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Comparative Analysis of Key Financial Indicators of China's Daily Chemical Retail Enterprises

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Abstract:

Competition in the daily chemical industry is becoming increasingly fierce, and financial indicators are an important window to measure a company's performance. There are three examples, they are P&G, Unilever and Loreal. The financial indicators of the three aspects, namely their operational efficiency, solvency, profitability and growth potential, have been compared among the three companies. Based on data from financial official websites from 2022 to 2024, and the analysis is conducted by citing the ratios calculated by these financial official websites. L'Oreal has made the fastest progress in terms of net profit margin, while Unilever has the highest asset-liability ratio. L'Oreal is at a clear disadvantage in inventory turnover. L'Oreal has the highest growth rate in operating income, but its decline is also the fastest. L'Oreal needs to speed up the sale of its inventory, which will also help improve its net profit margin. Overall, Procter & Gamble is performing the best in operations, while Unilever has shown some downward trends recently.

Keywords: daily chemical industry, financial indicators, performance analysis.

1. Introduction

The daily chemical retail industry is characterized by diverse rigid and high-frequency demands, a large market scale, multiple sales channels, intense brand competition, and a high market concentration. Therefore it is necessary to analyze the data of this Industry by some reliable source. . Using financial reports as secondary data is highly authoritative, and such data provided by various financial websites is also easily accessible, which greatly facilitates research. In analyzing the daily chemical industry, financial indicators are of great importance. Therefore, to analyze the financial status of these three companies, one should find relevant secondary financial data on websites and then conduct the analysis.

Based on previous studies, the four indicators of net profit rate, asset-liability ratio, inventory turnover rate, and operating income growth rate are widely used. Moreover, many scholars use these four indicators to judge whether an enterprise is high-quality. As mentioned in The 10 Most Important Profitability Ratios Every Business Needs To Understand, "The net profit margin ratio is a profitability ratio that measures the percentage of revenue that a company retains after accounting for all expenses...The net profit margin ratio is considered to be the most accurate measure of a company's profitability [1]."As pointed out in 10 Indispensable Financial Indicators for Evaluating Companies in Value Investing, "Asset-liability ratio = Total Liabilities / Total Assets × 100%. It reflects the proportion of a company's debt financing and embodies the company's financial risk... If the asset-liability ratio is too high, the company may face the risk of debt repayment; if it is too low, it may indicate that the company has not fully utilized financial leverage to expand its operations [2]."Therefore, this study also proceeds based on these four indicators.

According to previous summaries, if fund security is required, companies with strong solvency should be chosen, which means those with a high asset-liability ratio. Operational capability is the pillar of a company's development. Profitability reflects a company's development level, and development capability indicates its future direction.

Previous studies generally use the asset-liability ratio to measure a company's solvency, net profit rate to measure its profitability, inventory turnover rate to measure its operational capability, and operating income growth rate to measure its development potential.

In addition, previous studies have also explored the measures these companies have taken to improve their financial performance. For example, As stated in "Unilever: The Art of Slimming Down and the Way of Integration" Starting from 1999, Unilever implemented an overall streamlining initiative globally, covering almost all strategic levels, which was specifically reflected in four aspects: First, streamlining at the brand level. Second, streamlining at the product level. Third, streamlining of the corporate organizational structure. Fourth, overall cost leadership [3]. They also covered the development history of these companies. For instance, L'Oreal Group saw negative growth in the Chinese market. As mentioned in 36Kr's article "Procter & Gamble: The 2 Trillion Giant Can't Keep 'Raising' Prices, Procter & Gamble (P&G) began a major brand streamlining in 2015 [4]. As mentioned in "Leadership Change in the Professional Beauty Department: Procter & Gamble's Revamped Bet on Premiumization," the company announced its return to high-end cosmetics in 2022 [5], but it still relies on price increases and excessive cost compression to achieve profits.

Recent studies have also pointed out that these three groups are facing a decline in financial performance in the Chinese market due to the impact of local Chinese brands. Based on previous experiments, I have identified the following two research gaps: Firstly, previous studies failed to consider the impact of other factors, such as product characteristics, on inventory turnover, simply assuming that a low inventory turnover indicates poor operational capability. Secondly, there may be conflicts between certain indicators—where the increase of one indicator leads to the decrease of another—yet previous research did not explore how to increase some indicators while ensuring others do not decline.

