



Marks and Spencer, Ltd. (A)

According to Lord Marks of Broughton, chairman of Marks and Spencer (M&S) from 1916 to 1964, the following five tenets constituted the fundamental operating principles of the firm:

1. To offer our customers a selective range of high-quality, well-designed, and attractive merchandise at reasonable prices.
2. To encourage our suppliers to use the most modern and efficient techniques of production and quality control dictated by the latest discoveries in science and technology.
3. With the cooperation of our suppliers, to enforce the highest standard of quality control.
4. To plan the expansion of our stores for the better display of a widening range of goods and for the convenience of our customers.
5. To foster good human relations with customers, suppliers, and staff.

By applying these guidelines, M&S had grown to be not only the largest and most profitable retail organization in the United Kingdom, but also one of the most admired (**Exhibit 1, 2, and 3**). According to the *Guinness Book of Records*, in 1988, its flagship store at Marble Arch in London had a turnover of £1,600 (\$2,400) per square foot—more than any other department store in the world.

M&S provided a selective range of textiles, housewares, footwear, and food items aimed at rapid turnover. The firm sold all its products exclusively under the St. Michael label. Typically, articles offered the consumer very high quality at moderate, rather than low, prices. This combination of quality and price encouraged customers to associate M&S with good value for their money.

Textile products included women's clothing and lingerie and men's and children's clothing and underwear. Customers could find all their essential clothing at M&S, but few fads or trendy lines. In the United Kingdom, textiles accounted for 48% of M&S sales and 55% of profits in 1988. Lingerie was a particularly important merchandise group, accounting for a market share in the U.K. of 33%. It had even been reported that Princess Diana purchased her underwear from Marks and Spencer.

Professor Cynthia A. Montgomery prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. A substantial portion of the presentation is taken from an earlier case (9-375-358) prepared by Ms. Christine Harris, under the direction of Professor Joseph L. Bower.

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The food department had separate checkout counters, but there were no barriers separating it from the department store. Among the food offerings were produce, poultry, meat, breads, dairy products, beverages, confectioneries, and prepared foods. M&S also sold a highly-regarded line of French wines.

M&S had been described as “the store with a brilliant reputation for pre-cooked meals and food” which had “revolutionized the way the British ate.”¹ A streamlined distribution process enabled stores to offer prepared foods that were fresh, not frozen. Specialties included gourmet sandwiches, Chicken Kiev, and hand-trimmed Scottish smoked salmon. Somewhat in contrast to the clothing, M&S food was priced in the moderate to high range. Nevertheless, its superior quality appealed to both pensioners and upscale customers. In 1988, food accounted for 40% of M&S sales and 33% of profits.

M&S sold domestic furnishings, floor coverings, accessories, toiletries, and footwear. In 1988, these products accounted for 12% of U.K. sales and profits.

In 1988, M&S operated 289 stores in the United Kingdom, 11 in Europe, and 267 in Canada. In the United States, M&S had 4 small stores in upstate New York that were extensions of the firm’s Canadian activities. Buying, merchandising, distribution, quality control, and finance for the U.K. stores were centralized in the firm’s headquarters on Baker Street, London. The European and North American operations were managed autonomously with guidance from the U.K.

The History of M&S

The Early Years

The business principles enunciated by Lord Marks had their origins in the experiences of his father, Michael Marks, the founder of M&S. In 1884, the elder Marks, a Polish Jew, began setting up stalls at town markets in northern England. Since he could not converse well in English, he prominently displayed the sign, “Don’t Ask the Price—It’s a Penny.” The slogan proved very popular, and the simplicity of the single fixed price allowed Marks to give up keeping accounts and to search continually for various high-quality goods that could be sold for a penny. High turnover counterbalanced the low profit margins.

Marks’s business flourished, and in 1894, he took Thomas Spencer into partnership. By 1903, when Spencer retired, the company boasted 36 market bazaars and shops. In that year, Marks and Spencer, Ltd. was formed, with control entirely in the Marks and Spencer families. Spencer died in 1905, Michael Marks in 1907. After Marks’s death, control of M&S temporarily passed out of family hands.

1914-1955

When the founder’s son, Simon Marks (later Lord Marks) regained control of the firm in 1914, it was a national chain with 140 branches. A strong family influence soon returned to M&S. Simon determined overall direction, while his brother-in-law, Israel Sieff (later Lord Sieff) took charge of buying and merchandising. After their deaths, their descendants continued to dominate M&S into the 1980s.

¹Courvoisier's Book of the Best, Ebury Press, 1990.

Two outside influences had profound impacts on M&S in the 1920s. First, Chaim Weizmann, the brilliant chemist and famous Zionist leader, encouraged Marks and Sieff in commitments that became cornerstones of the modern M&S. Weizmann interested the pair in the applications and benefits of new technologies and inspired them to regard their business as a social service to both customers and employees. Second, a 1924 visit to the United States allowed Simon Marks to study American chain stores. He returned to England determined to transform M&S into a chain of “super stores” featuring continuous merchandise flow and a central organization acutely sensitive to consumer needs.

M&S went public in 1926 and within ten years had a branch in every major town in England. Enhanced staff amenities accompanied this rapid growth. The welfare department, founded in 1933, supervised a variety of employee facilities and expanded medical and dental services. Additionally, the firm initiated a pension plan in 1936.

M&S's relations with its suppliers also changed during this period. In 1928, Marks and Spencer registered the “St. Michael” brand name (honoring M&S's founder) and became the first department store in the United Kingdom with the goal of selling only “own brand” merchandise. To assure the highest product quality, M&S insisted on close cooperation with suppliers and stressed using technological advances in materials and production processes. M&S's large orders enabled it to overcome traditional wholesale opposition and to place orders directly with producers.

