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## 1. Introduction

The purpose of this report is to understand the financial data of Australia's three big Retailers': Woolworths Ltd, Coles Myer Ltd, and David Jones Ltd from 2001 to 2003 and form a view on their working capital management practices. The data is studied by using analytical tools like ratio analysis, reviewing descriptive material in financial statements, finding differences in components of statements, and by comparing results. A final picture is thus sketched to clarify how the calculated figures are affected by nature of each business and what other reasons underlie these results.

## 2. Data

The main sources of data used to assess the working capital position are balance sheet and profit and loss statement, along with the notes to financial statements from the published annual financial reports of each company for 2001, 2002, and 2003 respectively.

	Woolworths Ltd			Coles Myer Ltd			David Jones Ltd		
Year	2001 \$m	2002 \$m	2003 \$m	2001 \$m	2002 \$m	2003 \$m	2001 \$m	2002 \$m	2003 \$m
<b>Current assets</b>									
Cash	256	295	287.3	270.5	866	905.5	11.55	19.138	17.345
Receivables	194.9	258.6	242.4	705.1	288.7**	346	72.961	53.092	47.875
Inventories	1731.8	1838.4	1843.1	2904.2	2808.9	2836.8	287.298	287.209	289.54
Property, plant and equipment	126.8	98.3	133.7						
Other	79	97.7	114.1	66.3	53.2	28.1	9.904	9.697	7.366
<b>Total Current assets</b>	<b>2388.5</b>	<b>2588</b>	<b>2620.6</b>	<b>3946.1</b>	<b>4016.8</b>	<b>4116.4</b>	<b>381.713</b>	<b>369.136</b>	<b>362.126</b>

\*\* This figure is taken from 2003 Coles Myer balance sheet. There is a difference of \$590 million between 2003 and 2002 receivable figures, which is shown to be invested as short-term deposits. The 2002 figure has been ignored for consistency in the data.

	Woolworths Ltd			Coles Myer Ltd			David Jones Ltd		
Year	2001	2002	2003	2001	2002	2003	2001	2002	2003
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Current liabilities</b>									
Accounts Payable + Accruals	2065.4	2440.7	2620.8	2164	2270.7	2476.3	160.153	166.786	182.735
Interest bearing liabilities	341.7	34.1	150.5	12.5	15.3	10.8	0.359	0.217	0.122
Current tax liabilities	125	113.4	144.1			13.6	7.718	10.983	3.097
Loans				115.3					
Provisions	427.3	509.6	328.2	626.7	640.6	540.8	33.982	30.764	28.37
<b>Total current liabilities</b>	<b>2959.4</b>	<b>3097.8</b>	<b>3243.6</b>	<b>2918.5</b>	<b>2926.6</b>	<b>3041.5</b>	<b>202.212</b>	<b>208.66</b>	<b>214.324</b>
<b>Total sales</b>									
	20915.1	24473	26321.4	23779.6	25688.7	27016.6	1547.481	1668.182	1711.169
<b>Cost of sales</b>	16034.6	18807.8	20196.2	17771.3	19419.9	19618.6	980.854	1080.526	1088.172
<b>Overdraft</b>	-	-	-	-	-	10.8	-	-	-

**Table 1. Main Information (Source: Annual Financial Reports for 2001, 2002, 2003)**

	Woolworths Ltd			Coles Myer Ltd			David Jones Ltd		
Year	2001	2002	2003	2001	2002	2003	2001	2002	2003
<b>Working capital = Current assets – Current liabilities</b>									
\$million	-570.9	-509.8	-623	1027.6	1090.2	1074.9	179.501	160.476	147.802
<b>Current ratio = Current assets/ Current liabilities</b>									
	0.81	0.84	0.81	1.35	1.37	1.35	1.89	1.77	1.69
<b>* Acid-test ratio = Current assets – (property, plant, equipment + other)/ Current liabilities</b>									
	0.74	0.77	0.73	1.33	1.35	1.35	1.84	1.72	1.66

**Table 2. Working capital and liquidity ratios**

\* As all the three companies primarily have cash sales and high inventory turnover, therefore we take out property, plant, equipment and other assets but instead keep inventories in the current assets figure to calculate acid-test ratio

