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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).
Diversification

• 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*

![Bar chart comparing M&S and Next market shares from 1998 to 2010. The chart shows that Next has consistently higher market share than M&S during this period.](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>

Channel & format diversification
Foreign mkt & business support diversification

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

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

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

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

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

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

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