In the decade following the Second World War, M&S gradually phased out all merchandise not bearing the St. Michael brand, and St. Michael became increasingly identified in consumers' minds with quality and value. Concentrating on a limited product range, M&S developed a dominant position in many textile lines. The food division, which became an important part of the chain's operations in the early 1950s, also had a narrow range.

Operation Simplification—1956

On February 16, 1956, Lord Marks was presented with a budget that exceeded the previous year's by millions of pounds. He launched a company-wide campaign to eliminate the burgeoning load of paperwork that appeared chiefly responsible for the rise in overhead. The campaign, “Operation Simplification,” aimed at liberating staff, management, and support services from paperwork.

The general principles of Operation Simplification were:

1. *Sensible approximation.* The price of perfection is prohibitive; approximation often suffices and costs less.
2. *Exception reporting.* Events generally occur as arranged, and only exceptions need to be reported.
3. *“Never legislate for exceptions.”* Detailed manuals are unnecessary (M&S went from 13 manuals to 2), and local decision making enhances willingness to assume responsibility.
4. *Decategorization.* Those below management and supervisory levels are more useful in a “general staff” category than as specialists.
5. *People can and need to be trusted.* Eliminating checks and controls saves time and money, while improving self-confidence and encouraging a sense of responsibility. Management control is more effectively exercised by selective spot checks.

Lord Marks set a goal of allowing store staff, management, and support services to focus on only one task—increasing sales in pounds sterling. Under the new system, senior executives held full responsibility for profitability; they determined one markup target for food and another for textiles. With margins thus standardized, the selectors focused on finding goods of acceptable quality that would turn over rapidly. Stores then worked to use space to achieve maximum sales of the selected goods.

The campaign, which culminated in a symbolic bonfire of old records, eliminated 26 million pieces of paper per year (120 tons) and reduced the 32,000-person staff by 10,000. Abolishing countless forms and routines freed senior managers from their desks so they could get personally involved in their departments.

Commenting on the drive for simplicity, Lord Sieff wrote:

Both the executives and the merchandisers of the department should *probe* into the goods in the stores *with seeing eyes and a critical mind*. The department supervisor and the [salesperson] are the best sources of information. To depend on statistics is to asphyxiate the dynamic spirit of the business.

A managing director in the foods area illustrated the merits of *probing* with this example:

We get concerned when statistics [are put] on paper because they hide things. For example, suppose I had [this daily] report on sales at [one] store:

	<u>Beginning Stock</u>	<u>Sales</u>	<u>Ending Stock</u>
Item A	100	100	0
Item B	50	20	30

I might conclude that sales of A to B were 5:1 and act accordingly. But if I looked after lunch, I might find that the sales in the morning showed:

	<u>Beginning Stock</u>	<u>Sales</u>	<u>Ending Stock</u>
Item A	100	100	0
Item B	50	10	40

I have to [find out from] the store manager that the proper order is more like 10:1. That's why we distrust statistics and value *probing*.

The emphasis on *probing* became a mainstay of the M&S management philosophy. Much of the information that moved toward top management was judgmental, not numerical. *All* senior executives frequently visited stores and asked store managers and staff very specific questions. For example, an executive might ask a salesperson to evaluate the performance of particular items or comment broadly on recent sales activity. M&S considered these visits valuable two-way communication and thought they provided important opportunities to assess store and managerial performance.

Operations

Personnel

Point 5 of the general principles of *Operation Simplification* about eliminating checks and controls of employees reemphasized Marks and Spencer's commitment to the well-being of its workers. Sir Marcus Sieff [later Lord Sieff], Lord Sieff's son, stated the firm's belief:

You cannot get the goodwill of the people who work for you by changing words such as "canteen" into "dining room," "navvy" to "worker," "office boy" to "junior clerk," and so on, or even just by paying higher wages. In the last analysis, good labor relations comes from workers approving the kind of people they believe their employers to be.

Good human relations can only develop if top management believes in its importance and then sees that such a philosophy is dynamically implemented. . . . The majority of workers under such conditions take pride in doing a good job. All this results in greater productivity and higher profits. This enables management to provide all those facilities which make for contented and hard-working staff, and to pay better wages based on genuinely increased productivity.²

M&S traditionally had a paternalistic relationship with its employees. It viewed itself as a family business with broad responsibility for the welfare of its employees. As Sir Marcus expressed, "People do have troubles, and it is a fundamental part of a good staff policy to give help and advice unobtrusively and speedily when needed."

M&S demonstrated its commitment to employees by offering medical and pension plans that provided well-above-average benefits and by establishing company-financed social and recreational clubs at Baker Street and in each store. In addition, in 1988, the firm's headquarters included a cafeteria that offered heavily subsidized meals and a medical and dental facility that held, among other things, coronary heart disease screenings, health and fitness programs, and dental screenings.

Stores employed a part-time doctor and a personnel manager responsible for the training, placement, and welfare of the employees. Staff amenities included a medical room and nurse, with periodic visits from a dentist and a chiropodist—especially significant to salespeople who spent hours standing; a one-room infirmary; a hairdressing salon; a cloakroom with security lockers; shower and bathroom facilities; a staff refrigerator; a recreation room; and a staff dining room. The dining room provided lunches, coffee, and afternoon tea for nominal charges. The food compared favorably with that served in executive dining rooms. M&S allocated nearly 10% of store space to employees and spent £16.2 million in 1988 on welfare and staff amenities.

Retired employees maintained affiliation with Marks and Spencer through Retired Staff Associations of which there were some 30 in the United Kingdom in 1988. These groups were established and run by the retirees but had loose affiliations with M&S stores.

M&S believed that its performance depended on its employees' high productivity and rewarded its staff's hard work with pay and benefits that were well above the average for the industry. Furthermore, M&S regularly promoted employees from within rather than hiring from the outside. Its policies engendered employees' loyalty and trust.

²Sir Marcus Sieff, 1969 speech.

