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Tough Decisions at Marks and Spencer

Time was a scarce commodity in the City of London and Richard Gillies, Director of Plan A, Corporate Social Responsibility & Sustainable Business at Marks and Spencer, knew this well. On his way to work every morning, Gillies visited a Marks and Spencer store, which was nearby his house, to pick up a BLT sandwich for breakfast. Like Gillies, many other Londoners had the same habit; they would quickly enter a Marks and Spencer store, pick up a food item from the chilled food section, and quickly exit the store in order to get to work on time.

History of Marks and Spencer

Marks and Spencer (M&S) was founded by Michael Marks and Thomas Spencer in 1884. The company went public in the 1920s, and in 1928 established the private label brand St. Michael, which came to represent the company's focus on quality and value. By 1931, M&S had established food departments in all of its stores, in part due to the success of this brand. By 1950, virtually all goods sold at M&S were under the St. Michael brand (in 2000, the name St. Michael was dropped and products were labeled as Marks and Spencer). By the 1970s, M&S had firmly established itself as a British institution, with locations in every major town in the U.K., with 99% of their products branded explicitly as M&S goods.ⁱ As Gillies put it, "We are always focused on building, enhancing, and sustaining our brand – it is our core asset."ⁱⁱ

Marks & Spencer was an iconic British retailer and household name. The company had over 700 stores in the United Kingdom, as well as 300 additional stores located in over 40 countries, and prided itself on offering high quality clothing, home products, and groceries at premium prices. Over 21 million individuals visited M&S stores each week. M&S was the leading provider of women's clothing and lingerie in the UK. In 2011, clothing and housewares accounted for 49% of their sales, with the remaining 51% in food, which included produce, groceries, and prepared meals.

The company's competition included grocery stores such as Asda, Tesco, The Co-operative Group, Safeway, Sainsbury's, and Morrison's, as well as larger department stores such as House of Fraser and Selfridges. An executive in the food division described M&S as "not exactly a supermarket, like Tesco, which would run everything from 30,000 to 40,000 food product lines on average. We run a maximum of about 7,500." He also noted that "Our business model is that of a brand that doesn't own factories. We behave like a brand house, but one that has stores."ⁱⁱⁱ

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Attempts to expand the company in the 1980s were not successful. In 1988, M&S acquired American retailers Brooks Brothers and Kings Supermarket, but neither acquisition was ultimately successful and both were sold off in the mid-2000s. At the same time, the company found itself struggling to compete with suppliers sourcing low-cost goods offshore. Historically, M&S had relied primarily on U.K.-based clothing suppliers, a point of pride that ultimately proved difficult in the face of their competition relying on cheaper, foreign suppliers.^{iv}

M&S recovered by 1994 thanks to drastic cost reductions, improving operating efficiency, geographical expansion, and the establishment of an international franchise program. The company's profits peaked in 1998 with revenues of £8.2 billion and an operating profit of £1.1 billion, but profits soon declined once again due to the continuing difficulty of using primarily British suppliers, and the eroding loyalty of customers who were torn between fidelity to the British-based company and the appeal of lower prices (See **Exhibits 1** and **2** for financial performance). The company's financial downfall was severe; its share price fell by more than two thirds, and its operating profit plummeted to £145 million, with revenues of £8 billion in the financial year 2000/2001.

During the early 2000s, following the financial downfall, Marks and Spencer underwent changes in management that received a great deal of attention in the British press. In 2004, chairman Luc Vandevelde resigned and the board recruited Stuart Rose, who had experience as chief executive for other well-established British retailers such as Argos, Arcadia Group (which included the TopShop and Principles Stores), and Booker plc. Rose was a former business associate of the owner of Arcadia, Philip Green, who had attempted to takeover Marks and Spencer in 2004 with a hostile bid. After a long battle between Green and the shareholders, M&S brought on Rose, regarded as one of the UK's top retail executives, as CEO to bring renewed "credibility to the management team," which resulted in the market viewing the company's price tag "at least by £1bn."^v Green was livid, and pulled out of the deal eventually, with M&S viewing Rose largely as their savior against the takeover attempt by a corporate raider.^{vi} After assuming the role of Chairman of the Board in 2008, Rose decided to step down as CEO in May 2010, and Marc Bolland, former CEO of M&S competitor Morrisons, was appointed as the new CEO. Rose remained as the chairman of the board until January 2011. Bolland then hired Alan Stewart in 2010 as the new Chief Financial Officer, who had previously worked at an aircraft leasing business.