In light of these gaps, I propose the following four questions:

How to enhance a company's profitability while ensuring safety, i.e., increasing the net profit margin while maintaining a stable asset-liability ratio?

Is the difference in inventory turnover due to differences in product nature rather than differences in operational capability?

Does limited development space cause a low revenue growth rate?

How to reduce costs while ensuring quality?

This study aims to collect and compare the financial data of L'Oreal, Procter & Gamble, and Unilever, and intuitively present the differences in their financial performance. Moreover, the use of secondary public data can simplify the research methods. By adopting descriptive statistics and visual comparison methods, it provides references for students, primary investors, and industry observers.

2. Methodology

This study is a descriptive comparative research. Data of the three groups, Unilever, Procter & Gamble, and L'Oréal, were collected from three websites (abc). The operation method is extremely simple and clear. The reason for selecting these three companies is that they are quite representative in the daily chemical industry, and their products are also common in the daily chemical industry. If some experiences can be gained from the research on these three companies to promote the development of other enterprises, this would be highly valuable. Moreover, the data from the past three years is compelling. If the data of the past five years were selected, the time would be too far back, resulting in insufficient persuasiveness. There is no need to select too much data for the research; otherwise, the research method would be too cumbersome, which would bring trouble to future readers or researchers of this article. If only 1-2 years of data were selected, the trend of data changes would not be visible. Therefore, three years of data are the best.

Data were obtained by visiting Eastmoney.com and entering the stock codes. Four indicators were collected. The stock codes of these three companies are: LRLCY, PG, and UL. Some data, such as the operating income growth rate, is not easily accessible and needs to be calculated manually. In such cases, formulas or the formula calculation function in Excel can be used. The calculation formulas for net profit rate, asset-liability ratio, inventory turnover rate, and operating income growth rate are as follows:

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Net profit rate: Net profit ÷ Operating income × 100%
(Net profit refers to the profit after deducting all costs, expenses, and taxes)
a. Net profit rate equals net profit divided by total income.
b. Asset-liability ratio equals total liabilities divided by total assets.
c. Inventory turnover rate equals operating costs divided by average inventory.
d. Operating income growth rate equals (current period income minus previous period income) divided by previous period income. income)
The following are the steps for data analysis: Data collation: Create a table in Excel with rows representing three companies and columns representing the indicator data for each year, then fill in the data.
Data recording: Retrieve relevant data from official websites, extract it, calculate indicators either manually or using Excel, and then fill the results into the table created in the first step. Descriptive statistics on the above data: Observe the differences between each group of data, identify which company has higher or lower values in each group, and note the characteristics of each company. Additionally, analyze the changing trends of these data over the years through horizontal and vertical comparisons.

3. Result

3.1 Chart of these data

Table 1: Excel spreadsheet of these data

Company	Year	Net Profit Margin	Debt-to-Asset Ratio	Inventory Turnover Ratio	Revenue Growth Ratio
L'Oreal	2022	57.1	42%	2.41	18.50%
L'Oreal	2023	61.8	44%	2.3	7.60%
L'Oreal	2024	64.09	44%	2.45	5.60%
P&G	2022	147.48	60%	5.72	5.34%
P&G	2023	147.39	58%	6.1	2%
P&G	2024	148.79	58%	5.59	2.46%
Unilever	2022	96.8	72%	6.8	14.50%
Unilever	2023	98	72%	6.2	-0.80%
Unilever	2024	94	71%	6.5	1.30%

