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Marks & Spencer: The Phoenix Rises

In the spring of 2002, Luc Vandeveld, Roger Holmes, and their management colleagues from Marks & Spencer plc—the great U.K. retailer—could be forgiven for being pleased. It certainly appeared that one of the great turnarounds in business history was underway. Sales were up for the third quarter in a row, and profits were climbing dramatically. Most exciting of all, the clothing lines were well received. Writers were gushing about the lines for the first time in years. The halls of corporate headquarters were buzzing.

The company was at the point of three quarters of growth following the restructuring program announced a year earlier. The time had come to develop new plans that would renew growth.

This case focuses on the steps taken to restore M&S as a retail power with special attention to questions under consideration in spring 2002 concerning the clothing, food, and financial services businesses. In clothing, experiments were underway to reduce the cost and improve the quality and speed of M&S sourcing. In food, ways were being sought to improve customers' access to M&S stores without significantly increasing the square footage. And in financial services, management was seeking ways to build on a Marks & Spencer charge card that accounted for 20% of store sales and that was used by 3 million customers. Early steps had restored profitability. Would the changes restore the dominance that supported a premium share price?

History

For the researcher, there was real pleasure in the resurgence of M&S. He had first written about Marks & Spencer in 1975 when the firm, which was reigning in considerable glory over its markets, made an uncharacteristic blunder—a very awkward move into the Canadian market. Although a bit costly and embarrassing, it was not strategically damaging. In 1995, when he returned to write a case, the firm—now mean and lean—was soaring toward profits of £1 billion on sales of just under £7 billion. A growing European and Asian business appeared to promise a global future. But in 1999, a crisis had brought the firm to its knees. Raiders appeared. A leveraged buyout was a possibility. Obituaries for the 100-year-old firm were written. And then in 2000, good governance took hold. The board recruited new leaders who were bold enough to prize the challenges of righting the ship and wise enough to find the core strengths of the firm and build on them. The legacy of M&S history played an important part in the turnaround.

Professor Joseph L. Bower prepared this case with the assistance of Sonja Ellingson Hout. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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The Early Years

In 1882, Michael Marks, a Polish Jew who had escaped from the pogroms, arrived in the north of England where he began to “hawk” merchandise. Two years later he met Isaac Dewhirst, a wholesaler who gave Marks a £5 credit to obtain stock and begin trading from a stall in Leeds. To resolve language difficulties, Marks sold under a small sign that said, “Don’t ask the price, it’s a penny.” With margins limited, he had to concentrate on volume.

A decade later he formed a partnership with Thomas Spencer, a cashier at Dewhirst. The business began to grow. In 1917, Spencer retired and a new board was formed, including Marks’s son, Simon, and Simon’s close friend from school, Israel Sieff. That partnership, which was to last 50 years, was reinforced when they each married the other’s sister.

During World War I the scientist and Zionist leader Chaim Weizmann had a remarkable influence on Marks and Sieff (as well as on the firm’s policies), introducing both to the benefits of technology and progressive human relations. He stimulated a sense of social responsibility that led them to see their business as a way of creating value for customers and employees. During the Depression of the 1930s, the firm pioneered a wide range of social services and benefits for its employees at the same time that its goods were providing value during a desperate time.

Equally important were visits to America in the 1920s that led them to transform their firm into a modern retail chain using principles adopted from Sears. This involved control of merchandise generated by a central organization that was acutely sensitive to consumer demand and could adjust the flow from factories to the stores as required. Marks & Spencer also began its revolutionary policy of buying directly from manufacturers and in 1928 registered the trademark *St. Michael* for all its goods, thereby commemorating Simon’s father.

The Conquest of Britain

By the 1960s, Marks & Spencer had achieved dominant positions in the U.K. retail markets for apparel and food, with a reputation for being one of the world’s best-managed companies.¹ Market shares in its core lines reached astonishing numbers (such as 35% in women’s lingerie). The strategy was simple: The stores offered relatively narrow ranges of St. Michael goods that were of high quality and very good value. The number of stock-keeping units (SKUs) was generally one-quarter to one-tenth of those carried by competitors. The clothing for women, men, and children was fashionable though not high fashion. The food line comprised perishables of the highest quality and an increasing range of prepared or ready-to-prepare foods.² Whereas the clothing lines covered the basics thoroughly, the food section carried basic perishables where its logistics and suppliers provided advantage but otherwise carried fill-in and specialty foods. An extensive selection of St. Michael wines and beers was added in the 1980s. The stores themselves were rather basic. There were no changing rooms. Customers were free to return goods at any time. A floor of a three-story building was reserved for staff amenities. Great value drove increased volume that enabled suppliers to lower cost, providing further value. The formula that delivered on the value premise was a “partnership

¹ For example, Marks & Spencer was one of the companies used to illustrate exemplary practice in Peter Drucker’s first blockbuster, *The Practice of Management*.

² The firm was a leader in the introduction of prepared and ready-to-prepare foods. Its technological skills and supplier relationships gave it considerable advantage. Real competition in these lines did not emerge for more than a decade.

with our suppliers, a partnership with our employees, and a partnership with our customers.”³ The fact that M&S was dedicated to buying British reinforced these partnership relationships.

Under Chairman J. Edward Sieff, more stores were built until there was a Marks & Spencer on the high street of every major English city or town—260 by 1975. “Teddy” Sieff had succeeded Israel Sieff, who had succeeded “the great Simon” Marks.⁴ In turn, he passed the baton to Israel’s son, Marcus Sieff. Though a rather grand public figure, Marcus Sieff made a point of describing himself and his colleagues as “shopkeepers.” The chairman (Marcus), the president (Teddy Sieff), and three vice chairmen (clothing, food, and support) met early every Monday morning to discuss the business. That meeting was followed by a meeting of the 20 or so directors of the firm going over the business in considerable detail.⁵ (A typical excerpt from a meeting is presented in the **Appendix**.) A cascade of meetings through the organization followed. It was said that suppliers knew the relevant gist of the meetings by noon. On Fridays, baskets of new food items were delivered to each of the board members for trial over the weekend. Top management would also be in the stores over the weekend, typically visiting several stores in the trading areas near their country homes. “The wearing and the tasting” were taken very seriously, and the communication of displeasing results on Monday could be quite direct.

The entire staff of Marks & Spencer was located in Michael House—a six-story, block-long set of offices and labs on Baker Street where clothing, food, and an increasing range of houseware lines were conceived and purchased for the stores by teams of technologists, selectors, and merchandisers.⁶ Teams were organized by function and product (such as men’s knitwear—socks and sweaters) as were the sales floors of the stores.⁷ In turn, the teams reported to powerful directors who were grouped under “clothing” and “food.” To a considerable extent, margins were similar across clothing and across food lines so that as store managers adjusted the allocation of space to maximize sales per square foot, they were also managing return on the single most important fixed investment of the group—the retail real estate. Investment in inventory was limited since the company took title to the goods that it had specified and ordered only when they reached the stores. Turnover for garments was fewer than 50 days. Major outside suppliers that dedicated networks to serve the company provided logistics for the firm.

Marks & Spencer Goes Global

Despite the progress of the firm, conditions in the United Kingdom in the 1970s were depressed. A Labour government seemed determined to extend the role of the state further into the economy and society. Strikes, high interest rates, and unemployment made for a dismal prospect. It was in these circumstances that Marcus Sieff approved the acquisition of two retail chains in Canada. It was thought that they would carry Marks & Spencer goods. In fact, local competition and a market

³ This mantra was repeated widely by managers throughout the firm.

⁴ The top management of the firm had been honored by King George and Queen Elizabeth. To simplify the text, those titles are not used. Both Simon Marks and Israel Sieff as well as Marcus Sieff and later Derek Rayner were made members of the House of Lords. Richard Greenbury, the chairman after Rayner, was knighted.

⁵ The directors were all executives of the group. At that time, there were no nonexecutive directors, nor was having them a common practice in the United Kingdom.

⁶ Social services for employees and pensioners were managed from Hannah House across the street (Hannah being Simon’s wife).

⁷ Selectors specified and chose merchandise working with technologists. Merchandisers helped determine terms, quantities, schedules, and price.

stretched thinly across 3,000 miles challenged the M&S formula, the Union Jack was not popular in Quebec province, and results were unsatisfactory from the beginning.

More successful was an early attempt to bring M&S to the Continent. A store opened in Paris in 1975 with reasonable success. The better-traveled French were used to shopping at M&S and thought that St. Michael was the popular saint; indeed, in the United Kingdom there were signs at the English Channel ports directing French visitors to M&S stores.

In 1985 Derek Rayner became the first nonfamily member to become chairman. Under his leadership, the stores and operations generally were revitalized. M&S began to catch up with its competitors—particularly Sainsbury and Tesco in food—building large edge-of-city stores. As well, a Marks & Spencer charge card was introduced in 1985, ending 100 years of a cash-and-checks-only policy. By using its own card, M&S avoided the 2%–4% charge of the majors' cards and acquired a database of its customers' behavior. International expansion was continued with further stores on the Continent—primarily in France. In some countries, franchise operations were established. More dramatically, Marks & Spencer purchased Brooks Brothers and Kings Super Markets as a prelude for what was envisioned as a significant expansion into the U.S. market. Unfortunately, a very high premium was paid for Brooks Brothers; Kings was too small to provide a base for the M&S formula.

