Teaching Note:

Can Marks & Spencer Regain its Lost Ground?

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Can Marks & Spencer Regain its Lost Ground?

ABSTRACT

The case discusses the problems faced by UK-based iconic retailer Marks and Spencer plc (M&S) and its revival. M&S was experiencing unprecedented troubles with its sales stagnating, profits collapsing, and market share falling. The retailer had been offering high quality clothing, home products, and its own outstanding food brands for 125 years. After being the leading retailer in the UK for decades, M&S started to lose its edge in clothing as well as food with the advent of e-commerce and changing consumer preferences. In May 2016, CEO Steve Rowe (Rowe) outlined a five-year turnaround plan to address the problems, to position M&S to deliver profitable sales growth, and revive its dwindling fortunes.

The case discusses the turnaround at M&S and how Rowe was committed to leading a radical shake-up of the business. As part of his turnaround strategy, Rowe planned to close underperforming clothing stores, opt for relocations as more trade shifted to the internet, reduce discounting, and accelerate the expansion of its food business. The company planned to keep itself in line with customer requirements and changing fashion trends. In May 2017, Archie Norman (Norman), former CEO of retail chain Asda, was appointed as the chairman of M&S. He joined Rowe in the battle to reverse fortunes at M&S.

Can Rowe and Norman together revive the fortunes of the 133-year-old retailer whose profits have taken a nosedive? Can M&S regain its lost glory? If so, how?

TEACHING OBJECTIVES AND TARGET AUDIENCE

This case study is designed to enable students to:

- Understand the problems at M&S
- Understand the need to continuously reinvent the business model of a company amidst rising competition and changes in the business environment.
- Examine the strategic measures taken by a leader to turn around a loss-making company.
- Understand the revival strategies of M&S
- Appreciate the importance of focus and a clear recognition of strengths for a company.

This case is meant for MBA students as a part of their Strategic Management curriculum.

TEACHING APPROACH AND STRATEGY

This case can be used effectively in classroom discussions as well as in distance learning programs. In the classroom mode, the case moderator can initiate the discussion by giving a brief introduction about M&S and its rise over time. The moderator can then discuss the problems that eventually plagued the company. He/she can also discuss the challenges faced by M&S in the
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retail industry and the ways in which the company can overcome them. In addition to this, the students can also be encouraged to debate whether Rowe can win over the tough situation using his turnaround plan. The moderator can take the discussion further with the help of the following questions:

1. How did M&S emerge as an iconic British retail brand?
2. Discuss the problems faced by M&S.
3. Critically analyze M&S’s turnaround strategy.
4. What possible challenges could Rowe and Norman face going forward and how can they be tackled?

SUGGESTED SESSION PLAN

<table>
<thead>
<tr>
<th>Discussion pastures</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>10 min</td>
</tr>
<tr>
<td>Discussion on Q1 How did M&amp;S emerge as an iconic British retail brand?</td>
<td>15 min</td>
</tr>
<tr>
<td>Discussion on Q2 Discuss the problems faced by M&amp;S.</td>
<td>20 min</td>
</tr>
<tr>
<td>Discussion on Q3 Critically analyze M&amp;S’s turnaround strategy.</td>
<td>15 min</td>
</tr>
<tr>
<td>Discussion on Q4 What possible challenges could Rowe and Norman face going forward and how can they be tackled?</td>
<td>10 min</td>
</tr>
<tr>
<td>Summary</td>
<td>10 min</td>
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<td>Total</td>
<td>80 min</td>
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*Distribution of case 2-3 days before the class.

ANALYSIS

1. How did M&S emerge as an iconic British retail brand?

M&S rose from humble beginnings to become a global brand. For decades, the retailer was a high-street favorite selling food and clothing at sensible prices to the middle-aged and the middle class.

M&S emerged as the UK’s leading retailer due to the following reasons:

- ‘No frills’ strategy. The penny bazaars were a huge success, because they focused on a price-sensitive segment of the market.
- The company offered quality and value foods, clothing, and home products. M&S focused on selling high-value, premium products to customers across the UK. This factor helped the company to hold on to its position in the market, in spite of a tough trading environment.
- M&S understood what its customers wanted and so offered good value for the prices it charged rather than focusing only on price.
- M&S customers could not necessarily afford to buy better quality goods and the company based its business on a high volume, low profit turnover. By having a strategy that matched demand, the retailer was able to gain a competitive advantage over its rivals.
- M&S was one of the first stores to test the concept of “self-service” shopping in the 1940s.
- It offered a friendly, helpful service and great comfort and convenience to customers.
The retailer did not diversify greatly and concentrated on its core values, competencies, and principles. It was extremely successful in providing generic essential products without trying to match what other retailers were offering.

