Case Study: Marks & Spencer

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Annus horribilis - 1999

Drop in
- sales
- profit
- share price

What happened in 1999
- Reversal of company fortunes
- Flat sales
- Price reductions
- Cyclical downturn
- Overseas economic turmoil
- Adverse conditions in the Far East
- Strength of the pound sterling
- Difficulties in supply chain sourcing

What went wrong...?
What went wrong?

"the answer is simple ... We have not kept pace with the tremendous changes taking place in the retail market"

Salesbury, 1999

1st Question

Economical macroenvironment

- strong pound sterling – cheaper sourcing from overseas
- currency problems (Thailand, Malaysia and Indonesia)
- overall decline of department stores in UK

Social/Cultural macroenvironment

- aging UK population with high disposable income – empty nesters
- Increase in traditional older shoppers
- dressing down on fridays
- more aspirational shopping (clothing & furnishing)

Political/Legal macroenvironment

- overseas turmoil
- adverse trading conditions in the far east (recession)
- planning constraints on out-of-town shopping projects (greenfield vs brownfield)

Technological macroenvironment

- shopping over the Internet
- high cost of IT investment

Physical/Ecological macroenvironment

- restricted/discouraged parking in city centres to protect environment and reduce pollution
**Customers - Microenvironment**

- increase in traditional older shoppers
- busier life styles results in buy “on the go”
- demand for category breadth and modern outerwear
- brand perception problems (M&S) for younger age group
- expectations (flair, cut, etc.) of older female age group not met
- acceptance of discounters

**Suppliers - Microenvironment**

- high cost UK-based suppliers/manufactures
- out of stock problems with better selling products
- product design doesn’t meet customer expectations

**Competitors - Microenvironment**

- brand labels – aspiration purchasing – for younger consumer like Paul Smith, Hugo Boss
- specialist, trend and niche competition – segmentation; e.g. Benetton
- successful mail order operation by Lands End, Cotton Traders, etc.
- low-cost financial services by Virgin, Legal & General
- strengthening of mainstream competitors in food (”designer boutiqued”) and clothing (discounters to niche operators)
Company

- satisfy all customers in one store (sufficient segmentation?)
- out of stock problems with better selling products
- non-performance of home delivery/shopping
- restricted payment prospects (no credit cards)
- offering poor value lingerie in terms of wear, wash, care (former pre-eminent)
- high prices for food
- difficulty of stretching St Michael brand
- difficulties of product design and delivery (SC)

2nd Question

Summarize results in a SWOT chart
**Strengths - SWOT**

- Marks & Spencer well-known and trusted company/brand
- excellent reputation for underwear and food
- presence in high streets
- increase in traditional older shoppers
- experience in running other brands e.g. Brooks Brothers
- discussion about chairman successor

**Weaknesses - SWOT**

- high cost of IT investment
- brand perception problems (M&S) for younger age group
- outer wear expectations of older female age group not met
- high cost of UK-based suppliers
- lack of efficient segmentation – one store for all target customers
- distribution/stock system (sold out articles, home shopping service)
- limited means of payment possibilities (no credit cards)
- offering poor value lingerie (risking market pre-eminent position)
- difficulty of stretching St Michael brand
- problems in product design and delivery
- high prices for food
- unfavourable located M&S stores in city centres (parking, etc)
- unsuccessful overseas operations in USA and Europe
Opportunities - SWOT

• cheaper sourcing from overseas (strong pound sterling)
• aging UK population with high income (empty nesters)
• dressing down on Fridays
• demand for category breadth and modern outerwear
• busier lifestyles – shopping “on the go”
• aspirational shopping in clothing and home furnishing

Threats - SWOT

• overall decline of department stores in the UK
• overseas turmoil – riots and currency – in Thailand, Malaysia and Indonesia
• recession in the far east
• planning constraints greenfield vs brownfield
• shopping over the Internet
• acceptance of discounters
• brand labels (Hugo Boss, Paul Smith) for aspiration purchasing for younger consumer
• specialist, trend and niche competitors e.g. Benetton
• mail order operations e.g. Lands End, Cotton Trade
• low cost financial services by Virgin, Legal & General
• mainstream competitors in food (“designer boutiqued food”) and clothing (discounters to niche operators)
Summary - SWOT