When Richard Greenbury became chairman in 1991, having served as chief executive under Rayner since 1986, he concluded that the firm was “too fat and comfortable.” The United Kingdom was in serious recession, costs were too high, and the North American investments were a source of constant criticism. His response was a major attack on costs and inefficiency, divestment of the Canadian operations, and major extensions of the core product ranges as well as a significant push into consumer financial services, building on the charge card and the Marks & Spencer reputation. M&S offered personal loans, funds, and life insurance. Greenbury also pushed the international expansion on the Continent and the franchise business. The strategy was to own in a country where it was possible to establish a cluster of full-line M&S stores (France, Holland, and Belgium and then Hong Kong). Elsewhere, there were franchise operations. Directors were appointed for Europe, Asia, and North America. By 1994, Marks & Spencer was the United Kingdom's most profitable retailer with profits of £851 million on sales of £6.5 billion, and a *Financial Times* poll awarded M&S the distinction of being Europe's most admired company.⁸

The Decline and Fall

Under Greenbury's leadership, Marks & Spencer pushed forward, reaching record sales of £8.2 billion and pretax profits of £1.1 billion—a net margin of 14.4% in 1998. (See financials, **Exhibits 1a** through **1c**.) International operations were a profitable £54 million but down from 1997, as Asia's financial problems began to take their toll.

In 1995, as part of his plan for succession, Greenbury asked for the resignation of a group of senior directors who because of age would be retiring in the same time frame as he. At the same time, he promoted to joint managing director Andrew Stone (55), Guy McCracken (48), and Peter Salsbury (48) to serve along with Keith Oates (55), the deputy chairman, who was also managing director. To broaden their perspective, he changed the primary responsibilities of all but Oates. Stone, who was known as a great merchandiser of clothing, was moved to food. McCracken, who had led food, was given U.K. store operations and staff functions. Salsbury was given clothing, European retail, franchise operations, catalogue sales, and international procurement. Greenbury's intent was to set up a horse race in which the two mid-50-year-old leaders would be joined by two leading performers

⁸ Exhibits 1a through 1c for performance data.

in their late 40s. He then brought on to the board as directors a group of younger executives with strong track records.

The plan was disrupted significantly by the queen's honors list in 1996. Stone was selected by Prime Minister Tony Blair for elevation to the House of Lords as a working peer. Soon Lord Stone was spending half the day at Parliament. The 1997 Asian crisis and coincidental rise of the pound against the European currencies was a reversal of a different sort, testing Salsbury sorely. The 1997 overseas profits of £85 million, which were expected to grow to £120 million, turned into a loss of £15 million in 1998. At the same time, M&S invested heavily in new investment technology (IT) at the registers of its stores and in the associated training. As well, M&S acquired a number of the best stores of Littlewoods when that traditional retailer needed to retrench. Both the £150 million and the time of management were a stretch.

More ominous, after the company announced a strong first half in May 1998, the fallout from the Asian financial crisis reached the United Kingdom and retail sales fell off. It quickly appeared that more than global events were at work. Sales of consumer electronics—especially personal computers and wireless phones—were booming, taking an increased share of the U.K. consumers' spending away from apparel. Even more challenging, under the umbrella of M&S's 14% profit margins, new competition emerged in women's clothing that offered good value and more fashion than M&S seemed able to muster. The cost of the company's commitment to British manufacturers was becoming evident as its competitors' goods, sourced in low-wage countries, were not only cheaper but increasingly of higher quality. Pressure to drive profits even higher than the record £1.1 billion in 1997 eventually showed up in the deteriorating value of the garments.⁹ And when the fall styles missed their mark, profits and the share price dropped precipitously.

Things got worse. Just after dismal half-year results were announced in November, Oates wrote to the nonexecutive directors seeking to have them make him the chief executive, leaving Greenbury with the chairman's job. The letter was leaked, and after a bitter board meeting, Oates resigned. Greenbury gave up the chief executive's job to Salsbury, who moved quickly to change his inheritance. Greenbury later retired, and Brian Baldock, as the senior nonexecutive, took over as acting chairman. Paintings of the past chairmen were gone from the boardroom walls. Layoffs and reorganization followed. U.K. retail, financial services, and international were set up as separate groups. A marketing department was created. Shortly before the 1999 annual general meeting, Greenbury resigned.

Unfortunately, the first round of layoffs was followed by a second and a third. The style was reportedly brutal, with long-serving executives asked to resign months before the vesting of their full pension. While the press had come to lay many of the company's problems at the feet of "autocratic Greenbury," they soon decided that Salsbury was unable to build a team.

In the strategic review that followed, consultants urged the company to focus on the brand, not the product.¹⁰ The directorates of clothing and food were fragmented to reduce their power. Long-standing suppliers to M&S were fired on short notice. Nonetheless, clothing revenues did not improve. Indeed, food and financial services were holding up the profits of the firm. It was at this time that the nonexecutive directors insisted that M&S abandon its long-standing policy and accept general credit cards as well as its own. Finally, as results continued to deteriorate, a takeover effort was launched. While it would eventually fail when financing fell through, the frenzy of media

⁹ Marks & Spencer's fiscal year ended in March.

¹⁰ Salsbury used so many consultant groups and advisors that eventually one was hired to audit their efforts.

attention surrounding the possible takeover of the retailing icon of the United Kingdom certainly contributed to the firm's weakening position.

In retrospect, executives could see that the problems had very deep roots. Speaking in 2002, CFO Alison Reed reflected on the decline and the foundation of what would be the turnaround:

I think businesses go wrong slowly, and I think that therefore the business model from Marks & Spencer was very, very successful while we and our competitors were buying onshore, and it wasn't possible to really bring the significant quantities of merchandise that was fashionable into the U.K. within a trading season. Therefore, while we were buying from the United Kingdom, and our competitors were having to buy from the United Kingdom, our economies of scale and our ability to move faster because we had the biggest buys and the best factories meant that our business model was much more effective than anyone else's. I actually think that changed in the late 1980s, early 1990s, and therefore, once people could actually start bringing product in from abroad, that actually changed the whole business model of the company.

So, our competitors were moving offshore and . . . able to use the cheaper prices offshore, which meant that although their volumes were significantly less, they could start producing product that was as good as ours for the same price. By the mid and late 1990s, they could offer better product than we could, because the economies of their buying price were so significantly different to ours.

So, therefore, because people were now looking at a product that a competitor was putting on the shelf that was coming from the Far East or some other countries that were starting to produce at that time, that had detail and things in it that was going out for £20, then we had to be £20. But because we were buying onshore, it made it very difficult to actually be able to offer high labor-intensive product, with the extra stitch and the extra detail, at those sorts of prices. Just as our competition were adding quality, I think we were actually taking detail and things out of the product. . . . We were no longer the best value.

Suppliers were trying to help us shift that supply base. Some of our suppliers were opening factories, which enabled us, therefore, to be able to make that move in the three years quite quickly as part of the restructuring-the-supply-base program.

David Norgrove, main board director for clothing and international, commented, "The customers knew something was wrong and were buying a little less. It's when they saw that we couldn't keep our house in order, when we lost our mystique, that sales went off the cliff."

Luc Vandevelde Takes the Helm

Meanwhile, a search for a chairman was proceeding. On January 25, 2000, the appointment of Luc Vandevelde as executive chairman was announced. He arrived on March 1, 2000, to take over the leadership of the company. A Belgian with a strong background in retail and consumer products, he had most recently been involved in the rapid development of French retailer Promodes and its merger with Carrefour. At 48, he was a very bright and charming cosmopolitan figure.

The spring progressed with a series of moves to implement the consultants' recommendations. Salsbury accepted a diagnosis of the market with 11 segments. The St. Michael brand was to be minimized. New packaging and labeling was introduced as well as a new high-end autograph collection of clothes that had great initial success. Then on May 23, with sales still sliding and a significant jump in inventory, Vandevelde cut the dividend and announced a further fall in profits to

£517 million. He noted, "It wasn't a very popular decision because until then we had pretended that this was only a short-term blip."

Salsbury's response was to put further pressure on suppliers, of which one of the longest standing returned the favor by cutting off M&S. Vandevelde and Salsbury soon concluded that despite the wisdom of some of his plans, Salsbury was not the person to manage the turnaround. Vandevelde noted: "Obviously, the trading numbers themselves were pretty dismal. But we hadn't lost that many customers, [they just] bought less and less and were pretty vocal about the fact that we had lost touch with them. . . . Every store that I visited, there were a couple of customers walking up to me and telling me in no uncertain terms what they thought of our performance."

At the same time, a second overstocking problem that would require heavy discounting showed up, giving evidence that the organization was not learning. Having accepted Salsbury's decision to leave, Vandevelde focused serious attention on building a new team, paying particular attention to youth and diversity. It was not until September 2000, however, that it was announced that Salsbury, HR director Clara Freeman, and Guy McCracken were leaving the company. Only Robert Colvill, the CFO, remained from the old board.

