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THE DE-GLOBALIZATION OF MARKS & SPENCER IN 2001: AN UPDATE

"To eliminate distractions and gain maximum impact from the improvements, Marks & Spencer intends to close its subsidiaries in Continental Europe; to divest its two U.S. businesses, Brooks Brothers and Kings Super Markets..."

Marks & Spencer board of directors, 29 March 2001

INTRODUCTION

As they say in cricket, Marks & Spencer was knocked for a six.¹ The venerable British retailer, which sold one out of every four men's suits and 40 percent of all ladies undergarments sold in Britain, as well as one-third of all prepared food bought in the country, had long been one of the most admired companies in Europe. In 1997–1998, under the guidance of its chairman and chief executive Sir Richard Greenbury, who joined the firm forty-five years earlier at the age of seventeen,² Marks & Spencer's pretax profits doubled to £1.16 billion and the company competed with Wal-Mart for the distinction as the world's most profitable chain store.³ However, by November 1998, within months of its strongest ever annual report, the retailer announced a 23 percent drop in midyear profits and issued its first profit warning in thirty years, forecasting more bad results to follow. The news sent the company's share price to a three-year low. The precipitous decline of Marks & Spencer's fortunes cast doubt over Greenbury's future with the company (see **Exhibit 1**).⁴

It also jeopardized Marks & Spencer's ambitious £2.2 billion global expansion plan that was the centerpiece of the company's strategy. Long dominant in Britain, Marks & Spencer looked for growth overseas in the 1970s and 1980s, using cash from its ongoing operations to finance expansion and acquisitions in Europe and North America (see **Exhibit 2**). The company owned

¹ In cricket "knock for six" is when a batsman hits the ball out of the playing area without bouncing so six runs are scored. The phrase has come to mean a devastating, unexpected emotional blow.

² "Poor Marks," *The Economist*, November 19, 1998.

³ "Marks's Failed Revolution," *The Economist*, April 12, 2001.

⁴ In November 1998, M&S's board split the role of chairman and chief executive. Greenbury reported that the board asked him to stay on as full-time, nonexecutive chairman until July 2000. In June 1999 Greenbury reported that he resigned because of irreconcilable differences with his successor as chief executive. *The Economist*, November 19, 2000.

Professor Robert A. Burgelman and Philip Meza prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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stores all over Europe and Asia and in the United States owned the well-known Brooks Brothers clothing chain and Kings Supermarkets. Even into its downturn in 1998/1999, Marks & Spencer added 1.5 million square feet across the world. By 2001, under the direction of a Belgian outsider named Luc Vandevelde, in his recently created role of executive chairman, Marks & Spencer began to refocus on its home island.⁵ The company announced plans to “eliminate the distractions” of its thirty-eight stores on the European continent and put up for sale Brooks Brothers and Kings Supermarkets in the United States. Giving up—at least for a time—on its overseas operations, the company said it aimed to return £2 billion (\$2.8 billion) in cash to shareholders by the end of March 2002. What had gone wrong?

THE FIRST NEW BROOM

After that terrible November in 1998, the Marks & Spencer board split the chairman and chief executive role.⁶ Greenbury remained chairman and Peter Salsbury, a twenty-eight-year veteran of the firm who had spent his entire career at Marks & Spencer became chief executive. Salsbury had been director of personnel and store operations.

In his first eight months as chief executive, Salsbury cut costs, launched the company’s first advertising campaign, and set about to change the inward-looking culture of the company’s 70,000 employees. The new chief executive observed, “We lost touch with the customers and forgot about the competition. Those are quite fundamental for a retailer.” In addition, by the company’s annual general meeting in July 1999, Salsbury saw off Greenbury who had become an antagonist, and hinted that the company was looking for an outside chairman.⁷

Before that meeting, in March 1999, Salsbury identified four priorities for his turnaround.

