Next plc an introduction to the background of the company

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NEXT PLC An introduction to the background of the company NEXT PLC is a retailing company that primarily operates in the UK, and has been trading for almost 150 years; however, the brand itself was first created in 1982 (Next plc, 2010a). The company offers a range of clothing, accessories, home ware and footwear. The company's headquarters is located in Leicester, UK and is currently run by Chief Executive Simon Wolfson. NEXT distributes through three main channels: NEXT Retail, operating in more than 500 stores around the UK and Ireland, NEXT Directory, a website and catalogue list for over 2 million active users.

And NEXT International, with chains of over 180 stores worldwide including an international website. However, NEXT also have three more distribution channels which include designing, wholesaling and customer service management. They come under Next Sourcing, Lipsy and Ventura respectively. Identifying the sources of finance From the company accounts as at 30 January 2010, it shows the sources of finance in which NEXT has used for the past year. Internal Source - The balance sheet states that they currently have a retained profit of ? 615. 2m. Retained profit is profit that is kept within the business, carried over to the next year after dividends have been paid out to its stock holders. Retained profit can be used to develop the business by buying and investing in new machinery, premises or vehicles. Retained profit is accumulated over the years and an increase in retained profit suggests that a company like NEXT is financially stable, therefore they would be able to use this source as a " cash cushion" during an economic downturn.

If NEXT would consider investing or opening a new chain of stores, the benefit of having retained profit would be an internal source of finance, meaning they would not need to ask external sources to borrow money; increasing their debts. However, only can retained profit be used is if they actually make profit for the year. NEXT must consider that these profits are included by corporation tax as well as dividends paid, and therefore can reduce the total amount of retained earnings after all deductions are made. External Source –Share capital is the number of shares that can be distributed to potential or existing investors. Ukincorp, 2010) According to NEXT PLC balance sheet as at 30 January 2010, share capital was recorded at ? 19. 1m. If NEXT would want to expand and improve their business, they can issue more shares to raise cash. If you issue more shares to the public, investors and creditors would suggest more money will be injected into the business therefore increasing their confidence in the company. On the other hand, being able to issue more shares means that it will dilute and expand the control and power of the company. Non – Ownership – A bank loan is an ideal source of finance to help an organisation that is struggling in the short term.

Banks are willing to lend out loans with confidence because large organisations normally are financially stable by in terms of cash outflows and inflows. Bank loans and flexible and carry a reasonable interest rate. Understand the importance of Finance as a resource Finance as a resource for a business is important to how the organisation operates and how they are able to meet the company’s objectives in the long run. A company should be able to draw up a budget plan in order to distribute a balanced amount of cash injected to each functional department to operate on a day to day basis.

NEXT Director's report and business review shows the retail selling space increasing by 1. 4% as at 30 January 2009 to 2010 (Next plc, 2010b). An increase in selling space indicates an increase in cash outflow, as there will be a growth in premises maintenance such as electricity and an increase in wages and salary costs to cover the rise of stores opening nationwide. As NEXT expands their chain of stores, other costs also need to be considered. For example, distribution costs. Financial resources need to be available in order to operate on a day to day basis.

The company needs to distribute stock from the warehouse to the stores every week, and costs will be incurred in doing so. Since NEXT has decreased in non-current assets; in particular Property, Plant and equipment, they would need to increase the productivity and space in order to operate in warehouses and distribute stock out to additional stores nationwide. Therefore, costs will be incurred when training the work force, and in order to meet the demands of consumers, wages and salaries will increase in time.

NEXT plc, has managed to make a few acquisitions, which affects the financial position in terms of cash considerations and return on investment when acquiring 100% share capital in Lipsy Ltd. The importance of financial resources to accommodate such acquisitions, points out how financial backing can introduce new revenue streams in the long term and can lead to an increase in profits as well as the brand image of NEXT. A general understanding of the important financial statements Figures are taken from the Income statement and Balance sheet as at 30 January 2009 and as at 30 January 2010.

Profit is a surplus in money after taking into account all costs incurred in buying and selling a product. Operating profit is the profit made after all direct and indirect costs have been paid. (Bized, 2010a) From NEXT's company accounts, the operating profit has increased by ? 51. 5m. This is a positive steady increase which has been achieved throughout the recession after seeing a dip of 7% in International sales. However in the UK, being able to sustain low prices on their products in line with the increase in VAT, made sure consumer spending will be unaffected by the change. A rise of ? 46. m in cost of sales, suggests the company had purchased more stock which will increase the quantity being sold over the past year, thus increasing sales volume over time. The flexibility to also advertise products online may also be a contributing factor in increased revenue. An increase of 80, 000 active users online suggests more consumers are shopping on the internet rather than going to a store. Non-current assets are assets which are not expected to become cash within a year (InvestorWords, 2010a). NEXT company accounts, state that there is a decrease of ? 35. 6m in Property, plant and machinery.

This may be caused by the lack of capital spending during a time of economic downturn, where the company may believe an opportunity cost may arise within other functional areas of the business, rather than investing in new machinery and leasing out property where return on investment will be less than expected. Intangible assets have decreased by ? 8m. This is because the acquisitions and subsidiaries that NEXT PLC owns, has seen a decline in performance. Therefore, the service ‘ NEXT Sourcing’ in itself has decreased its value by ? 5. 7m due to problems arising in agreeing a deferred consideration payable. NEXT PLC, 2010b. pp67). Current assets are assets such as cash equivalents, stock or advance prepayments that can be turned into cash within one year (InvestorWords 2010b). NEXT’s current assets have decreased by ? 32. 4m however, the biggest loss on current assets where foreign exchange contracts; decreasing by ? 75. 8m. A factor that may influence this big drop is the fluctuation in currency exchange rates overseas, relating to the recent recession and trading conditions. Current liabilities are liabilities which are sustained during the short – term, normally less than a year (Bized, 2010b).

From NEXT’s Balance sheet, current liabilities have increased by ? 23. 7m. The company has however, paid back most of the liabilities owed to bank loans and overdrafts. Overdrafts have decreased by ? 41. 6m, and currently stand at ? 4. 7m. Unsecured bank loans have been paid off since the previous amount of ? 75m as at 30 January 2010. This suggests the company and bank have a good relationship in terms of loaning money out. NEXT have managed to obtain ? 37. 7m in bank overdrafts as of 2008 which increased to ? 46. 3m the following year.

This indicates that the company has managed to borrow more money from the banks, increasing the likelihood of banks to loan out money with confidence. Bized (2010a) ‘ What is operating profit? ’ Learning Materials. Available at: http://www. bized. co. uk/learn/business/accounting/busaccounts/notes/oprof-ex. htm [Accessed at: 25th November 2010] Bized (2010b) ‘ What is current liabilities? ’ Learning

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