To manage the company, Vandevelde reconstituted the leadership team. In addition to Norgrove (then director of strategy and international) and Colvill, there was Graham Oakley, the company secretary, and Alan McWalter, director of marketing (hired from Kingfisher the previous year). These were the architects of the program to fight back.

*Building the Team*¹¹

At the same time as the departures, it was announced that Roger Holmes, 42, would be joining M&S as managing director of U.K. retailing. Holmes had a very strong record, first at the consultants McKinsey & Co. and then six years at the Kingfisher Group of retailers. When he was approached by M&S in the summer of 2000, Holmes said, "It didn't take me long, really. This was just an opportunity that I could not turn down. For anyone who's been brought up in the United Kingdom, this is an institution that . . . everyone knows about, feels something about. People cared passionately about the business coming back."

In addition to Holmes, Vandevelde made two other striking appointments. The first was Yasmin Yusuf as director of design. Yusuf's appointment was unusual in two respects. A woman with extensive formal training and managerial experience in design, her portfolio cut directly across the traditional product and functional baronies of the organization, since she was responsible for the look of all product and the stores. The second was Justin King, who was hired from Asda to join the U.K. retail board and serve as director of food. He was later promoted to the main board. The food business had maintained its strength during the crisis, so he was able to turn his attention directly to strategic issues, the primary one being how to grow the business.

Laurel Powers-Freeling joined the team in November as chief executive officer of the financial services group after a career in asset management finance and strategy, most recently at Lloyds TSB and before that at Morgan Stanley and McKinsey. Taking over a business that had remained profitable during the decline, she faced the challenge of dealing with changes in customer behavior flowing from the board's decisions to accept general credit cards. The 3 million customers who continued to use the M&S card constituted an asset that merited early attention.

¹¹ Short bios of the key people mentioned in the case are provided in **Exhibit 2**.

Vandevelde also moved insider Alison Reed up to become CFO of the group. Reed had started at M&S in 1984 when in high school working part time in a store as a “Saturday girl.”

In turn, Holmes began building his U.K. retail team. In April 2001, Barry Stevenson arrived from Kingfisher to be director of stores. Under Greenbury, the number and square footage of stores had expanded significantly. Salsbury had invested in a series of three experimental “concept stores” that brought a new look to Marks & Spencer. With revenues down, the productivity of the stores had weakened significantly. Stevenson had to upgrade the look and productivity with limited funds.

In June, Steve Longdon was brought in as the director of women’s clothing. Longdon had worked for Marks & Spencer from 1973 to 1986, in his last years as a merchandise manager. He had joined the Arcadia group in 1999, where he ran the Top Shop chain. He was recruited away to run a U.S. business, but that job disappeared when the CEO left. At that point he decided to e-mail Holmes: “You don’t know me, but you need me” was the message. At the end of a proper search it was determined that Longdon had the edge to translate Yusuf’s flair into finished products.

Michelle Jobling was director of childrenswear and later Zip, a new organization established to manage a new model of the childrenswear business that involved a distinctly different approach to sourcing. Jobling came to M&S from the job of managing director of Liberty, an up-market retailer of primarily women’s clothes and furnishings. Again, both the person and the mandate were new for the company.¹²

The outsiders were complemented by some longtime M&S personnel. Maurice Helfgott, appointed as director of menswear, had been at M&S since college except for two years getting his MBA at HBS. Vince McGinlay was responsible for logistics, and Helena Feltham became head of HR. Keith Bogg, who had been recruited 17 years earlier from the U.K. computer group ICL to work in IT and logistics, was made director of direct business, e-commerce, and home furnishings.

Fighting Back

In the fall of 2000, as Vandevelde was assembling the new leadership team, M&S share price sunk to 170 pence. Vandevelde noted, “It was a serious wake-up call. And we said, we better start thinking about a more dramatic strategy here because we are talking about survival and not just improving performance.”

In early October, the team left London for a retreat.¹³ Originally planned as a strategy meeting, the share price decline focused attention on the short term. Without better products it was critical that the organization make the best of what it had. Fighting back was the initiative developed to rally the organization. This tactical response bought time for strategic moves that would be announced at the end of March.

The result of further work by the leadership, which now included Reed in finance and Holmes in U.K. retail, was a three-part program. The first was a total focus on U.K. retail, led by Holmes and Reed, supported by the U.K. retail team. Involved was a recovery plan for clothing; expansion in the areas still growing such as food, home, and beauty; acceleration of the store renewal program; and more intensive use of space. The company returned to its 100% own-brand policy, announced a program of sub-branding in clothing to reflect the more segmented lifestyles of its customers and the

¹² Yasmin Yusuf and Michelle Jobling were directors of the U.K. retail board, not executive directors of the main plc board.

¹³ Exhibit 3a presents a chart that describes the senior management group at this time.

appointment of George Davies to design and supply a collection for more fashion-conscious women,¹⁴ and committed itself to further restructuring the supply base.

The second element was a program of value realization that Vandeveld characterized as “getting rid of everything that was distracting the company anywhere in the world or any activity that got in the way of recovery.” Announced were the intention to close the Continental European stores, sell Brooks Brothers and Kings Super Markets, close the catalogue business, and release through sale and leaseback real estate value in the lesser parts of the property portfolio. The third element would be a return of £2 billion to shareholders by the end of March. Norgrove and Colvill had responsibility for these initiatives.

Cube 1—The Recovery Plan

The organization focused intently on the announced actions such as the Davies appointment, closures, and personnel shifts, but the leadership was concerned that employees did not truly understand the reasoning behind the moves. Vandeveld noted, “We know as a core team what the future of the company is going to depend upon. How do we make sure that we’ve got traction, that 60,000 people are behind these ideas? And that is where the CUBE was born.” (See **Exhibit 3**.) As a summary of the core team’s efforts, a simple four-sided box was devised, carrying the key elements of the strategy, mission, values, unique strengths, and ways of working on its four sides. At a meeting of 300 leading executives on March 29, 2001, the CUBE was presented, and the plan for the recovery was communicated throughout the organization in a widespread series of meetings. Thereafter, a small version of the CUBE sat on thousands of desks.

The campaign for fall 2001 was key and for Holmes, “Clothing was the touchstone.” Clothing was where M&S had lost the customer’s confidence and market share. And clothing was where M&S would have to earn that confidence back. The approach was two-pronged. The core customer wanted traditional M&S excellence, and to that end, the heart of the organization would be focused on providing her with great clothes. To make possible that focus, Davies had been recruited to develop a sub-brand, Per Una (Italian for *one woman*). Both approaches involved product and sourcing.

Holmes noted, “We formulated a campaign called ‘Perfect.’ We’re going to have the perfect black merino jumper, the perfect white shirt. The campaign was a source of considerable nervousness for the management since the decisions were being made at a time when the press was very bad. If we launched Per Una first, our core customer would say, ‘Hold on a minute, get the basics right.’” So it was the Perfect Campaign that was first launched, in September, and then Per Una at the end of September, and then early in October, on a Thursday, “We gave our 5 million charge-card holders a 10% incentive to come back in and have another look, see what we’ve been up to. And that was huge.” The results in terms of customer appreciation and excitement and confidence for M&S management were beyond expectation.

Looking back on the critical events of the summer and fall of 2000, both Vandeveld and Holmes agreed that the commercial initiative that made the most difference was Per Una. Vandeveld noted, “Amongst all the people in the industry who had given me good advice, a couple had talked about George Davies [see bio in **Exhibit 2**], so I suggested to Roger that he meet George.” The two got along very well. It developed that the man responsible for two of the more aggressive competitive thrusts at

¹⁴ Davies was a very well-known designer who had succeeded twice in developing strong lines of value-priced fashion apparel for women. His program, Per Una, is discussed below.

M&S was passionate about helping the firm back on its feet.¹⁵ After two months of discussion, a deal was concluded in February of 2001.

The concept of Per Una was a line of fashionable clothes for the younger-minded woman that would be designed by Davies, manufactured by his sources, shipped to his distribution center, and sold in a fixed area in up to 150 Marks & Spencer stores under the Per Una sub-brand. Structured as a joint venture, the project represented a radical break in control for M&S. While Davies would work with Ian Oliver and Andrew Moore of the M&S womenswear group, he had complete design and merchandising control of the line. Holmes noted that this approach had two benefits: Davies had a reputation that would appeal to the younger fashion-conscious woman—precisely the segment of customers most disenchanted with M&S and most difficult for it to win back—and because he had taken on that task, “You could say to the rest of the business here, ‘Look, don’t worry about the fashion end. Focus on the core.’ When we introduced George Davies to the organization at an all-hands meeting, they gave him a standing ovation when he walked on the stage.”

Still another aspect of Davies’ approach was a faster time to market than under the normal M&S system. This was an important issue because NEXT and other middle-market players operating on shorter lead times had made inroads in the M&S market position. Zara’s had emerged as a low-price fashion retailer, and its speeds were considered remarkable. (The impact on market position and a comparison of sourcing speed and economics are provided in **Exhibits 5 and 6**.) On the other hand, the scale of M&S was far greater than that of its competitors or anything Davies had ever managed.

