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*
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>
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<tbody>
<tr>
<td>1999 – next.co.uk</td>
<td>1999 – larger stores.</td>
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<td>2003 – Home-only stores.</td>
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- 1989 – 500 closures.
- 1999 – larger stores.
- 2003 – Home-only stores.
Foreign market:
• 1993 – USA J.V.
• Europe – self-owned.
• Asia/M.E. – franchise.
• 1999 – withdrawal.
• 2004 – Scandinavia.
• 2008 – East Europe.

Business Support:
• 1985 – Club 24
• 1994 – Ventura.
• 2002 – inhouse manufacturing.
• 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.

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

- 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.