

Financial Report Analysis as a Basis for Assessing Franchise Companies Listed on the Indonesia Stock Exchange (Case Study of PT. Hero Supermarket Tbk and PT Midi Utama Indonesia Tbk for the 2021-2023 Period)

Ombih Ajitama^{1*}, Isnι Mardiani², Puji Wahono³, Indra Pahala⁴

¹⁻⁴Master Program in Accounting, Faculty of Business and Economy, Universitas Negeri Jakarta, Indonesia

Email: ¹⁾ ombihajitama80@gmail.com, ²⁾ isnimardiani28@gmail.com, ³⁾ wahono@unj.ac.id,

⁴⁾ indrapahala@unj.ac.id

Received : 20 October - 2024

Accepted : 21 November - 2024

Published online : 23 November - 2024

Abstract

The escalating number of franchise outlets in the current business landscape has triggered fierce rivalry among business owners. An effective way to reach a company's objectives is by evaluating its financial performance. To assess a company's performance, one can compare its ratios with those of similar companies. This research focused on public franchise companies like PT Hero Supermarket Tbk and PT Midi Utama Indonesia Tbk to determine which firm excels in terms of financial performance. Qualitative data, comprising company profiles and financial reports from 2021-2023, was utilized in this study. Secondary data, such as financial reports from 2021-2023 acquired from the Indonesia Stock Exchange (www.idx.co.id), were analyzed. A quantitative analysis was conducted on the balance sheet and income statement of the two companies. Liquidity ratios (Quick Ratio, Current Ratio), solvency ratios (DAR, DER), and profitability ratios (Net Profit Margin, ROA, ROE) were utilized in the analysis. Results indicated that the liquidity ratios of both companies fluctuated due to an increase in liabilities, surpassing current assets. Solvency ratios exhibited fluctuations caused by rising total debt, assets, and equity. Profitability ratios witnessed a decline in net profit due to higher costs of goods sold incurred by the company.

Keywords: Financial Report Analysis, Financial Ratio Analysis, Financial Performance.

1. Introduction

In this fast-paced era, advances in science and technology have driven the creation of various new business models that are growing rapidly. One of the increasingly popular business models is franchising. The franchise concept allows someone to open a business using the name, trademark, products, and materials of an established and previously proven successful business.

Typically, a franchise agreement involves the franchisor allowing the franchisee to use the special qualities or distinctive features of the business in the trade or service industry. This includes the type of product and form of business, including corporate identity (logo, brand, and corporate design), use of marketing plans, and the provision of extensive assistance. This assistance includes operational hours, working hours, clothing, and employee appearance, so that the uniqueness of the business or the distinctive characteristics of the trade and service business (Widiantoro & Susilowati, 2024).



Retail development in Indonesia has transitioned into a pragmatic phase, resembling that of more advanced nations. The emergence of numerous retail enterprises reflects a fierce competition to capture consumer attention and dominate the market. The rapid growth of the retail sector, particularly in major urban centers like Jakarta, Bandung, Surabaya, Palembang, Makassar, and Medan, necessitates producers to strategize carefully in order to gain a competitive edge before entering the market. It is essential to have a strong and dependable Human Resources team with loyalty and dedication for the sustainability of the company, particularly in the retail sector, as it operates differently from other industries. Human resources play a crucial role in retail management, necessitating HR professionals with the necessary knowledge, skills, and sensitivity to identify and seize opportunities in order to thrive in the competitive retail landscape (Taslim & Kasih, 2023).

The term "franchise" originates from English ("franchising") and French ("franchise"), which mean "rights" or "freedom." It refers to the right to sell products, goods, or services (Watson et al., 2016). This definition is sourced from the pintek.id website. Franchises offer several advantages, including fostering mutually beneficial partnerships, expanding business networks rapidly, creating new job opportunities, and increasing business prospects for Small and Medium Enterprises (SMEs). Furthermore, when it comes to supply, the amount of goods available for sale is directly linked to the price of the products. As prices go up, the quantity supplied will also increase, whereas it will decrease when prices drop (Mankiw, 2021).

Analyzing the financial performance of the company is a method to reach the company's objectives. Evaluating the company's performance can be accomplished by comparing various ratios with those of a similar company (Sari, 2019). This study examines three different types of financial ratios, which include liquidity, solvency, and profitability ratios.

2. Literature Review

2.1. Financial Statement Analysis

Analyzing financial statements is essential for making informed decisions and assessing the general well-being of a company. Financial data recorded in these statements needs to be examined through the process of financial statement analysis in order to provide valuable insights for investors, shareholders, managers, and other interested parties (Darmawan, 2020).