The many changes in leadership brought fresh perspectives to the company, but the management team's lack of a long history of involvement in the company was an abrupt departure from the norm where historically all senior management positions had been filled through internal promotions. Stewart noted that this "was unusual for a company that historically prided itself on being a very long-serving organization," and that "Marc came in as part of the succession which, from a public perspective, became quite sensitive. There were a lot of ears around governance within the company at the time." However, Stewart also declared that "Rose had become the savior of the company, and the retail base rallied around and said we're not going to sell to Philip Green. He's a raider. And structurally that made Philip's takeover bid impossible to finance, because there was never a way he could get sufficient control of the company."^{vii}

Rose renewed the historical emphasis on value for money products, exceptional customer service, and a friendly store environment. Store locations were renovated in 2005 and 2006 to achieve a more modern, trendy look, and marketing and advertising were increased. The marketing campaign, "Look Behind the Label," highlighted ethical and environmental aspects of the company's sources and production methods, such as Fairtrade products, sustainable fishing, and environmentally-friendly dyes.

Despite these innovations, the company experienced another decline in stock price in 2008 due to the financial crisis (See **Exhibit 3**). While sales remained flat at roughly £9 billion from 2007 to 2008, net income stagnated to £508 million in 2008, from £821 million in 2007. These costs were largely attributed to a corporate restructuring, which required lease and other substantial write-offs, and increased financing costs.

Plan A

In January 2007, before the global financial crisis, Rose built on the success of “Look Behind the Label” and launched the company’s five-year eco-ethical plan, with the goal of increasing the company’s environmental sustainability. According to Rose, the initiative was named “Plan A,” since “There is no Plan B for our one Planet.” Based on the five essential pillars of climate change, waste, sustainable materials, fair partnership, and health, the plan sought to transform the company’s practices. By 2012, the program’s aim was to ensure that M&S was carbon neutral and sent no waste to landfill. It also aimed to help its customers and employees achieve a healthier lifestyle, and to improve the lives of all involved in the company’s supply chain with fair wages, as well as improved working hours and conditions. Clair Foster, Head of Employee Communications and Group Planning, described how this plan revived the company in the face of the trauma brought on by the turmoil of an attempted takeover and changes in management. “After this period of instability, we found a new plan and new direction.”^{viii}

As Rose publicly commented, “If you believe that all of us are going to have to espouse this green issue—whether it is climate, waste, or whatever else—then there is no alternative.”^{ix} The rationale for this initiative was four fold: 1) brand enhancement and protection, 2) operational efficiency, 3) increased staff motivation, and 4) driving innovation and future proofing the business (improving the business ability to adapt to anticipated rises in energy prices, water and resource scarcity, more stringent regulations etc). Accordingly, as part of Plan A, M&S increased its commitment to sustainable farming, organic food, and the phasing out of pesticides. **Exhibit 4** highlights several initiatives from Plan A and the business case behind each one.

In addition to its goal of making all U.K., and Republic of Ireland operations carbon neutral, the company hoped to reduce the amount of energy used in its stores by 25% per square foot of floor space, as well as achieve a 20% improvement in fuel efficiency and energy in its warehouses and offices. As of 2008, the company had three wind turbines generating enough power to supply three stores, and in 2009 M&S began purchasing 2.6 TWh¹ of renewable energy from Npower, enough to power all of its stores and offices in England and Wales by September 2012.^x

When Plan A launched in 2007, the company believed it would cost £200m over five years. By 2009/2010, Plan A had generated net benefits of £50m and in 2010/2011 this was up to £70m, which was re-invested directly into the business. In an effort to push broad adoption throughout the organization, Executive Directors at M&S all had one Plan A objective as a part of their variable bonus, while business unit and store managers had “balanced scorecards” to help provide specific sustainability targets they were required to achieve. In addition to its broader ambitions, Plan A involved several more specific initiatives, some of which directly engaged customers and employees.

For example, after a series of trials, in May 2008 M&S introduced a 5p carrier bag charge in the food sections of all UK stores, including Northern Ireland. This initiative was initially met with some

¹ TWh = terawatt-hours; One terawatt-hour equals 114 megawatts over one year.

resistance; customers grumbled about the carrier bag inconvenience since many didn't realize the positive effects, such as that the carrier bag consumption dropped about 50% and that profits from sales of the bags had been donated to environmental charities to fund local parks, gardens, play areas, and marine conservation. At the AGM meeting that year, three questions were focused on the carrier bag initiative, which left most of senior management divided on this initiative, which caused increased scrutiny and friction amongst the stakeholders involved with Plan A.

Realizing they needed to get the support of both customers and the organization, M&S's Plan A team adjusted the training of employees to help them become champions of the initiative, with a key focus on explaining the benefits to customers. Additionally, the company also undertook customer research, at the request of Rose, which highlighted that the loyal customers who contributed to 80% of sales were supportive of the initiative, while some of the vocal critics were occasional shoppers. As these changes were better communicated, acceptance of the initiative increased. One way in which M&S increased the acceptance of this campaign was its partnership with the *Daily Mail*, a popular right-wing tabloid. When the company announced that it would be charging for plastic bags, it gave the story as an exclusive to this publication, emphasizing to its customers that they had the support of a prominent and conservative newspaper. The combination of a modest charge, transparent use of profits for community benefit, and provision of affordable alternatives was successful in reducing single-use food carrier bags by 80%.