- Create clear profit centers, with simple management structures, fast decision-making, and targets for shareholder value.
- Restructure our buying at home and abroad, to place more decisions with the selling and marketing parts of the business.
- Restore profitability overseas with a clear focus on the local customer.
- Build the successful financial services business.⁸

Salsbury was trying to address a host of problems that hurt the company during the previous autumn and winter seasons in 1998. During that time, like-for-like clothing sales fell by 15 percent.⁹ Salsbury blamed Marks & Spencer buying teams for being out of touch with the consumer.

⁵ Greenbury departed in June 1999 and Peter Salsbury was fired from the chief executive position by Vandevelde in October 2000.

⁶ Ironically, Sir Richard Greenbury co-led the Cadbury-Greenbury commissions into corporate governance in 1992 and 1995. Among the commissions recommendations were the division of roles of chairman and chief executive. Greenbury did not relinquish the chief executive role until 1998.

⁷ “Food For Thought,” *The Economist*, July 8, 1999.

⁸ “Marks & Spencer Preliminary Results Announcement for the 52 Weeks Ending 31 March 1999,” Press Release, Marks & Spencer.

⁹ “Like-for-like” is similar to the U.S. accounting convention of same store sales which measures the results of retail outlets open for more than one year.

Mind the Gap

According to some observers, Marks & Spencer was laid low by fortysomething year old women. For years the store offered reliable styles for housewives and working women with narrow fashion tastes. However, over the past ten years the tastes of this group of women dramatically changed and Marks & Spencer failed to keep up with the fashion demands of this critical demographic. Until the early 1990s, Marks & Spencer had no in-house designers. All of its products were the results of compromises between buyers, managers, and suppliers. Finally, in the late 1980s Marks & Spencer hired Sheilagh Brown, a respected fashion designer, giving her the nebulous task of exerting “some influence.” Betty Jackson, the designer whom Brown drafted in as a consultant in 1990, recalled: “They were terrified of fashion. I think they felt women over thirty could not cope with it. It was always them and us. I asked once, who is this ‘them’? If we are not identifying with these clothes, who is?”¹⁰

While Marks & Spencer lost touch with the public, others entered the market with more popular and faster changing styles. Stores like the Gap introduced profound competition, hitting the consumer with new merchandise every three weeks, compared with Marks & Spencer’s twice-yearly collections. (See **Exhibit 3**.)

Marks & Spencer had become dowdy. Critics accused the retailer of “piling it high and selling it not so cheap.” This was the antithesis of the original ethos of providing quality for the masses. The Gap offered time-pressed customers (now shopping in three stores as opposed to the half dozen they would have browsed in twenty years ago) two fast-changing styles of cargo pants in three colors. Marks & Spencer had twelve tired styles, scattered around its floors, none of them quite right. Marks & Spencer’s Brown admitted, “We used to get so hung up on quality, we forgot about style.”¹¹

Tesco Eats Marks & Spencer’s Lunch

Problems in the clothing lines added to the drain from disappointing results in the company’s food business. Food accounted for 40 percent of the company’s revenue, but like-for-like food sales were falling by 1 to 2 percent per year. While food took up 15 percent of the floor space in Marks & Spencer’s stores, it accounted for around 40 percent of sales.¹² But the company gradually lost its advantage as mainstream food chains copied its formula. Marks & Spencer’s share of the British grocery market dropped below 3 percent, compared with around 18 percent for its biggest supermarket rival, Tesco.¹³ Marks & Spencer refused to reveal its profits from this enterprise, but analysts speculated that they had withered away.

Meanwhile food competitor Tesco enjoyed continued success (see **Exhibit 4**). As Marks & Spencer was faltering, Tesco gained pre-tax profits exceeding £1 billion; Marks & Spencer had been the only British retailer to sell that much. Tesco’s success followed a fundamental change in its strategy in the mid 1990s. No longer a discounter of lower quality goods, Tesco moved into Marks & Spencer’s market, selling high quality merchandise at competitive, but not rock bottom prices. The company looked to build upon its success, expanding the range of goods on offer. Its 304 superstores devoted 40 to 50 percent of its space to non-grocery items such as

¹⁰ “What Went Wrong in 1999,” *Times of London*, November 26, 1999.

