

Ted Baker

SWOT analysis

Ian Marcousé analyses a major company in terms of its strengths, weaknesses, opportunities and threats to provide an insight into how business really works



SWOT analysis is the most widely used technique for managing business strategy. With Ted Baker, it makes it easy to sort current issues into strengths and weaknesses and future ones into opportunities and threats. For this company, it's also easy to see that the strengths hugely outweigh the weaknesses.

Strengths

Ted Baker started with one men's clothing shop in Glasgow in 1987. The founder, Ray Kelvin (the real 'Ted Baker') is still the chief executive and main shareholder 30 years later.

Kelvin's management of what is now a billion-pound business is remarkable. Figure 1 shows the steady growth achieved over recent years. Since 2003 profits fell in only one year — the recession-hit 2009. Sales revenues have risen every year. For a

fashion clothing business, that's remarkable — not even Zara has been that consistent.

Although it started as a men's shop, today womenswear accounts for nearly 60% of sales. This is a strength because the world market for womenswear is larger than for menswear.

A huge area of strength for Ted Baker is its sales overseas. Over 40% of sales are abroad, with the USA seeing exceptionally dramatic growth. In 2017 US shop sales rose by 26.5% and e-commerce by 48.5%. Ted Baker's US sales broke the £100 million mark for the first time.

Although the business came late to e-commerce, in 2017 e-commerce sales rose by 35.1% to reach £72.1 million. They now account for 18% of sales. In 2017 the company is opening e-commerce websites in Asia for the first time, which could prove significant.



Womenswear accounts for 60% of Ted Baker sales

Ted Baker's balance sheet has always been strong. On 28 January 2017 its gearing was 21%, nicely down on its 2016 figure of 26%. Its current ratio of 1.58 (although down on 2016) was higher than the accountants' target of 1.50 for this liquidity ratio.

Weaknesses

For a business that has been in Japan for 10 years, it is surprising that Ted Baker has been slow to get into the clothing market in China. This market has proved a bonanza for UK businesses from Burberry to New Look. On the other hand this may just reflect Ray Kelvin's cautious approach to growth.

Ted Baker has a super-strong balance sheet, yet the business could be criticised for slackness in managing its working capital. In 2017 it allowed its stock (inventory) level to rise by 26.4%, even though its sales revenue rose by just 16.4%. This is a major reason why its bank overdraft rose from £38 million to £58 million in the year. Perhaps the business needs a sharper finance director, or maybe Kelvin is so focused on the sales and marketing side that the financial aspects of running the business are allowed to slip.

Ted Baker is small for a global fashion retail business. Its annual sales are less than a twentieth of global star Inditex (the Spanish owner of Zara and Pull & Bear). This has never held Ted Baker back

(it has done brilliantly as a niche operator), but when times are tough, size matters — so the company might be vulnerable to any future market problems that arise (e.g. due to Brexit).