Financial experts use information to evaluate performance and forecast where a company's stock price is headed (Simarmata & Sari, 2022). The annual report is a crucial and trustworthy source of financial data, including the company's financial statements. The income statement, balance sheet, and cash flow statement are the three primary financial statements (Kasmir, 2011).

Assessing financial statements is a way to evaluate how well a company has performed in the past, how it is currently performing, and how it is expected to perform in the future. Various methods, such as horizontal analysis, vertical analysis, and ratio analysis, are used in financial statement analysis. Horizontal analysis involves comparing financial data from different years in both dollar and percentage terms. Vertical analysis represents each account category on the balance sheet as a percentage of the total account. Ratio analysis involves calculating statistical relationships between different sets of data (Darmawan, 2020).

Financial statement analysis enables analysts to detect patterns by comparing ratios over different periods and types of statements. This analysis helps in evaluating the company's liquidity, profitability, efficiency, and cash flow. The three primary types of financial statements are the balance sheet, income statement, and cash flow statement. The balance

sheet provides a summary of a company's assets, liabilities, and shareholders' equity at a particular point in time. Analysts utilize the balance sheet to examine changes in assets and liabilities. The financial statement commences with revenue and concludes with earnings. It offers analysts with gross profit, operating profit, and net income figures. These numbers are calculated as a percentage of sales to find the gross profit margin, operating profit margin, and net profit margin. The cash flow statement gives a summary of a company's cash flow from operational, investment, and financial activities (Darmawan, 2020).

2.2. Financial Ratio Analysis

According to Munawir (2010) in Darmawan (2020), the ratio is a tool that reflects the connection or equilibrium between two quantities, allowing analysts to gain insights into a company's financial health or status. Through this analytical tool, the ratio can offer a glimpse into whether the company is in a favorable or unfavorable position (Dhian Lia Gustina, 2015 in Darmawan (2020)).

Ratio analysis involves a numerical examination of the data found in a company's financial records. It is a tool used to assess different facets of a company's activities and financial situation, including effectiveness, cash flow, earnings, and ability to pay off debts. Fundamentally, ratio analysis serves as the basis for in-depth analysis. Financial ratios are a convenient method for obtaining a rapid understanding of a company's well-being without needing to scrutinize all of its financial reports. By looking at the price-earnings ratio, one can gain valuable insights into how the company is priced in relation to its earnings, and examining the debt coverage ratio can alert investors to any potential liquidity concerns (Jogiyanto, 2017).

Dewanti (2010) in Darmawan (2020) said that financial ratio analysis is utilized as a preventive measure to anticipate the decline of a company's financial status. This type of analysis helps investors in forming opinions or judgments on what a business will accomplish and the challenges it may encounter down the line (Yusra, 2016 in Darmawan (2020)).

Investors and analysts typically discuss ratio analysis when referring to fundamental or quantitative analysis. Ratio analysis consists of assessing a company's financial performance and health by analyzing data from both current and past financial statements. Information extracted from these statements is utilized to determine if the company's performance is improving or declining over time, to compare its financial position with the industry average, and to evaluate the company's progress in comparison to other companies operating in the same sector (Darmawan, 2020).

2.3. Financial performance

The outcome of an assessment of completed tasks is known as performance, where the work results are measured against predetermined standards. It is important to regularly evaluate every task that is finished. Financial performance assessment can be achieved by utilizing financial statements as the foundation for evaluation. A suitable rating system can be applied for measurement purposes. The system should be user-friendly based on the specific aspects being measured and should account for factors affecting performance (Sujarweni, 2017). Comparing established standards with the actual financial performance of the company is also part of assessing financial performance, as per the guidelines set by the Minister of Finance. Quantitative analysis of financial reports forms the basis of financial performance evaluation (Sujarweni, 2017).

The objectives of company performance assessment according to Munawir (2012) in Sujarweni (2017) are as follows:

- 1) To ascertain the amount of liquid assets, which indicates the company's capability to fulfill short-term financial commitments or repay debts promptly.
- 2) To assess the degree of financial stability, which demonstrates the company's ability to meet its financial commitments in the event of liquidation, encompassing both immediate and future debts.
- 3) To assess the company's capacity to earn profits during a set timeframe is crucial in evaluating its financial performance.
- 4) To assess the firm's level of business stability, we must consider its capacity to function smoothly by meeting financial obligations, ensuring timely repayment of loans, and consistently providing dividends to shareholders without encountering financial emergencies or significant interruptions (Sujarweni, 2017).