¹¹ *Ibid.*

¹² “Food For Thought,” *The Economist*, July 8, 1999.

¹³ “Does M&S Have a Future,” *The Economist*, October 26, 2000.

clothes and home products. The company also started to offer electronics such as DVD players and mobile phones. Still, with Britain's domestic market becoming more competitive—Wal-Mart purchased British retailer ASDA—Tesco looked overseas for growth. The company concentrated on two principal areas, Central Europe and East Asia. It already had 68 giant hypermarkets overseas and planned to increase this to 130 by 2002.¹⁴ Overseas sales amounted to 13 percent of total turnover in 2001, but by 2003 this share was expected to rise to 30 percent. In 2000, total international sales grew by 43 percent over the previous year to £2.9 billion. In Asia, it jumped by 85 percent to almost a billion pounds. Altogether, overseas operations contributed £74 million to group profits in 2000, an increase of almost half.¹⁵ Many analysts credited Tesco's success to particularly focused and responsive management.

As 1999 wore on, so did Marks & Spencer's woes. In November, the company reported that profits for the six months to October fell by 43 percent. In spite of a costly marketing campaign in which menswear prices were reduced by 20 percent and £5 vouchers was given for every £25 purchase, sales declined by 8 percent. In an effort to make Marks & Spencer more nimble and less bureaucratic, Salsbury initiated a management reorganization. In December 1999, Salsbury established a "retail board" to oversee all the retailing activities of the company. The new system created seven new business unit directors, each with their own responsibilities. These were lingerie, menswear, women's wear, homeware, children's wear, food, and beauty products. The new structure replaced two levels of senior management, divisional directors and senior executives, set up as the second and third tiers of management under Greenbury. While no layoffs were expected, many senior executives were expected to end up with greatly diminished responsibilities. One Marks & Spencer director said: "There will be people who do not want to adapt to these changes. If they are not versatile, they will find they are no longer needed."¹⁶

Under Salsbury, the company reversed its longstanding policy of selling only its own brands. It started selling Orange brand mobile phones and Philips toasters. The store introduced Autograph (co-labeled Marks & Spencer), a new high-fashion label created by prominent British designers, into a handful of its stores. Autograph clothing, including £450 leather coats, had "limited" ranges that changed every few weeks and was sold by employees in a separate area of the store distinguished by wooden floors and leather seats.¹⁷

A NEW CHAIRMAN ARRIVES

In January 2000, Marks & Spencer announced that it had filled the empty chairman's position, left vacant since Richard Greenbury resigned in July 1999. The board selected Luc Vandeveld, a Belgian who was then the managing director of the French food retailer Promodès, one of France's most successful companies. Throughout the 1990s it was the best blue chip performer on the country's stock market.

The appointment of a new chairman had been keenly awaited. It was seen as a key factor in the group's attempts to turn the business around and to rebuild bridges in the financial community,

¹⁴ A hypermarket is an extremely large self-service retail outlet usually consisting of a "fresh" department where fresh meat, vegetables, juice, fruit, baking products, cooked food and live seafood are sold, together with frozen food and wine as the main attractions. Other sections are similar to that of a department store.

¹⁵ "Piling Up the Profits," *The Economist*, April 12, 2001.

¹⁶ Fraser Nelson, "M&S to 'Purge Dead Wood' in Third Shake-Up," *The Times of London*, December 20, 1999.

¹⁷ "Shelving the Saint," *The Economist*, March 16, 2000.

where investors were upset at the company's depressed share price.¹⁸ There was much work to do. Analysts believed Marks & Spencer's share of the clothing market in the United Kingdom fell to 11 percent in 1999, down from 13 percent in 1998.¹⁹

The new chairman began his job with a strong pledge. In May 2000, within a few months of his arrival Vandeveldel said, "By the end of the calendar year I would hope we will have a clear demonstration of an improved performance driving the top line. I am very confident we will see rapid improvement in profitability as well. If these results do not come I won't be sitting here in two years' time."²⁰ Vandeveldel then set out on an ambitious plan to overhaul the company's brand.