In the late 1980s, the firm's traditionally paternalistic relationship with employees, in which M&S assumed overwhelming responsibility for their welfare, began to change. There was increased emphasis on self-determination and partnership. M&S encouraged managers to identify their own training and development needs and to be more active in making decisions affecting their careers. The firm provided practical guidelines and support for individual initiatives, including material for foreign language training and guidance to identify and improve personal weaknesses.

Stores

In 1988, M&S divided its 289 U.K. stores into six geographically based divisions, each under a *divisional executive* with responsibility for store operations, building and equipment, transportation, packaging, and real estate. *Personnel, finance, and commercial operations controllers* reported to each divisional executive and assisted *store managers* as needed.

Store managers were responsible for sales maximization, cost control and operational efficiency. Each was assisted by a *personnel manager* who was responsible for the staff, a *deputy general manager* who handled operations, and an *administration manager* who oversaw all systems (e.g., information technology, finance).

Merchandising

Responsibility for handling the flow from suppliers to M&S rested with the merchandise teams. In the textiles area, there were three *executive directors*, one who supervised ladies wear and lingerie, another, menswear and childrens wear, and the other, footwear, gifts, and housewares. Reporting to the executive directors were one or more *divisional directors*, who each supervised several executives. Buying group executives were supported by a team of *merchandise managers, merchandisers, and selectors* who were responsible for merchandise ranges, sales estimates, production, packaging, and distribution.

The food division, though more centralized, adhered to the same basic structure and procedures. However, perishability and more rapid turnover required shorter planning horizons and different distribution procedures.

Suppliers

According to Gareth Williams, divisional director of physical distribution, retail systems, and information technology, M&S initiated process control and testing at the point of production: "From factory to sales floor, we are in control of the chain every step of the way."³ M&S worked closely with approximately 500 food and 350 nonfood independents providing St. Michael merchandise to the firm's specifications. Indeed, Lord Rayner, chairman of the firm since 1984, stated,

We are involved with suppliers from the raw materials to the finished products. . . . If suppliers don't measure up to our standards of quality, we try to help them. We don't drop them. It's a partnership.⁴

Some supplier relationships stretched back 40 years or more, and M&S was often responsible for 75%-90% of a supplier's output. Throughout its history, M&S had shared the benefits of its

³Personal interview, December 12, 1990.

⁴Lord Rayner, personal interview, December 11, 1990.

growth and prosperity with suppliers. In return, the firm was able to establish an exceptionally efficient supply base that was capable and willing to meet the firm's very exact standards.

M&S assisted suppliers in designing products and developing innovative production methods. The firm was even able to bring together competing manufacturers to solve logistics problems or work out the details of a new offering. In 1988, M&S employed a large number of scientists, engineers, and support staff who teamed up with merchandising departments and suppliers to establish product specifications and monitor quality.

M&S did not item-buy. In textiles, the firm purchased a substantial portion of the fabrics that external suppliers used to manufacture St. Michael products. The goods were then produced according to an M&S-planned schedule and held until the company requested delivery. Similar policies were adopted in food. For example, M&S worked with a breeder to develop a pig that could be bred for fresh pork, not for bacon. The pigs were sold to farmers who raised them only for M&S. These practices, along with the private label, gave M&S the ability to control specifications and ensured the exclusivity of its products.

In food, Marks and Spencer established the first full-scale cold-chain supply system in the United Kingdom. M&S suppliers prepared food in central kitchens and delivered it to multi-temperature composite warehouse facilities. British Oxygen Corporation or Salserve then transported the goods in a fleet of refrigerated trucks to individual M&S stores. Throughout this process, the temperature of the food did not vary more than one degree Celsius.

Marketing

Marks and Spencer's marketing philosophy, like its personnel policy, developed from traditional antecedents. As Lord Sieff summarized:

The future of the business depends on quick imaginative study of what the people need—not of what the public can be persuaded to buy. . . . Only in supplying real needs, will a business flourish in the long term. Only by giving the people what on reflection they continue to want, will a business earn the respect of the customer, which is essential to anything more durable than a cheapjack's overnight success. So long as Marks and Spencer continues to study what the people need and efficiently produce it by means of a staff humanely organized, we can meet any economic trend.

Historically, M&S had attempted to maintain one markup percentage for all merchandise. By 1988, the differential markup had been introduced between clothing and food, and the width of the markup bands within each area had expanded. The company sought the same net figures from varying gross margins to accommodate writedowns and other waste. M&S never held sales and reduced the price of merchandise for clearances only. Furthermore, in the United Kingdom, the little advertising it did was limited to the release of information, such as the introduction of a new product line. Executives believed that the products sold themselves and relied largely on word of mouth to tell their story. Also, due to its status in the United Kingdom, M&S received extensive press coverage.

Through the 1970s, M&S stores lacked fitting rooms and sold merchandise on a cash-only basis. For patrons relying on their eyes to select style and size, the stores offered a no-fuss return policy, ensuring that unsuitable purchases could easily be brought back. Although customers could centralize purchases for the purpose of check writing, the firm did not honor credit cards.

In the mid-1980s, M&S introduced fitting rooms and launched a full-scale charge-card operation to make it easier for customers to purchase its goods. Customer response was very

favorable. By 1988, there were over 2 million card holders, and charge-card sales represented 13.4% of M&S's U.K. sales. The firm did not honor any other charge card.

Property Base

Unlike Marks and Spencer, many retailers in the United Kingdom sold or leased back their freehold properties to obtain more sites in the early 1980s. When rental rates soared in 1987 and 1988, these retailers struggled to trade profitably in their new sites. Marks and Spencer's retention of freeholds and long leasehold properties protected them from the sharp increases in rental rates and gave them one of the lowest rent/sales ratios in the industry (**Exhibit 4**).