The factors that influence financial performance are as follows:

- 1) Employees, associated with their capability and willingness to perform tasks.
- 2) Tasks associated with creating job roles, defining job responsibilities, and providing necessary tools and support for completing tasks.
- 3) Operational processes such as workflows, assignment protocols, oversight methods, and corporate hierarchies.
- 4) Physical location, working conditions, the overall atmosphere within the organization, and the level of communication among colleagues.

2.4. Franchise

According to P.H. Collin in *The Law Dictionary*, a franchise is described as a permission to conduct business using a specific brand name while paying a fee for it. Franchising, on the other hand, is defined as the process of selling a license to operate a business as a franchisee. This definition emphasizes the importance of the brand name in the franchising process, which is given in exchange for royalties (Widjaja, 2002).

Granting a franchise is determined by a document known as a Franchise Agreement, as outlined in *Black's Law Dictionary*. This agreement typically involves a partnership between a supplier, trademark or copyright owner (Franchisor) and a distributor (Franchisee). Within this contract, the Franchisee commits to selling the Franchisor's products, providing services, or operating under the Franchisor's brand.

In this context, it can be inferred that a Franchisee operates their own business while leveraging a trademark or service mark and following predetermined methods and procedures set by the Franchisor. Adhering to the Franchisor's guidelines results in the franchise business functioning independently and separately from any other business ventures the Franchisee may have.

The *Dictionary of Financial and Investment Terms* describes a Franchise as a business arrangement where the Franchisor offers guidance, promotional support, funding, and other perks to the Franchisee in return for a share of their sales or earnings. According to John Downes and Jordan Elliot Goodman in their *Dictionary of Financial and Investment Terms*, franchises typically involve meeting the initial cash investment requirements from the Franchisee as highlighted in their definition of franchises.

In this case, it is clear that a franchise involves an obligation to use a system and method determined by the Franchisor including the right to use a trademark. This general definition of franchise is distinguished from a trade name franchise which is specialized in licensing the use of a trade name in order to grant permission to sell the Franchisor's products within a certain territorial boundary, in a non-competitive market. The latter definition states that the

granting of a trade name franchise is often bound by the obligation to meet the pricing requirements that have been set and outlined by the Franchisor. This exclusivity and relatively uniform pricing need special attention in countries that have already provided regulations regarding anti-trust.

3. Methods

3.1. Types of research

The research methodology employed involves conducting a comparative analysis of annual financial reports through the use of financial ratio analysis. This is done to assess the financial performance levels of PT. Hero Supermarket Tbk and PT. Midi Utama Indonesia Tbk in comparison to other companies.

3.2. Data Types and Sources

In this study, the data used is qualitative and includes company profiles, financial reports, and various financial ratios such as liquidity, solvency, and profitability. The liquidity ratio measures whether the company is still in the liquid category, while the solvency ratio indicates the proportion of debt to equity the company holds. Finally, the profitability ratio reflects the amount of profit the company has generated (Sari, 2019).

The information utilized for this research consists of secondary data extracted from company financial reports spanning from 2021 to 2023, all sourced from the Indonesia Stock Exchange website (www.idx.co.id) and already made public.

3.3. Research Object

The purpose of the study clarifies the focus of inquiry, describing the subject or subjects being studied. It also includes details on the location and time of the research. Additional information may be included as required (Cahyani, 2018 in Taslim & Kasih, 2023). The research objects to be studied are PT. Hero Supermarket Tbk and PT Midi Utama Indonesia Tbk.

3.4. Data Analysis Techniques

A quantitative analysis method is utilized to examine the financial records of two companies, focusing on balance sheets and income statements. This data will serve as a basis for evaluating the financial performance of one company in relation to a comparable company, revealing the financial health of the company through the use of financial ratios. The data gathered will consist of calculations derived from financial ratio variables. The analysis method employed includes Liquidity Ratio, Solvency Ratio, and Profitability Ratio.

