

Next pestle analysis | next plc



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Introduction

A PESTLE analysis provides an analysis of six of the key macro level factors which affect a business and the decision which it makes (Grant, 2008). This assignment will apply the relevant factors within the PESTLE framework to the international clothing retailer Next and its subsidiaries. Data upon which the assignment is based comes from a variety of sources including the company's annual report (Next, 2012) and released and well as information from the academic and business press. In order to give the assignment a greater level of focus, the report will be limited to an analysis of the external environment in the UK.

Political

There are a wide range of political factors which affect Next at present but also factors which may have an impact upon the company in the future. One key political decision which affects Next in the UK is the rate of tax levied by the government. This has the ability to affect both the bottom line of the company in the form of corporation tax but also the ability of customers to spend with next, linked to income tax. At present, levels of corporation tax in the UK have been lowered in order to attempt to stimulate economic activity (Telegraph, 2012). However, given the continuing deficit, there is no guarantee that governments in the future will maintain the rate of corporation tax at its current level.

Other key political decisions consider interest rates. At present, UK interest rates stand at an all-time low of 0.5% (BoE, 2010). This may be seen as a positive factor for firms such as Next who are effectively able to borrow large

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amounts of money for the purposes of capital expansion at much lower rates than have been previously seen. Such borrowing may take place in the form of long term borrowings from banks and financial institutions, alternatively the company may choose to issue corporate bonds (Arnold, 2008).

Other political issues relate to the governments relatively “ arm’s length” approach to Europe and remaining outside of the single currency area (FT, 2012). For a UK based business such as Next that has international operations in the Euro Zone, this could be seen as negative with the prospect of foreign exchange rate risks being felt and the introduction of additional transaction costs which would be eliminated if the government decided to join the Euro Zone.

From a more general perspective, the UK political system based upon parliamentary democracy may be seen as providing Next with a relatively low risk political environment in which to operate within (CIA, 2013). This may be seen as an advantage in comparison some of Next’s ventures into potentially less stable political nations such as Russia and those of the Middle East. As such, this makes the UK a relatively safe market for Next to make further long term capital investments in where the company may think twice in the case of less stable political environments.

Economic

A critical factor which may have an impact upon Next in the UK is the current state of the economic environment. As a business which makes use of a premium based differentiated strategy, as opposed to being a cost leader, it may be seen that swings within the economic environment have the ability

to impact the fortunes of the company to a greater degree than those operating in the necessity and budget sector of the market (Johnson et al, 2008).

From a purely statistical perspective, the years since 2007 have been an economic rollercoaster for the UK. Following the onset of the global financial crisis in 2007, the subsequent year saw GDP growth revert to negative figures with -1% contraction in the economy. This was followed by even worse performance in 2009 with a -4% contraction. Low levels of growth have been seen since in 2010 and 2011 with GDP growth of 1.8% and 0.8% respectively (World Bank, 2013). However, while the statistics show a slight recovery in 2010 and 2011, others within the business press (BBC News, 2012) indicate that the UK economy could continue to flat line or worse result in a “double dip” recession. These headline figures may seem to paint quite a negative picture for retailers such as Next which are highly reliant on the UK economy as a source of revenue. However, an analysis of more detailed economic data may highlight a different perspective.

Tutt (2012) presents data which looks at the level of unemployment and household disposable incomes in the UK. In this case an alarming pattern is seen. On the one hand, levels of unemployment have been increasing in recent years with a rise from 0.86m in 2007 to 1.53m in 2011. However, conversely, the levels of disposable income of individual households during the period has consistently risen from £14,308 per household in 2007 to £16,042 per household in 2011 (Tutt, 2012). For Next and other premium end retailers this may have a key impact upon strategy. While there may be few customers able to buy the products and services of Next due to rising

unemployment, those who have remained in employment have generally become wealthier. As a result it is likely that such economic patterns may help Next to improve its average spend per customer, even if the total number of customers falls.

Social-Cultural

There are many social and cultural changes taking place in the UK at present which may have a high level of impact upon the performance of fashion retailers such as Next. In many cases, as representatives of an essentially socio-cultural industry, the fashion industry itself may be seen as an industry which is affected by such trends to a greater degree than other industries (Curtis et al, 2007).

One of the key issues in the UK market, but also seen across Next's wider European markets is the general aging of the population (Parliament UK, 2012). This may be seen as both problematic but also an opportunity for Next. On the one hand, an ageing population may see Next having to adapt its product portfolio in an attempt to ensure that the products supplied by company appeal to this aging demographic of the population. In addition, the prospect of an aging population may also see that competition for the increasingly smaller younger demographics of the market becomes more intense for Next as time progresses. Despite these drawbacks, there are also advantages linked to the issue. One consideration is that ageing populations tend to be less mobile than younger demographics, this may be a key advantage for Next given that its home delivery and online business model offer a convenient solution to the problem.

Other socio-cultural factors include the consideration that the UK has since World War Two become an increasingly culturally diverse nation with an influx of diverse cultures, races and ethnicities all contributing towards the socio-cultural backdrop of the UK social system (Shepherd, 2010). For Next, this has not only external implications such as those linked to aligning product ranges to specific cultural segments, in addition, the company must also ensure that it deals with issues such as managing diversity in the context of its own organisation. In this case, increased cultural diversity can be seen as both a source of a competitive advantage yet also a potential source of conflict (Liff, 1997, Ivancevich et al, 2010). As EU expansion takes place and the new member states become further integrated into the EU, there is a distinct possibility that the trends for increased diversity in the UK's labour and consumer markets will increase rather than decrease.