Internationalization

In the 1970s, the United Kingdom presented a very difficult economic environment for retailers. In an effort to help manufacturers compete abroad, the government offered them regional and sector subsidies and devalued the pound sterling. Several M&S executives believed this artificial environment contributed to inefficiency in the manufacturing sector that, when coupled with the rise of aggressive trade unions, led to very high corporate taxes.

In addition, M&S was concerned that it might have reached its natural limits of growth in the United Kingdom. Together, these external and internal circumstances pointed toward expansion abroad. Sir Marcus Sieff, who had become chairman in 1973, gave the reasons for taking M&S overseas:

First, it is an opportunity for more profit. Given the deteriorating situation in Britain we think Canada can become very important for us. Second, it is a chance to expand British exports. And finally, should things be really bad, it's a lifeline for us abroad.

The Move into Canada

In 1972, M&S had opened four St. Michael Shops in Canada as a 50/50 joint venture with Peoples Department Stores Ltd., a Canadian retailer. At the time, M&S regarded the St. Michael Shops as additional outlets for its U.K. export interests. By 1974, the developing chain consisted of 12 stores.

The nature of M&S's Canadian operations changed dramatically in 1975 when M&S purchased a 55% controlling interest in Peoples.⁵ In addition to the Peoples Department Store chain, the acquisition gave M&S an interest in Walkers and D'Allaird's, two other retailers Peoples owned.

M&S converted the 46 Walkers stores and the original St. Michael Shops into Marks and Spencer units similar to traditional M&S stores in the United Kingdom. Upper management came largely from Baker Street, and store operating systems were patterned on those in the U.K. Merchandise lines included both textiles and food, a new combination in Canada. All merchandise carried the St. Michael brand name.

⁵In order to rationalize M&S's Canadian holdings, Peoples then acquired M&S's 50% interest in St. Michael Shops. This move left M&S with a controlling interest in Peoples, which now owned the St. Michael Shops.

In 1977, the Canadian M&S stores incurred a loss of C\$6.8 million, due primarily to the clearance of non-St. Michael goods from the stores and the disruption of trading during the change. Management hoped that the entire cost of the changeover had been absorbed and that future returns would be free of substantial non-recurring costs. However, the M&S outlets continued to show losses until the mid-1980s (**Exhibit 5**).

These losses were partly due to intense competition, but also reflected some miscalculations by M&S. As the problems became clear, M&S made a number of changes. To accommodate car-borne customers, it relocated a number of stores from downtown shopping districts to enclosed regional malls. In addition, it brought stores in line with Canadian retailers by brightening decor, adding fitting rooms, and promoting fashion items along with the more standard lines. M&S also began to advertise.

Sources of supply were a nagging problem for M&S in Canada. Because of high tariffs on goods entering Canada, M&S departed from its policy of exporting goods from the United Kingdom. By the mid-1980s, over 90% of the textiles and 70% of the food lines were based on Canadian sources of supply. However, M&S found the quality of these goods to be poor. By 1988, in spite of the high tariffs, products for the Canadian M&S stores were sourced primarily from the U.K. and the Far East.

Peoples and D'Allaird's

Following their acquisition, the D'Allaird's and Peoples chains operated nearly autonomously. D'Allaird's was a highly profitable chain that sold coats, suits, dresses, and sportswear, most of which carried the D'Allaird's label. Target customers were middle-aged women who were extremely loyal to the store. Merchandise was perceived to be of good value, prices were middle-range, and excessive fashion statements were avoided. The chain maintained rigorous fit and quality standards.

The average sale per customer at D'Allaird's was well above Canadian retailing averages. The chain used a limited amount of advertising and offered only two promotional sales a year. D'Allaird's supplied 30%-35% of its merchandise from its own Montreal factory and sourced the remainder from nearly 50 external suppliers. Distribution, inventory, and shrinkage were very tightly controlled.

The standalone Peoples department stores, typically located in rural areas, offered a wide range of goods including housewares, textiles, furniture, and some packaged food. The chain competed in the medium- to low-price range, advertising extensively through newspaper flyers and leaflets.

Peoples produced more than a decade of stable returns for M&S with little added investment. However, due to increased competition and increasing operating costs, profits dropped sharply in the late 1980s. In response, management took measures to clear unwanted stock and improve information systems.

Entering Continental Europe—1975

In February 1975, M&S opened its first European store on the Boulevard Haussmann in Paris. Later that year, a store was opened in Brussels and another in Lyon. By the close of fiscal 1988, M&S operated 11 stores in Europe (**Table A**). Two additional stores were scheduled to open in Ireland in 1989.

By 1988, all of the European stores were profitable, but the bulk of the profits came from the three capital cities (Paris, Brussels, Dublin). Performance in the smaller provincial stores was less

satisfactory. In general, clothing was M&S's most profitable line in Europe. Except in central Paris, the performance of the food offerings was disappointing.

Table A M&S in Europe in 1988

France	-	Paris (Boulevard Haussmann, Parly II, Rosny II, Velizy II)
		Lille
		Lyon
		Reims
		Strasbourg
Belgium	-	Antwerp Brussels
Ireland	-	Dublin

M&S's most concentrated European effort was in France, where it operated eight stores, all serviced by the nearby U.K. supplier network. The French clothing market was broadly the same size as the U.K. market of about £15 billion per year, and people in both countries spent roughly £280 per year on clothing. However, the structures of the respective retailing markets were quite different. In France, independent stores had double the market share of those in the United Kingdom, and hypermarkets⁶ held a 17% share compared to a 3% share in the United Kingdom. Also, multiple chain stores (multiples) were relatively weaker in France.

This picture began to change in the 1980s. Although the market remained highly fragmented, hypermarkets and multiples gained share at the expense of the independents. The largest multiple chain, C&A, had established nearly 40 stores across France in the previous 15 years, achieving a market share of 1.7% in 1987 (**Exhibit 6**). During this period, revenue growth in department stores was stagnant at best.