	Woolworths Ltd			Coles Myer Ltd			David Jones Ltd		
Year	2001	2002	2003	2001	2002	2003	2001	2002	2003
<b>Days Accounts Receivable or Days Debtors=(Year End Account Receivables/Total Sales)*365</b>									
Days	3.4	3.86	3.36	10.82	4.10	4.67	17.21	11.62	10.21
<b>Days Inventory=(Year end inventories/Cost of Sales)*365</b>									
Days	39.42	35.68	33.31	59.65	52.79	52.78	106.91	97.02	97.12
<b>Days Creditors or Days Payable=(Year end accounts payables and accruals /Cost of Sales)*365</b>									
Days	47.02	47.37	47.36	44.45	42.68	46.07	59.6	56.34	61.29
<b>Days working capital cycle = Days Debtors + Days Inventory – Days Creditors</b>									
Days	-4.9	-7.83	-10.69	26.03	14.22	11.38	64.52	52.3	46.04

**Table 3. Management Efficiency**

### 3. Discussion

Woolworths, Coles Myer, and David Jones are all cash sales businesses unlike companies who sell items on credit like oil drilling industries, which explains lower Days receivable ratio. In fact, David Jones, an upmarket department store, has reduced the ratio by 40% from 2001 to 2003 (Table 3). It puts aside provisions for doubtful debt because of its credit card business but the ratio shows tight control on cost management. Coles Myer's Days receivable ratio suggests that they are collecting cash quickly like Woolworths but the ratio appears distorted when we compare revenue from department stores (38%) and groceries (61.2%) in 2003 (Table 3, Appendix 1). This will be clearer when we discuss the Days inventory ratio.

The Days payable ratio shows that Woolworths takes longer to pay its creditors than Coles Myer. This works in favour of Woolworth because their operating cycle (Days receivable + Days inventory) is less than Days payable. Therefore, Woolworths transaction intensive business runs its operations with supplier's money and manages this effectively by using this as a non-interest bearing liability. This is also reflected in Woolworths negative working capital, current ratio, and acid-test ratio figures. Thus to have current assets less than current liabilities is favourable in a grocery business, as cash has to inflow every day. On the other hand, this ratio for David Jones went up from 56 to 61 days from 2002 to 2003 and its liquidity declined in the same period (Table 2 and 3). According to Gibson (2004), this indicates inability to pay short-term

debt. It could also be an impact of losing \$84 million from failed Foodchain and online retailing strategies, or an affect of change of CEO in September 2003. (Bartholomeusz, 2003)

Amongst the three organisations, David Jones' Days inventory ratio is highest. It sells its inventory in 97-106 days whereas Coles Myer takes 52- 59 days (Table 3). The 40 days lag is because David Jones niche focus is on luxurious goods like clothes, shoes, accessories, home-ware, and other items with lesser turnover. Their revenue from department store was 97% in 2003 but the profit went down to one-eighth from 2002. Similarly, liabilities for these items went up from 12% in 2002 to 50.5% in 2003 (Appendix 1). This shows that management needs to focus on reducing Days inventory ratio, which has been constant in 2002 and 2003 (97 days). They need sufficient inventory to satisfy customers because it costs money to hold it, store it, and there is an increased risk of obsolescence.(Hey-Cunningham, 2002 p. 229) .If we look at the grocery giants, Woolworths takes 19 days less than Coles Myer to sell its inventory. Its sales revenue figures in food, liquor, and grocery items for 2003, were 86.4% in such high turnover items against Coles Myer's 61.4%. Woolworths Days inventory ratio has gone down by 15.5% from 2003 against Coles Myer's 11.5% in the same period. All these show Woolworths efficient management skills.

#### **4. Conclusion**

On the basis of the analysis of financial data of Woolworths, Coles Myer, and David Jones for years 2001 to 2003, following conclusions may be drawn on their working capital management practices.