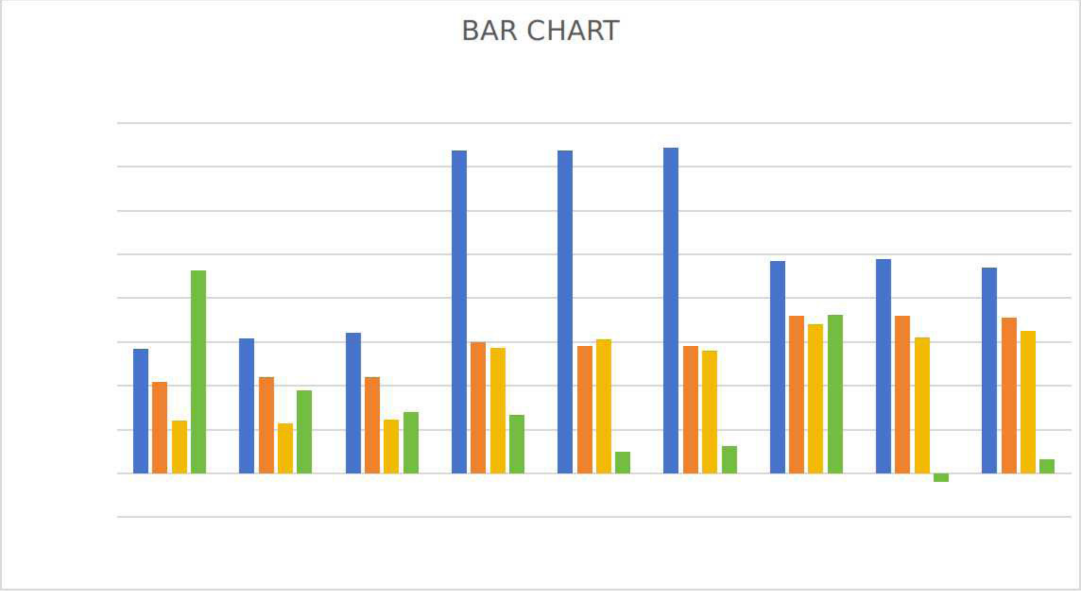

Fig 1: Bar chart of these data

3.2 Data Analysis

As shown in Table 1 and Figure 1 regarding profitability, In terms of net profit margin, L'Oréal Group recorded 57.1% in 2022, 61.8% in 2023, and 64.09% in 2024. Unilever Group stood at 96.8 in 2022, 98 in 2023, and 94 in 2024. Procter & Gamble (P&G) Group remained around 147. Among them, both L'Oréal and P&G showed an upward trend, while Unilever showed a downward trend. However, L'Oréal's growth rate was significantly faster than that of P&G. In terms of solvency, L'Oréal Group had an asset-liability ratio of 40% in 2022, and 44% in both 2023 and 2024. P&G Group maintained around 60%, and Unilever Group around 72%. L'Oréal showed an upward trend, while P&G and Unilever saw a slight downward trend. This indicates that L'Oréal's solvency is gradually improving, while that of P&G and Unilever remained almost unchanged.

In terms of operational efficiency: L'Oréal Group remained around 2.4% with slight fluctuations. P&G Group was 5.7 in 2022, 6.1 in 2023, and 5.59 in 2024. Unilever Group fluctuated around 6.5. L'Oréal's data is significantly lower than that of P&G and Unilever. Comparing P&G and Unilever, Unilever's data is higher, indicating that L'Oréal's operational efficiency is significantly lower than the other two, and Unilever ranks the highest among the three. In terms of development potential: In terms of revenue growth rate, L'Oréal Group was 18.52% in 2022, 7.62% in 2023, and 5.6% in 2024. P&G Group was 5.34% in 2022, and around 2% in both 2023 and 2024. Unilever Group was highly unstable, with 14.5% in 2022, -0.8% in 2023, and 1.3% in 2024. Overall, all three companies showed a downward trend, with Unilever's decline being particularly significant, even showing negative growth in 2023. In general, L'Oréal was significantly higher than P&G and Unilever.

Based on the above data, research has been conducted on the proposed questions:

Question 1: How to increase profits while ensuring safety?

It can be clearly seen from the above data that L'Oréal's asset-liability ratio is on the rise. Its net profit margin is also increasing, and the growth rate is the fastest among the three companies. L'Oréal must have taken many measures for this. For example, in May and November 2023, it issued bonds under the Euro Medium Term Note (EMTN) program, used for general corporate purposes and bond refinancing [6]. This planned financing method not only met the capital needs for the company's development but also did not cause a significant impact on the asset-liability ratio. In addition, L'Oréal attached great importance to cost management, such as reducing sales expenses and increasing R&D investment. Its sales expenses accounted for 36% in 2024, lower than its peers. Moreover, L'Oréal promoted the transformation to e-commerce, with e-commerce sales accounting for 28% in 2022 [7]. The e-commerce channel is an effective way to reduce costs as it can cut down costs incurred in intermediate links. Thanks to these measures, L'Oréal's net profit margin has increased without causing significant fluctuations in its asset-liability ratio.

Question 2: Is the difference in inventory turnover due to price differences rather than differences in operational efficiency between companies?