This promise of a brighter future for Marks & Spencer came as Vandeveldel announced the first dividend cut in its history and a sharp drop in annual profits. Annual pre-tax profits fell from £628.4 million to £557.2 million, excluding exceptional items and including an extra week's trading. Pro forma profits before exceptional items fell to £517.2 million. Sales were flat at £8.2 billion, with clothing and footwear down 7 percent and food up 1.2 percent.²¹

One bright spot was the news of better than expected results in current trading in the first five months of 2000, which helped to fuel an 18 percent rise in the share price to 260.75p. Sales increased by 4.2 percent during the eight weeks since March 31, 2000, with a like-for-like increase of 2.1 percent.

By July the momentum slowed. Marks & Spencer released figures that showed a slowing trend, with comparable total sales for the 16 weeks to July 15 up by only 3.2 percent and like-for-like sales up only 0.9 per cent.²²

At this time, Vandeveldel announced the roll out of his new concept for store design. The trademark drab Marks & Spencer interiors were to be replaced with chrome and marble. Generous walkways and appealing displays replaced cramped aisles and rows upon rows of clothes racks. The first twenty-six stores to be overhauled accounted for around a fifth of Marks & Spencer's turnover. According to one former director, the retailer made most of its profit from around forty stores.²³

DE-GLOBALIZATION: THIRD TIME LUCKY?

Into 2001, signs of recovery still eluded Marks & Spencer. In March the company announced another recovery plan—this time with a total focus on U.K. retail. Vandeveldel took an axe to Marks & Spencer's non-British holdings. The revised strategy stated:

To eliminate distractions and gain maximum impact from the improvements, Marks & Spencer intends to close its subsidiaries in Continental Europe; to divest its two U.S. businesses, Brooks Brothers and Kings Super Markets; to franchise its subsidiary business in Hong Kong; and to close the Direct catalogue business.

¹⁸ "M&S Turns to France for its New Chairman," *Financial Times*, January 21, 2000.

¹⁹ "Marks and Spencer to Overhaul Brand Image," FT.com, March 12, 2000.

²⁰ Peggy Holinger, "M&S Chief to Resign if Sales Do Not Rise," *Financial Times*, May 24, 2000.

²¹ Results were announced on May 23, 2000.

²² "M&S Shows Slowing Trend," by Lucy Killgren, FT.com, July 19, 2000.

²³ "Does M&S Have a Future," *The Economist*, October 26, 2000.

In addition Marks & Spencer will release value from almost half its property portfolio.²⁴

The company planned to use the proceeds from the disposals to return £2 billion of cash to shareholders by the end of March 2002.

In addition, the company planned to return to its longtime policy of selling only its own brand of clothes. Marks & Spencer also announced plans to develop high-growth areas of Home & Beauty and accelerate its store renewal program. It set the target of completing the rehab of two-thirds of its retail space (120 stores) by the end of the coming financial year.

One of the key changes undertaken in 2001 was to pull apart many of the organizational structures put in place under the auspices of Salsbury. The hope for nimbleness and focus on the customer never materialized. Instead, headquarters suffered much duplication of effort since each unit had its own management board and separate functions for information technology, procurement, and even human resources.²⁵

Despite the withdrawal and the decision to sell the ten stores in Hong Kong to franchisees, Marks & Spencer insisted that it still harbored global ambitions. Vandeveldel said: "This is not an end to the global plan for Marks & Spencer. We are convinced that internationalization for a major retailer is essential if you want to remain competitive over time."²⁶

CONCLUSION

When Vandeveldel arrived in early 2000, he promised recovery within two years. After fifteen months, he was forced to concede that progress was slower than planned. After announcing the company's retreat to the United Kingdom, Vandeveldel said he still had global ambitions for Marks & Spencer. Britons who grew up shopping at this institution, not to mention Marks & Spencer's shareholders, wondered what the company could do in 2001 to turnaround its decline in Britain? Does Marks & Spencer need to be an international company? If so, what lessons should the retailer draw from the events over the past few years when it decides to expand again?

²⁴ Marks & Spencer board of directors, 29 March 2001.