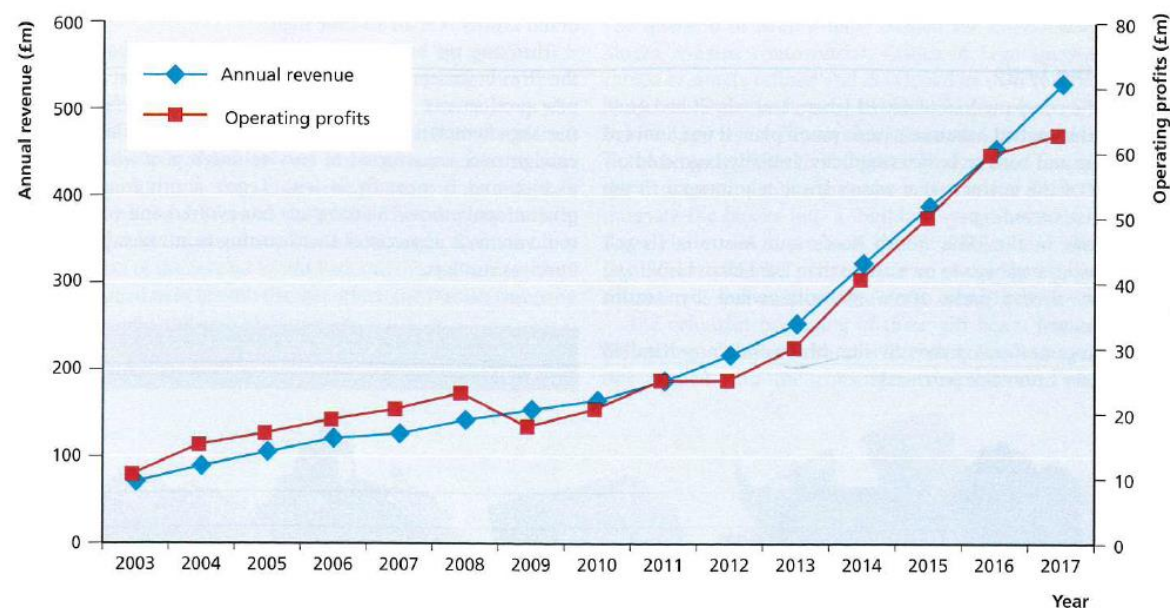
Opportunities

In 2017 the company is opening e-commerce websites in Asia for the first time, which could prove significant. It needs to make a move in the Chinese market, which not only loves Western brands but is also exceptionally advanced in 'e-tail' shopping.

Ted Baker's recent success in the USA comes after several years of slow, steady growth, so its basis is quite sound. But £100 million of sales in the US market is a pinprick — Google says that the market size is \$225 billion. So Ted Baker has a market share of less than 0.1%, and therefore virtually limitless growth opportunities. It would make sense for Kelvin to put his best lieutenant in charge of Ted Baker's US operation.

Threats

Probably the biggest threat to Ray Kelvin's long-term plans comes from the possibility of a takeover. Kelvin has a 35% share of Ted Baker, which gives significant protection if an unwelcome bidder arrives. But Kelvin is now 62 years old, and may be starting to think of easing off. For a business such as Gap, Ted Baker would



