may be a creative approach to CSR, **similar methods have been adopted by both TESCO and Sainsbury's**. One of the main things that the Sainsbury family invests in is philanthropy, although ASDA has had many issues with the treatment of workers, as it is a division of Wal-Mart, it has a good corporate culture.

TESCO also works with schools, and it seems to just as good as a CSR as Morrisons. As the south of England is in fact more technologically advanced than the north, it is more likely that they will pay close attention to CSR policies that Morrisons implements.

In terms of CSR, Morrisons seems to be **at par or slightly above the competition** when it comes their main competitors – TESCO and Sainsbury's. When it comes to comparing the CSR with M&S, it really does not leave much of a comparison because **M&S's CSR is arguably the best** – it has a famous statement saying that there is no "Plan B" to saving the environment. It started fair trading all the way back in 1999. In terms of CSR Morrisons remains competitive, whilst still offering low prices and value for products. However, this **recently they have geared up CSR to the maximum**. [Morrisons' CSR→](#)

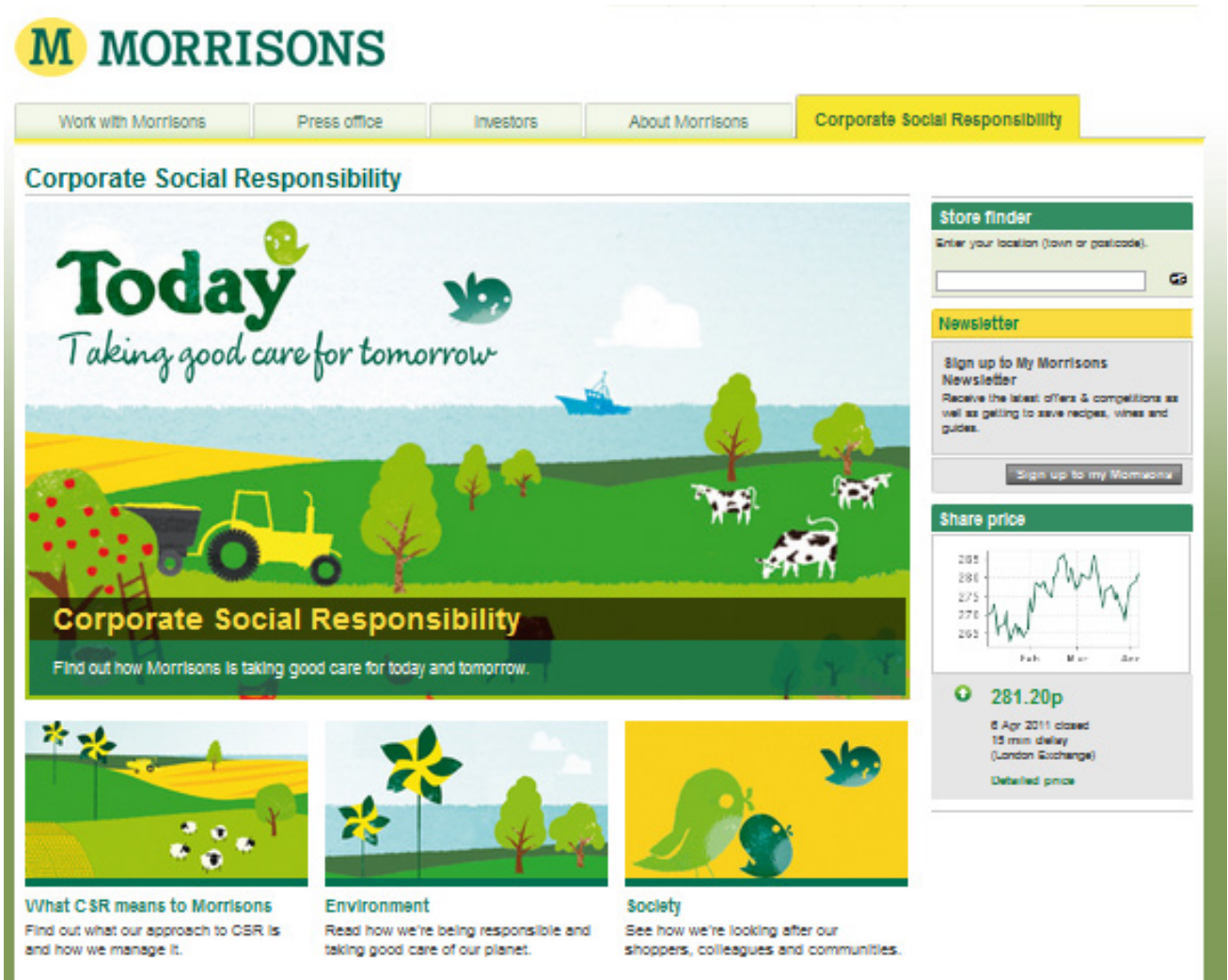


Figure 2 - Morrisons' CSR Website looks really engaging, they have attempted to make it attractive to children as well; whereas, TESCO, M&S as well as Sainsbury takes a very formal approach to it.