Also in 2008, Marks and Spencer launched "Clothing Exchange with Oxfam," a program which encouraged customers to bring their unwanted M&S clothing to Oxfam stores, for a discount on their next purchase at M&S. Krishan Hundal, the head of Sourcing and Technology for all non-food items, described the immense success of this initiative: "It was one of those iconic, engaging, emotional connections with customers—a pretty special scheme."^{xi}

While Plan A originally intended to change 100 aspects of its operations within five years, it eventually extended its goal to 180 commitments (**Exhibit 4**) to be achieved by 2015, "with the ultimate goal of becoming the world's most sustainable major retailer."^{xii} Adam Elman, Head of Delivery for Plan A and Sustainable Business, argued that Plan A was "so popular that we received an overwhelming response internally of ideas and concepts that needed to be tested, prompting us to extend the number of commitments past our initial estimates."^{xiii}

This holistic and inclusive customer-focus became a central emphasis of Plan A in 2009. As stated in the plan, the company recognized that "...if we are serious about becoming the world's most sustainable major retailer, we must take a holistic approach to sustainability, focusing on involving our customers in Plan A, making Plan A how we do business, and extending our existing social and environmental commitments."^{xiv} Gillies commented, "Up until 2009 many of our targets were internally focused, but now we are looking for wider application—we need to engage customers in a holistic way." Elman continued, "We currently have 10,000 factories and 20,000 farms in our supply chain. To truly influence a group of this size is a massive task—a tragedy of the commons. If we are going to be successful we have to have our customers informed and active in the process."

Time Frames

One major debate around the Plan A initiative was alignment between its long-term vision, and the timeframe of capital budgeting. The benefits of many sustainability initiatives were often not apparent for 15-20 years, yet required significant upfront investments in terms of money, human capital, and organizational focus.

Aron Cramer, the President and CEO of Business for Social Responsibility (BSR), a non-profit organization which had worked with M&S to develop sustainable business strategies, recognized the potential disconnect between Plan A and the shorter payback period of the typical capital budgeting process. Cramer argued that “The misalignment of time horizons is at the core of almost every dilemma that companies are thinking about, and M&S has managed to successfully transcend this disconnect by putting Plan A into action.”

Additionally, he praised M&S’s efforts, describing it as one of the first companies to set ambitious goals for themselves very publicly, often pushing the envelope in the process of doing so. He believed that “The objectives are valuable not only in themselves, but also as an example that has catalyzed other companies to act. The act of setting these goals should not be underestimated.”^{xv}

One source of tension in time frames existed with investments to improve the environmental performance of existing stores. An executive in new store development and construction at M&S lamented that the current payback model was focused on returns over a period of five or seven years, stating that, “It’s a very primitive and simple accounting mechanism. What we’re saying is we are really not interested in 15 to 20 years. We are interested in today and tomorrow. The finance people need to realize there are other systems and methods for evaluating the benefits of truly long-term investments.”

He used the addition of LED lighting² to the stores as an example. “If we spend more capital for LED lighting in order to reduce energy consumption, the benefits aren’t always understood or realized because most financial directors actually assess capital spent today and aren’t worried about revenues tomorrow.”^{xvi} Gillies noted that “securing capital for pilot testing is important but one must be very careful to not capriciously extend the required payback periods on investments. Doing so would risk suboptimal results.” Achieving this balance between present investment, eventual returns, and satisfying shareholders was a constant struggle.

Fortunately for M&S, which was covered by 39 analysts and provided regular guidance for its annual financial results, several of its long-time shareholders (42.78% were institutions, 57.14% were individuals and public, and 0.08% were insiders)^{xvii} were not the typical short-term investors that put pressure on public companies to make decisions that delivered short-term performance. For example, one of M&S’s largest institutional investors embraced the long-term approach, with the portfolio manager commenting that, “[the fund’s] clear message to management is that we are interested in the returns that we get over a 10-year period and are indifferent to things like quarterly earnings and short-term share price fluctuation. We see the role of the shareholder in terms of engaging with the companies in which we are invested, in helping them evolve their long-term strategies.”^{xviii}

Stewart pointed out that M&S had an unusual shareholder base. He noted that while the company attracted a number of index funds, “on the active side we are probably more attractive to value investors and predominantly our register is—and has been for a number of years—value-based investors. We are very unusual amongst large U.K. companies in that a large percentage of our shares are held by retail investors.” Stewart described these investors as “very loyal, long-term investors. We’ve had a bit of trading amongst them, but the core has held.”^{xix} Indeed, many of these investors were regular, long-time customers of M&S stores and frequently commented on specific initiatives and activities throughout the store-base.

² Light-emitting diode – a semiconductor light source that M&S argues is more environmentally friendly alternative to other forms of lighting

Outside of these examples, Stewart stated that investors and analysts had expressed limited interest in Plan A. Marks and Spencer provided regular earnings guidance for its annual financial results and was followed by 39 sell-side analysts, as of 2011. He admitted that, "I can only think of a handful of questions I've been asked by investors on Plan A. It is always at a very low level. Sometimes, part of the investor base has a different component of their organization which might have a governance and ethics remit, and they would ask our investor relations about Plan A from an ethics perspective. But honestly, there seems to be little feedback between this branch and the direct investment branch."