Market research in France revealed that M&S merchandise was viewed as somewhat old-fashioned. Customers tended to be older than in the United Kingdom. As in the U.K., however, those who shopped in M&S recognized the store's value, service, and quality (**Exhibit 7**). Discussing these findings, David Norgrove, head of strategic planning, said,

Once people come into our stores and get to know us, on the whole, they like what they find. People who don't shop with us don't see the qualities we offer. So the task, among other things, is to encourage more people to come into our stores and to bring the ages of our shoppers down more into the range of our core in the United Kingdom, broadening our market.⁷

By standards of French retailers, M&S stores in France used space intensively. However, by U.K. standards, turnover in the stores was low, and trading hours were long. In addition, several of the stores were designed for higher sales than had been realized. The impact of these costs was mitigated by considerably higher gross profit margins in France.

⁶Hypermarkets were self-service retail outlets offering a wide range of food and nonfood products at competitive prices. They had selling areas of at least 2,500 square meters and provided ample parking space for customers.

⁷Marks and Spencer, "France: Opportunity and Progress So Far," 1988.

In 1988, a study team evaluated possible expansion plans for France, as well as opportunities in other countries. Economic and retailing conditions differed substantially across European countries (**Exhibits 8 and 9**). M&S discovered, however, that with few seasonal and cultural exceptions, tastes in clothing were remarkably similar across countries. The firm referred to this phenomenon as the “globalization of fashion.” Summer slacks popular in England also did well in southern Spain; the only difference was that they would sell for a longer period in Spain’s warm climate. M&S also had to pay close attention to local customs, for example, purple was a funeral color in Spain.

M&S Under Lord Rayner (1984-)

M&S in 1984

In the mid-1980s, some investment analysts were disappointed with M&S’s performance. A Scott Goff Layton & Co. report stated:

In sporting parlance, M&S can be likened to a powerfully built athlete capable of winning a lot more races but never reaching true potential. The reason is the company has always performed well within itself, (but) it has never been pushed beyond three-quarter speed.⁸

Some described the company’s performance during this period as “satisfactory, but not exciting.” Profit margins had fallen as operating costs increased, partly due to laborious manual control systems and an outdated distribution network.

M&S had recently followed very conservative financial policies, including financing store development (of little more than 2% per annum) out of U.K. cash flow. As a result, M&S stores were overcrowded and substandard in appearance.

Lord Rayner was appointed chairman in 1984.⁹ He had joined M&S in 1953 and had been appointed to the board in 1967. Rayner had a very close relationship with the Sieff family and was the only nonfamily member to serve as chairman since Simon Marks had developed the modern company.

Lord Rayner initiated pivotal changes at Marks and Spencer. Some described these as a “quiet revolution.”¹⁰

Management Development

The new chairman thought exposure to a variety of functional assignments developed well-rounded businesspeople. He encouraged managers to accept cross-functional assignments so that they would appreciate challenges that transcended narrowly defined business responsibilities.

Lord Rayner expected executive and divisional directors to be aware of and participate in every aspect of the firm’s development. He met with each group regularly to discuss issues of broad

⁸“How Far is Marks & Spencer a New Investment?” September 1985, p. 7.

⁹A systems expert, Rayner was knighted for his work on defense procurement in the Heath government. In 1983, he became a life peer for his contribution as an informal advisor to Mrs. Margaret Thatcher.

¹⁰Maggie Urry, “St. Michael’s Quiet Revolution,” *Financial Times*, May 21, 1988.

concern to the firm, such as “What are the proper spheres of influence of stores, divisions, and head office?” and “How do we select and develop the leaders of the future?” Weekly meetings in London ensured that all executive directors were informed of specific developments throughout the business. The wide range of questions that Lord Rayner addressed in the annual stockholders’ meetings reflected issues with which he expected all executive directors to be familiar (**Exhibit 10**).

Scrutinies In service to the prime minister from 1979 to 1982, Rayner headed the government’s drive to improve efficiency and eliminate waste in Whitehall.¹¹ As head of the Efficiency Unit, he initiated a series of *scrutinies* to review government departments, which resulted in managerial reforms.

When he returned to M&S, Lord Rayner instituted a scrutiny process that furthered the firm’s dedication to probing. The technique consisted of three elements:

- Examination of a specific area of activity, questioning all aspects of the work normally taken for granted.
- Proposal of solutions to any problems and recommendations to achieve savings and increased efficiency.
- Production of an action plan to ensure implementation of recommendations.

Scrutineers were middle managers. Lord Rayner believed that they were “best equipped and indeed anxious to propose changes and make recommendations to achieve increased efficiency and effectiveness.”¹² They were urged not to make the scrutiny a desk study, but to talk to people at all levels and to go outside the company if necessary to gather information.

Following a two-week preparation period, the scrutineer had six weeks to carry out the scrutiny and submit a final report to the chairman and two more weeks to formulate an action plan. Within six months, the scrutineer was to help implement recommendations and file a progress report. A short chain of command ensured a quick response to scrutineers’ recommendations.

Since initiating the scrutiny process in 1984, 49 scrutinies had been carried out. Examples of scrutinies included “The Disposal of Below-Specification Merchandise,” by A.B. Moore, “Store Display of General Merchandise,” by M. Clarkson and R.A. Sadler, “The Causes of Food Waste,” by H. F. Eastwood, and “Recruitment and Retention of Store General & Supervisory Staff,” by N. A. Instone.

Finance

Mr. Keith Oates was brought in as finance director from Thyssen-Bornemisza (and earlier, Black and Decker)—the first executive director who did not rise through the ranks. The financial systems installed by Lord Marks were still used but were no longer sufficient. Profit information by business line did not exist, and there were no systematic procedures for allocating corporate costs.