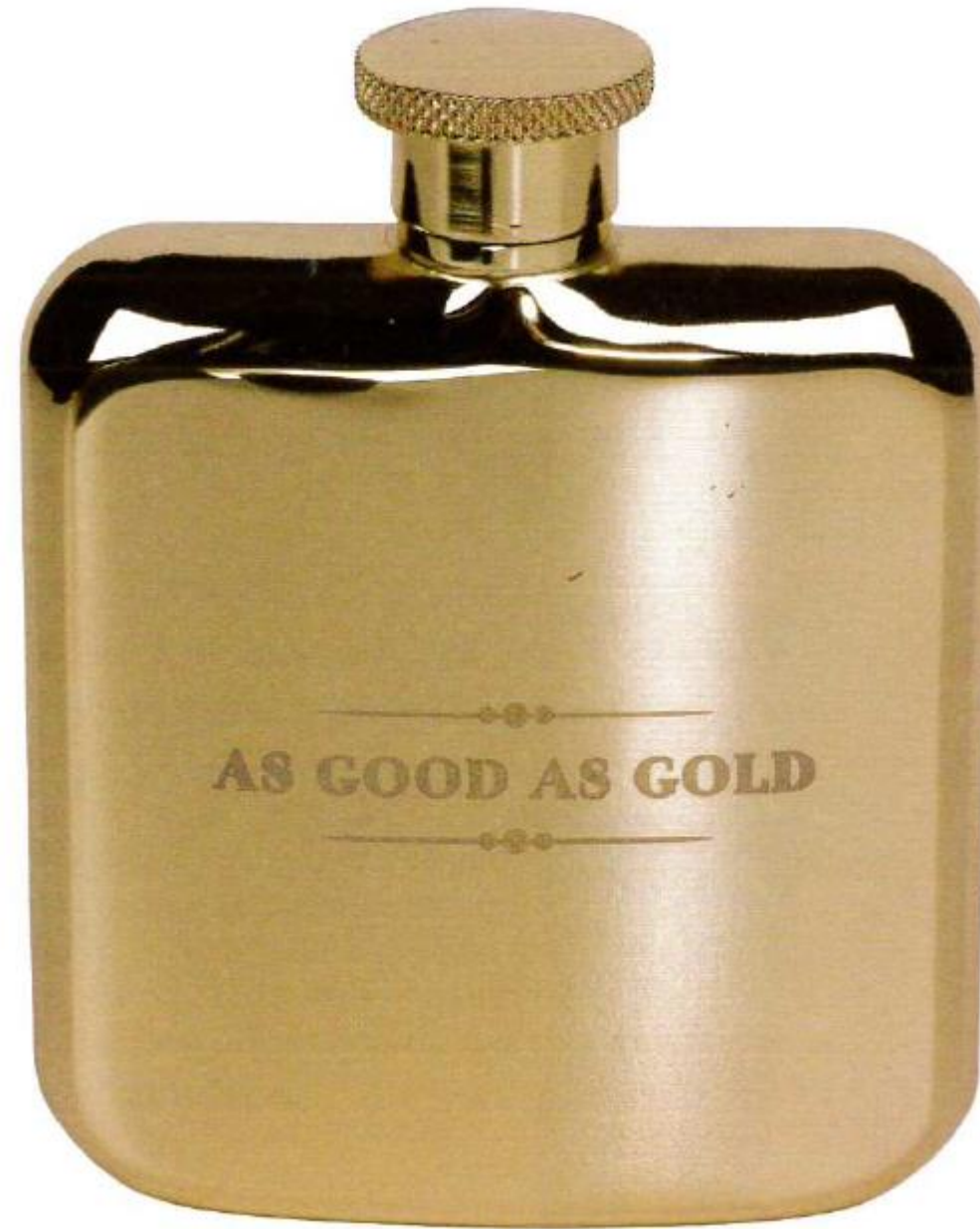
be easy to swallow up. Ted Baker's stock market value (**market capitalisation**) is £1.2 billion, so a bid of £1.5 billion could be accepted. One hopes not, as there are few British-owned success stories as inspiring as Ted Baker's.

It is to the company's credit that it seems to have seen off what looked a serious threat — its late adoption of online selling. Now the Ted Baker website is impressive and efficient, allowing the business to catch up with competitors such as Superdry.

And what about Brexit? At the moment the only threat is that the lower pound is raising the cost of imported clothes. In the future there may be some threat to the company's European sales, but — unlike Superdry — Ted Baker is not especially dependent on Europe, so Ray Kelvin can feel pretty relaxed. That is, unless Brexit damages UK economic growth and prosperity, in which case Ted Baker will lose out — alongside every other retailer of middle and upmarket goods.

Conclusion

A SWOT analysis gives a starting point for agreeing what's going well or badly, and deciding how to manage the business for the future. For Ted Baker, 'steady as she goes' seems to be the best advice.



BTEC Business Transition Work Questions

1. Define what is meant by a 'SWOT analysis'.
2. Draw a SWOT analysis for Ted Baker.
3. Define the terms 'revenue' and 'operating profit' Comment on the revenue and operating profit graph from the case study.
4. Discuss Ted Baker's key strengths and analyse the impact of each one.
5. Within Ted Baker's weakness, discuss as to why they might require a 'sharper finance director'.
6. Discuss the possible reasons for Ted Baker's 'slow' growth in the clothing market in China.
7. Discuss as to how the US market could be a huge opportunity for Ted Baker.
8. Discuss what threats exist to Ted Baker. Consider why these are threats.
9. Research the global size of the clothing market. What are the top four companies within this market? Include a graph with your research findings.
10. Based on reading this article, to what extent do you think SWOT analysis has been a useful planning tool for Ted Baker?