Sustainable Sourcing

M&S actively worked with food suppliers to ensure that all factories had an environmental action plan, so that by 2015 25% of M&S food (by turnover) would be produced by factories that had improved energy efficiency by at least 20%, as well as improved water usage and resource management. To systematically drive this, M&S worked with suppliers to develop a Food Supplier Sustainability Framework which rated performance on environmental, ethical, and lean manufacturing standards. This was then incorporated into a balanced scorecard which served as the basis for supplier performance assessment.

M&S decided to pilot and test the initiatives with a small number of suppliers and then "let it sell itself through the rest of the supply chain by letting the benefits speak for themselves," Elman commented. In addition to the frameworks, Elman noted that "We are committed to provide financial and consulting support when necessary to help our suppliers achieve sustainable practices, while focusing on continuous productivity improvements in the process." Carmel McQuaid, Climate Change Manager, continued, "Financing and the time consuming nature of many projects were key pain points for suppliers, so this focus really helped get the project up and running successfully."

Plan A also promised the establishment of green factories, an initiative that was particularly well-received by one of the company's suppliers, MAS Holdings (MAS). MAS, Southeast Asia's largest apparel manufacturer for companies like Nike and Victoria's Secret, produced lingerie for Marks and Spencer. M&S invited MAS Holdings to design such a model green factory, which became known as MAS Intimates Thurulie, and was completed in 2008 in Thulhiriya, Sri Lanka. All items produced at the factory were sold wholesale to Marks and Spencer. The building cost \$2.6 million, and Marks and Spencer financed \$400,000. By focusing on pilot factories, M&S was able to test different technologies and evaluate the business case. As a result of learnings from the green factories, M&S identified three actions that delivered a payback in less than 18 months – lighting, heating controls and insulation. As a result, there was a requirement for the top 100 factories to implement these practices which delivered a 10% reduction in energy improving lighting efficiency, insulation, and better management of heating controls.

Dian Gomes, a director at MAS Holdings, admitted that "We had to explain to the board why we needed to have such an expensive endeavor. We had to explain the sustainability philosophy." However, he believed that it was worth the investment for both MAS and M&S. He stated that, "The internal branding in the country is going towards green and Thurulie set the platform in Sri Lanka towards building more green factories."^{xx} MAS was therefore eager to participate in the trend toward greater sustainability.

However, Gomes emphasized that going green couldn't involve any compromise in terms of the product, citing the factory's manufacturing of the first carbon-neutral bra, which was sold at M&S for

the same price as other bras. As he put it, “The price can’t change, and the value needs to be more abstract. It’s about brand, rather than price.”

A pamphlet put out by MAS describing its new factory reflected a great deal of pride, stating that “As a model building under Marks & Spencer’s eco-initiative Plan A, the project sets an example for the company, the apparel industry, and other industries. As the flagship factory of MAS Holdings, the building is a globally publicized icon that symbolizes the company’s commitment to sustainable development.”^{xxi}

Employee and Customer Communication

M&S had greater success communicating and engaging Plan A amongst their employees than their customers. Stewart believed that “Plan A has been exceptionally well-communicated internally and has resonated well with the work force. It has been a strong platform for employee engagement.”

Jenny Wallage, the Head of Employee Support, headed up the integration of all the people aspects of Plan A into the company’s HR strategy, which was intended to foster broad employee engagement. M&S encouraged employees to develop personal health plans, which included improving their sleep habits, drinking more water, and reducing stress levels. M&S even initiated a company-organized exercise regime that engaged roughly 20% of the company’s employees in 2010.

Another internal initiative that was very popular was the personal development program, founded in April 2011, which allowed employees to take one day’s paid leave to work with a charity of their choice, giving them an opportunity to engage in their community and an activity different than their day job. Wallage stated that this program, “has been great for our workers and for the charity, but we need to think about how we can get our customers engaged.” She argued the two arenas of employee and customer engagement needed to be integrated in order to “get M&S to be a great place to work and to shop. We want to show that we are engaged with our employees—and have that translate to engagement with our customers.”^{xxii} She suggested the possibility of offering healthier food options, and creating a page on the website where customers could go to retrieve concrete information about the food they were consuming.

Foster admitted that “It is easy to put your arms around the internal audience, but the external one tends to view things with a higher degree of skepticism and cynicism,” especially due to the press’s sensitivity to green-washing. She pointed out that the initiative launched in 2007, “at the height of the green zeitgeist, which was then followed by the economic downturn. In the face of tough financial times, customers focused less on sustainability and more on price.”

She too noted the stark contrast between Plan A’s internal and external reception. As she put it, “it is extremely embedded in what we do and the boldness and courage of this plan has instilled a lot of internal pride...but it now needs to be warmed up, to be more customer-friendly.”