Technological

There is little doubt that new technological developments have transformed the UK business environment, especially those operating in the retail sector. Key developments may be seen as those technologies which are internet or communications based in nature, such as the wide spread diffusion of broadband (Jobber, 2007).

Key technological developments such as the internet have allowed firms such as Next to develop online business models which complement traditional bricks and mortar retail establishments. Empirical evidence from the ONS (2009) on the subject shows that the growth has been almost exponential with a rapid acceptance on the behalf of customers of online shopping in both retail and other markets.

Yet communications technologies have not only been used by the sector to facilitate online sales and shift away from the traditional high street “ place.” Other aspects of new technological development have seen a range of new marketing options opened up to retailers such as Next. Most important amongst these are developments which have allowed retailers to interact with customers using online social networking sites such as Facebook, YouTube and Twitter. These are now seen as key ingredients in the development of a successful marketing strategy (Zarrella, 2010), largely the product of technological changes in the sector.

Other technologies have simply allowed businesses to develop better relationships with their consumers and communicate in a more effective way. Take for instance the technological developments of smartphones and “ apps.” Such technology has allowed companies to develop apps which allow consumers to find their nearest branch or check the facilities and product availability at a branch before making a visit. This allows an effective bridge to be built between the purely online business model such as those operated by a company like Amazon and those falling into the “ bricks and clicks” category (McGoldrick, 2002) such as Next who must seek to leverage the benefits of both arms of the business.

While technology in this section has largely been presented as an opportunity, there is of course a risk factor. Many have expressed concerns over the abandoning of the high street as consumers flock to online business models. The case is illustrated only too recently with the example of Jessops going into administration, a business which may be seen as falling victim to technological developments (Goodley, 2013).

Legal

Like all businesses, Next must conform to the legal minimum standards which are enforceable in a jurisdiction. The case of Next's UK operations legal elements may be seen as more complex given that the company must comply with both UK law and EU law. Some of the key legal regulations which affect Next in the UK are considered below:

Minimum wage legislation - A key piece of legislation in the UK which affects organisations such as Next with a large number of low paid workers is that of various minimum wage regulations. In this case, the legislation requires UK employers to pay their employees a minimum of £6.19 per hour for those aged over 21 (Gov UK). Given the large number of employees of firms such as Next which are affected by the National Minimum Wage, temporary shifts in legislative policy can have a high impact upon the sector.

Other key legislative issues include equal opportunities legislation and various other acts of parliament designed to ensure equality both in the work place and in the recruitment and selection process (Pilbeam and Corbridge, 2010). In this case, such legislation has a direct impact upon the processes and practises of an organisation such as Next who are required not only to design corporate policies which facilitate equality but also to record activities related to recruitment and selection should an employee call foul at a later date. The issue here for businesses such as Next is that the legislative environment often places the burden of proof on the defendant rather than the claimant in such cases. As such, the development of detailed HR processes and practises is critical (Bratton and Gold, 2007).

Further issues relate to potential moves on the behalf of legislators to become tougher in relation to issues of tax avoidance. While Next has to date not been implicated in any of the tax avoidance scandals, there is a consideration that the actions of other retailers such as Starbucks and Amazon (Syal, 2012) may have provoked the onset of a tougher legislative environment in the future which may have an impact upon innocent parties such as Next.

Environmental

The physical environment is also a key issue for firms operating in any given national market and consideration should be considered two how firms treat the physical environment and the impact this has on the business, but also the impact the physical environment generally has upon a business.

In general terms, the physical environment which Next operates within in the UK may be seen as relatively benign in comparison to other parts of the world which suffer from high intensity natural disasters such as earthquakes, hurricanes and forest fires. Despite such an environment there have been a number of environmental issues recently in the UK which have affected the retail sector. These have included increasing more frequent floods (Retail Bulletin, 2013) and poor sales due to snow storms and the failure of local authorities to prepare for periods of inclement weather (Hall, 2011).

Other aspects of the environmental analysis require firms to consider their own impact upon the environment. In general terms, the literature (Parsons and MacLaran, 2009) considers that consumers are becoming increasing aware of the impact of businesses upon their environment. As such, if

businesses are to maintain customer loyalty and avoid negative backlashes, then they must seek to minimise their impact upon the environment. In the retail sector, this may include reducing waste, running more efficient transport operations and implementing ethical sourcing policies. While failure to comply with such consumer demands may result in a negative consumer backlash, with the adoption of the right approach, high environmental credentials can be used to add value to a product or service. Such an example is seen in the Marks and Spencer (2013) and Body Shop business models in the retail sector.

Conclusion

Having reviewed the key factors within the macro level environment as presented in the PESTLE framework, it is possible to come to a number of conclusions in relating the model to Next and its UK operations. On the one hand, it would appear that the external environment is a significantly challenging one for Next with the prospect of further poor economic performance and a requirement to comply with what may be seen as a relatively tough legislative environment. However, the PESTLE factors would also seem to indicate that there are some large opportunities for Next in the UK. Such opportunities include the ability to borrow at low interest rates to fund capital expansion and increased opportunities to link technological developments to changes in the social fabric of society in order to drive more sales through web based platforms. Other factors such as changing technologies and increases in diversity may be seen as neither positive or negative intrinsically but still require some change on the behalf of Next. Having reached these conclusions, the final opinion of the writer is that the

external environment is essentially neutral for Next at the moment and that the success of the business will be largely dependent upon whether managers of the business capitalise upon the stated opportunities or allow the challenges to see Next becoming another “casualty of the death of the high street.”

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