

CAA102(1)

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PROFITABILITY MEASUREMENT OF WALMART

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PROFITABILITY MEASUREMENT OF WALMART

Introduction

Profitability measurement is important for an organization to evaluate its overall financial performance within a specific fiscal period. In this study, Walmart is selected as an international corporation to measure its profitability by using three different methods. The DuPont model is used to calculate profitability in terms of profit margin, total asset turnover, and financial leverage. The industry average of the Canadian retail industry in 2019 is compared with Walmart's average for the previous 10 years.

Accounting measure

The measurement of *Return on Equity (ROE)* results in assessing the overall financial performance of an organization. The DuPont analysis helps in evaluating the ROE in terms of net profit margin, asset turnover, and financial leverage (Ahamed, 2020). It helps in determining key indicators of the financial success and failure of an organization. This model helps to analyze the ROE by breaking it to separate related financial components. From this analysis, it can be stated that a business unit can increase its ROE as follows:

- By generating a high net profit margin
- By using its assets effectively for enhancing sales generation
- By improving financial leverage

The annual report of Walmart for 2019 is used in this study to conduct the following calculations:

Profit margin

It is a significant way to calculate the profitability ratio of a business organization. One can calculate the amount of net profit generated at an organization after deducing all the expenses by calculating the profit margin (Hasanaj & Kuqi, 2019). Hence, by measuring this

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parameter the corresponding department of an organization can be able to reduce expenses and increase the price to improve ROE. Profit margin can be calculated by dividing net profit by the amount of total revenue. Walmart found a rate of a gross profit margin of 24.5% in 2019 (Walmart, 2019) [Appendix 1]. However, this percentage was less than that in previous fiscal years such as 24.7% in 2018. Hence, Walmart had to reduce its expense in the later period to improve ROE.

Total asset turnover

It refers to measuring the efficiency of a business unit in terms of utilizing its assets. Total asset turnover is measured in terms of dividing revenues earned by the number of average assets (Kurniawan, 2021). This amount varies across the industry due to differences in revenues earned by associated organizations. As per the data retrieved from the annual report of Walmart for 2019, total asset turnover can be calculated for the company as follows:

$$\begin{aligned}\text{Total asset turnover} &= \text{Total revenue} / \text{average assets} \\ &= 514,405 / 62 \text{ (all values are in million \$)} \text{ [Appendix 2]} \\ &= 8296,8548 \text{ (\$) million}\end{aligned}$$

Based on the above value it can be stated that Walmart has effectively utilized all its assets to maintain a huge asset turnover. Hence, it has resulted in improving the ROE at Walmart positively in 2019.

Financial leverage

This term refers to the number of debts used in a company to finance the assets required for revenue generation. As opined by Nwanna & Umeh (2019), debt borrowed by a company must be used to finance necessary operations to ensure its overall financial growth. On the

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contrary, excessive leverage is also considered to be detrimental to a company. Financial leverage for Walmart can be calculated as follows:

$$\begin{aligned}\text{Financial leverage} &= \text{Average assets} / \text{Average equity} \\ &= 62 / ((77,869 + 72,496) / 2) \text{ [Appendix 3]} \\ &= 0.00082465\end{aligned}$$

Based on the above calculation it is found that financial leverage at Walmart was low in 2019. Hence, it can be stated that the company used a smaller amount of debt for financing assets within its business operation in the corresponding year.

On comparing the above three measurements, it is found that calculating the amount of total asset turnover is the best way to measure the profitability at Walmart. It is significant to quantify the amount of total revenue generation at the company against average assets. Hence, the DuPont ROE can be measured as follows:

$$\begin{aligned}\text{Profit Margin} * \text{Total Asset Turnover} * \text{Equity Multiplier} \\ 24.5\% * 8296,8548 * (219,295 / 72,496) \text{ [Appendix 4]} \\ = 61488551.02\end{aligned}$$

Comparison between two acceptable benchmarks

The industrial average is a measure of total revenue earned by the corresponding industry within a specific country. As per the data of 2019, Canada's total operating revenue from retail activities is found as \$636.7 billion (www.ic.gc.ca, 2022). In comparison to that Walmart's revenue earnings are identified for the last 10 years (2009-2018) to evaluate the company's financial position across the Canadian market.