Per Una fit Holmes’s perception that M&S had been trying to do too much for too many segments and in the process had lost its core customer. Rather than 11 segments, he saw three: the fashion minded, the traditional, and the core customer who wished for stylish clothes of high quality and reasonable price. With Davies on board, the organization was no longer distracted by the task of serving a customer who was hard for it to understand. The problem for Holmes was that whereas the normal time lags in clothing would have led him to introduce the new lines in the spring of 2002, M&S’s weak sales would not permit that luxury: “We had to say, ‘Look, we’re going to do everything to try and launch and rearrange across the store base for autumn.’”

The burden of leading that effort fell on Yusuf as creative director and Longdon as head of womenswear. The first had responsibility for upgrading the quality and fashion rightness of the entire M&S line, while Longdon had the job of making sure that the improved women’s clothes were in the stores on time at the right costs. The last piece of the equation was Stevenson’s efforts to upgrade the attractiveness of the stores, where little money had been invested in the past.¹⁶ In the next months, Stevenson would renew half the M&S chain at a cost of £13 per square foot, taking advantage of lessons from three trial-concept stores. The store renewal program won customers back town by town. It was an all-encompassing program that involved store employees being retrained for customer service, local PR, and local advertising.

The launch of Per Una was so successful that the first weekend’s sales matched the forecast for the first week. It soon became clear that sourcing was not up to the original plan, and the rollout to 150 stores would have to be delayed. The excitement and momentum continued to build, however, and M&S enjoyed a nearly perfect Christmas.

Looking back, Vandevelde commented: “If I have to judge it now, the timing of the launch of Per Una, which coincided with the improvement of our core ranges, best illustrated in our Perfect

¹⁵ **Exhibit 5** shows competitive inroads from the competition and **Exhibit 6** the performance of particular competitors.

¹⁶ Holmes’s ex-colleague from the Kingfisher subsidiary B&Q.

Campaign, was absolutely spot on and as we now know, did the job. . . . I think that the whole supply chain management and product design area started to show its first signs of success."

Under Salsbury the team had identified that improvements needed to be made to the supply chain. This had started in 1999 and was a major driver of the improvement in product values. Noting that inappropriate sourcing had been at the heart of the group's problems, Norgrove commented, "When we started, we were still 70/30 British sourcing. Today it's more than 20/80 the other way. And our job is to get that sorted out so that it works properly."

By mid-2002, the changes in sourcing had produced dramatic results. Whereas 80% of M&S goods were U.K. sourced in the late 1990s, the figure was now 20%. But "better, faster, lower cost" was the mantra, with emphasis on the sequence of objectives. Significant effort was exercised to get the right balance among the quality of sources, speed to market, and cost. Only one-quarter of the goods was sourced in the Near and Far East. The result of this work was primary margins seven points higher and remarkably improved time to market. **Exhibit 7** shows graphically the differences in the sourcing models being used along with rough estimates of the improvement achieved in time to market. Vandavelde commented, "There was nothing in what Simon Marks had ever said that said we buy everything in the United Kingdom. He just wanted to buy in the best place. When he started the business, the best place to produce clothing was in this country, and that was misinterpreted by future generations to say 'that's part of the model.'"

Other Initiatives

The strategic planning exercise led to other initiatives that involved changes in design and sourcing, always in search of better product, lower cost, and faster time to market. While the segmenting of the basic offer in women's clothing was central, the men's line was treated in a similar way with some success. In menswear, whereas some lifestyle segmentation existed in formal ranges under sub-brands such as Sartorial and Italian using the traditional sourcing model, Helfgott introduced a similar approach to casualwear through Blue Harbour. Both were succeeding. In the children's department, results had been considered unsatisfactory for several years. One way of looking at the partnership between suppliers and Marks & Spencer was that it involved considerable duplication, which in turn cost money and time. Where volumes were large and timeliness not critical, both costs could be inconsequential. Indeed, there were advantages to having multiple views on the direction of the markets in the main lines of M&S activity. But in childrenswear, volumes were limited and fads important. Just as Per Una had used a higher degree of vertical integration to achieve its objectives, it was thought that childrenswear could benefit from a new approach.

Zip

The first round of strategy discussions led to the creation of a joint venture called Zip, which aimed to streamline the development, manufacture, and sale of the children's line. From among the past suppliers of children's clothes, M&S chose Desmonds as its partner to design a line of clothes that would be manufactured to specification by a small group of firms that would offer bids. The goals were to eliminate duplication of costs associated with parallel management structures and achieve faster time to market because fewer reviews would be necessary. Representing M&S as Desmonds' partner was a new subsidiary called Zip, officed in separate quarters two blocks from Michael House that was more Nickelodeon than M&S. Zip's managing director, Jobling, commented:

We're doing it for three reasons. First, by having one single design office which controls the way that children's will be for Marks & Spencer, we can actually create very clear segmentation. With several manufacturers, each has a different handwriting. Second, we should be able to make clothes much quicker. We need to be able to change with the pace of children as their heroes shift. By taking people out, you speed up the process. And third, to get a satisfactory return, we have to take overhead out of the whole supply chain.

Simply Food

In the food business, the strategic challenge was much different. Marks & Spencer food was well established with a strong reputation for quality in the value-added segment of the market. King noted, "We're a small but important part of a lot of people's shopping baskets." This fit well with the basic value proposition but also with the economics of a High Street location. King went on to describe that while M&S goods might be considered high priced, research revealed that they were well regarded broadly as the product one should buy when making a meal special. Under the previous regime, however, costs had been squeezed to drive margins from a point already above the industry average to something even higher. The problem was not in produce, where quality remained, but in prepared and processed foods. For example, margarine was used in some sandwiches instead of butter. Also problematic, suppliers had been consolidated to get cost efficiencies, whereas some of the smaller suppliers were the most innovative. King suggested that a couple more years of such behavior and the food business would have resembled clothing. On the other hand, with proper investment in product and physical environment and proper attention to the supplier base, the existing food business would hold or perhaps gain a modest share.

The challenge, said King, was growth:

We have the world's most convenient food in the world's most inconvenient locations. We can continue to flourish where we are, but people would not travel significant periods of time in order to do supplementary shopping. Looking at a map of the United Kingdom, having in mind that people will travel 30 minutes for general merchandise shopping, 85% of the U.K. population is within reach of Marks & Spencer. But looking at a 10-minute travel time, which is what people will spend to supplement their basic food shopping, 75% of the U.K. population did not have a conveniently located store.

The response to this challenge was somewhat complicated by U.K. regulation of property. New laws were constraining the development of further edge-of-town or out-of-town stores or malls. While these circumstances would enhance the value of M&S's existing locations, it left the problem of new space unsolved. One initiative to meet that objective was Simply Food, a convenience format of 3,000 square feet located in high customer flow areas such as busy commuter suburbs and railway stations. The range of food in the stores was targeted at two segments—To Go and Dinner Tonight—all food that could be eaten immediately or with limited preparation. Wine was an important supplement.

Research indicated that because M&S was 100% own label, and because the starting point was a narrow range, with deep stocking of popular items it was possible to provide in Simply Food shops what the customer accepted as very adequate variety in a range of one-third of the normal catalogue. Because customers expected only Marks & Spencer goods and only high quality, they experienced the offering as providing good variety. In fact, for the customer who previously shopped for food at M&S two or three times a month, the new convenience locations offered greater variety than the much larger High Street stores. Results at the first five stores were promising. More than 100 were planned.

Real estate for the new stores was developed in two ways. Most of the stores would be wholly owned by the company, and a smaller percentage were being developed as franchise ventures with a major property manager that had good access to retail property in train stations.

Home

Still another initiative emerging from the first round of strategic discussions was an expansion of the home business. At M&S, home was a conglomerate range of items, mostly introduced in the previous two decades, ranging from bedding to kitchenware, luggage, decorative items such as bowls and candles, the Christmas shop, as well as big-end furniture. Bogg was asked to take on the job of divisional director of home and e-commerce because home was a central part of the M&S catalogue venture, and Bogg's background was IT and logistics. (The clothing part of the catalogue was closed in June 2001.)

As with other parts of the firm's operations, there were two problems: current performance and long-term prospects. Analysis revealed that M&S had done its sourcing through a series of suppliers "who," said Bogg, "typically, because of the economics of producing in the United Kingdom, have moved their businesses offshore and effectively become agents for us by using factories in other parts of the world." Bogg's strategy for achieving profitability was simple: begin sourcing directly and establish consistency and coherence across the range. In three years, gross margin moved up six or seven points.