4. Results and Discussion

4.1. Result

Table 1. Results of financial performance calculations using financial ratios of PT. Hero Supermarket Tbk and PT. Midi Utama Indonesia Tbk for the period 2021-2023

Source: Annual Report

| Ratio | Company | 2021 | 2022 | 2023 | Industry Average | Benchmark | Information |
|----------------------|--------------------------|--------|--------|--------|------------------|-----------|-------------|
| Current Ratio | PT. Hero Supermarket | 77.29 | 75.53 | 47.99 | 73.42 | 200% | Not good |
| | PT. Midi Utama Indonesia | 68.69 | 76.3 | 94.72 | | | Not good |
| Quick Ratio | PT. Hero Supermarket | 51.37 | 42.4 | 17.1 | 29.82 | 100% | Not good |
| | PT. Midi Utama Indonesia | 19.62 | 23 | 25.44 | | | Not good |
| Debt to Asset Ratio | PT. Hero Supermarket | 86.07 | 86.42 | 75.37 | 73.89 | < 100% | Good |
| | PT. Midi Utama Indonesia | 74.52 | 71.23 | 49.75 | | | Good |
| Debt to Equity Ratio | PT. Hero Supermarket | 617.94 | 636.63 | 306.04 | 366.61 | < 100% | Not good |
| | PT. Midi Utama Indonesia | 292.5 | 247.56 | 99.01 | | | Not good |
| Net Profit Margin | PT. Hero Supermarket | -0.28 | 0.01 | -0.03 | -3.56% | > 5% | Not good |
| | PT. Midi Utama Indonesia | 0.02 | 0.03 | 0.03 | | | Not good |
| Return on Asset | PT. Hero Supermarket | -0.12 | -0.06 | -0.08 | -0.01 | > 5% | Not good |
| | PT. Midi Utama Indonesia | 0.05 | 0.07 | 0.08 | | | Not good |
| Return on Equity | PT. Hero Supermarket | -0.01 | 6.3 | -9.31 | 7.88 | > 20% | Not good |
| | PT. Midi Utama Indonesia | 17.03 | 20.09 | 13.2 | | | Good |

From Table 1 above, two sample companies, PT Hero Supermarket and PT Midi Utama Indonesia, are used as benchmarks for data analysis. The calculation results show that, for the 2021–2023 period, the industry average values are as follows: a Current Ratio of 73.42%, a Quick Ratio of 29.82%, a Debt-to-Asset Ratio of 73.89%, a Debt-to-Equity Ratio of 366.61%, a Net Profit Margin of -3.56%, a Return on Assets of -0.01%, and a Return on Equity of 7.88%.

4.2. Discussion

4.2.1. The Financial Performance of PT. Hero Supermarket Tbk

Overall, the financial ratio measured using the Current Ratio (CR) during the 2021–2023 period can be classified as less than good, as it falls below the benchmark set by the time

series data. This reflects the company's inability to cover its current debts with current assets. Similarly, the Quick Ratio (QR) for the same period is also considered less than good, as it is below the time series benchmark. This aligns with Munawir (2002) assertion that a good Current Ratio is 2:1 (200%), while a good Quick Ratio is 1:1 (100%).

For solvency ratios, the Debt to Asset Ratio (DAR) during the 2021–2023 period can be considered good. However, the Debt-to-Equity Ratio (DER) for the same period is less than satisfactory, as it exceeds the time series benchmark. This is consistent with Hanafi's (2007:41) statement that both DAR and DER are deemed good if the ratio is below 100%.

In terms of profitability ratios, the calculations for Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE) during the 2021–2023 period are considered less than good, as they fall below the time series benchmarks and show a declining trend, resulting in losses. This is supported by Hanafi and Halim's (2007:83–84) opinion, which states that an NPM is considered good if the ratio exceeds 5%, ROA is good if the ratio is above 5%, and ROE is good if it falls between 20% and 40%.

4.2.2. The Financial Performance of PT. Midi Utama Indonesia Tbk

According to the research results, the financial ratio measured by the Current Ratio (CR) during the 2021–2023 period is considered less than good. This is attributed to increases in accounts payable, other payables, and short-term bank debt, despite a yearly increase in inventory. Similarly, the Quick Ratio (QR) for the same period is deemed less than good as it remains below the time series data benchmark. This aligns with Munawir (2002) assertion that a good Current Ratio is 2:1 (200%) and a good Quick Ratio is 1:1 (100%).

For solvency ratios, the Debt to Asset Ratio (DAR) during the 2021–2023 period is classified as good. However, the Debt-to-Equity Ratio (DER) is considered less favorable as it exceeds the time series benchmark. This corresponds to Hanafi's (2007:41) claim that DAR and DER are regarded as good if the ratio is less than 100%.

Regarding profitability ratios, the Net Profit Margin (NPM) and Return on Assets (ROA) during the 2021–2023 period are evaluated as less than good, as both fall below the time series data benchmarks. Conversely, the Return on Equity (ROE) for the same period is considered good, as it surpasses the benchmark. These findings are consistent with Hanafi and Halim's (2007:83–84) perspective, which states that an NPM is deemed good if it exceeds 5%, ROA is good if it is more than 5%, and ROE is favorable if it ranges between 20% and 40%.