Year	Revenue (in billion \$)
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2009	404,254
2010	408,085
2011	421,849
2012	446,509
2013	468,651
2014	476,294
2015	485,651
2016	482,130
2017	485,873
2018	500,343

Table 1: Revenue earned by Walmart between 2009 and 2018(Source: www.macrotrends.net, 2022)**Summarised discussion**

Based on the above table it is found that the revenue generation has been increasing in Walmart between the period 2009 and 2018. However, in comparison to the revenue generated across the Canadian market, the revenue earned by Walmart is less. From the relevant website, it is found that Walmart earned revenue of \$514,405 billion in 2019 (www.macrotrends.net, 2022). This amount is also less than the industrial average found in 2019 in respect of the Canadian market. Hence, the company is recommended to reduce unnecessary expenditure and

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utilize all the assets in a well-planned manner, Debt usage to finance the asset utilization is also recommended to increase at Walmart for deducing the tax amount. It would have a positive impact on the overall financial performance of Walmart in the future.

Conclusion

In conclusion, it can be stated that Walmart earned significant revenue in previous years. The company also conducted a profitable business activity in 2019. The method of measuring total asset turnover for the company is found as the best among other methods as it helps in assessing the revenue generation at Walmart against the assets used during a specific fiscal period. However, the amount is lesser as compared to the industrial average. Hence, suitable strategic innovation is required for the company to improve its revenue generation in the upcoming years.

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Appendices

Appendix 1: Gross profit margin

(Amounts in millions, except per share and unit count data)	As of and for the Fiscal Years Ended January 31,				
	2019	2018	2017	2016	2015
Operating results					
Total revenues	\$ 514,405	\$ 500,343	\$ 485,873	\$ 482,130	\$ 485,651
Percentage change in total revenues from previous fiscal year	2.8%	3.0%	0.8%	(0.7)%	2.0%
Net sales	\$ 510,329	\$ 495,761	\$ 481,317	\$ 478,614	\$ 482,229
Percentage change in net sales from previous fiscal year	2.9%	3.0%	0.6%	(0.7)%	1.9%
Increase (decrease) in calendar comparable sales ⁽¹⁾ in the U.S.	4.0%	2.2%	1.4%	0.3 %	0.5%
Walmart U.S.	3.7%	2.1%	1.6%	1.0 %	0.6%
Sam's Club	5.4%	2.8%	0.5%	(3.2)%	0.0%
Gross profit margin	24.5%	24.7%	24.9%	24.6 %	24.3%
Operating, selling, general and administrative expenses, as a percentage of net sales	21.0%	21.5%	21.2%	20.3 %	19.4%
Operating income	\$ 21,957	\$ 20,437	\$ 22,764	\$ 24,105	\$ 27,147
Interest, net	2,129	2,178	2,267	2,467	2,348
Loss on extinguishment of debt	—	3,136	—	—	—
Other (gains) and losses	8,368	—	—	—	—
Income from continuing operations attributable to Walmart	6,670	9,862	13,643	14,694	16,182
Diluted income per common share from continuing operations attributable to Walmart	\$ 2.26	\$ 3.28	\$ 4.38	\$ 4.57	\$ 4.99
Dividends declared per common share	2.08	2.04	2.00	1.96	1.92

(Source: Walmart, 2019)

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Appendix 2: Revenue

(Amounts in millions, except unit counts)	Fiscal Years Ended January 31,		
	2019	2018	2017
Total revenues	\$ 514,405	\$ 500,343	\$ 485,873
Percentage change from comparable period	2.8%	3.0%	0.8%
Net sales	\$ 510,329	\$ 495,761	\$ 481,317
Percentage change from comparable period	2.9%	3.0%	0.6%
Total U.S. calendar comparable sales increase	4.0%	2.2%	1.4%
Gross profit rate	24.5%	24.7%	24.9%
Operating income	\$ 21,957	\$ 20,437	\$ 22,764
Operating income as a percentage of net sales	4.3%	4.1%	4.7%
Consolidated net income	\$ 7,179	\$ 10,523	\$ 14,293
Unit counts at period end	11,361	11,718	11,695
Retail square feet at period end	1,129	1,158	1,164

(Source: Walmart, 2019)

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Appendix 3: Equity

Financial position					
Inventories	\$	44,269	\$	43,783	\$ 45,141
Property, equipment, capital lease and financing obligation assets, net		111,395		114,818	116,655
Total assets		219,295		204,522	203,490
Long-term debt and long-term capital lease and financing obligations (excluding amounts due within one year)		50,203		36,825	43,495
Total Walmart shareholders' equity		72,496		77,869	81,394

(Source: Walmart, 2019)

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Appendix 4: Total asset

Financial position										
Inventories	\$	44,269	\$	43,783	\$	43,046	\$	44,469	\$	45,141
Property, equipment, capital lease and financing obligation assets, net		111,395		114,818		114,178		116,516		116,655
Total assets		219,295		204,522		198,825		199,581		203,490
Long-term debt and long-term capital lease and financing obligations (excluding amounts due within one year)		50,203		36,825		42,018		44,030		43,495
Total Walmart shareholders' equity		72,496		77,869		77,798		80,546		81,394

(Source: Walmart, 2019)

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