Long term, analysis revealed that the opportunity was remarkable since home was growing much faster than food and clothing, and the market was less well served, especially M&S's core middle market. It was apparent, however, that it was virtually impossible to meet the customer's real need in the traditional M&S store. Especially in big-end furniture, there simply was not room to display an adequate offering. In the summer and fall of 2002, Bogg was discussing with his board a trial of two 70,000-square-foot stores with plans for more if successful.¹⁷

Financial Services

The final major initiative was in financial services. Arriving in November, Laurel Powers-Freeling knew that her first priority was to think through the M&S card. Her view was that they had three big assets: the M&S brand, the distribution through 300 perfectly located stores, and 5 million people who had M&S cards—although only 3 million used them. Her thought was to improve the card through greater service. In May M&S announced the trial of M&S And More, a card that combined the Marks & Spencer card with a credit card with the ability to earn loyalty points at M&S. Commenced in the fall, the card would represent a significant profit impact of £50 million to £60 million in its first year for infrastructure and marketing if rolled out. M&S was persuaded that the investment was attractive from the perspective of a financial services opportunity, but even more so as a way of re-establishing a tight relationship with its customers.

Securing the Recovery—CUBE 2

By March 2002, it was reasonably clear from December's results that the fighting back was successful. M&S had beaten a very buoyant market, and confidence was returning. A major showing

¹⁷ Property regulations were considered a manageable issue for stores of this size and location.

of the fall lines, presented in the Saatchi Gallery, was very well received by the press with Yusuf getting particular credit. (See **Exhibit 9**.) The learning from the recovery strategy provided the foundation for new thinking. While Vandeveldel thought a few more quarters of good results would be necessary to establish the results, it was time to look long term. Once again top management and the leadership team worked on strategy, and once again the results were communicated by means of discussions of the CUBE to the first 300 managers and then the rest of the organization. (CUBE 2, now six-sided, is shown in **Exhibit 8**.)

Vandeveldel noted, "One of the weaknesses we had identified very early on was that there was no sense of individual ownership for the collective results . . . which is why we added to the CUBE the ways of working to own your part in delivering results. That led then to our version of management by objectives, which was a collaborative and educational tool. It was aimed at encouraging a dialogue between managers and subordinates. . . . The system rolled out and in three months to over 4,000 people."

Vandeveldel continued, "The bonus was obviously related directly to the objectives, with part corporate and part business unit based. Fortunately for 2002, most people did get quite substantial bonuses thereby rewarding the individual for their contribution to the overall results, on the back of recovery." The pension scheme was also changed in ways that were philosophically congruent with the new approach—as well as fiscally prudent. The defined benefit program was closed and a shared contribution scheme adapted.

At the July Annual General Meeting (AGM), a restructuring of the main board was announced. Vandeveldel had taken over the position of chief executive in addition to that of chairman following the resignation of Salsbury. He and the board felt that the time was right to split the roles again. It was right for the company and appropriate for good corporate governance. Holmes was made chief executive, Norgrove became director of clothing and U.K. outlets in addition to his responsibility for international, and King joined the board. At the same time, after borrowing 1.2 billion euros, £2 billion was returned to the shareholders, achieving the corporate goal of a more appropriate balance sheet.

With their focus on the future, the M&S team concentrated on a number of key questions. Holmes noted that he used the CUBE to emphasize three themes: "The first is getting sustainable growth for goods geared to clothing, food, financial services, and home." A major theme in three of the four sectors was sub-brands for segmentation—in many areas a good-better-best approach that provided the core customer with the outstanding quality and value he or she expected from Marks & Spencer (Perfect and Per Una in womenswear, Blue Harbour, and Sartorial in menswear).

Holmes was clear that in the future, M&S would use its scale and authority to deny oxygen to its competitors. While the firm would drive to achieve the peak productivity of the past, some of that value would be returned to the customer rather than provide an umbrella for competitors. Speed was another element. He thought there was no reason that within its mass-market segments, M&S could not lead in response to customer needs and taste. Said Holmes:

But, it's also connecting with the corporate social responsibility, heritage, and business. We can make a difference to the communities in the cities where we trade and where we're sourcing.

The second theme is moving from product to experiences and lifestyles. We should combine emotional attachment and desire to our very strong product emphasis. We want to move from a perfect Christmas pudding to a perfect Christmas, helping our customers to

create the best possible Christmas that they want. That could be the table settings, the food, the drink, and the cards. And obviously it's not just for Christmas.

And the third is how we work smarter and fundamentally improve the efficiency and productivity of our business system. There are significant opportunities to use technology to work better.

In his new role of executive chairman, Vandeveld expressed his view of the future. Noting the need to secure the recovery, he was also concerned that there be good execution on the many strategic initiatives. On Zip, for example, he judged that they had attempted to do too much too fast. One firm had been asked to help design across a range from infants, to boys and girls, to young teens, and that had not worked. New leadership was trying to provide more focused direction. Simply Foods needed to acquire sites more quickly. And the new home and financial services strategies needed to be more closely integrated into the group's program.

Vandeveld said, "I think eventually the company will have to reconsider its international aspirations. But it's too early to distract the organization from its core activities today." In fact, under the leadership of Richard Wolff, there was a profitable franchise business in 26 countries. Wolff had developed a program to bring scale and efficiency to a somewhat fragmented operation by developing a platform for the franchisees of brand, pricing store format, stock management, catalogue, and incentives.

Looking ahead, Vandeveld expressed his thoughts:

One of the fundamental issues is our command of the supply chain. At the beginning of the last century we said, "If we know what our customers want to wear, why don't we go directly to the factories to tell them?" We've lost that by creating the middleman in a different form. And this is why the Zip project was strategically important for us because we need to get back some command of the supply chain. But I am not a believer in vertical integration like Zara. I think you can have the same benefits without owning the four walls of the factory. Yasmin is going to determine what will be the feel and look of our clothing for the next season. There is still input from our suppliers, but *we* take that responsibility.

The model of M&S is still unique for several reasons: firstly, because we combine certain product categories that are very seldom combined in the world—the complementarity of food and clothing as a key component to drive footfall is rather unique. Secondly, our supply chain model is still quite unique as it allows command of the supply chain under our 100% own-brand policy. . . . Models such as Zara have added a new dimension because they are much faster to market than we are. But I think our model will survive for a long time if we keep adapting it to today's circumstances. To me the biggest reward actually is not just that we have succeeded in a time frame that I had personally set when I took charge of the company, but also, we've put a team and structure in place that will easily do the job without me reiterating my definition of a CEO, which is chief enabling officer.

Exhibit 1a Marks & Spencer Financial Performance

	Historical Performance		
	Sales in £ millions	Profits in £ millions	No. of U.K. Stores
1935	11.4	1.1	135
1940	27.0	2.4	234
1945	18.1	1.9	
1950	52.6	4.6	
1955	108.4	9.2	
1960	148.0	17.6	
1965	219.8	27.5	
1970	360.9	43.7	245
1975	721.9	81.8	252
1980	1,667.9	173.6	265
1985	3,213.0	303.4	272
1990	5,608.1	604.2	272
1995	6,806.5	924.3	283

Source: Judy Bevan, *The Rise and Fall of Marks & Spencer* (London: Profit Books, 2001), p. 249.

Exhibit 1b Marks & Spencer plc—Balance Sheet (in millions of GBP)

	31-Mar-2002	31-Mar-2001 Restated Normal	01-Apr-2000	31-Mar-1999	31-Mar-1998
Stocks	325.3	472.5	474.4	514.7	500.2
Misc assets	163.2	80.6	123.4	127.8	152.1
Customer Adv.	579.9	629.1	663.3	653.0	654.3
Various prepayals/accruals	273.1	289.5	290.4	292.7	321.0
Cust. Adv. > 1 Y	1,603.1	1,630.1	1,478.1	1,282.2	917.9
Cash and investments	816.1	414.4	687.5	485.5	857.2
Land/Buildings	2,280.6	2,896.0	2,868.7	3,037.9	3,627.0
Fixtures/Equip.	2,746.1	2,975.0	2,756.9	2,545.7	1,189.7
Depreciation	(1,672.5)	(1,843.9)	(1,464.8)	(1,311.6)	(764.4)
Other Assets	78.3	150.1	136.3	176.7	193.1
Total Assets	7,192.2	7,693.4	8,015.5	7,804.6	7,648.1
Short term notes, loans, drafts	650.4	1021.6	1169.4	912.6	991.8
Trade Creditors	199.6	207.5	219.3	214.7	230.2
Taxes	147.6	129.3	142.9	112.4	409.3
Other Creditors	340.9	247.4	254.3	244.5	198.8
Accr./Dfrd. Inc.	278.6	223.8	224.5	238.4	208.5
Proposed Div.	133.7	152.0	152.4	307.2	306.4
Total Current Liability	1,750.8	1,981.6	2,162.8	2,029.8	2,345.0
Total Long Term Debt	1,997.0	598.3	686.1	665.4	108.3
Other Liabilities	363.5	547.7	261.3	225.5	129.0
Total Liabilities	4,111.3	3,127.6	3,110.2	2,920.7	2,582.3
Share Capital	852.7	716.9	718.6	717.7	715.6
Share Premium	2.8	0.0	369.4	358.5	325.7
Cap. Reval. Rsrv	1,717.9	0.0	NA	NA	NA
Revaluation Res.	387.3	455.6	457.9	531.0	506.1
Other Reserve	(6,542.2)	378.2	NA	NA	NA
Profit/Loss Acc.	6,662.4	3,015.1	3,359.4	3,276.7	3,518.4
Total Equity	3,080.9	4,565.8	4,905.3	4,883.9	5,065.8
Total Liability & Shareholders	7,192.2	7,693.4	8,015.5	7,804.6	7,648.1

Source: Annual reports and financial statements, 2002.