²⁵ Sally Patten, "M&S Fashions Return to the Middle Ground," *The Times of London*, March 30, 2001.

²⁶ Ibid.

Exhibit 1

Selected Financial Data for Marks & Spencer

	2001	2000	1999	1998	1997	1996	1995	1994
	52 weeks	53 weeks	52 weeks	52 weeks	52 weeks	52 weeks	52 weeks	52 weeks
	£m	£m	£m	£m	£m	£m	£m	£m
Profit and loss account								
Turnover:								
General	4,413.5	4,629.6	4,765.1	4,811.4	4,601.7	4,181.4	3,967.2	3,785.8
Foods	3,299.1	3,201.3	3,110.3	3,157.1	3,024.1	2,871.3	2,703.6	2,632.6
Financial Services	363.1	364.6	348.6	274.8	216.1	181.0	139.1	125.3
Total turnover (excluding sales taxes)	8,075.7	8,195.5	8,224.0	8,243.3	7,841.9	7,233.7	6,809.9	6,543.7
Retailing	7,712.6	7,830.9	7,875.4	7,968.5	7,625.8	7,052.7	6,670.8	6,418.4
Financial Services	363.1	364.6	348.6	274.8	216.1	181.0	139.1	125.3
Operating profit								
United Kingdom	404.6	472.7	565.1	1,014.1	931.3	865.5	829.9	775.4
Europe (excluding UK)	(11.4)	(14.8)	(90.8)	31.9	37.3	32.0	32.0	37.9
North America	32.0	16.4	15.7	16.7	20.7	13.9	13.3	21.7
Far East	7.4	(3.3)	(3.5)	18.3	32.7	26.0	19.7	17.5
Excess interest charged to cost of sales of Financial Services	7.9	—	25.5	22.7	—	—	—	—
Total operating profit	440.5	471.0	512.0	1,103.7	1,022.0	937.4	894.9	852.5
Analysed as:								
Before exceptional operating (charges)/income								
Exceptional operating (charges)/income	467.0	543.0	600.5	1,050.5	1,022.0	937.4	894.9	852.5
Retailing	(26.5)	(72.0)	(88.5)	53.2	—	—	—	—
Financial Services	336.3	355.1	375.8	991.6	946.3	878.4	846.2	813.2
Excess interest charged to cost of sales of Financial Services	96.3	115.9	110.7	89.4	75.7	59.0	48.7	39.3
Loss on operations to be discontinued	7.9	—	25.5	22.7	—	—	—	—
Loss on closure of businesses	(224.0)	—	—	—	—	(25.0)	—	—
(Loss)/profit on disposal of property and other fixed assets	(1.7)	(45.4)	—	—	—	—	—	—
Net interest income	(83.2)	(22.3)	6.2	(2.8)	(1.8)	(4.2)	(5.4)	(17.3)
Profit before taxation	13.9	14.2	27.9	54.1	65.9	57.6	34.8	16.3
Taxation on ordinary activities	145.5	417.5	546.1	1,155.0	1,086.1	965.8	924.3	851.5
Minority interests	(142.7)	(158.2)	(176.1)	(338.7)	(346.1)	(312.0)	(299.5)	(272.2)
Profit attributable to shareholders	(1.5)	(0.6)	2.1	(0.4)	(1.3)	(1.2)	(1.0)	(1.1)
Dividends	1.3	258.7	372.1	815.9	738.7	652.6	623.8	578.2
(Loss)/profit for the year	(258.3)	(258.6)	(413.3)	(409.1)	(368.6)	(320.9)	(288.2)	(255.5)
Source: Marks & Spencer Annual Report 2001	(257.0)	0.1	(41.2)	406.8	370.1	331.7	335.6	322.7

Exhibit 1 (continued)
Selected Financial Performance Measures for Marks & Spencer
1997-2001