Looking back on this situation, Mr. Oates said, “Some people felt responsible for the gross margin, others for costs. They didn’t see the vertical picture.” Mr. Richard Greenbury commented,

¹¹Location of British government offices.

¹²Lord Rayner, “Back to Basics,” Speech in May 1990, p. 10.

"During those years, we constantly drove sales forward. All the management did was to look at sales. We were not as focused on profitability as we now believe we should have been."¹³

M&S installed new control systems throughout the company. According to Mr. Nigel Colne, then director of store operations, "There is now a far clearer view of how costs are incurred in our business and which group should carry them."¹⁴ This change was consistent with Lord Rayner's desire that managers develop greater awareness of and responsibility for the profit of the firm.

Store managers adopted annual operating plans that included quarterly profit and loss accounts for their stores. Instead of striving only to maximize sales, these managers now could evaluate the cost of various sales programs and their impact on profitability.

The addition of charge-card services in 1985 was another positive change for M&S. Industry observers were sanguine about the charge-card operations. In accordance with lending laws, charge-card interest rates could exceed base rates considerably. With sales of £287 per card per annum, a base of 2 million cards covered fixed operating costs and supported a significant profit contribution. The firm expanded its financial services in 1988 to try a personal loan scheme in which card holders could borrow unsecured amounts between £500 and £5000 for any purpose.

Information Processing

In the early 1980s, M&S manually audited its over 150,000 stock-keeping units (SKUs) and had a decentralized distribution network. Textiles were held in 50 local warehouses and considerable (yet cramped) storage spaces in individual stores. For food products, a combination of transport companies, local bakeries, and product suppliers made deliveries to each store.

M&S introduced a state-of-the-art data recovery system in 1986 that enabled it to track sales and inventory electronically. The value of the electronic point-of-sales system (EPOS) was enhanced by a near-complete realignment of product storage and distribution.

Under the new system for textiles, the head office collected information from the stores and placed orders with 12 third-party multiuser warehouses. When stock was needed, M&S notified suppliers who would, if possible, make new deliveries to the warehouses. The maximum benefits from this system came when the supply of textiles was brought into close alignment with demand, thus reducing costly markdowns on slow selling merchandise and stock-outs on popular items. Although the nature of M&S's primary textile offerings shielded the firm from dramatic swings in style, stock-outs and markdowns significantly impacted the firm's profit.

M&S was confident that, due to its relationship with its suppliers, it could derive much more value from this system than a typical retailer. M&S and some of its key suppliers were forerunners in establishing "flexible response" in retailing. Under this system, data on current sales triggered changes to merchandise in process and altered shipping schedules. This was made easier by the use of part-dyed and part-made-up merchandise, which could be finished in the necessary sizes, colors, and styles as the season progressed. New information technology was intended not only to increase efficiency but also to enable sales assistants to spend more time learning about the merchandise and assessing customers' needs.

¹³Maggie Urry, "St. Michael's Quiet Revolution," *Financial Times*, May 21, 1988.

¹⁴Ibid.

Store Refurbishment and Expansion

In 1939, M&S had 234 stores and 2.2 million square feet of total selling space. By 1984, the number of U.K. stores had grown to 272, with a total selling space of 7.2 million square feet. Management acknowledged that expansion efforts had been inadequate to keep pace with the growing range of M&S goods. Stores were cramped and no longer provided a “comfortable and enjoyable shopping experience.”

In 1984, Lord Rayner announced the largest development program in the history of the company. During the next four years, M&S modernized all its stores and added satellite stores where space restrictions prohibited the expansion of existing locations. A number of food-only outlets were established as neighborhood stores along with out-of-town and edge-of-town facilities for the convenience of car-borne customers. This £1600 million effort dovetailed with the introduction of EPOS systems and the conversion of inventory space in stores to sales footage.

The first out-of-town store was opened in October 1986 at the Metro Centre near Gateshead.¹⁵ In 1987, in a joint-site development agreement with Tesco PLC, M&S opened an edge-of-town store at Brookfield Centre in Hertfordshire. The center included parking for nearly 2,000 cars, a petrol station, a restaurant, and three other shops. The M&S store had 69,000 square feet of selling space, with 12 room settings showing furniture, furnishings, and housewares. M&S planned to have 10 such stores in operation by 1992.

M&S believed that no retail organization competed directly with it on a worldwide basis. However, the firm recognized several competitors in specific product categories and geographic areas. **Exhibits 11, 12, and 13** provide information on M&S and its competitors in the United Kingdom.

¹⁵In 1985, when M&S began to pursue out-of-town locations, there were nearly 400 food superstores located in out-of-town or edge-of-town developments. These stores had floor space totaling over 15 million square feet and sales of £6 billion. In addition, there were over 500 self-service superstores, offering a wide range of goods and services, with a footage of 13½ million square feet and sales of £900 million.

Exhibit 1 Profit and Loss Account 1984-1988

Year to March (£ millions)	1984	1985	1986	1987	1988
Sales					
UK					
clothing	1326	1424	1656	1869	2016
housewares	249	305	377	447	486
food	1022	1171	1362	1492	1671
Total UK	2597	2900	3395	3808	4173
Europe	74	81	94	119	132
US/Canada/Far East	150	175	181	211	180
Other	47	57	64	82	92
Total Sales	2868	3213	3734	4220	4577
Profit					
UK	261	285	351	410	476
Europe	7	7	11	13	19
US/Canada/Far East	7	8	9	4	3
Financial	4	4	-5	5	4
Total Pre-Tax Profit	279	304	365	425	502

Source: Marks and Spencer, Economic Information Department

Exhibit 2 Consolidated Profit and Loss Account

	1988 (£m)
Turnover	4,577.6
Cost of Sales	3,112.2
Gross Profit	1,465.4
Other expenses	951.3
Profit on ordinary activities before profit sharing and taxes	514.1
Profit Sharing	12.4
Profit on ordinary activities before taxes	501.7
Tax on profit on ordinary activities	178.4
Profit on ordinary activities after taxes	323.3
Minority Interests	-
Profit for the financial year	323.3