Exhibit 1c Annual Income Statement (as reported, GBP millions)

	31-Mar-2002	31-Mar-2001 Restated Normal	01-Apr-2000	31-Mar-1999	31-Mar-1998
Total Revenue	8,135.4	8,075.7	8,195.5	8,224.0	8,243.3
Cost of Sales	5,191.4	5,237.1	5,402.8	5,450.7	5,322.9
Employee	1,193.4	1,117.8	1,096.2	1,107.9	985.7
Occupancy and repairs	425.9	392.7	377.3	391.9	343.9
Depreciation	249.6	275.9	261.6	300.4	166.5
Other Costs	431.3	601.7	586.6	461.1	301.6
Goodwill Write-Off	368.2	0.0	NA	NA	NA
Total Operating Expense	7,859.8	7,635.2	7,724.5	7,712.0	7,126.6
Misc. income and expense	79.9	(295.0)	(53.5)	34.1	56.9
Income Before Tax	335.9	145.5	417.5	546.1	1,168.0
Income Tax—Total	182.5	149.5	158.2	176.1	338.7
Net Income	153.0	(5.5)	258.7	372.1	828.9
Basic Weighted Average Shares	2,841.7	2,872.4	2,872.1	2,864.7	2,850.1
Gross Dividends Common	238.9	258.3	258.6	413.3	409.1
Interest Expense	116.9	107.4	107.4	76.8	58.8
Employees	50,176.0	52,213.0	52,156.0	75,492.0	71,297.0

Source: Annual reports and financial statements, 2002.

Exhibit 2 Marks & Spencer, Senior Executive Biographies

Keith Bogg U.K. Retail director Home and E-commerce. Joined M&S in 1987 in the IT Group. 1991-93 Personal Assistant to Sir Richard Greenbury. Divisional Director for Logistics and Catalogue in 1993, added responsibility for Information Systems in 1995. Hampden School, Oxhey and Watford College.

Maurice Helfgott Business Unit Director, Menswear since January 2001. Joined M&S in 1988. Previously Commercial Executive for Women's Footwear, Accessories, Jewelry, Hosiery and Beauty businesses. Managed the corporate strategic review from October 2000. Manchester University, first in PPE; MBA HBS, Baker Scholar.

Michelle Jobling Business Unit Director of Children's wear and Managing Director of The Zip Project since December 2000. Prior to M&S, was Managing Director of Liberty Plc. Prior to Liberty, General manager of Tambrands for the United Kingdom and Ireland. Earlier worked at B&Q in the formation of the B&Q warehouse concept. Left M&S in October 2002.

Roger Holmes Chief Executive since September 2002. Joined M&S in January 2001 as Managing Director U.K. Retail Division. Previously Chief Executive of the Electrical Sector at Kingfisher and a main Board Director. From 1994 Finance Director with B&Q, in 1997 Managing Director of Woolworths. Prior to Kingfisher a Principal at McKinsey & Co.

Justin King Executive Director, in charge of Foods since joining M&S in March 2001. Appointed to M&S Plc Board in September 2002. Previously Managing Director of Asda's U.K. Hypermarkets. Previously Deputy Trading and Operations Director for Asda. Age 41.

David Norgrove Executive Director of Marks & Spencer since September 2000. Currently responsible for Clothing and International. Previously responsible for Business Strategy, and before that European activity, export franchising and then Menswear. Prior to joining M&S in 1988 he served in HM Treasury for 16 years. Oxford University, Diploma in Economics Cambridge University, MSc London School of Economics. Non-executive Director, Strategic Rail Authority.

Laurel Powers-Freeling Executive Director, Chief Executive of M&S Financial Services business, since November 2001. Previously Director of Lloyds TSB's Wealth Management division, Director of Strategy and Finance for the U.K. Retail Bank and Group Finance Director of Lloyds Abbey Life. Non-executive director of the Bank of England. AB Columbia University, MMgt MIT.

Barry Stevenson Retail Director with responsibility for service and selling in the U.K. stores. Previously at Kingfisher as Managing Director for B&Q supercentres. Prior to that B&Q Operations Director. Age 42.

Luc Vandeveld Executive Chairman, he joined Marks & Spencer in February 2000 as full time Executive Chairman and became Chief Executive as well in September 2000. Prior to M&S, from 1995 he served as President and Chief Operating Officer of Promodes and later as chairman. Before that he worked with various divisions of Kraft General Foods, having joined in 1971. Aged 51, he is a Belgian national.

Richard Wolff International Retail Director responsible for the International Franchise Group, M&S Hong Kong, and U.K. Outlet Stores since November 2001. Previously Retail Director, UK Stores, Brooks Brothers Stores Operations, and Executive Assistant to the Deputy Chairman. Sir Joseph Williamsons Mathematical School, Rochester; Orpington College, HBS, AMP. Age 47.

Yasmin Yusuf Creative Director for Clothing. Age 43. Appointed in March 2001. She joined Marks & Spencer from Warehouse where she was Managing Director since 1996. From 1993 she held positions as Fashion Director and General Manager of Warehouse. Prior to this, Yasmin worked for Harvey Nichols and for Jones. She was educated at Eastham Technical College, Middlesex College, and the Royal College of Art.

Steve Longdon Director of Women's Clothing. Appointed in June 2001. He joined M&S from BAA plc where his roles included Chief Executive, World Duty Free plc. Prior to this, Steve worked for twelve years for the Arcadia Group (formerly the Burton Group) where he was Director of Buying and Merchandising for Top Man and Burton Menswear and was appointed Managing Director, Top Shop and Top Man in 1991. Steve began his career in 1973 at Marks & Spencer working for seven years as a merchandiser and merchandise manager in Childrenswear and Menswear, following six years in store management

Vince McGinlay Director responsible for the General Merchandise Supply Chain and Textile Technology. He joined Marks & Spencer in 1973 as a Management Trainee in Textile Technology. He transferred from Technology to Commercial Management in 1980. From 1988 to 1990 he was Personal Assistant to the CEO and in 1990 he moved to the USA based in New York as Executive Vice President of Brooks Brothers, a subsidiary of Marks & Spencer. His responsibilities included product buying for all Retail Divisions (Stores, Mail Order and Outlets), and he also headed up Marketing and Manufacturing. He returned to Marks & Spencer in the UK in 1994 as Divisional Director of the Menswear Buying Group with a turnover of £1 billion and held this position until 1999. Over recent years, Vince has been involved in the restructuring of the Buying Groups into Business Units and the rationalisation and repositioning off-shore of the General Merchandise supply base. He was appointed to the UK Retail Board in August 2000 as Supply Chain and Textile Technology Director.

Source: Company.

