Business strategies and objectives of next economics essay

Next is a UK based retailer with its Headquarters in Leicester, UK and offer wide variety of brilliantly designed, outstanding quality of trend and accessories for men, women and children collectively with a full variety of home ware (Next Plc). In 1864 it was founded by J. Hepworth & Son under the name of Gentlemanâ€²s Tailors (Next Plc 2011) Next is the oldest company which has been trading for nearly 150 years and was initially created in 1982. Most recently Next was established as authorized Clothing and Home ware supplier to the London 2012 Olympic and Paralympics. Next will also supply outfit for Team GB for the opening and closing ceremonies, and will fabricate uniforms for 4, 500 technological officials and suits for reception staff and will deliver bed linens and other home textiles for the athletes' village (Next Plc 2011) .

Next owns more than 500 stores in UK. Next has franchises more than 180 stores and active in continental Europe, Scandinavia, Russia, India, Japan and the Middle East. Next provides a directory, it is a home shopping catalogue and website with nearly 3 million active customers and also has an international website capability in more than 30 countries worldwide (Next Plc). Next Plc is listed on the London stock exchange and is part of the FTSE 100 Index. Total revenue for the year ended January 2011 were £3. 5 billion with pre tax profits of £551 million (Next Plc).

Next's other business groups include (Next 2010):

Ventura: Clients wishing to subcontract their consumer contact management and accomplishment activities Venture provides customer service management to them.

Lipsy: Through wholesale, retail and internet channels, Lipsy create and sell its own labelled younger women's trend product.

Next sourcing Ltd (NSL): Design sources and buy Next's products.

Business Strategies and objectives of Next

The prime financial objective of Next group is delivery of sustainable long term growth in earning per share (EPS). Next believes the following strategies will help achieve the objectives at its best (Next Plc , january, 2011):

Maximising the amount of Next Directory consumers and their standard spend.

Maintaining group's financial power through a well-organized balance sheet and financing composition.

Managing gross and net margins by continues cost control, well-organized management of stock levels, working capital and improved product sources

Developing and improving next product ranges, achievement in which is reflected in total sales and sales performance.

Cancelling and Purchasing Next shares while it's earning are attractive and in the interest of shareholders generally.

New stores review must meet challenging financial criteria prior to the investment is ready and achievement is precise by calculating achieved sales and profit contribution against appraised goals (Next Plc , january, 2011).

Marketing and Marketing Mix

Place:

Operates in UK and Europe, Middle East (reportlinker 2009, february).

Also operates in Scandinavia, Russia, India and Japan (Next Plc).

Next sources operate in mainland China, Honkong, Srilanka, India and UK (Next Plc , january, 2011).

This show, Next stores are spread globally.

Product (or services):

Includes womenswear and accessories, menswear, home interiors, childrenswear, Next flowers, NX sports, electrical, designer branded fashion and baby boutiques (Next Plc).

Improvement in customer service by introducing initiatives such as next day delivery for orders placed before 9 pm (Next Plc , january, 2011).

Customers may return or collect any item at Next's store nationwide, which is more convenient for customers.

MARKETING

MIX

Promotion:

Next promotes its product through advertising, Internet (www. next. co. uk).

Next directory was an important promotional catalogue which helped to raise the downmarket image of mail order business (British fashion company)

Through TV advert (Next plc) and discount vouchers and Gift Cards.

Price:

Don’t focus on lower income group. Not Cheap.

NEXT plc sells reasonably priced clothing for men, women, and children; housewares; and furniture (Next) .

Prices differ for different range of products.

Prices in Next’s printed material and on its website are inclusive of VAT (Next).

Offers stylish and affordable clothing (Next).

For marketing and marketing mix definition refer to appendix 1

Business Environment in Which Firm (Next) Operates

NEXT recognises that it has a duty to administer the impact of its business on the environment both now and in the future. Key areas of focus are:

power use and emissions from stores, distribution centres, warehouses and offices;

fuel emissions from the carrying of goods to either stores or customers’ homes; and

Waste created in warehouses, distribution centres stores and offices.

NEXT is committed to reducing its carbon footprint by reducing energy utilization during its minimising, operations and recycling waste, cutting transport emissions and reducing the packaging in its products.

Ratio Analysis

Profitability Ratio's

Gross Profit Ratio:

Gross Profit Ratio of Next Plc Gross Profit Ratio of M&S

From the above line graph of Next Plc, Gross profit ratio is significantly increasing till 2010 as Next has increased its revenue, enlarged profits and is constantly investing in its own business (Next Plc 2011). In January 2011 there has been 7% decrease in gross profit ratio because of increase in cost of sales by 2% and revenue and gross profit has increased but just a little bit not a huge increase.

While comparing Next Plc with M&S it can be noticed that gross profit is fluctuating and after 2005 there is again a decrease in 2009 which was because of increase in cost of sales by 3% as compared to previous year whereas gross profit of Next plc in 2009 has increased as compared to previous years.

This shows that Next Plc is more constant and likely to give a tough competition in coming future.

Operating Profit Ratio:

Operating Profit Ratio of Next Plc Operating Profit Ratio of M&S

As noticed from the above line graph, Operating profit ratio has significantly increased till 2008 but there is huge decline in 2009 i. e. 10% decrease it's because of decrease in gross profit and revenue but increase in net foreign exchange and expenses (Next Plc 2009) however after that Next has regained its position and the operating profits has been increasing since then till now.

Comparing Next Plc and M&S it's clearly concluded that Next Plc is having more profits then the latter and its profits are being increased regularly till now whereas M&S should apply some strategies to increase its profit margin.

So, finally it is concluded that Next plc without any doubts has high profits and is ahead of M&S.