Balancing Product and Customer Focus

Not only was there a disparity between communicating Plan A to employees versus customers, but M&S also continued to focus more on product development than customer relations while implementing many of its environmentally-friendly initiatives, carrying on the company’s historic focus in its unique brand.

Stewart lamented that despite this initiative, customers did not rank M&S high on their list of ethical and environmentally-friendly companies. As he put it, “If you ask someone if Marks and Spencer is a company with high ethics, the answer is ‘Yes.’ However, if you ask which companies you would think of as having high ethical standards, people generally don’t list Marks and Spencer as one of them.”

He believed this perception was a result of the company’s “inward focus” and product-driven nature, largely a result of the fact that the company only sold its own branded products. As he explained, “the product has to be well-made in order to be bought” and that “because the product has sold, Marks and Spencer hasn’t focused as strongly on the customer.”

He also noted that the company’s high media profile tended to result in an internal focus. “When we whisper, it gets magnified very loudly in the consumer media.”^{xxiii} Some elements of Plan A were more customer-friendly than others, for example, the Oxfam clothing exchange, which directly engaged customers. Foster believed that the same sort of engagement needed to happen with food, and hoped that the “Forever Fish” campaign would get individuals to care passionately about the fish they eat.

Krishan Hundal echoed Foster’s concerns about the lack of customer outreach. He believed that if customers were asked why they trusted M&S, they were unable to give specific explanations, that their fidelity was based on a vague awareness of the brand’s credibility. He stated that, “We need them to be more specific—it’s dangerous to keep living on this trust by association.”^{xxiv} He believed this was why the carrier bag initiative worked, because they raised a very tangible issue that could be easily understood, and the results were evident. Hundal also emphasized the importance of avoiding the accusations of green-washing. As he put it, “The best approach is a humble positioning.”

Cramer also pointed out the difficulty of aligning customer decisions with sustainability, concluding that “Consumer tastes are changing, and they’re paying more attention to their products, how they’re made, and what’s in them. They want a more enhanced product from a sustainability point of view, but they don’t want to pay more.”^{xxv}

An outside fund manager noted that, despite his support of the company’s long-term vision, he believed that, “The basic problem with Marks and Spencer is that management and senior management have been focused on the product, but in the last 10 or 15 years the customer has become more important in terms of the success of the product.”^{xxvi}

Refrigerator Doors

The company’s dilemma over whether or not to install refrigerator doors in their grocery section captured many of the fundamental issues surrounding Plan A, customer, and investor relations. Almost 30% of total energy usage was consumed in cooling refrigerators in the food halls, so the addition of refrigerator doors would have undeniable benefits in terms of energy cost savings. Overall, food refrigeration contributed to 30% of operational carbon emissions and total energy costs (£18m). In Simply Food Stores, stores focused more on food sales, food refrigeration contributed up to 60% of operational carbon emissions and energy costs. Savings were estimated to be between 30-40% in terms of carbon emissions and energy costs during shopping hours and 60% during non-shopping hours. This equated to a potential saving of about £7m per year in energy costs for refrigeration. Moreover, M&S could save money from reducing heating costs for food halls. Costs for the installation of sliding glass doors to all display cases were estimated to be approximately £120,000 per store.

Reputational benefits were also analyzed. A clear statement of intent to customers that M&S was actively reducing its energy consumption and associated carbon emissions could increase the brand value of the company. Regulatory developments supported this line of thought. The Carbon Reduction Commitment (CRC)³ increased the need for energy efficiency and the risk of reputational damage for companies with unnecessarily high energy usage.

However, some in the company worried that these doors would not be well-received by customers. Stewart stated that “I think the presentation can look very neat and clean, but the difficulty is that U.K. consumers don’t like refrigerator doors—they get in the way of a quick and convenient purchase.”^{xxvii} Furthermore, a high percentage of the company’s grocery revenues came from lunchtime traffic with a grab-and-go mentality, with 65% of sales coming from chilled food.

An executive in the food division agreed that, “There are some things which consumers won’t get behind, unless the industry itself made a change or legislation forced it. So companies won’t be prepared to make that investment because what we lose in sales would more than offset the energy costs. And if our customers are saying no, then actually our shareholders are saying no as well.”^{xxviii}

An executive in the logistics division disagreed that the refrigerator doors posed a serious obstacle, commenting that, “If I had to open the door to get my product, I wouldn’t care. I manage to do that with my fridge at home. It’s all about making the product look good.”^{xxix}

The same executive believed that the successful addition of refrigerator doors might have more to do with customer engagement and cultural change. He pointed that, “When I ask my colleagues at work about adding fridge doors, they say we can’t, that the customers won’t like it. I say ‘How do you know? They close their fridge doors at home.’ Do we really know our customers? Have we asked them?”

One possibility was to trial the inclusion of refrigerator doors in a few of the store locations, like Tesco, Sainsbury’s and Asda had done, and gauge customer reaction. However, many executives pointed out that in order to be successful, customers would need to be better informed about the impact of such changes. In autumn of 2011, M&S trialed different layouts in 15 of its U.K. stores that included changes in the layouts of cafes, bakeries, and clothing sections, as well as different store environments and signage. As part of these trials, employees were trained on how to cope with these changes, including on how to communicate the reasoning behind them to customers.