Source: Marks and Spencer Annual Report

Exhibit 3 Balance Sheet

	1988 (£m)
Fixed assets	
Tangible assets:	
Land and buildings	1,840.9
Fixtures, fittings, and equipment	301.3
Assets in the course of construction	8.6
	2,150.8
Investments	-
Net assets of financial activities	81.4
	2,232.2
Current assets	
Stocks	287.9
Debtors	130.4
Investments	15.5
Cash at bank and in hand	276.1
	709.9
Current liabilities	
Creditors: Amounts falling due within one year	623.5
Net current assets/(liabilities) (excl. financial activity)	86.4
Total assets less current liabilities	2,318.6
Creditors: Amounts falling due after more than one year	160.6
Net assets	2,158.0
Capital and reserves	
Called up share capital	666.4
Share premium account	22.2
Revaluation reserve	468.7
Profit and loss account	1,000.7
Shareholders' funds	2,158.0

Source: Marks and Spencer Annual Report

Exhibit 4 Property Costs

clothing retailers	rent as % of sales (1988/89)
Marks and Spencer	1.0
Sears	3.0
Next	3.9
Laura Ashley	5.4
Storehouse	5.8
Burton	7.1
Etam	9.1

Source: *County NatWest Woodmac*, "Marks & Spencer: Quality and Value," May 8, 1990

Exhibit 5 Canadian Results

C\$ millions	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Sales												
Marks and Spencer	60.8	65.4	70.0	81.6	93.9	98.7	104.5	111.5	113.3	136.8	158.8	170.9
Peoples	49.7	52.4	26.7	63.5	75.3	85.7	94.9	108.6	122.6	132.1	149.1	152.2
D'Alaird's	20.4	22.9	55.2	34.5	38.7	42.0	51.8	56.6	59.4	67.4	77.5	81.2
Operating Profit (Loss)												
Marks and Spencer	(6.8)	(6.5)	(6.9)	(5.8)	(2.9)	(1.4)	(0.8)	0.1	(1.2)	3.2	4.0	0.9
Peoples	3.2	4.1	4.4	3.8	5.3	6.1	6.2	9.3	10.4	7.9	1.5	0.9
D'Alaird's	2.4	2.3	4.0	5.3	5.4	4.6	7.8	7.0	6.3	9.4	11.9	11.1

Source: Marks and Spencer

Exhibit 6 French Clothing Competitors in 1987

competitor	market share of clothing sales (%)
La Redoute	4.3
3 Suisses	3.0
Carrefour	2.1
Leclerc	2.0
Printemps	1.8
C&A	1.7
Auchan	1.7
Nouvelles Galeries	1.6
Monoprix	1.3
Galerias Lafayette	1.1
Euromarche	1.0
Mammoth	1.0
Quelle	0.9
Prisunic	0.7
Pantashop	0.7
Continent	0.7
Kiabi	0.7
Leclerc Textile	0.6
Marks and Spencer	0.6

Source: Marks and Spencer, "France: Opportunity and Progress So Far," 1988

Exhibit 7 Perceptions of M&S by the French in 1987

	pleasant place to shop	high standard of service	good value for money	good quality clothing	fashionable clothing	clothing for older people
shoppers	74%	61%	49%	73%	24%	60%
nonshoppers	33%	34%	15%	52%	15%	50%

Source: Marks and Spencer, "France: Opportunity and Progress So Far," 1988

Exhibit 8 European Clothing and Footwear Market

1989	total market (£ billions)	£ per head	% of independents
United Kingdom	23	404	25
Belgium	4	405	70
Denmark	2	381	25
France	24	435	45
Greece	2	211	80
Ireland	1	248	50
Italy	32	562	70
Luxembourg	0	402	45
Netherlands	6	405	35
Portugal	2	178	50
Spain	11	291	80
West Germany	34	553	20
Austria	5	623	35
Finland	2	376	30
Iceland	0	678	NA
Norway	2	487	25
Sweden	4	514	20
Switzerland	3	439	35
Cyprus	0	475	NA
Liechtenstein	0	449	NA
Malta	0	210	NA
Turkey	3	57	80
Yugoslavia	1	38	NA
Total West Europe	163	373	
Soviet Union	108	104	NA
Albania	0	61	NA
Bulgaria	1	68	NA
Czechoslovakia	2	91	NA
East Germany	11	117	NA
Hungary	1	63	NA
Poland	1	23	NA
Romania	2	71	NA
Total East Europe	126	211	
Total Europe	289	343	

Source: Marks and Spencer, Economic Information Department

NA = Not Available

Exhibit 9 Concentration Levels in Food Retailing

Country	Market Share of Top 5 Firms
Norway	81
Denmark	78
Belgium	60
Netherlands	60
United Kingdom	60
Ireland	57
West Germany	51
France	30
Italy	21
United States	20
Greece	15
Spain	15
Portugal	9
Sweden	8

Source: "Ahold and AMS: European Retail Synergy Marketing," *Harvard Business School*, Case #591-054, 1991

Exhibit 10 1987 Annual General Meeting

Mr. Lambert: Why are we promoting the firm under two names? Who are those other people, D'Allaird's? Surely we are promoting Marks and Spencer. Can we have this altered so that we have one label?

Lord Rayner: D'Allaird's is a very successful company which you own. Its returns on sales last year were 15%, which, I have to tell you, is better than its parent. . . . [Our Marks and Spencer stores should be] the appropriate copy of the kind of business we know here. [It would not be appropriate] to use an enormously successful asset under a name that people know would be wrong.