5. Conclusion

Several conclusions can be made based on the research findings and data analysis. The liquidity ratio calculations indicate that the current ratio for both PT. Hero Supermarket Tbk and PT. Midi Utama Indonesia Tbk fluctuated, primarily due to an increase in liabilities that were not balanced by current assets. Both companies have a current ratio (CR) of less than 200%, suggesting that their performance is less than optimal. Additionally, the quick ratio (QR) for both companies is below 100%, further indicating subpar performance. While PT. Midi Utama Indonesia Tbk has a higher current ratio compared to PT. Hero Supermarket Tbk, the latter shows a better quick ratio.

The solvency ratio analysis for both companies between 2021 and 2023 shows fluctuating trends due to increases in total debt, assets, and equity. The Debt to Total Asset Ratio (DAR) for both companies is less than 100%, indicating that their assets outweigh their liabilities, which suggests good performance. However, the Debt-to-Equity Ratio (DER) is

above 100% for both companies, meaning the proportion of liabilities exceeds the equity, signaling poor financial performance.

The profitability ratio analysis for both companies during the same period shows a decline in net profit due to an increase in the cost of goods sold. Both PT. Hero Supermarket Tbk and PT. Midi Utama Indonesia Tbk show poor performance based on their Return on Assets (ROA), which is less than 5%. The Net Profit Margin (NPM) and Return on Equity (ROE) for PT. Hero Supermarket Tbk are both below the desirable thresholds (less than 5% for NPM and less than 20% for ROE), indicating losses in 2021 and 2023. In contrast, PT. Midi Utama Indonesia Tbk demonstrates better performance in 2022 with an ROE above 20%, despite poor results in NPM and ROA.

6. References

- Darmawan, M. (2020). *Basics of Understanding Financial Ratios and Statements*. Yogyakarta: UNY Press.
- Jogiyanto, H. (2017). Teori portofolio dan analisis investasi (edisi Kesebelas). In *Yogyakarta: BPFE*.
- Kasmir. (2011). *Analisis Laporan Keuangan (Cetakan Kesepuluh)*. Penerbit PT. Rajagrafindo Persada.
- Mankiw, N. G. (2021). *Principles of economics*. Cengage Learning.
- Munawir, S. (2002). *Analisa laporan keuangan*. Liberty.
- Munawir, S. (2012). Analisis informasi keuangan. *Liberty, Yogyakarta, 31*.
- Sari, R. K. (2019). Analisis Laporan Keuangan Sebagai Dasar Penilaian Perusahaan Waralaba Yang Terdaftar Di Bursa Efek Indonesia (Studi Kasus Pada Pt. Fast Food Indonesia, Tbk Dan Pt. Pioneerindo Gourmet Internasional, Tbk Periode 2013-2015). *Jurnal Monex, 8(2)*. <https://doi.org/10.30591/monex.v8i2.1387>
- Simarmata, L. B., & Sari, I. R. (2022). The Effect Of Operating Cash Flow And Company Growth On Stock Prices:(Empirical study on Food and Beverage Subsector Manufacturing Companies Listed on the Indonesia Stock Exchange in 2016-2020). *Marginal : Journal of Management, Accounting, General Finance and International Economic Issues, 1(4)*, 169–176.
- Sujarweni, V. W. (2017). *Analisis Laporan Keuangan; Teori, Aplikasi, dan Hasil Penelitian*.
- Taslim, R. S., & Kasih, Y. (2023). Pengembangan Usaha Menjadi Waralaba Kios Modern Lower Mart. *MDP Student Conference, 2(2)*, 443–450. <https://doi.org/10.35957/mdpsc.v2i2.4098>
- Watson, A., Dada, O. (Lola), Grünhagen, M., & Wollan, M. L. (2016). When do franchisors select entrepreneurial franchisees? An organizational identity perspective. *Journal of Business Research, 69(12)*. <https://doi.org/10.1016/j.jbusres.2016.05.006>
- Widiantoro, N. F., & Susilowati, E. (2024). Implementasi Laporan Keuangan Waralaba Di Indonesia. *Jurnal Ilmiah Ekonomi Dan Manajemen, 2(8)*, 15–24.
- Widjaja, G. (2002). Lisensi atau Waralaba: Suatu panduan praktis. *Language, 8(279p)*, 20cm.