It is not difficult to see from the above data that L'Oréal's inventory turnover is significantly lower than that of the other two groups. However, this cannot be entirely attributed to L'Oréal's low operational capability. L'Oréal mainly sells beauty products, which are highly seasonal and fashion-driven. Once they are out of season or off the fashion trend, they are likely to become unsalable, which greatly reduces the inventory turnover. In addition, the unit price of beauty products is generally high, which may also lead to low inventory turnover even with the same operational capability. P&G and Unilever do not have the above problems. They mainly sell daily chemicals and food products, which have low unit prices, weak seasonality (can be used in all seasons), and are not related to fashion trends. Therefore, the significantly lower inventory turnover of L'Oréal compared to P&G and Unilever is not due to its low operational capability.

Question 3: Is the low revenue growth rate because the company has developed to a certain extent, resulting in limited room for revenue growth?

It can be clearly seen from the above data that L'Oréal's revenue growth rate is significantly higher than that of P&G, and P&G's is significantly higher than that of Unilever. L'Oréal's revenue is around 40 billion US dollars, P&G's around 80 billion US dollars, and Unilever's around 60 billion US dollars. It can be seen that L'Oréal's high revenue growth rate is indeed because its total revenue is relatively low, which gives it greater room for growth. However, Unilever's total revenue is lower than P&G's, but its revenue growth rate is also lower than P&G's, which cannot be attributed to limited room for revenue growth. This is likely due to insufficient development space.

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3.3 Trend

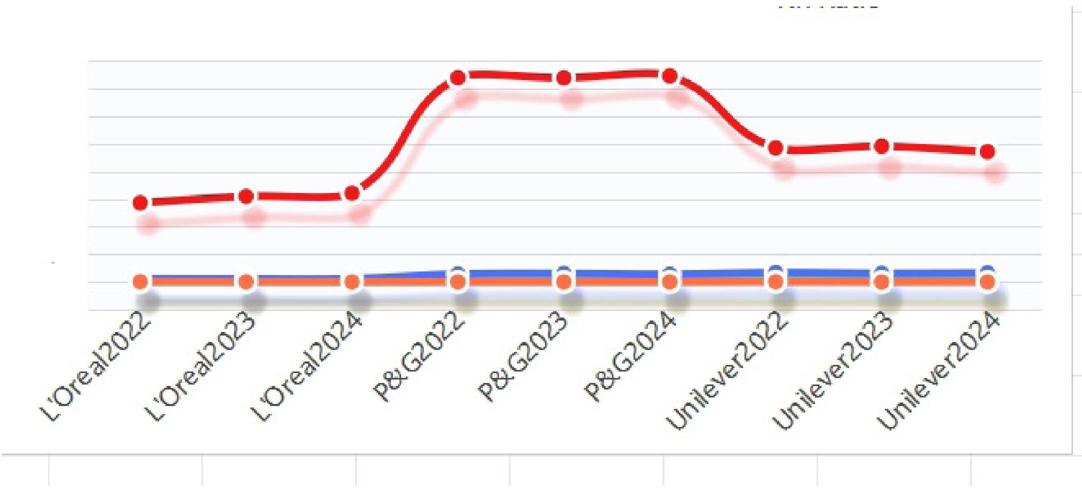

Fig 2: Line chart of financial indicators

In terms of the changes in these indicators over the years. Regarding the net profit margin, L'Oréal has seen rapid annual growth. Procter & Gamble (P&G) remained almost unchanged from 2022 to 2023 but showed an upward trend from 2023 to 2024 in Figure 2. Unilever exhibited a trend of first rising and then falling from 2022 to 2024, with the 2023 figure of 98 being the peak.

This is because in 2024, P&G implemented measures such as supply chain optimization, cost management, and product portfolio strategies, leading to a significant increase in its net profit margin that year. For Unilever, 2023 marked its peak mainly due to the return of inflation to normal levels, which boosted consumption. However, in 2024, Unilever adopted some corporate restructuring strategies, and the restructuring costs reduced its net profit margin, resulting in a decline in 2024. Looking at inventory turnover: Both L'Oréal and Unilever recorded their lowest inventory turnover in 2023, while P&G reached its peak that year. L'Oréal failed to accurately predict changes in demand trends in the beauty market in 2023 and did not adjust production plans in a timely manner, leading to inventory accumulation. Additionally, prior to 2023, Hainan cracked down heavily on purchasing agents in 2022 [8], which caused L'Oréal's sales performance in Hainan to be poor in 2023 and dragged down the sales market in the entire North Asia region. Moreover, the consumption downgrade in the beauty market in 2023 affected the sales speed of products, leading to a decline in offline activities and other sales methods, creating marketing difficulties and reducing inventory turnover. By 2024, L'Oréal recognized these issues and made adjustments, resulting in a rise in its inventory turnover that year.

