ANALYSIS

1) ROCE

This type of ratio is mainly used by business in order to help them meet their objectives, related to profit-making. In 2008 the ROCE figure is 39.15%, which is almost 12 times bigger to that in 2009-27.35%. According to these results, Ted Baker was more successful with greater profit in 2008, than in 2009. According to the UK business statistics, Ted Baker Plc have gone over the average ROCE, reported for the first quarter of 2007, which was 15.1%. This has been the highest level of ROCE reported Service sectors average ROCE was announced at 21.1%, however manufacturers' ROCE has declined by 7.7% in that period.[1]

2) Gross Profit Margin

This is the relationship between Gross profit and Sales Revenue made during the same period of trading. It is a contrast between Sales Revenue and the cost of sales. An increase or a decrease in operating profit for the year may have a major affect in the Gross profit margin figure. Contrasting to the ROCE figures, Gross profit margin are as follows: 2008=58.1% and 2009=58.5%. Ted Baker has had a small increase of profit, just by 0.04%. This is now what they have expected, as their aim was to maximize it by at least 27% according to the ROCE figure in 2008. The increase in 2009 means that gross profit was higher relative to sales revenue and that cost of sales was lower relative to sales revenue in 2009, than in 2008.

3) Sales Revenue per employee

Labour is a very important resource, but more important to that is how well it is managed. This is one of the issues, which most businesses struggle with. Unsatisfied labour force simply means lower production, which may also affect the quality and reputation of the business. Ted Baker Plc has experienced a decline in the past year. They have gone from £93.573 in 2008, down to £91.469 in 2009. It is not a big difference, and the most obvious reason for this is the recession period. All businesses are aiming to have a higher figure for this ratio, as it represents higher labour efficiency and it also increases their reputation.

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[1] Peter Atrill and Eddie McLaney, Accounting and finance for non -specialists, 6th edition, page 191

4) Operating Profit Margin

This type of profitability ratio is thought to be the most significant one in order to measure operational performance of the business. Operating profit figure has many risks. Type of customers and competitors mainly have a great influence on the figure. All different types of businesses are aiming at different figures. Supermarkets for example, have lower operating margin figure, reason being, type of products/services they are providing and the high level of competition within this area. Businesses, such as Ted Baker, who have their own brand, tend to have a higher figure for this ratio, which allows them to launch new products more often. Ted Baker's figures for 2008 were 15.6% and 11.2% for 2009. There was a decrease in 2009 by 4%. For every £1 of sales revenue, the business had an average of 15.6p in 2008 and 11.2p of operating profit in 2009. These are not very good figures, as most businesses are aiming for at least up to 50% of operating profit. The reason for these low figur es is due to the ROCE and the ROCF. High level of expenses also affects the sales revenue.

5) Current Ratio

Most businesses believe that the most perfect current ratio figure must be at least 1:1. However, this case does not apply to all businesses. Ted Baker Plc for example would be interested at a figure higher than 1. Ted Baker's figures are as follows: 1.9 times (1.9:1) for 2009 and 2.2 times (2.2:1) for 2008. Similarly to the statement made above, these ratios are much higher than the average expectations of most businesses. It simply means that for every £1 of sales, the business was making £1.2 profit in 2008 and 1.9 in 2009. There has been a small decline, but the difference is not too big or too crucial. When current ration increase it means that more liquidity has come into the business. On the other hand liquidity i.e. cash, assets...etc is a very important aspect of a business as it helps it to survive. However if ratios are too high, it means that the business is struggling to spend those money on something, which may be needed. It may also be as a result of bad management and low productivity.

6) Acid Test ratio

It is arguable by many businesses that inventories cannot be converted into cash quickly enough. This is why it is preferred acid test ratio to be calculated excluding inventories, as it gives a clear view of the situation. Similarly to the current ratio, the most ideal figure is 1:1, however Ted Baker Plc have experienced a trouble with that in 2009. The acid test ratio is calculated to be 0.8 for 2009 and 1 for 2008. In 2008 the business has just met the minimum criteria, but in 2009 it has experienced a problem. For every £1 of sales the business made £0.20 p of loss. This figure does not cover the current liabilities, and if the business do es not find a way of tackling this problem, they might face a serious financial loss.

7) Gearing Ratio

This ratio is very important measure, which the business needs to make. Higher ratio, simply means that the company has borrowed a lot of money, which might also lead to a struggle when it comes to paying them back. High gearing also has an effect on operating profit, as it may decrease, while the business is trying to recover their debts. Often change in operating profit will then lead to a significant change in ROSF and ROCE ratios. Ted Baker's gearing ratio has decrease from 22.34% in 2008 down to 10.21% in 2009. This is a great achievement. A gearing ratio of 22.34% is usually considered as high, but the business has managed to decrease that by more than a half. This means that the company has used their money efficiently. They've had a good level of operating profit, which helped them recover the higher percentage of their debts.

8) Dividend payout ratio

By calculating this ratio, businesses will have a clear idea of how well their earnings are supporting the dividend payments.[2] Bigger businesses, such as Ted Baker are more likely to have higher payout ratio. In 2008 the business has made 42.13% of dividend payout ratio and it has increased up to 55.56% in 2009. This is also very healthy for the finance of the business. If dividends are increasing, therefore the company has a good amount in internal growth. Increasing dividends also mean higher market share and an increase in profits.