Return On Investment:

ROI of Next Plc ROI of M&S

From the above bar graph it can be notice that year 2008 was worst in terms of ROI as it was negative because of negative buyback of shares resulted in reduction of equity i. e., the value of equity got reduced and was negative (Next Plc 2008) . In 2010 Next regained its position there were buy back of shares leading to reduction in equity and increase in ROI. In 2011 Low Operating profits & the finance cost has increased by 5% as compared to 2010 leading to little bit decrease in ROI.

With comparison to M&S, Next as a high Return on Investments in 2010. ROI was highest (31%) in 2010 in Next Plc whereas M&S ROI was just only 5% as compared to previous years. This concludes that Next has low equity which helps it to gain its good position whereas the equity is high in case of M&S which is not good for the company.

Return on Capital Employed:

ROCE of Next Plc ROCE of M&S

From the above Bar graph it can be concluded that in 2008 Net profits has been increased by 33% as compared to 2007 leading to increase in ROCE. In 2009 long term borrowings (27%) & total equity has increased respectively due to medium term notes and de-recognition of financial liability resulting in decrease in ROCE. But in 2010 and till now ROCE is increasing due to increase in Net profits.

Comparing M&S and Next Plc it can be noticed that comparing the two companies Next is having Much higher ratio and reputation as in 2010 M&S had 19. 09% which was 2% lesser then 2009 whereas ROCE ratio is increasing i. e., was 59. 73% which was 7% greater than previous leading to increase in Profits which is good for a company.

Liquidity Ratio's

Current Ratio:

Current Ratio of Next Plc Current Ratio of M&S

From the Bar graph above it can clearly seen that current ratio was really good which shows the sound liquid position of Next Plc except in year 2008 as the ratio is less than 1 (0. 94 times). It is because of Accounts receivable and investments have decreased as compared to 2007. But after 2008 there is an ideal Liquidity situation which is superior for any company.

Comparing with M&S it is clear that NEXT Plc has more sound position then it has because current ratio is less than 1 which shows that the company is more liquid and less sound. It expresses the ‘ working capital’ correlation of current assets available to meet the company’s current obligations. M&S would be unable to pay off its obligations if they came due at that point and shows that the company is not in good financial health.

So this concludes that Next Plc has a good financial health and can even pay off its obligations as and when required comparatively its opposite with M&S.

Acid Test Ratio:

Acid Test Ratio of Next Plc Acid Test Ratio of M&S

Companies with ratios of less than 1 cannot forfeit their current liabilities and must be looked at with an acute caution (Investopedia). From above it is noticed that except 2009 the acid test ratio for the company is less than 1 which is a serious matter to look into but less acid ratio doesn’t mean that the company is bankrupt and Next Plc is making every effort to prove itself but still comparing it with M&S it can clearly be noticed that the ratio is much less as which means M&S cannot forfeit their current liabilities as compared to Next Plc and suggests that M&S should take some serious steps to increase its acid test ratio.

Investment Ratio:

Long Term Gearing:

LTG of Next Plc LTG of M&S

Next appears highly geared, it represents a momentous rise in gearing from 339. 8% in 2007 to negative 842. 3% in 2008. This is due to significant decrease in retained earnings in 2008 together with perseverance borrowings which exceeded shareholders funds. Gearing ratio increased as Next Plc borrowed excessively for financing store development which increased long term debts. As gearing is exceeding 100% it indicated substantial bankruptcy risk for next (Next Plc 2008).

Comparing with M&S, M&S had a good position in 2007 and 2008 as the percentage was less than 100 (74. 9 and 98. 6). M&S gearing also exceeded the 100% scale for high threat companies, it is better off than Next Plc as it has larger shareholder funds and retain earnings and utilising them efficiently. M&S therefore involve lower bankruptcy as compared to Next Plc.

Interest Cover:

Interest Cover of Next Plc Interest Cover of M&S

The interest cover for Next Plc was 16. 23 times in 2007 to 11. 05 times in 2008 which gradually decreased to 10. 45 in 2009 which is because of decrease in net profit and increase in finance cost by 15% cost due to interest payable on bank facility, medium term notes, bank borrowings. But there is an increase after 2009 which tells that Next Plc’s elevated pricing strategy has guide to greater profit margin and thus provides enough operating profit before interest and tax to pay off the interest.

In comparison, M&S interest cover rate (4. 69) was about half that of next (10. 43) in 2009 and shown a downward trend. M&S had been trying to raise its market share at the expense of lower margin whereas it just opposite in the case of Next Plc. For M&S it's recommended that it should look to decrease its load of debt expenses.

4) Management Efficiency Ratios:

a) Inventory Days:

Inventory days of Next Plc Inventory days of M&S

Next stock turnover had been higher during the year. Next's rising selling price have adversely affected consumer spending and stock turnover raised to 49 days till 2009.

b) Receivable Days:

Receivable Days of Next Plc Receivable Days of M&S

c) Credit Period (Days):

Credit days of Next Plc Credit days of M&S

Working Capital Cycle: – From the above inventory days, receivable days and credit days Working capital cycle is concluded.

Working Capital Cycle

2006

2007

2008

2009

2010

2011

Inventory Days

51

47

46

49

48

51

Debtor Days

60

64

65

69

66

68

Creditor Days

20

19

19

23

19

58

Working Capital Cycle

91

92

92

95

95

61

From the above table it is concluded that debtor days are fluctuating. Debtor days increased from 2007 till 2009 and then in 2011.

In 2010 and 2011creditor days has been doubled from 19 in 2010 to 38 in 2011.

Working capital cycle efficiency improved from 2007 till now and 2011 is considered to be the most efficient year.

5) Investor Ratio:

a) Earnings per share (EPS):

EPS of Next Plc EPS of M&S

By the end of 2007

b) Dividend per Share (DPS)

DPS of Next Plc