Unilever did not adjust its supply chain in 2023, leading to an increase in production that was not matched by a corresponding rise in sales, thus lowering inventory turnover. Furthermore, Unilever implemented a product recall strategy in the first half of 2023. Unilever Trading (Shanghai) Co., Ltd. recalled over 4.12 million bottles of products such as „THE LAUNDRESS" laundry detergent from December 3, 2022, to June 2, 2023. The recalled products occupied warehouse space, affected brand reputation and subsequent sales, and contributed to the decline in inventory turnover.

P&G launched relevant inventory management projects aimed at coordinating transaction processes with suppliers, reducing inventory costs. In 2023, P&G also paid significant attention to inventory turnover; these projects enabled better adjustment of production demand, reduced inventory holdings, lowered inventory costs, and improved inventory turnover. However, in the first half of 2024, P&G purchased wood, a raw material, at higher prices, which increased its inventory costs and reduced inventory turnover, resulting in a lower 2024 inventory turnover compared to 2023.

Regarding the revenue growth rate, All three companies showed a downward trend, which may be attributed to the overall poor economic environment. Notably, Unilever's revenue growth rate was negative in 2023.

Unilever carried out some business divestitures in 2023 [9], such as selling its men's grooming brand Dollar Shave Club and planning to spin off ice cream businesses, including Walls and Magnum. These divestitures led to a decline in its operating income.

Moreover, market competition was fierce in 2023, with low consumer demand and excessive production supply. Unilever was also impacted by niche brands, and at the same time, failed to take timely and flexible measures, resulting in a squeezed market scale and a reduced revenue growth rate. Additionally, some of Unilever's businesses performed poorly in 2023; for example, ice cream sales dropped by 6%. The appointment of a new CEO also led to business „trimming" in 2023, with marginal businesses being cut back, and the growth in revenue from core businesses failed to offset the revenue decline from the divested businesses [10].

Thus, the question of how to reduce costs while ensuring product quality has an answer. It is necessary to understand market demand and avoid overproduction to reduce unsold inventory, thereby lowering inventory costs. For example, one of the reasons why L‘Oréal Group‘s inventory turnover in 2023 was lower than in 2022 and 2024 was that it failed to keep abreast of market changes, resulting in some inventory backlogs.

It is also possible to improve product quality by upgrading technologies and increasing investment in product research and development, which can also save sales expenses. In addition, supply chain management can be optimized to reduce redundant logistics and warehousing links. For instance, Procter & Gamble implemented a series of supply chain optimization measures in 2024, which contributed to a faster growth in its net profit margin in 2024 compared to 2023.

4.Conclusion

The purpose of this study is to compare the financial indicators of three companies in the daily chemical industry: L'Oréal, Procter & Gamble, and Unilever.

This study also gets the following conclusions: First, the profitability of enterprises can be improved on the premise of ensuring safety through good financing methods or adjusting the cost structure. Second, differences in inventory turnover rate and operating income growth rate do not necessarily indicate problems with a company's operational efficiency and growth space. For example, a low inventory turnover rate may be caused by product nature, unit price, etc., rather than the company's operational capabilities; a low operating income growth rate may be due to limited development space. Third, the cost of products can be reduced on the premise of ensuring quality by understanding market demand, improving technology, and adjusting the cost structure.

This study provides an intuitive, clear, and reality-based comparison of the basic financial performance of the three companies. It helps to understand their financial characteristics quickly and serves as a reference starting point for students or novice investors.

However, this study still has some limitations. Firstly, it relies on a small number of data indicators, making it impossible to fully understand the companies' financial status. Secondly, it depends on secondary data, whose accuracy cannot be fully guaranteed. Thirdly, it fails to deeply explore the reasons behind the differences or trends, such as what changes have occurred in the market or how a single major financial event has impacted the companies' financial indicators. Fourthly, the sample size is small and cannot represent the broader daily chemical industry.

The following are the adjustments I will make in future research: Firstly, select more indicators for the study. Secondly, expand the sample size. Thirdly, conduct in-depth research on the reasons behind the trends or differences.

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