Foster wondered whether similar training would help ease the implementation of refrigerator doors. She also pondered whether or not to engage the press, as had been done with the *Daily Mail* when the carrier bag initiative was launched, but admitted that “Maybe with fridge doors, it would be tough and we’d have to work hard to successfully educate our consumers and employees.”^{xxx}

Additionally, while any potential savings would benefit M&S as a whole, the positive and negative impacts from a cost perspective would show up on individual department’s scorecards. For example, the capital team would be negatively impacted on any new refrigerator purchases, whereas the energy efficiency team would get credit for any realized savings.

³ CRC was a mandatory carbon tax scheme in the United Kingdom that applied to large non energy-intensive organizations in the public and private sectors. Every year a performance league table was published ranking firms according to their energy usage. M&S scored 82nd in the 2010/2011 league table while Morrisons, Tesco and Sainsbury’s scored 56th, 93rd, and 164th respectively.

As Gillies exited the M&S store with a BLT sandwich in hand, he wondered “Would opening a refrigerator door one day discourage me from buying chilled food from M&S?”

Exhibit 1 Marks and Spencer Performance Over Time

For the Fiscal Period Ending	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Total Revenue	8,243.3	8,224.0	8,195.5	7,342.6	7,619.4	8,019.1	7,971.5	7,490.5	7,797.7	8,588.1	9,022.0	9,062.1	9,536.6	9,740.3
<i>Growth Over Prior Year</i>	5.1%	(0.2%)	(0.3%)	(10.4%)	3.8%	5.2%	(0.6%)	(6.0%)	4.1%	10.1%	5.1%	0.4%	5.2%	2.1%
Gross Profit	2,920.4	2,773.3	2,792.7	716.6	885.6	2,786.1	2,726.3	2,606.2	2,985.6	3,341.2	3,486.8	3,276.2	3,508.1	3,622.9
<i>Margin %</i>	35.4%	33.7%	34.1%	9.8%	11.6%	34.7%	34.2%	34.8%	38.3%	38.9%	38.6%	36.2%	36.8%	37.2%
EBITDA	1,283.2	836.9	732.6	724.3	878.7	964.0	1,034.9	904.1	1,147.3	1,316.5	1,438.6	1,175.5	1,254.2	1,284.3
<i>Margin %</i>	15.6%	10.2%	8.9%	9.9%	11.5%	12.0%	13.0%	12.1%	14.7%	15.3%	15.9%	13.0%	13.2%	13.2%
EBIT	1,116.7	600.5	471.0	480.9	629.1	729.1	796.0	649.1	873.3	1,042.7	1,120.9	766.3	854.7	862.5
<i>Margin %</i>	13.5%	7.3%	5.7%	6.5%	8.3%	9.1%	10.0%	8.7%	11.2%	12.1%	12.4%	8.5%	9.0%	8.9%
Net Income	828.9	372.1	258.7	(5.5)	153.0	507.3	552.3	586.2	523.1	659.9	821.7	508.0	526.3	612.0
<i>Margin %</i>	10.1%	4.5%	3.2%	(0.1%)	2.0%	6.3%	6.9%	7.8%	6.7%	7.7%	9.1%	5.6%	5.5%	6.3%
Diluted EPS Excl. Extra Items	0.291	0.129	0.09	0.083	0.172	0.215	0.217	0.174	0.31	0.385	0.487	0.323	0.332	0.384
<i>Growth Over Prior Year</i>	8.9%	(55.6%)	(30.2%)	(7.8%)	107.2%	25.0%	1.0%	(19.9%)	78.2%	24.2%	26.5%	(33.7%)	2.8%	15.7%