Mr. Hoser: The turnover of the 262 stores [in Canada] was £210 million, which is about one-nineteenth of the UK stores. I find that a poor performance on the Canadian stores.

Lord Rayner: The Marks and Spencer stores are much smaller than the UK stores, with two exceptions. [Furthermore, the levels of trading in the two countries are quite different.] Our stores in Toronto, Canada, for example take C\$600 per foot, which is very high in that marketplace. . . . D'Allaird's are small shops of 3,000 feet and less, so they in no way compare with stores here. Peoples is another kind of chain. It is a store that trades in communities where there are no other stores. It is in Quebec in the main, where these communities are many miles apart . . . so the cost of operating them in rent and occupancy is low, but equally there are not a lot of people to come and shop there. Until last year when we acquired control and decided to revamp the whole stock and put in modern levels, it had been trading very profitably since we have been associated with it, so we cannot compare England with Canada.

Mrs. Dillon: Could we compete more actively . . . on the production of foods that have reduced sugar? . . . I know that you are very keen on health foods and convenience foods and so on, but in one or two lines we have not quite got it.

Lord Rayner: We are continually reviewing sugar levels and salt levels. We have, as you have rightly suggested, for many years tried to produce wholesome foods and bring sugar levels down where we think that it is possible and acceptable. There are some products, particularly the St. Michael's brand, where the level of salt and sugar is dictated for reasons of safety. Both, in one form or another, are a form of preservative. But we are very conscious of people's dietary needs and we do, as you know, take the lead. Unfortunately, the last major experiment on calorie-controlled foods was not very successful, but we will try again. I must say that the extra creamy yoghurt is a much faster seller than the one without sugar. But we will continue to try.

Mr. Clark: Regarding your pajamas, would it be possible, instead of that wretched elastic, to have a cord? I have experienced your otherwise lovely goods, but after eight washes I don't stand up in my pajamas without them falling round my ankles.

Lord Rayner: Well, I have to tell you that our elasticated waists should stand up to use rather better than you suggest, so I think we had better make a note of your complaint and do a bit of research. We do try cords from time to time. The problem with cords is they get tangled nowadays in washers and they come out, and [people] find it very difficult to put them back in again. I must tell you that I bought some recently in the States with a cord, because they came that way, and I have serious trouble getting them back again.

Exhibit 10 (continued)

A Female Shareholder: I have two very small complaints about your shops. . . . You have columns with mirrors on four sides, all of which are obscured by rails of clothing. All you see is the top of your head and your feet; you cannot see how the garment looks against you. The other point is that the tag attached to the care label on the garment to stop thieving . . . obscures the legend about what the article is made of. I have tried to prise it, but I cannot see whether it is cotton or poly-cotton, or whatever.

Lord Rayner: I will deal with the second point first. Of course, we should not apply anything on garments which obscures the labels, so we will certainly investigate that straight away. We only have that in use in 14 stores and we are watching it. We would like not to use them at all, but [stealing] has become a problem nowadays, so we are continuing the experiment to the end of the year. . . . In the meantime, we will make sure that we do not obscure labels.

On the mirrors, we always seem to get our mirrors wrongly placed. I think part of the problem is the amount of space we have. Certainly in some of our larger stores—one I know well—there are more mirrors in that space. We will have a look again and make sure that, as we work under severe pressures of space, we do leave enough space for customers to see themselves, because we know that it is very important to them.

Source: Marks and Spencer

Exhibit 11 U.K. Retail Clothing Competitors in 1988

company	total sales (£m)	clothing sales (£m)	UK clothing market share ¹	# of stores	sales/sq.ft. (£)	sales/FTE ² (£'000s)	wages/sales (%)
Boots	2590	1980 ³	NA	1026 ³	360	35.9	19.6
Burton	1590	1498	8.9	1709	NA	56.7	16.2
Kingfisher	2172	NA	NA	1620	NA	61.9	13.1
Marks and Spencer	4578	2016⁴	15.0	283	411	105.0	8.7
Next	920	582	2.2 ⁷	665	273	64.7	11.6
Sears PLC	2360	1368 ⁵	3.9 ⁷	NA	NA	30.8	14.3
Storehouse	1171	560 ⁶	5.1	131 ⁶	166	59.7	14.2

Source: Goldman Sachs, *UK Retail Handbook*, Summer 1990

NA = Not Available

1. Source for market share data: *Verdict on Clothing Retailers*, February 1989, p. 24

2. FTE = Full Time Equivalent

3. BTC only

4. UK only

5. Footwear Retailing, Specialty Retailing, and Home Shopping

6. BHS only

7. Excludes mail order

Exhibit 12 U.K. Retail Food Competitors in 1988

company	total sales (£m)	food sales (£m)	UK food market share ¹	# of stores	sales/sq.ft. (£)	sales/FTE ² (£'000s)	wages/sales (%)
Argyll Group	3236	3230	5.0	952	NA	80.6	9.8
Asda Group	2577	2311	15.1	120 ⁴	9.5 ⁴	87.1	9.7
Marks and Spencer	4578	1671 ³	4.6	283	NA	105.0	8.7
J. Sainsbury	4792	4792	11.9	283 ⁵	14.9 ⁵	88.5	10.3
Tesco	4119	4119	11.5	379	10.4	82.1	9.8

Source: Goldman Sachs, *UK Retail Handbook*, Summer 1990

NA = Not Available

1. Source for market share data: *Retail Intelligence*, Volume 1, 1990, p. 2.38

2. FTE = Full Time Equivalent

3. UK only

4. Asda stores only

5. J. Sainsbury stores only

Exhibit 13 Share of Clothing and Footwear Market by Age Group

age group	M&S market share
15-24	5.9
25-44	13.9
45-64	21.3
65+	23.6

Source: *County NatWest Woodmac*, "Marks & Spencer: Quality and Value," May 8, 1990