- M&S didn’t react to changes in customer trends
- investments in the ailing distribution and SCM weren’t realized
- opportunities (internet shopping, credit cards) were not used
- the competitive advantage “serving the mass market with innovative, high-quality goods at competitive prices” didn’t comply with reality (poor value, lack in style, cut, etc)
- lack of efficient target customer segmentation

Summary – SWOT (1) cont.

- change to more overseas supply
- focus on homemarket (unsuccessful overseas operations)
- market segmentation
- change management board because of a ignorance and retrenchment strategy; implement mayor adoption with new management
- investment in distribution and information system

Overall objective has to be
Consolidate hazardous situation by focusing on core competences and investing to erase mayor lacks (distribution, segmentation, focus on homemarket) – Obey to company vision!
3rd Question

Relate M&S strategic responses to the SWOT chart, identifying conversion and matching strategies

Strategic responses (1) cont.

Essential responses: SCM, stores, payment, IT, communication

- difficulties in the supply chain management
- limited ways of payment
- unstructured stores
- IT technologies, shopping over Internet; Not working home delivery service
- communicate segmentation/differentiation

- investment in distribution systems
- introduction of credit card payment
- revamps to improve store ambience
- investment in IT infrastructure; stop mail order and M&S direct
- extensive use of advertising features (aspirational, older traditional female, straight men, pink pound)
### Strategic responses (2) cont.

#### Weakness to strength conversion: market, brand

- weakness of further distancing from customers and market
- discussion about chairman successor
- unsuccessful in European and American market, recession in far east and turmoil
- growth in core market; the traditional shopper
- problems of stretching the St. Michaels brand
- well-known and trusted company/brand

- replacement of chairman and chief executive
- replacement of the entire board
- focus on core “home” market in the UK in the area of clothing and foods by closing outlets in Europe and USA
- dropping the St. Michaels brand and replacing by Marks & Spencer

### Strategic responses (3) cont.

#### Threats to opportunities conversion: sourcing, market

- negative effect of strong pound sterling and expensive UK suppliers
- strong pound sterling favourable for sourcing from overseas
- threat of further high target customer differentiation by competitors
- growth potential in aspirational shopping in clothing and home furnishing

- starting to source from abroad
- commissioning of professionals to foster customer differentiation like old fashion-conscious women, middle income 35-plus, menswear and childrenswear, designer labels (e.g. for youth)
### Strategic responses (4) cont.

#### Matching: food, clothing, board

<table>
<thead>
<tr>
<th>Action 1</th>
<th>Action 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>• excellent reputation for food and underwear</td>
<td>• opening of smaller food and clothing stores on high streets and at railway stations</td>
</tr>
<tr>
<td>• busier lifestyles – shopping “on the go”</td>
<td></td>
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<tr>
<td>• traditional older shoppers in the UK – empty nesters</td>
<td>• setting up of M&amp;S homeware to be run by Vittorio Radice</td>
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<tr>
<td>• aging UK population with high income</td>
<td></td>
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<tr>
<td>• discussion about chairman successor</td>
<td>• replacement of chairman and chief executive</td>
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<tr>
<td>• changes in shopping behaviour modern, trendy cloths (aspirational buying, etc)</td>
<td>• target customer segmentation</td>
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</tbody>
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### Conclusion

- In the years before 1999 M&S was distancing itself from the macro- and microenvironment by ignoring market signals and applying retrenchment tactics.
- A company run efficiently but not effective will in long term not survive. This is what M&S recognised after the shock in 1999.
- The first actions starting from 1999 were mainly of consolidating character (focusing on core business, dismissing dogs, etc.)
- Marks & Spencer now has recovered well from the crises and the misbehaviour in and before 1999.
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