By continuing to increase the number of its shops, M&S was able to build barriers against competition through geographical strongholds. For instance, the purchase of 19 Littlewoods department stores at prime locations proved that this was one of the strategies employed by the company.

It pioneered many innovative practices in storing food.

M&S was also an innovator in its own-label fashion back in the 1950s.

It had a growing international presence with stores across France, Belgium, and other parts of Continental Europe.

M&S made sure that its logos changed with the times and introduced concepts like the “Simply Food” campaign.

M&S showed how significant it was to adapt to the needs of the customers in an unstable industry like retailing, with the introduction of its new products and labels. The emphasis of the brand positioning has remained steady across decades.

One of the features that made M&S unique was the fact that it had continued to stick to its brand positioning strategy as a nostalgic brand catering to middle-aged people.

M&S was firm in sustaining its premium pricing even in tough times in the market, when other competitors brought down their prices.

M&S focused on bringing quality to its consumers. It projected the image to its customers that it was a company worth paying more for.

M&S came up with unique promotional strategies to target a broader consumer base. According to experts, M&S was able to listen to the needs and preferences of its customers.

The launch of the ‘per una’ brand for fashion conscious women clicked and it performed strongly for M&S.

The food stores maintained superior quality and health conscious UK customers preferred M&S, which helped the company to offset the additional costs incurred on (?) the clothing division.

The use of celebrity endorsements to promote the M&S brand played a crucial role in establishing the brand image of M&S for many years.

M&S recognized customer requirements. It offered value for money goods and quality service.

M&S showcased British craftsmanship and customer loyalty.

This position was accomplished through a specific practice of retailing and acting as a ‘rule breaker’, by breaking the usual ‘way to do business’ norms.

M&S’s unconventional ways of conducting business played a major role in distinguishing it from the rest of the British retailers.

M&S continued with its ‘buy British’ policy even though its competitors sourced their products from cheaper manufacturing centers abroad.

M&S always did well during recession times because people went back to it as it offered good quality and value. The retailer simplified its products and made them cheaper.

The company could assure the same level of quality for goods throughout all its stores.

Efficient supply chain activities and an appropriate store inventory system helped M&S to sustain its position in the market though there were some hiccups in the supply chain.
2. Discuss the problems faced by M&S?

Organizational crisis and failure

Organizational crisis and failure can be defined as a series of events and conditions that could lead to severe drop in market share (Starbuck, Greve and Hedberg, 1978). Symptoms include declining demand, sharp declines in sales, and reduced or negative profitability (D’Aveni, 1989a; Hambrick and D’Aveni, 1988).

The causes of organizational failure have been examined from two different perspectives:

The industrial organization (IO) perspective: It locates the causes in the external environment and indicates that the company is the victim of external circumstances, and that failure does not imply management ineffectiveness or inefficiency. IO literature suggests a range of primary causes of crises and decline such as a turbulent demand structure due to brand switching, changes in consumer tastes, and strategic competition.

- Organizational studies (OS) literature places more emphasis on internal factors associated with failure (Cameron et al., 1988). According to OS literature, failure is a result of management’s lack of vision and its lack of will and ability to respond effectively and make the necessary adjustments to reverse the downward spiral of decline triggered by external factors.

Both IO and OS orientations have to be integrated to analyze the causes of failure in an organization. It is suggested that it is a combination of internal and external factors that is responsible for failure.

Marks & Spencer (M&S) was one of the world’s great retailers and enjoyed legendary and iconic status. Its fall from grace was dramatic and the company has lately been fighting for its life. The company has been publicly facing a survival crisis since 1998. While external factors in the various trading environments have affected its business, there are internal aspects of the crisis as well which exacerbated the situation and the problems at M&S (See TN-Exhibit I).

