



Next is pivoting in a digital world

The fashion retailer has ambitions to become 'an online platform that includes stores' – and it is well-positioned to fulfil this aim, writes **Becky Waller-Davies**

Next is in the middle of one of its biggest changes in decades, transitioning to become a digitally led business amid shifting consumer habits.

Boss Lord Wolfson is often looked to as an industry soothsayer, making various gratefully received pronouncements on the state of the industry, as bellwether Next typically sails on comparatively calm seas.

But right now, having battled through several stormy years, he is too busy changing the ship's directions – Next is in the midst of moving from being "a retail-only business to an online platform that includes stores" – to make much in the way of pronouncements.

Pain point

At the retailer's interim results meeting he was as methodical as ever, and emphasised that Next's journey was about "evolution, not revolution", observing that revolution was always "painful".

Painful is an apt word to describe the retailer's store sales over the past six months, underlining the need for the pivot to online.

Total group sales were up 3.8% to £1.98bn. Store sales fell 6.9% to £925m. In contrast, online sales surged 16.8% to £892.3m.

Lord Wolfson conceded that the restructuring process was "extremely

arduous" but insisted the retailer had "reached quite an important point" and profitability would improve this year.

He explained that Next had accepted that declining retail sales represented a permanent shift rather than a temporary blip. Consequently, a plan has been put in place to capitalise on this shift.

A decade ago, Next's stores accounted for 67% of sales and profits. This year they are forecast to make up less than half of sales and 30% of profit.

"We are just about making up for what we lose in retail in what we gain online," Lord Wolfson said.

"But we have to run faster in [online and mail order division] Directory than we move backwards in retail."

Online sales will need to grow 8% to counteract retail sales falling 5%. The business has now built warehouse capacity for an extra £1.5bn of online sales, although it isn't formally guiding on this number.

Next was traditionally ahead of the curve with its Directory business as it shifted its historic mail order business to an online order model with ease.

But in recent years it has lost that advantage and had fallen behind the competition – changes to its website experience involving personalisation and AI-powered search will, Lord Wolfson admitted, only bring

it in line with competition rather than push it ahead.

Maximising the estate

Next is beginning to treat its 528-store estate differently, recognising it needs to manage its portfolio better if it is to offset falling store sales.

Part of this involves maximising the store estate's potential by introducing a variety of fulfilment options including same-day click-and-collect powered by RFID, using retail stock to service online demand and transferring online best-sellers to stores.

Same-day click-and-collect offers customers the option of reserving stock and collecting it from store in around 15 minutes – serving online demand from store means stock that is not readily available in a warehouse can be dispatched from a store.

That option currently accounts for 4% of online sales.

Transferring online best-sellers to stores is designed to "bring some of the dynamism of an online offer to retail stores".

The venture, which is at trial stage, means the retailer sends online best-sellers, typically unavailable in-store, to shops that have a high probability of selling that item.

Next's stores already play a crucial part in its digital offer as 50% of online orders are picked up in-store, and initiatives such as these should help



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the retailer's aim to become "an online platform that includes stores".

Concession trials

However, the retailer is not about to view its stores purely as fulfilment hubs. It is also trying to make stores as engaging as possible by adding concessions.

The retailer is piloting third-party offers in branches including its Manchester Arndale store and, if they test well with customers, will roll them out across its estate "as fast as is profitable".

Lord Wolfson was characteristically reserved about which concessions had worked and which had not, but did say the concessions that tended to do best were service-based and did not require lots of stock.

"I do anticipate that we will be adding a greater diversity of concessions to our stores," he added.

Next is beginning to stage a fightback after a torrid couple of years, and the innovations it is implementing could allow it to leap ahead of the pack once more as it moves its multichannel model on a step. **RW**