Exhibit 3a Marks & Spencer—Fall 2000 Strategic Retreat

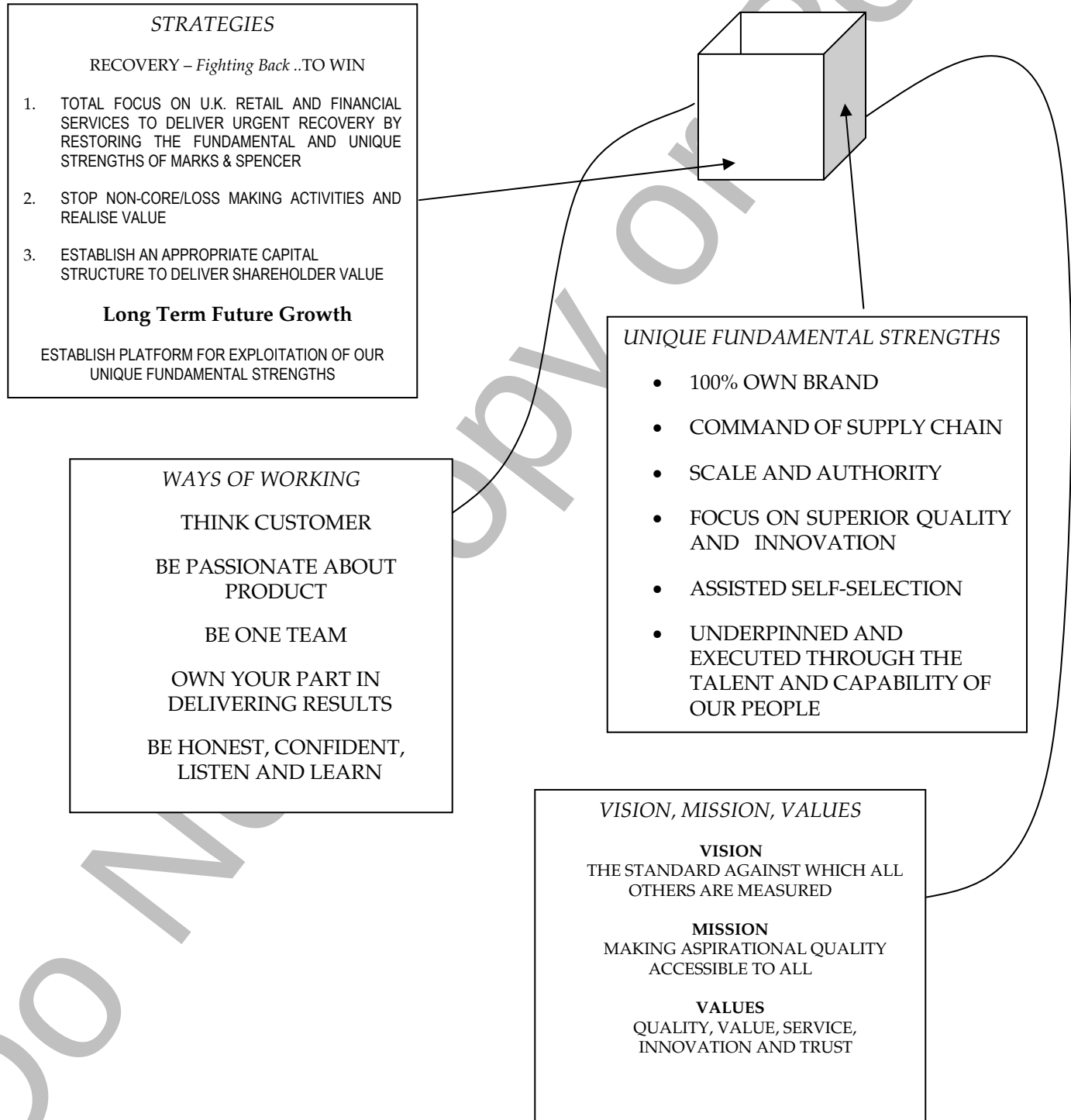
Luc Vandevelde Chairman and CEO						
	Alan McWalter Executive Director, Marketing		David Norgrove Executive Director, Strategy and International		Robert Colvill Executive Director, Chief Financial Officer	
Cherie Lofland Director Communication		Graham Oakley Company Secretary		Gary Waldron Executive Assistant to Luc Vandevelde		Richard Gillies Director of Change (Reporting to DN)

Source: Company.

Exhibit 3b Marks & Spencer Senior Management Group in Spring 2002 (only those mentioned in the case)

Luc Vandevelde Chairman and CEO						
Allison Reed Executive Director Chief Financial Officer	Laurel Powers-Freeling Executive Director Financial Services	Roger Holmes Executive Director UK Retail	David Norgrove Executive Director Strategy & Int'l.	Justin King Executive Director Food		
Vincent McGinlay Director Supply Chain	Maurice Helfgott Business Unit Director	Steven Longdon Business Unit Director	Michelle Jobling Business Unit Director, Zip	Yasmin Yusuf Creative Director	Richard Wolff Retail Director International	Barry Stevenson Retail Director UK Stores

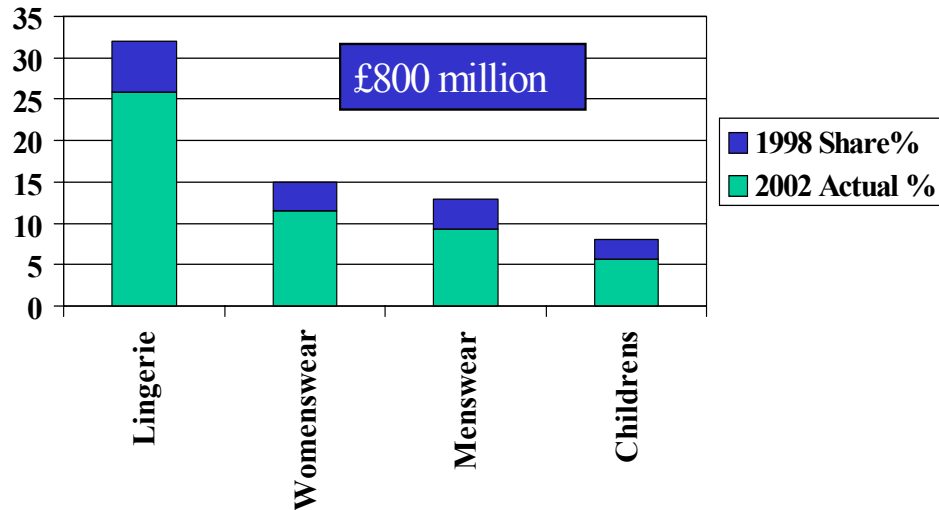
Source: Company.

Exhibit 4 The CUBE

Source: Company documents.

Exhibit 5 Market Share Loss since 1998

Market Share Loss since '98



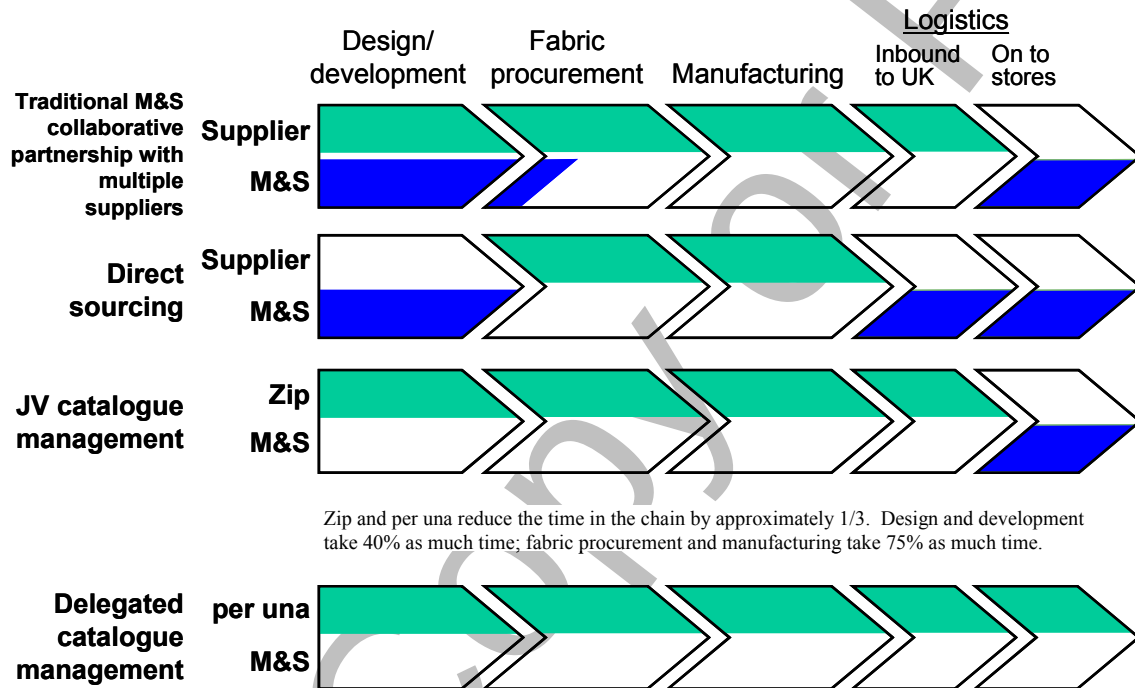
Source: UBS Warburg from company documents.