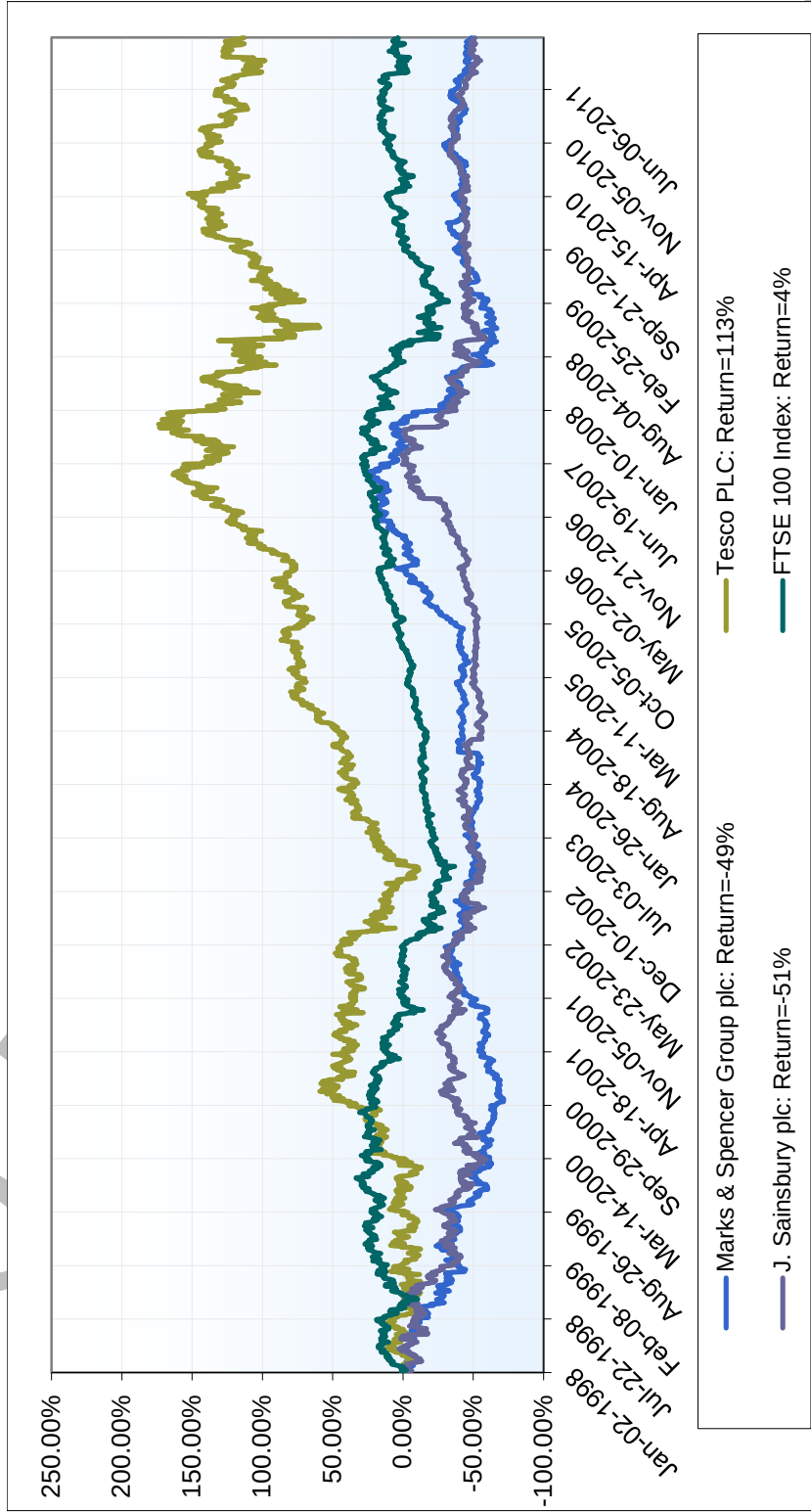
Source: Capital IQ, accessed December 2011.