For the year ended 31 March	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Key performance measures					
Gross Margin	35.1%	34.1%	33.4%	35.2%	34.9%
Net margin	5.4%	5.7%	5.9%	13.1%	13.0%
Net margin excluding exceptional items	5.7%	6.6%	7.0%	12.5%	13.0%
Profitability (Return on Sales)	1.8%	5.1%	6.6%	14.0%	13.8%
Profitability excluding exceptional items	6.0%	6.8%	7.6%	13.4%	13.9%
Earnings per share					
Earnings per	10.7p	11.4p	15.0p	28.7p	26.2p
Dividend per share	9.0p	9.0p	14.4p	14.3p	13.0p

Source: Marks & Spencer Annual Report 2001

Exhibit 2
Worldwide Footage Expansion for Marks & Spencer
1998/1999

Location	Square footage (000)	Percent to total
UK Littlewoods Purchase	536	35
UK other new footage	447	30
Continental Europe	274	18
Republic of Ireland	116	8
North America	91	6
Hong Kong	47	3
Total	1,511	100

Source: Marks & Spencer Annual Report 1999

Exhibit 3
Selected Financial Data for The Gap
1997-2001

	3-Feb-01	29-Jan-00	30-Jan-99	31-Jan-98	1-Feb-97
Sales—Core Business	13,673.50	11,635.40	9,054.50	6,507.80	5,284.40
Total Sales	13,673.50	11,635.40	9,054.50	6,507.80	5,284.40
Cost of Goods Sold	8,599.40	6,775.30	5,318.20	4,021.50	3,285.20
Interest Expense	74.9	45	59.8	-3	-19.5
Other Operating Expense	3,617.20	3,030.20	2,370.80	1,635.00	1,270.10
Unusual Inc/Exp	0	0	0	0	0
Total Expenses	12,291.60	9,850.40	7,748.80	5,653.60	4,535.90
Pre-Tax Income	1,381.90	1,784.90	1,305.60	854.2	748.5
Income Taxes	504.4	657.9	494.7	320.3	295.7
Income After Taxes	877.5	1,127.10	810.9	533.9	452.9

Source: Gap company reports

Exhibit 3 (continued)
Gap Store Expansion

	Total Stores at end of Fiscal 1999	Total Stores at end of Fiscal 2000	Planned Store Openings Fiscal 2001 (a)
Gap United States	1,767	2,079	280-300
Gap International			100-120
Canada	144	160	
United Kingdom	137	184	
France	42	55	
Japan	53	108	
Germany	17	22	
Banana Republic			40-60
United States	56	389	
Canada	0	13	
Old Navy			
United States	513	666	130-150
Total	3,018	3,676	550-630

Source: Gap Annual Report 2000

Exhibit 4 Selected Financial Data for Tesco

Summary Five Year Record

Year ended February	1997 £m	1998 52 weeks (pro forma) £m	1999 £m	2000 £m	2001 £m
Turnover including VAT	14,984	17,779	18,546	20,358	22,773
Turnover excluding VAT					
UK	13,118	14,677	15,835	16,958	18,373
Rest of Europe	769	1,481	1,167	1,374	1,756
Asia	-	-	156	464	860
	13,887	16,452	17,158	18,796	20,988
Underlying operating profit					
UK	760	875	919	993	1,100
Rest of Europe	14	37	48	51	70
Asia	-	-	(2)-	-1	4
	774	912	965	1,043	1,174
Underlying pre-tax profit	750	832	881	955	1,070
Profit before tax	750	760	842	933	1,054
Adjusted diluted earning per share	7.83p	8.84p	9.37p	10.18p	11.31p
Dividend per share	3.45p	3.87p	4.12p	4.48p	4.98p
Retail statistics					
UK-Number of stores	568	618	639	659	692
UK-Total sales area (000 sq ft)	14,036	15,215	15,975	16,895	179,655
UK-Turnover per full-time employee (£)	146,326	149,799	151,138	156,427	161,161
UK-Weekly sales per sq ft (£)	19,74	20,48	21,05	21,43	22,01
International - Number of stores	190	163	182	186	215
Number of hypermarkets	7	2	22	38	68
Total sales area (000 sq ft)	2,711	3,039	5,378	7,144	10,397

Source: Tesco Annual Report 2001