<table>
<thead>
<tr>
<th>TN-Exhibit I</th>
<th>External factors</th>
<th>Internal factors</th>
</tr>
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<tbody>
<tr>
<td>M&amp;S started to lose its glow with the advent of e-commerce.</td>
<td>M&amp;S lacked focus in its products. It tried to cater to many types of women through its many varieties, and was not able to do justice to any of them.</td>
<td></td>
</tr>
<tr>
<td>M&amp;S was hit by the trend of consumers spending their money on entertainment rather than shopping.</td>
<td>It alienated core customers. M&amp;S was criticized for trying to appeal to younger shoppers at the cost of its core customers.</td>
<td></td>
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<tr>
<td>It faced growing competition from brands like Tesco, Asda, Next, Wal-Mart, and other small players in the food and home category.</td>
<td>M&amp;S maintained premium pricing even during recession.</td>
<td></td>
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<tr>
<td>Discounters and budget chains took away market share from M&amp;S at the lower end of market. Brands like Zara and H&amp;M took a portion out of the middle end of the market, while John Lewis did better than M&amp;S at the higher end.</td>
<td>M&amp;S was facing difficulty in restocking supplies quickly before shopper interest diminished.</td>
<td></td>
</tr>
<tr>
<td>M&amp;S in the Middle East, Russia, and Ukraine also underwent a major drop in profits due to political uncertainty, currency fluctuations, and diminished consumer demand.</td>
<td>It was branded as a favorite of old people by new generation customers.</td>
<td></td>
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<tr>
<td>The previous management teams had not moved fast enough in a cutthroat retail market.</td>
<td>There was a leadership crisis. Frequent changes in management positions were leading to chaos in operations.</td>
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</table>
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<table>
<thead>
<tr>
<th>External factors</th>
<th>Internal factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Euro currency pressures had a big influence on profitability as M&amp;S absorbed the higher costs rather than pass them on to customers.</td>
<td></td>
</tr>
<tr>
<td>• The Brexit referendum also had an effect on it. British households began cutting back as the Brexit effect on the pound raised living costs.</td>
<td></td>
</tr>
<tr>
<td>• There was serial financial underperformance under successive management teams.</td>
<td></td>
</tr>
<tr>
<td>• While competitors adopted a strategy of discounted pricing, M&amp;S put emphasis on premium pricing and greater consumer satisfaction.</td>
<td></td>
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<tr>
<td>• There was heavy spending on promotional activities.</td>
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</tbody>
</table>

Compiled from various sources

3. Critically analyze M&S’s turnaround strategy?

Turnaround means to transform or change a loss-making company into a profit-making company. It involves the execution of strategies to make the company profitable again. Turnaround is a reformation strategy. It involves systematic efforts to reduce loss. It helps the sick company rise once again in the market.

According to Peter McKiernan, the practice of corporate turnaround involves six stages (See TN- Exhibit II):

- Causes stage
- Triggers stage
- Diagnosis stage
- Retrenchment stage
- Recovery stage
- Renewal stage

TN-Exhibit II

The Six Stage Turnaround Model

Adapted from: http://article.sciencepublishinggroup.com/html/10.11648.j.ijafrm.20160101.11.html
Causes stage: A company must identify the reason for a decline in sales. There are two types of reasons – primary and secondary. Primary causes are more important and related to organizational problems. Secondary causes are outward problems which affect the performance of the company. M&S suffered from primary as well as secondary causes.

Trigger stage: Something must happen to trigger a change. Managers tend to assume that the decline is cyclical in its early stage. But they need to seriously analyze the situation. Marks & Spencer’s vital clothing business suffered a setback after a fall in sales. It reported its seventh consecutive quarterly fall in clothing sales in April 2013. The company realized that it had been slowly losing customers.

Diagnostic stage: Firms have to diagnose the connection between symptoms and the real reasons. These connections must be analyzed carefully, especially when the company is in trouble. M&S wanted to find the links between its declining sales figures and the reasons for it.

Retrenchment stage: Retrenchment is an early response for firms which are in a crisis. These firms try to improve their financial condition by reducing expenses, cutting costs, selling assets, reducing debt, etc. Rowe started to revamp M&S by taking certain key steps as part of his five-year turnaround plan.

- In Britain, M&S planned to close 30 “full-line” stores (those selling clothes, food, and homeware) and convert a further 45 into food-only outlets.
- It planned to axe some fashion brands that had not performed well including Per Una, Autograph, Indigo, and Classic.
- Rowe reformed the structure within its clothing & home business, merging the womenswear, lingerie, and beauty business units and reducing the prices of 300 core products in clothing and the housing division.
- Rowe started revamping the board and key positions in management immediately after taking the helm at M&S. For instance, Patrick Bousquet-Chavanne was removed from M&S’s international business and was replaced by Paul Friston.
- Rowe found that too many promotions were confusing customers and decided to cut down on the investments on promotions.
- M&S focused on reducing the number of overall clothing options by 10% after shoppers complained its range had become cumbersome and puzzling.

Recovery stage: The Recovery stage is the stage after a company achieves successful retrenchment. After Rowe took the helm at M&S, there was progress in M&S’s performance, as reviewed by analysts. Rowe refocused M&S’s clothing line on practical, wearable fashion with sharper price points, discontinued underperforming lines, and stopped discounting. Rowe also slowed down the opening of new food stores, closed international ones, and simplified food prices.