- Woolworths Supermarkets used 57% of total assets, generated 86.4% sales revenue and delivered 97% of total profit in 2003. These figures reflect their effectiveness in managing debtors, creditors, and inventory. This success is also attributed to Project 'Refresh' programme, which helped in reducing Days inventory ratio, and has put more emphasis on better supply chain management.
- David Jones has control on debtors but there is a scope to reduce days inventory ratio and cost of operations. This is important because department stores

accounted for 89.5% of total assets in 2003. The latest 2003/2004 financial results are however showing positive turnaround as department store operation has shown profit before tax and unallocated expenses of \$67.885m, up from the \$5.075m achieved in 2003. (AAP, 2004)

- Coles Myer profits from food and liquor items have gone up from 2001 (\$514.7m) to 2003 (\$566.7m) and from 18%(2002) to 33% (2003) in department stores (Appendix 1). There has been a drop in days receivable and days inventory ratio from 2001 to 2002, which indicates better management efficiency. However, the increase in Days payable ratio, same liquidity, and days inventory from 2002 to 2003 (Table 2 and 3) shows that managers need to focus on inventory management to deviate from selling assets or increasing liabilities to pay creditors, like taking overdraft of \$10.8 million in 2003.

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## Appendix 1

Segment Information for Woolworths Ltd, Coles Myer Ltd and David Jones Ltd.

Year	Woolworths Ltd			Coles Myer Ltd			David Jones Ltd		
	2001 \$m	2002 \$m	2003 \$m	2001 \$m	2002 \$m	2003 \$m	2001 \$m	2002 \$m	2003 \$m
<b>Segment Sales</b>									
Supermarket <sup>1</sup>	17519.4	20714.3	22749.5	14468.2	15892.4	16538.6			
Department Stores <sup>2</sup>				9039.3	9569.2	10255.4	1560.358	1658.911	1696.025
Other <sup>3</sup>	3185.6	3758.7	3571.9	272.1	227.1	222.6	35.07	64.3	68.442
Sales to customers	20915.1	24473	26321.4	23779.6	25688.7	27016.6	1800.491	1723.211	1764.467
<b>Segment Profits</b>									
Supermarket	618.6	747.4	855	514.7	546.9	566.7			
Department Stores				(119.5)	92.5	203.6	47.457	41.687	5.075
Other	119.2	128.9	140.8	(67.7)	(72.9)	(89.9)	(15.289)	(22.686)	(23.857)
Profits before tax	732.5	782.2	906	327.5	491	617.2	31.798	11.568	(22.328)
<b>Segment Assets</b>									
Supermarket	2727	3194.1	3394.2	3067.6	3195.9	3535.8			
Department Stores				3345	3122.3	3182.3	565.206	561.581	590.481
Other	945.2	1064.1	986.8	1598.5	1706.2	1490	62.272	44.668	33.825
Total assets	5083.2	5723.6	5886.4	8277.8	8289.4	8430	681.365	685.188	659.749

<sup>1</sup> Supermarket for Woolworths comprises supermarket stores, liquor stores and petrol canopies. For Coles Myer it consists of groceries and liquor.

<sup>2</sup> Department Stores for Coles Myer comprises of MGB & Megamart, Target, and Kmart & Officeworks. For David Jones these are department stores, rack stores and online sales

<sup>3</sup> Other for Woolworths is BIG W, DSE, and Wholesale. For Coles Myer this segment includes e-commerce trading, property and unallocated. For David Jones these are Foodchain and David Jones Credit card.



	<b>Woolworths Ltd</b>			<b>Coles Myer Ltd</b>			<b>David Jones Ltd</b>		
Year	2001 \$m	2002 \$m	2003 \$m	2001 \$m	2002 \$m	2003 \$m	2001 \$m	2002 \$m	2003 \$m
<b>Segment Liabilities</b>									
Supermarket	1673.4	1673.4	1916.3	1410.7	1507.3	1563.7			
Department Stores				962.4	1098.1	1258.1	29.428	28.355	121.163
Other	425.5	413.1	423.8	2438.9	2126.9	1643.1	5.477	17.564	11.352
Total liabilities	3557.6	3901.1	4063.2	5031.5	4981.8	4653.6	275.088	229.92	239.736