Exhibit 6 Trends in the Mid-Market

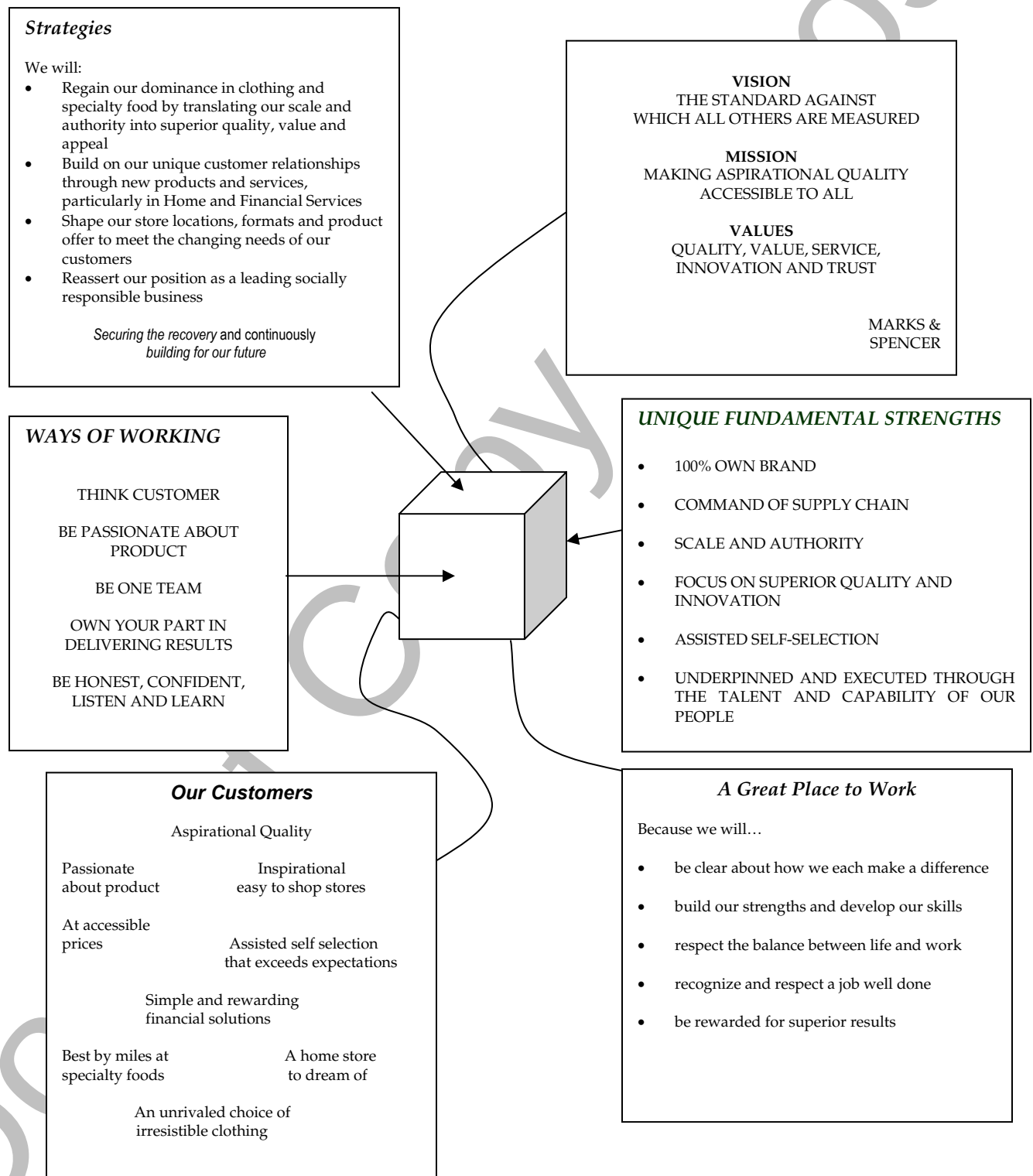
	Arcadia	Debenhams	M&S	Matalan	Next
Size index	52	44	100	22	37
No. of stores	1398	94	285	133	332
Avg Size 000 sq ft	3.6	76.4	31.6	24.3	5.5
Sales/sq ft	371	224	404	251	751
Cost/sls %	-46.4	-32.2	-35.0	-27.9	-36.0
Gross Margin	50.4	41.9	43.2	41.2	49.9
Ebit/sq ft	14	22	36	34	104
Changes in clothing sales '98-'02	Clothing Market				
Top >30L in '98	+274	+20	+ 13	0	+123
Mid 15-30L in '98	-344	+19	- 345	+28	-6
Low <15L in '98	+89	0	+ 8	+87	+17
Market	+19	+39	-324	+115	+134

Source: Company documents based on independent research. Margins are analysts' estimates.

Exhibit 7 Supply Chain Options



Source: Company documents.

Exhibit 8 The CUBE 2

Source: Company documents.

Exhibit 9 How Yasmin Saved M&S—Fashion**How Yasmin Saved M&S—Fashion**

By Emily Davies

The new season's collection proves that the store is back on track, says Emily Davies.

If I were a Marks & Spencer shareholder, I'd be feeling pretty hopeful. Last week M&S unveiled its new collection for autumn/winter and, snap, the next day the share price rose by 4p. The company's star has been creeping back into the ascendant in recent months, but this was the first sign of a proper comeback. It was a big, confident launch—and the boldest for some time.

As the share price headed south over the past few years, critics said that the store could not expect to be all things to all people. Yet the collection last week had a very broad appeal. The knowing touch of Yasmin Yusuf, M&S's creative director for a year, was evident. She has cleverly targeted the more adventurous, trend-led customer, yet still produced plenty for the traditional M&S loyalist.

Plenty of pieces would pass muster with even the fussiest London stylist—to wit, lots of Yves Saint Laurent-esque pieces, such as knickerbockers—but there were also several good, plain basics, such as chunky cable-knit jumpers for £49.

"We have a huge spread of prices," says Yusuf. "We have customers who will spend £600 on a sheepskin coat because they know that it would cost them £1,200 in a designer shop.

"But we also do the fake-fur version in the same cut with similar styling for about £150 and, obviously, that will be the bulk of our sale—we would expect only 10 per cent of our sale on those items to be on the sheepskin version."

The collection is clever because from a distance it looks distinctly (whisper it) fashionable, and up close the pieces are high quality, easy and modern. Attempting to be too fashionable has been M&S's downfall in the past. Then it overcorrected, veering back towards what one might uncharitably call Women's Institute chic (ie, rather staid classics).

Now it has abandoned attempts to compete with high street rivals such as Topshop, Hennes and Zara, which fill their windows with fast, cheap catwalk copies, in favour of trend-influenced, wearable clothes.

This month Luc Vandeveld, M&S's chairman and chief executive, revealed that clothing sales had risen by 16.5 per cent between January and March compared with the same period last year—a growth rate double that of most other retailers. It proves that M&S is finally getting more things right.

The fashion world certainly thinks so. The word going round the stylists and journalists assembled at the presentation at the Saatchi Gallery was that many of the clothes in the new collection were worth calling in for a shoot—always a good barometer of success.

The Autograph collection, which in the past has been critically well received but failed to show bottom-line results, seems rejuvenated.

Designers working for Autograph now include Betty Jackson, Sonja Nuttall and Anthony Symonds, as well as the milliner Philip Treacy and the bag designer Orla Kiely. The pieces by Symonds, who

concentrated on making wearable clothes back when everyone else was doing distressed deconstruction, stood out, particularly his black chiffon shift dress covered in strips of black ribbon and braid.

So why are the tills ringing again? M&S's recovery really began with the appointment of Yusuf a year ago. Previously the managing director at Warehouse, Yusuf, 42, has a hawk-like attention for detail, and is known for sending her teams out on to the streets with cameras to record what people are wearing.

"We are trying to keep it broad," she says. "A while ago people were saying that M&S should not try to be too fashionable, but there are a lot of women out there who want that. We believe we have stuff that will excite even fashionistas, but we are not in the business of trying to get a catwalk piece into the store two weeks later—rather, what we try to do is deliver more considered fashion—we'll have all the key looks each season, but executed in an accessible way.

"Yes, we have got knickerbockers, but they will go to only a few stores, and we'll keep doing the classic pieces because we have got very good at them and we can deliver an aspirational quality." Treading the line between creating "fashion-forward" nonbasic pieces that are desirable enough to motivate women to spend, and descending into tawdry, inaccurate catwalk ripoffs, is a fine one, as Yusuf knows. "We are keeping a close eye on trends, and on what is appropriate for M&S and what's not," she says. "We can't be everything to everyone, but we can touch lots of people at different times."

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Appendix

Notes from a 1975 Chairman's Meeting

Marks & Spencer

Sir Marcus (chairman): We are not taking our markdowns fast enough or sharp enough.

Henry Lewis (joint managing director): That's related to some problems we discussed yesterday. The production cutoff date is not in adequate control. We must be able to learn from production sheets so we don't make mistakes. Production changes and cutoffs should be noted for reference next year.

Sir Marcus: If you go away from the principle, it costs you more than you gain 9 times out of 10.

Brian Howard (director): We are moving further into computers in food. From July 1975 to November 1975 stores will be converted from a daily indent (order) system to a weekly system. The computer then translates the weekly ordering into daily projections. It reduces paperwork, and by 1976 the stores probably won't be ordering at all. It's going to take a lot of training to get people to think in total terms. The one system will, however, simplify the stores' life.

J. Edward Sieff: I ran across a fabric yesterday, 5-8. I think it's inferior. I hear our people saying it's lousy. It may be an achievement for technology but not for women. And ICI (major fabric supplier) is pushing it.

Sir Marcus: Are we telling them?

Michael Sacher (vice chairman and joint managing director): We have a meeting Thursday.

Sir Marcus: We must be frank with our suppliers.

J. Edward Sieff: We must be frank with ourselves.

Derek Rayner (joint managing director): I've been trying to work our priority stores for 1975. Over two-thirds of the sales will come from 95 stores. We need good stock composition of basic merchandise. Can we carry both basic merchandise in all stores and specialized lines in selected stores?

Sir Marcus (speaking a few minutes later at the full board): Henry Lewis and I visited nine of the Nottingham Manufacturing factories {the largest M&S supplier}. They are an outstanding operation, but they have failed to innovate in the design area. However, they had no criticism of our criterion in this respect. Also, they were making a line of ladies' nylons, three in a package, for 75 pence that was not making enough money for them. They asked us if we really wanted them to make lines at a substantial loss. We said certainly not and canceled the line.

My second point is that we brought back goods that were of appalling quality—not poor in make but in conception. Are we being sufficiently self-critical? Are our standards high enough? Do we probe enough in our eating and wearing? You must see that it applies to you—we've got to be critical.

The reader may want to compare these excerpts with the video of a 1994 meeting of the executive board available in the multimedia case.