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Core Competence & Diversification in Apparel Retailing
- the case of Next Plc

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Introduction

• Purpose & context.
• Why Next?
• Literature & conceptual background.
• Next – competence and diversification in apparel retailing.
• Conclusions.
Background & context

- What is the determinant of success/failure?
- What must a fashion retailer ‘be good at’?
  - Subjective interpretations of ‘good’.
  - Opinions tainted by personal & professional bias.
- How can a fashion retailer be competitive and grow in a sustainable manner?
Background & Context

- Many area/discipline-specific accounts:
  - Product design, development and manufacturing;
  - Corporate structure & distribution management;
  - Financial planning & management;
  - Marketing capabilities and branding;
  - Retail format & channel development;
  - Market development & Internationalisation.

- Few comprehensive accounts:
Diversification

- Ansoff (1957) – products and markets.
- Reed & Luffman (1986) – naive interpretation?
- Later literature acknowledges diversification is founded on leveraging key assets, capabilities and specialisations inherent to the business.
- Connection between diversification & sources of competitive advantage (Porter 1985).
Rijamampianina et al (2003) recommend diversification based on identifying a key competence or asset and extending that competence to all growth activities.

Will analysis of one company’s diversifications allow identification of that company’s core competence?
Why Next?

- Speed, scale and scope of growth.
- Historical – and historic – success.
- Instances of crisis and recovery.
- Variety of specific means of diversification.
- Accessibility of research materials.
- Mid-market position minimises variables.
Why Next? Profit & profit ratio.
Why Next? *Mkt share vs. M&S*

![Chart showing market share comparison between M&S and Next from 1998 to 2010. The chart indicates that Next consistently outperformed M&S with market share values ranging from 9.0% to 15.1% for Next and from 4.1% to 14.3% for M&S over the years.](chart.png)
Next - Diversification

Six means of diversification evident:

1. Brand diversification.
2. Product & service diversification.
3. Channel diversification.
4. Format diversification.
5. Foreign market diversification.
Brand diversification

- 1984 – Next for Men
- 1987 – NBG
- More or Less
- Next Too
- Next Originals
- 1987 – 37 distinct sub-brands...
- 1988 – “One Brand”
- Next to Nothing
- 2005 – Next Luxury
- 2005 – Lime
- 2008 – Lipsy
- 2008 – Brand refresh and refocus...
Product & service diversification

- Jewellery.
- Holidays.
- Healthcare.
- Newsagents.

- 1988 – focus on fashion ranges.
- Fragrances & beauty.
- Flowers & electronics.
- 3rd party products.
<table>
<thead>
<tr>
<th>Channel</th>
<th>Format</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999 – next.co.uk</td>
<td>1999 – larger stores.</td>
</tr>
<tr>
<td></td>
<td>2003 – Home-only stores.</td>
</tr>
</tbody>
</table>
Foreign market:
- 1993 – USA J.V.
- Europe – self-owned.
- Asia/M.E. – franchise.
- 2004 – Scandinavia.
- 2008 – East Europe.

Business Support:
- 1985 – Club 24
- 2004 - £60m invested in distribution system.
Findings

Key findings:
• Diversification has been unsuccessful when brand focus has been lost.
• Diversification has been successful when brand focus has been retained.

Hypotheses:
• Apparel retailers diversify in 6 dimensions.
• Dimensions are linked & mutually supporting.
• Diversification success predicated on effective brand management.
Conclusion

**Apparel retailer**

**Brand focus**

- **Brand diversification**
  - Apply core identity to relevant areas OR create new identity.

- **Product/service diversification**
  - New products and services relevant to customer.

- **Format diversification**
  - Store location, store size, store type, store design

- **Channel diversification**
  - Develop routes to market relevant to brand and accessible to customers.

- **Foreign market diversification**
  - Enter markets relevant to brand identity and where market allows.

- **Business support diversification**
  - Support core businesses with facilities necessary to grow and prosper.