- The overall group revenue increased 2.7% to £2.53 billion and international sales grew by 5.8% to £184.8 million by July 2017.
- M&S recorded a jump in pre-tax profits from £25.1 million to £118.3 million in the six months to September 30, 2017. It posted a 2.6% lift in group sales to £5.1 billion, helped by new store openings.
- Rowe hired more staff on the shop floor to better serve the loyal group of shoppers for M&S who were called ‘Mrs M&S’. He spent £20 million extra in hiring extra staff to improve customer service. This loyal group comprised women aged fifty plus who had been ignored in M&S stores as the showroom staff used to attend only younger shoppers.
- M&S distinguished itself with high-quality food and at the same time had the reputation of being a top food retailer. But while serving almost 100% own label food could be a plus, it could also be a weakness as some customers might prefer some global brands. So, Rowe suggested they start selling branded premium food which they did not produce.
Renewal stage: Renewal is the conclusion of turnaround. Though the turnaround of M&S was still underway, some problems still persisted.

4. What possible challenges could Rowe and Norman face going forward and how can they be tackled?

Rowe and Norman could face certain challenges going forward. These include:

- Slashing prices could make a big difference and will have a profound effect on profit in the short term.
- M&S could lose some of its sheen with investors in the process as improving its clothing and home range will hit profits in the short term.
- It could face intense competition
- Maintaining timely inventory to satisfy demand from shoppers.
- It could face challenges in winning back UK customers
- Value for money was the key to M&S’s older clothes-buying customer base. M&S should improve the quality of its classic staple lines and continue to make progress with the fashion.

SWOT Analysis of M&S:

TN Exhibit III:
M&S SWOT Analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>International expansion via franchise agreements giving it a strong competitive advantage.</td>
<td>Too much reliance on UK markets makes it vulnerable.</td>
</tr>
<tr>
<td>Iconic brand image.</td>
<td>Has been a latecomer into the digital user-centered retail space.</td>
</tr>
<tr>
<td>Maintaining investments in innovations and brand-building advertising throughout the recessions.</td>
<td>Highly priced products compared to competitors’ products.</td>
</tr>
<tr>
<td>Loyal middle-aged customer base.</td>
<td>Branded as old people’s favorite by new generation customers.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>The UK food and grocery market is forecast to grow by 15% between 2017 and 2022.</td>
<td>Macroeconomic factors and a weakening euro are considered to be a challenge.</td>
</tr>
<tr>
<td>Increasing number of health conscious consumers, which will boost the food division.</td>
<td>Unstable political and economic conditions in international franchise markets.</td>
</tr>
<tr>
<td>Clothing is forecast to outperform total retail growth between 2017 and 2022, as the third fastest growing sector after health &amp; beauty and food &amp; grocery.</td>
<td>The economic uncertainty prior to and after the Brexit referendum.</td>
</tr>
<tr>
<td>Clothing will remain robust with growth of 16.6% expected by 2022.</td>
<td>Cut-throat competition.</td>
</tr>
<tr>
<td>Consumers’ interest in fashion trends will drive growth.</td>
<td>Changing fashion trends.</td>
</tr>
</tbody>
</table>

Compiled from various sources
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They can consider following tactics to mitigate the challenges:

- Follow a decentralized approach to management to ease the complexity in operations.
- Change the food offerings to suit local preferences.
- Sell both own labelled and branded items to drive more sales.
- Cut and design the store space to suit different demographics.
- Maintain a consistent store layout to facilitate easy navigation and convenience for customers.
- Review the pricing policy to attract different ranges of customers.
- Introduce innovations in the operation process to have a more efficient supply and value chain.
- Introduce new and innovative products to catch the changing trends.
- Get timely feedback from customers, employees, shareholders, and suppliers to make timely changes in business strategy.
- Keep track of other retailers’ competitive strategies.
- Beef up its international business specially focusing on emerging retail markets such as India, China, Brazil, and Russia.
- Close down unprofitable international stores.
- Rather than slash prices, concentrate on improving quality, and persistently try to improve other areas, such as strategic fit, so that customers feel they are receiving value for money.
- Warehousing and IT need to be faster and incur low cost to operate.
- Achieve cost reductions and financial discipline in key areas like production and operations.
- Clothing should have a combination of fashion, style, and quality.
- M&S has to be absolutely in tune with its customers and find out what they want, and focus on that.
- M&S needs to find out what it does best and concentrate on that rather than trying to cater to everyone’s tastes.
- M&S needs to find out the gaps in its coverage and improve the quality of its classic principal lines and continue to make improvements with the fashion.
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Suggested Readings:


References:

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