

# Comprehensive Financial and Strategic Assessment of Sainsbury's within a Competitive Retail Landscape

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**Abstract.** Sainsbury has performed well in brand building and customer loyalty as a retail company with a history of more than 150 years. However, the company has faced many challenges due to the changing economic environment in recent years. Therefore, in response to these problems, this study deeply analyzes Sainsbury's market performance and financial status, aiming to identify the challenges and opportunities currently encountered by the company and provide feasible suggestions for the company's future development. This study first uses SWOT analysis to evaluate Sainsbury's internal strengths and weaknesses and external opportunities and threats. Subsequently, by comparing the financial indicators of Sainsbury and its competitors, it was found that its liquidity, profitability and capital structure were mostly lower than those of its peers in the past five years. Based on these findings, this study recommends that Sainsbury optimize cost management promptly and take measures to cope with inflationary pressures to enhance market competitiveness and long-term sustainable development capabilities.

**Keywords:** Sainsbury; SWOT analysis; Market competitiveness; Financial Analysis.

## 1. Introduction

Sainsbury has occupied a crucial retail position since its establishment in 1869 as one of the four largest supermarkets in the UK and Ireland. In recent years, with the changes in the global economic situation and the rapid advancement of digital transformation, the retail industry has faced unprecedented opportunities and challenges. In order to quickly respond to these changes, Sainsbury has taken a series of strategic measures, including the acquisition of Argos, to expand its business territory further. However, with the rise of emerging market forces and the rapid changes in consumer demand, the traditional retail model is facing severe tests. Sainsbury is also facing the dual pressure of transformation and innovation. In addition, given Sainsbury's important position in the UK and Ireland markets, this article conducts an in-depth analysis of its financial status and market performance, which can not only help Sainsbury find a more forward-looking strategic direction in the fiercely competitive retail industry but also provide a valuable reference for other traditional retail companies to cope with market changes. This study analyzes Sainsbury's SWOT analysis and suggests appropriate and feasible suggestions. Then, focusing on its key financial indicators such as current and profitability ratios, its financial health and market position are comprehensively evaluated. Therefore, this paper will first use the SWOT analysis framework to evaluate Sainsbury's internal strengths and weaknesses and external opportunities and threats. Secondly, the financial data of Sainsbury and two other related supermarkets in the past five years are collected, and the relevant conclusions are drawn by calculating and analyzing Sainsbury's Liquidity Ratios, Profitability Ratio and Debt-to-Equity and comparing them with the data of other supermarkets. Through the above analysis, this study will identify the opportunities and challenges faced by Sainsbury in the current competitive environment and put forward corresponding strategic recommendations to help the company maintain its competitive advantage and achieve sustainable growth in future development.

## 2. Introduce the company

Sainsbury's is one of the traditional "Big Four" supermarkets in the UK, dating back to 1869. Sainsbury Original, a small grocery store, has now grown into a large retail company headquartered



in London. The company mainly operates in the UK and Ireland and has had a good brand reputation for over 150 years. Nowadays, Sainsbury's operates more than 600 supermarkets and more than 800 convenience stores, offering a wide range of products, including groceries, clothing and electronics [1]. Its extensive retail network and commitment to quality have made Sainsbury's widely recognized and known for providing value and convenience to millions of customers. At the same time, the company has always focused on innovation and customer satisfaction to maintain a competitive advantage in the changing retail environment.

### 3. Analysis

#### 3.1. SWOT analysis

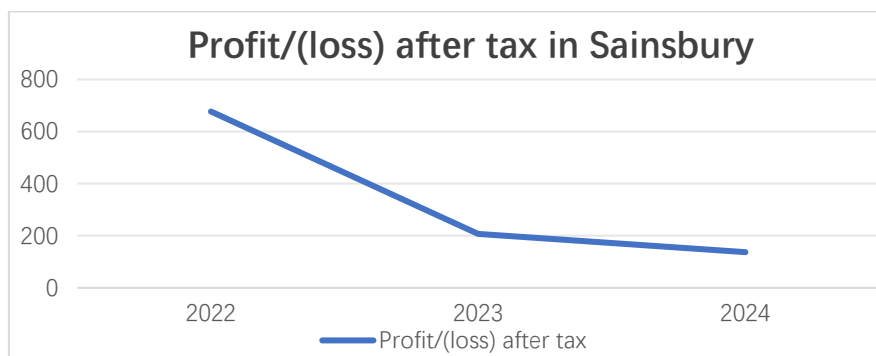
SWOT analysis, a strategic planning tool created by Albert Humphrey in the 1960s, is divided into Strengths, Weaknesses, Opportunities, and Threats [2]. Among them, the first two components evaluate an enterprise's or project's internal situation and compare it with competitors—the latter two focus on external environmental changes. By identifying and analyzing these factors, enterprises can develop more efficient strategies, enhance market competitiveness, seize opportunities, avoid threats, and achieve long-term success.