Exhibit 2 Financial Ratios

For the Fiscal Period Ending	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Profitability														
Return on Assets %	9.6%	4.9%	3.7%	3.8%	5.3%	6.6%	7.1%	6.6%	10.8%	12.2%	11.2%	6.6%	7.4%	7.4%
Return on Equity %	17.2%	7.4%	5.3%	5.0%	12.9%	19.5%	21.7%	21.1%	49.3%	46.2%	45.5%	24.9%	24.4%	24.6%
Margin Analysis														
Gross Margin %	35.4%	33.7%	34.1%	9.8%	11.6%	34.7%	34.2%	34.8%	38.3%	38.9%	38.6%	36.2%	36.8%	37.2%
SG&A Margin %	21.9%	26.4%	28.3%	3.2%	3.4%	16.6%	16.0%	26.3%	27.3%	27.5%	26.8%	28.2%	28.4%	29.0%
EBITDA Margin %	15.6%	10.2%	8.9%	9.9%	11.5%	12.0%	13.0%	12.1%	14.7%	15.3%	15.9%	13.0%	13.2%	13.2%
EBIT Margin %	13.5%	7.3%	5.7%	6.5%	8.3%	9.1%	10.0%	8.7%	11.2%	12.1%	12.4%	8.5%	9.0%	8.9%
Net Income Margin %	10.1%	4.5%	3.2%	(0.1%)	2.0%	6.3%	6.9%	7.8%	6.7%	7.7%	9.1%	5.6%	5.5%	6.3%
Asset Turnover														
Total Asset Turnover	1.1x	1.1x	1.0x	0.9x	1.0x	1.2x	1.1x	1.2x	1.5x	1.6x	1.4x	1.3x	1.3x	1.3x
Fixed Asset Turnover	2.1x	1.9x	1.9x	1.8x	2.0x	2.4x	2.3x	2.1x	2.2x	2.3x	2.1x	1.9x	2.0x	2.1x
Accounts Receivable Turnover	4.4x	3.7x	3.3x	3.0x	3.4x	3.8x	3.5x	6.0x	223.4x	156.3x	118.3x	107.8x	110.9x	104.3x
Inventory Turnover	11.3x	10.7x	10.9x	14.0x	16.9x	15.2x	13.8x	13.3x	13.5x	13.3x	12.2x	11.3x	10.5x	9.4x
Short Term Liquidity														
Current Ratio	1.5x	1.7x	1.7x	1.8x	2.1x	1.9x	2.1x	0.7x	0.6x	0.5x	0.6x	0.6x	0.8x	0.7x
Quick Ratio	1.2x	1.4x	1.5x	1.4x	1.8x	1.5x	1.7x	0.3x	0.2x	0.2x	0.3x	0.3x	0.4x	0.4x
Avg. Days Sales Out.	83.9	96.6	110.9	120.5	107.5	96.5	105.4	61.0	1.6	2.3	3.1	3.4	3.3	3.5
Avg. Days Inventory Out.	32.6	33.6	33.9	26.1	21.6	23.9	26.9	27.5	27.0	27.4	29.8	32.2	35.4	38.6
Avg. Days Payable Out.	15.5	14.7	15.0	11.8	11.2	13.9	14.5	15.3	16.4	17.3	15.8	31.5	47.9	50.3
Avg. Cash Conversion Cycle	101.1	115.5	129.8	134.9	117.8	106.6	117.8	73.2	12.2	12.5	17.0	4.1	(9.2)	(8.2)
Long Term Solvency														
Total Debt/Equity	21.6%	32.2%	37.7%	35.4%	85.9%	105.4%	107.5%	267.0%	177.1%	102.9%	143.3%	145.7%	126.3%	94.4%
L T Debt/Equity	2.1%	13.6%	13.9%	13.1%	64.8%	77.2%	93.5%	214.3%	94.2%	74.9%	98.6%	100.8%	104.2%	71.9%
Total Liabilities/Total Assets	33.5%	37.3%	38.6%	40.5%	57.2%	68.6%	66.7%	81.3%	77.1%	69.4%	72.6%	71.1%	69.4%	63.5%
EBITDA / Interest Exp.	NA	NA	NA	NA	44.8x	18.8x	17.5x	7.5x	8.5x	11.8x	12.1x	7.1x	9.2x	9.1x
(EBITDA-CAPEX) / Interest Exp.	NA	NA	150.1x	NA	30.3x	12.5x	10.3x	5.6x	6.3x	5.8x	4.0x	3.8x	6.6x	6.8x

Source: Capital IQ, accessed December 2011.

Exhibit 3 Stock Market Performance for Marks and Spencer and Competitors between 1998 and 2011



Source: Capital IQ, accessed December 2011.

Exhibit 4 Sample of 180 commitments

		Helps to increase sales	Helps to reduce costs	Improves our brand	Protects our brand	Motivates employees	Makes our business more resilient
#	Commitment						
1.1	Develop a definition of a Plan A quality in consultation with key stakeholders by the end of 2010.				X		
1.2	Have at least one Plan A quality in all our M&S general merchandise and food products by 2020 – with 50% of our products having at least one Plan A quality by 2015.	X		X			X
2.2	Use a comprehensive programme of cause related marketing to raise money for charity partners and donate unsold stock and surplus equipment where feasible and safe to them.			X		X	
2.3	Continuing to help disadvantaged groups like the disabled and homeless get jobs via work placements in our stores, offices and suppliers factories.				X	X	
2.4	Developing and launching initiatives on environmental and international community issues by 2012.			X		X	
4.4	Achieve at least 90% of our Customer Assistants at the required levels of performance.				X	X	
4.12	Appoint and train Plan A Champions in all our stores and offices by 2012.		X	X		X	
6.2	Conduct a review of likely impacts of climate change on our estate by 2011				X		X
6.3	Introduce biodiversity audits and actions plans for major store building projects by 2011			X		X	
6.4	Introduce a system for the continuous evaluation of the sustainability performance of our new stores and major developments, starting in 2011				X		
10.1	Review energy usage in M&S data centres by 2011 and develop a plan to improve energy efficiency.		X				X
10.2	Review and improve M&S video conferencing facilities by 2011 to reduce unnecessary business travel.		X		X	X	
10.3	Aim to transport 50% of International General Merchandise products directly to their retail destination in 2011/12 and 80% in 2013/14 rather than routing through the UK.		X		X		
10.4	Aiming to make all our UK and Republic of Ireland operations (stores, offices, warehouses, business travel and logistics) carbon neutral by 2012.			X			
10.5	Reduce store, office and warehouse energy usage by 25% per sq ft by 2012 and by 35% per sq ft by 2015.		X	X			X
10.6	Achieving a 20% improvement in fuel efficiency in our deliveries to stores by 2012 and 35% by 2015.		X	X			X
10.8	Having introduced a 'green' company car policy we aim to continue to reduce CO2 emissions towards 152 grams CO2 per km by 2012.		X		X		
Total		11	46	71	112	31	61
% of commitments		6%	26%	39%	62%	17%	34%

Source: Marks and Spencer Internal Document.

End Notes

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