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[2] www.investopedia.com/terms/dividendpayoutration.usp

9) Earnings per share

Earnings per share give a weight of the profitability of the business. When earnings per share increases it is more likely that more people will be interested at investing into the business, which will boost up the total profit of the company. Ted Baker has 3. 00% of earnings per share in 2008 and it has doubled in 2009. This means that the business has experienced great sales throughout the past year and has attracted more investors.

10) Employee efficiency

Giving the proportion of sales paid out in employee's costs. When employee efficiency increases it leads to more productivity as a result of satisfied labour. Ted Baker has also shown an achievement in this area. The employee efficiency ratio has increased by almost 2%, where it was 41.20% in 2008 and 43.12% in 2009. This increase is a result from the satisfied labour. Trough their wages, they are encouraged to work even more efficiently.

EVALUATION AND RECOMMENDATIONS

Next Plc, Moss Bros Plc, Debenhams Pc and Burberry Plc belong to the huge competitors group for Ted Baker Plc. They are aiming to gather information, such as how much Ted Baker has in return from shareholders, how big their dividend payout ratio is, are there many people interested in investing into their competitors' business and why?

- ROCE ratio is applicable to competitors as it gives them a current figure of the financial status of the business. They could easily compare both figures and find a way in which they can increase their ROCE ratio. Ted Baker is in a highly competitive market, where everyone's main aim is to survive. On the other hand, Ted Baker is also an international company, which makes it even more risky. They have to carefully manage the business and use profit as efficiently as possible.

- Gross Profit Margin is another ratio, which competitors will be extremely interested at. They will be able to highlight the Gross Profit made by that company and the level of sales. This ratio is very important for Ted Baker itself, as it hasn't had a high level of increase, compared to 2008. In order to boost it, they may need to figure out a decrease in expenses. Their administrative expenses have gone up from 17844 in 2008 up to 19204 for 2009. Operated expenses rose by 14.8% to £75.9 m for 2009, where it was only £66.2 m in 2008. The main reason for this increase is the distribution cost, which increased by 17.4% for the past year. As stated above, trading internationally is very risky. Distribution costs are definitely something, Ted Baker Plc need to work on.
- If competitors are experiencing labour problems, Sales revenue per employee is definitely something they will be interested at. Ted Baker has also experienced a decrease in this area, reason being a decrease in cost of investment for share options granted to subsidiary employees by 266. Most obvious recommendation would be an increase in wages.
- As stated, operating profit margin ratio is one of the most significant not just for the business or its shareholders, but for their competitors as well. By analysing the ratio, the competitors will be able to find out whether the business has had enough amount of operating profit and how this has affected their operations. Even though Ted Baker Plc had a decrease of operating profit in 2009 -£17161, where it was £22142 in 2008, the business did not experience any dramatic losses. It is meant that high amount of profit is leading to bad management, therefore in 2009, Ted Baker have used their profit efficiently, without making any losses, as well as increasing profit. In future, if they need a higher operating profit margin ratio, they could decide to decrease either their sales revenue or increase operating profit.
- Current ratio and acid test ratio are definitely one of the most important ratios which may even benefit the competitors of Ted Baker. They are both used for the same reason, to calculate the profitability of a company. In terms of current ratio, Ted Baker has achieved great results, by going over the average. This is great achievements and competitors may even examine what was the reason, Ted Baker did

so well. Contrasting to the current ratio, the acid test ratio figures were not as good. The company went under the limit ratio of 1:1. This is also something which competitors will find helpful as it will give a highlight of what leaded Ted Baker to these low figures and it will also prevent them from the same situation. A recommendation would definitely be a decrease in inventories. In 2008, the inventories amounted at £1,449.000 a year later they increased to £5,923,000.

- Competitors of Ted Baker Plc will be interested at the figure of borrowings. They would like to know how much the business has borrowed and more importantly, will they be able to pay back to their lenders. Unfortunately Ted Baker had a bit of a problem in 2008. They have had 22.34% worth of borrowings, which is thought to be a high figure for this ration. However in 2009, they have managed to bring down that percentage by more than a half, 10.21%. The decrease of operating profit has played a significant role in this ratio. To decrease even more that ration, Ted Baker Plc may need to decrease their reserves.
- Dividend payout ratio. Competitors need to know whether the earning of Ted Baker are enough to pay dividends. Fortunately the ratio has increased significantly over the past year by more than 13%. There has been a slight increase in dividends paid £6,421,000 for 2008 up to £6,983,000 for 2009. If Ted Baker manages to decrease their dividends payment, then the dividend payout ratio will increase
- Earnings per share are also a very important aspect, which competitors of Ted Baker need to be aware of. They need to carefully examine what the company did, in order to maximise their share earnings as well. Ted Baker Plc managed to increase that figure by more than a half- 3.09p for 2008 up to 6.24p for 2009. The reason for this was the decreased number of ordinary shares. Decreasing ordinary shares is not a very good idea, as there may be people who are willing to invest into the business. An increase in investments, leads to more profit, which is a better way of increasing earnings per share ratio.