##### 3.1.1. Strengths.

As a retail enterprise with more than 150 years of history, Sainsbury's has established a significant brand reputation and consumer trust with its extended operating experience. This background enhances the brand's credibility and builds loyalty among regular customers. At the same time, Sainsbury actively sponsors events, such as the Paralympics and many other events, demonstrating its commitment to fulfilling social responsibilities [3]. This approach not only enhances the social reputation and strengthens the connection with the community but also establishes a caring, sports-supporting and inclusive brand image. In addition, in 2016, Sainsbury's acquired Argos, one of the most popular retailers in the UK. This forward-looking acquisition significantly expanded the company's product and service range. By integrating Argos' multi-channel retail model, Sainsbury's has dramatically enhanced its department store and digital capabilities, further consolidating its leadership in the retail industry [4].

##### 3.1.2. Weaknesses.

Despite Sainsbury's revenue growth over the past three years, profits after tax have declined significantly, with a significant drop from £677 million in 2022 to £207 million in 2023, as shown in Figure 1. This indicates that the company has problems with cost management or operational efficiency and is temporarily unable to compensate for the decline in profits through increased revenue. According to Sainsbury, a primary reason for the decline in profits is the £560 million spent over the past two years to keep prices low and help customers cope with inflation [5]. This also shows that Sainsbury's current cost management and operating strategies are insufficient to offset the financial pressure caused by maintaining competitive prices, thereby weakening overall profitability.



**Figure 1.** Profit/(loss) after tax in Sainsbury

In addition, Sainsbury's operates primarily in the United Kingdom and Ireland, with limited international expansion compared to competitors such as Tesco. According to UKEssays, Sainsbury's has almost yet to make any inroads into overseas markets [6]. This localized business model limits the company's international reach and diversification opportunities, limiting its growth potential.

### **3.1.3. Opportunities.**

As a global goal, net zero emissions must address climate change. As a large enterprise, Sainsbury's is also actively involved. Sainsbury launched Plan for Better in 2021 to gradually achieve net zero emissions and sustainable development in 2050 [7]. This plan has also become a core of the company's strategy. It reflects the company's long-term vision and commitment to environmental responsibility. At the same time, the Carbon Disclosure Project has recognized the company's continued efforts in addressing climate change. It has awarded Sainsbury an A rating for ten consecutive years, making the company the only British supermarket to receive this level of distinction [5]. By actively responding to climate change, Sainsbury has enhanced its brand reputation and attracted more consumers and investors who pay attention to environmental protection, creating more opportunities for its future development.

In addition, effective customer relationship management (CRM) is crucial to a company's long-term development [8]. Sainsbury's has improved customer loyalty and satisfaction through the Nectar loyalty program, using CRM data to optimize product supply chain and pricing strategies. For example, Sainsbury's adjusted inventory based on customer data ensures the availability of high-demand goods, thereby improving operational efficiency and market responsiveness. These measures enhance customer experience and create more opportunities for long-term development for the company.

### **3.1.4. Threats.**

Sainsbury's faces fierce competition from other supermarkets in the same industry. For example, Aldi, known for its price advantage, has attracted many price-sensitive consumers through its low-price strategy. Mainstream supermarkets like Sainsbury's, such as Tesco and ASDA, pay more attention to customer loyalty and shopping experience [9]. They stabilize their market positions through membership programs, personalized services and high-quality goods. Facing these strong competitors, Sainsbury's needs to adjust its business strategy on time. Sainsbury's achieved its most significant market share increase in over a decade with the launch of the Nectar membership card system in early December 2023, with the number of Nectar members reaching 3 million [10]. However, the global economic environment is still recovering, and people's purchasing power has declined significantly compared to before COVID-19. In addition, inflation in recent years has increased the cost of living, further affecting consumers' consumption behaviour. These factors pose potential threats to Sainsbury's future development. Therefore, Sainsbury's must continue to improve its market competitiveness and brand appeal to cope with the changing market environment and consumer trends.

