



Marks and Spencer, Ltd.

The principles on which the business was founded do not change. The original ideas have been expanded to conform to the changing requirements of a more knowledgeable and discerning public—a public that has broadened to include wider strata of the community. In the course of the years, we have built up three great assets:

1. The goodwill and confidence of the public.
2. The loyalty and devotion of management and staff throughout the system.
3. The confidence and cooperation of our suppliers.

The principles upon which the business is built are:

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.

These five tenets constituted the fundamental operating principles of Marks and Spencer (M&S), according to Lord Marks of Broughton, chairman of the firm from 1916 to 1964. Through application of these principles, M&S had achieved outstanding success. By 1974 M&S was the largest retail organization in the United Kingdom. Each week more than 13 million customers made purchases at the firm's 251 stores, which offered some 700 food and 3,000 nonfood (primarily textile) items. Textiles supplied 71% of M&S sales in 1974, food 27%, and exports 2%. The company

Christine Harris prepared this case under the direction of Professor Joseph L. Bower to serve as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. This revised version was prepared by Mark B. Fuller.

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accounted for 12% of British consumer expenditures for clothing and footwear and held over one-third of the market in women's lingerie and men's underwear.

Despite the disappointing British economic situation, M&S prospered in 1974. While national income declined 2% and inflation rose 15%–18%, M&S posted record sales, with pretax profit climbing 10% (see *Exhibit 1*). While sales per square foot for Britain's top retailers averaged \$180 per year, M&S's reached \$260. The company's Marble Arch outlet in London achieved sales per square foot of \$1,000, earning it a listing in *The Guinness Book of World Records* as the most profitable store in the world.

A board of 22 executives managed M&S from the firm's offices in Baker Street, London, where buying, merchandising, distribution, quality control, and finance were centralized. M&S sold all of its merchandise under the exclusive St. Michael brand name. The company owned no production facilities, relying instead on a broad network of suppliers from whom it ordered some \$25 million worth of goods each week.

M&S's major competitors included a supermarket chain with food sales nearly twice M&S's; two retailing firms that imitated M&S but sold cheaper, lower-quality goods; and an American-style department store that emphasized more fashion-oriented goods at lower prices and quality.

The Early Years

The business principles enunciated by Lord Marks originated in the experiences of his father, Michael Marks, the founder of M&S. In 1884 the elder Marks, a Polish Jew, began visiting the town markets of northern England, setting up stalls that featured the sign, "Don't Ask the Price—It's a Penny." The slogan proved so popular that Marks adopted the penny price in all his stalls. The simplicity of the single fixed price allowed Marks to give up keeping accounts and inspired him to search continually for goods as varied and excellent as 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 40 branches. In that year Marks and Spencer, Ltd., was formed, with control entirely in Marks and Spencer family hands, and the headquarters was moved to Manchester. Spencer died in 1905, Marks in 1908. After Marks's death, control of M&S temporarily passed out of family hands.

1914–1939

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. Although only 10% were in market halls, M&S maintained its traditional policies of open display, easy accessibility to goods, and self-selection. Management also strove to make M&S a place where employees were happy and proud to work. Each store had a manageress (term used by M&S management) in charge of training. A heated room was provided for the staff as a place to eat and relax.

With the accession of Simon Marks, a strong family influence returned to M&S. Simon exercised 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 1970s. (In 1975 M&S had no outside directors.) Two outside influences also had profound impact on M&S in the decade after 1914: 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 them 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. 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 that included chiropody (especially significant to people who spend hours on their feet). A pension plan was initiated in 1936.

Changes also occurred in M&S's relations with its suppliers. In 1928 M&S registered the St. Michael brand name (honoring M&S's founder) and became the first department store in the United Kingdom to set the goal of selling only “own-brand” merchandise. To assure the highest product quality, M&S insisted on close cooperation with suppliers and stressed the use of technological advances in materials and production processes. In 1928 M&S's large orders enabled the company to overcome traditional wholesale opposition and place orders directly with producers. Food purchases, upon which management imposed extremely strict standards, followed a similar pattern.

1945–1955

In the decade following the war, M&S's sales rose 450%, and pretax profits 351%. The St. Michael brand gradually emerged on all products and 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.

Sales growth led to store modernization and expansion. After postwar controls were abolished in the 1950s, growth accelerated rapidly (see *Table A*).

Table A Company Growth, 1946–1974

	Sales^a (£000)	Profits (£000)	Number of Stores	Total Store Space (000/sq. ft.)
1946	£19,693	£2,027	224	1,407
1955	108,375	9,168	234	2,461
1968	282,308	33,871	241	3,939
1974	571,650	76,825	251	5,489

a. Including exports. Food sales ranged from 14% of total sales (1957) to 27% (1974).

Operation Simplification, 1956

On February 16, 1956, Lord Marks, chairman of M&S, was presented with a budget that exceeded the previous year's by millions of pounds. He reacted strongly to the increases and launched a companywide campaign to eliminate the burgeoning load of paperwork, which appeared to be chiefly responsible for rising overhead. As Lord Marks remarked to Israel Sieff, “It's not a law of business growth that administrative costs continue to increase.” The campaign, known as Operation Simplification, aimed at liberating staff, management, and supporting services from paperwork so that they could focus on one task: increasing sales in pounds sterling.

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 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 be and need to be trusted: Eliminating checks and controls saves time and money, while improving staff self-confidence and 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 one task—increasing sales in pounds sterling. The new system made senior executives responsible 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 and to serve customers in ways that would achieve maximum sales.

To insure the effectiveness of the system, Lord Marks enlisted the personal support of head office managers, who then assumed responsibility for improving efficiency in their areas. The campaign, which culminated in a symbolic bonfire of old records, eliminated 26 million pieces of paper—120 tons—per year and reduced the staff from 32,000 to 22,000. The abolition of countless forms and routines freed senior managers to get personally involved in their departments.

