

ANALYSIS

'Unseasonable weather' and 'Brexit' may be the new retail whipping boys, but their impact on the fashion sector is real, writes **Anusha Couttigane**

What John Lewis and Next's woes reveal about fashion

Two British high street fashion behemoths unveiled their first-half results last week, and both revealed a decline in profit.

Operating profit for John Lewis stores fell 31.2% to £32.4m, while Next saw its retail profit drop by 16.8% to £133.9m.

As retailers that have, in recent years, enjoyed considerable success, this paints a pessimistic picture for the future of the fashion market in the UK.

Earlier this year, Next chief executive Lord Wolfson predicted that 2016 would be the retailer's most challenging year since 2008.

For John Lewis, the decline in profit has been more disappointing than expected.

Yet the underlying issues causing these declines spell challenges for the whole industry.

It is hard to address this turn of events without defaulting to the Brexit debate which, far from being the elephant in the room, is top of everyone's list of concerns.

Weather woes

But let's put Brexit aside for a minute and turn first to an endemic issue that fashion retailers have always battled: the great British weather.

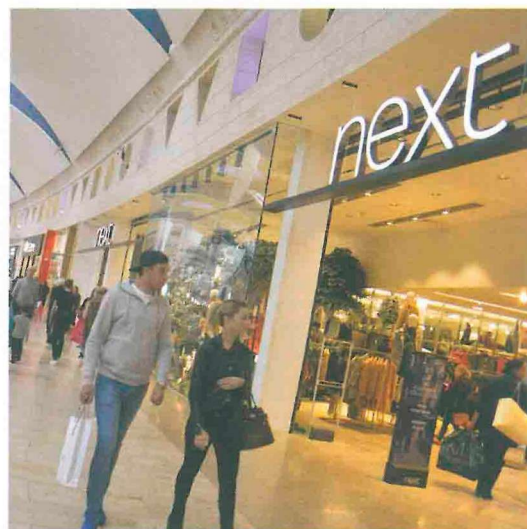
Next reported (not for the first time) that unseasonable weather – a weirdly warm winter and a questionably cool spring – had caused clothing and footwear sales to fall dramatically below normal trends.

This led to high levels of end-of-season discounting, taking a big bite out of profits. Next is not unique in experiencing this, but it does expose one of the pitfalls of the market that, so far, few fashion players have been able to successfully combat.

Marks & Spencer highlighted the "seasonless" qualities of its upcoming AW 2016 range at a showcase earlier this year. This speaks logic, as our restless



John Lewis's operating profit dived 31.2% in its first-half results, while fellow bellwether Next's retail profits fell 16.8%



weather patterns are never going to be stymied.

This is also a more practical answer for large-scale fashion players with long lead times for range orders.

Even fast-fashion players such as Topshop, which speed through range refreshment as frequently as every six weeks, cannot react in real time to the whims of the British weather.

While Next has moved to a shorter season model, introducing smaller ranges closer to launches, this does have additional costs attached when one considers the demands placed on manufacturers to supply products with a much faster turnaround.

This was a cost price that Next was well prepared for when it accelerated its range refreshment in 2014.

Yet the significant damage to the pound since the Brexit vote has palpably reduced retailers' buying power.

Price hikes

Next has already admitted that anticipated price hikes will have to be passed on to the customer, bringing an end to the long spell of deflation enjoyed by clothes shoppers. John Lewis has said much the same.

This could happen sooner than later for some if, like Sports Direct, they are not hedged against currency fluctuations. It will also be a hard truth for a number of small and independent fashion retailers.

John Lewis, which imports more than half of its goods, is hedged against currency fluctuations for the rest of the year.

Yet while the prospect of Brexit may not have an immediate impact on the supply chain for bigger players, it has already damaged consumer confidence, resulting in reduced footfall and a reluctance to splash out on non-essentials.

With sales already hampered by the immediate aftermath of the

referendum, a sterling crisis could only see things go further downhill.

In a context where retailers like John Lewis are compelled by competition and consumer expectations to continue investing in expansion, IT and infrastructure, this puts an increasing pressure on profit.

This means that the UK's fiscal ability to deal with foreign suppliers is becoming more imperative, especially when we consider our increasing reliance on Chinese and Indian manufacturers, because the power balance is changing.

As these economies continue to thrive, their bargaining power to get a better price for their goods will rise as British buyers seek to forge stronger relationships with them in the wake of our departure from the EU.

Should Brexit make it more difficult (and expensive) to trade with important mass fashion producers such as Hungary and Romania, retailers will have no choice but to develop more friendly relationships with global suppliers in order to make their margins.

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