## **3.2. Analysis Of Financial Ratios**

### **3.2.1. Liquidity Ratios.**

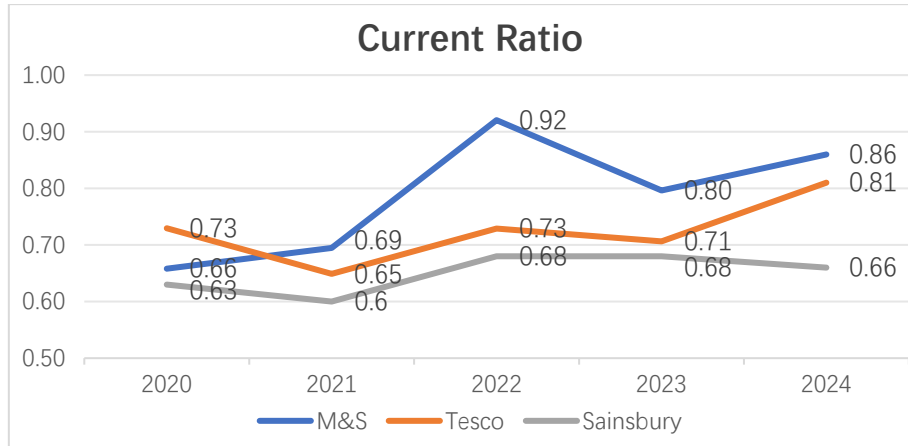
Liquidity Ratios evaluate a company's ability to repay short-term debt and provide insights into its short-term financial health and operational efficiency. These ratios assist stakeholders in making informed decisions regarding the company's financial stability and overall performance.

#### **3.2.1 (A). Current Ratio**

The current ratio is a primary financial indicator that assesses a company's ability to meet short-term debt obligations. It can be obtained by dividing current assets by current liabilities. The formula is as Equation (1).

$$\text{Current ratio} = \frac{\text{Current asset}}{\text{Current Liability}} \quad (1)$$

Usually, the company's asset liquidity is judged by comparing the current ratio's value with 1. If it exceeds 1, the company can repay debts in the short term. On the contrary, the company may face short-term debt repayment pressure [11].



**Figure 2.** 2020-2024 Current Ratio Trends for M&S, Tesco, and Sainsbury

Figure 2 shows that Sainsbury's Current ratio has been around 0.6 and less than 1 in the past five years. This shows that Sainsbury's current assets are insufficient to cover its current liabilities in recent years, and the company's short-term debt repayment ability is weak. Compared with other peers, Sainsbury's current ratio is still lower, which means that the company faces more significant debt repayment pressure and may be unable to repay its current liabilities in time. At the same time, this situation may affect the confidence of suppliers and investors and then hurt the company's operations and financing capabilities. Therefore, Sainsbury needs to adopt effective financial strategies to improve its liquidity, such as optimizing inventory management to improve its short-term debt repayment ability.

### 3.2.2. Profitability Ratio.

The Profitability Ratio assesses a company's profitability and earnings [12]. Therefore, Investors can use this ratio to determine a company's financial health and whether it represents a good investment opportunity.

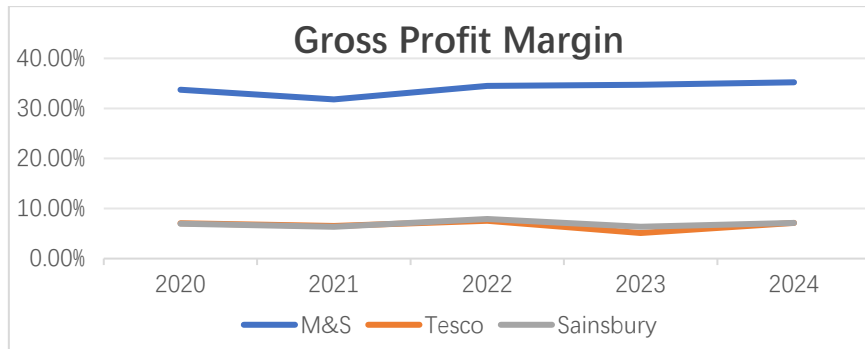
#### 3.2.2 (a). Gross profit Margin

The gross profit margin is an analytical indicator that shows the proportion of profit a company earns from its sales revenue after deducting the cost of goods sold (COGS) [13]. In other words, the gross profit margin is calculated as Equation (2).

$$\text{Gross profit margin} = \frac{\text{Net sales} - \text{COGS}}{\text{Net sales}} \quad (2)$$

At the same time, it also reflects the essential profitability achieved by the company in its core business operations.

As illustrated in Figure 3, Sainsbury's Gross Profit Margin has remained stable between 5% and 8% from 2020 to 2024. This shows that the company's product pricing and cost control have been relatively stable in the past five years. As a large retailer, Sainsbury's focuses on achieving considerable sales through lower single-product profit margins and larger transaction volumes. In contrast, M&S's gross profit margin is as high as 30%, indicating that it relies on less transaction volume and higher profit margins. This difference highlights the distinct sales strategies employed by these two supermarkets.

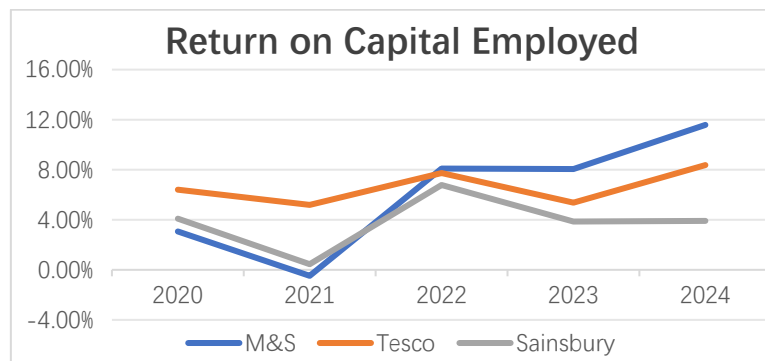


**Figure 3.** 2020-2024 Gross Profit Margin Trends for M&S, Tesco, and Sainsbury

### 3.2.2 (b). Return on Capital Employed (ROCE)

ROCE measures capital efficiency, which can help analyze a company’s performance in capital management and return on investment [14]. The formula is Equation (3).

$$ROCE = \frac{\text{Earnings before interest and tax}}{\text{Capital employed}} \quad (3)$$



**Figure 4.** 2020-2024 Return on Capital Employed Trends for M&S, Tesco, and Sainsbury

Sainsbury’s ROCE showed some fluctuations between 2020 and 2024. (Figure 4) Except for the impact of COVID-19 in 2021, when it dropped to 0.45%, it remained between 3% and 7%. This shows that Sainsbury’s ROCE has a specific stability in capital utilization efficiency. Overall, Sainsbury’s ROCE is relatively stable, but if compared with M&S and Tesco, its return on capital is relatively low, and its growth is still relatively lagging.

### 3.2.3. Debt-to-Equity.

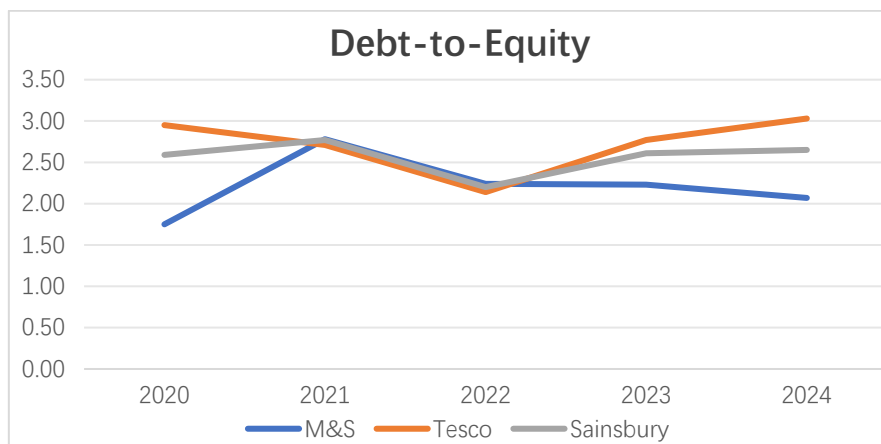
The debt-to-equity ratio evaluates the proportion of debt and shareholders’ equity in a company’s capital structure [15]. The formula is Equation (4).

$$\text{Debt – to – Equity} = \frac{\text{Total liability}}{\text{Total Shareholders' Equity}} \quad (4)$$

At the same time, the debt-to-equity ratio is also a special ratio used to measure a company’s degree of financial leverage.

Figure 5 illustrates that Sainsbury’s Debt-to-Equity ratio has fluctuated between 2.2 and 2.8 over the past five years. Compared to its peers, this ratio indicates a relatively stable capital structure. The significant decline from 2021 to 2022, approximately 21%, suggests that the company may have optimized its capital structure by reducing debt or increasing shareholders’ equity, thereby lowering its financial leverage. The ratio gradually recovered and stabilized in the following two years, implying that the company may have engaged in increased debt financing to bolster its financial position. However, this also indicates that the company has taken on higher financial risks. Overall,

Sainsbury's appears to be continuously adjusting its capital structure to navigate changes in the external market environment.



**Figure 5.** 2020-2024 Debt-to-Equity Trends for M&S, Tesco, and Sainsbury

#### 4. Conclusion

In summary, as a long-established retail company, Sainsbury has made specific achievements in brand building, product diversity and customer loyalty. However, in the face of changes in the economic environment and fierce market competition in recent years, Sainsbury needs to improve its competitiveness. The financial analysis of this study shows that Sainsbury's liquidity, profitability, and capital structure in the past five years are lower than those of its peers, especially the poor performance of the current ratio, which reflects that the company's current development faces certain risks. Therefore, in its future development, Sainsbury should optimize cost management and strengthen the expansion of the international market. At the same time, the company also needs to respond flexibly to inflation and adjust pricing strategies and cost control measures on time. In addition, Sainsbury should actively promote sustainable development and respond to the global net zero emission target. This will help protect the environment and enhance the brand image and long-term competitiveness. By continuously adjusting the company's strategy and strengthening execution, Sainsbury is expected to achieve steady growth and improve overall profitability in the complex market environment in the future.

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