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 salesgirl are his best sources of information. To depend on statistics is to asphyxiate the dynamic spirit of the business.”

Lord Sieff described the process as “the method whereby the interested and inquiring mind of the executive and his colleagues penetrates beneath the surface of things and discovers the facts.”

The emphasis on probing became an integral part of the M&S management philosophy. Brian Howard, director of foods, illustrated the merits of probing, “We get concerned when statistics get on paper, because they hide things. For example, suppose I had a report on sales at a store that showed for a day”:

	Beginning Stock	Sales	Ending Stock, End of Day
Item A	100	100	0
Item B	50	20	30

“I might conclude on the basis of a day’s sales that sales of A to B were 5:1 and act accordingly. But if I looked after lunch, I might find that the sales for the morning showed”:

	Beginning Stock	Sales	Ending Stock, End of Morning
Item A	100	100	0
Item B	50	10	40

"I have to ask the store manager to learn that the proper order is more like 10:1. That's why we distrust statistics and value probing."

Simplicity remained a touchstone for M&S management in the 1970s. In 1974 M&S inaugurated a "Good Housekeeping" campaign to limit paperwork, with probing still occupying an important place. It was conducted not only at the head office but also, and especially, in the stores. All senior executives frequented stores, many stopping on their way home from work. In 1974 only 10 of M&S's 251 stores failed to receive a visit from a senior board member.

Each director was expected to wear M&S clothes and every weekend received a hamper of M&S food. Both policies allowed executives to monitor product quality personally. On Saturdays each board member and senior executive toured two or three stores. Managers frequently encountered other executives in stores while probing. For example, a researcher accompanied Howard on a Saturday tour of the Uxbridge store. Over coffee Howard assembled a textile sales manager, junior executives in food and textiles, a food technologist, and the store manager. All were headed for other stores. As a head office employee remarked about the directors, "They work 60 hours during the week, they visit stores on Saturday, and they talk about it on Sunday. They live, eat, and breathe M&S."

During the Saturday visits, executives spent a great deal of time talking with employees. The following describes incidents during a 1974 store tour conducted for the casewriter by the chairman, Sir Marcus Sieff, and Brian Howard:

Staines was a small store but did £40,000 per week. We arrived around 9:15 and were greeted by one of the supervisors. The store traffic seemed brisk but the staff manageress thought it a little below normal.

A very young food department supervisor was asked to take us around. She was flustered but did her best to answer questions. It was easy to see what was meant by the necessity at M&S of being able to give straight, clear answers. Brian Howard expected her to know her numbers and her situation. There were problems of short produce deliveries, and he wanted them described. He also offered comments on store layout.

Later the staff manageress took us around upstairs. The warehouse space floor was spotless. The atmosphere was one of easy-going efficiency and competence.

Leaving Staines, Howard drove on to the Reading store to meet Sir Marcus Sieff. Sir Marcus led his party around the store. All that he was wearing that day, except his shoes—slacks, shirt, sweater, and jacket—were available on the racks in the store. His questions dealt entirely with merchandise and people. What was moving? The store manager offered from memory current sales numbers representing percentage comparison with previous weeks and years. Department managers added comments.

Of a shirt, Sir Marcus Sieff commented "Here's one of our mistakes. Have you reduced this?"

"Yes, but it still isn't moving. We'll have to take it down another pound."

"Why isn't there a price notice?" Sir Marcus asked a young sales supervisor.

"We just got these this morning, chairman, and the sign is being made. We buy this from Burlington. We've ordered 2 million yards of this fabric so far. It's moving very well."

Looking at a child's snowsuit jacket at £6.25 (approximately \$15.00), Sir Marcus said, "Is that our price? We've got to get a less expensive range. Our customers can't afford that."

Everyone had a pad, from the chairman down, and all took their own notes.

"Did your boss come in to work today?" he asked a warehouse foreman whose wife worked as a sales clerk. "Yes, chairman."

"How is Mary?"

"She's well, thank you."

On a tour of the lunchroom and offices, Sir Marcus asked for the hairdresser by name ("She's the queen of Reading"), and gave numerous directives.

"I want 'switch the lights out please' signs near the doors whenever the switches aren't near the door. They have to learn we have a balance of payments problem. When do our window lights go off?"

"6:30."

"When do we close?"

"6:00."

"I want them off at 6:00."

Driving to his home for lunch, Sir Marcus commented on what he had learned. "Some lines we like don't move—like this jacket. We have to find out why. We have a problem on having enough stock for the period after New Year's without carrying too much inventory. And that store has some good people. They're doing a good job."

Other Developments

Personnel. The fifth point of the general principles of Operation Simplification reemphasized M&S's traditional commitment to the well-being of its employees. M&S implemented this commitment by establishing company-financed social and recreational clubs at Baker Street and in each store and by upgrading medical and pension benefits. When Lord Sieff succeeded to the chairmanship in 1964, he reiterated the company's concern: "M&S started with people. We—Lord Marks and I—both felt that making people happy was the great thing in life. So, when we got into the stores, we automatically thought in these lines. For instance, we found that the girls were going without lunch when they were broke or busy. So we put in lunchrooms and saw to it that they got time to eat their meals."

A 1969 speech by Managing Director (later Chairman) Sir Marcus Sieff reflected similar sentiments:

The guiding light of business enterprise is attention to human relations within the business. Firms, like our own, that study human relations—in some places they are called labor relations or industrial relations—are often asked to supply people to lecture on the subject. It is very difficult. How can you tell people to do things that you know they are not doing because they are the way they are? 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 come from workers approving of 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. They must come in a sensible way, which we have found brings in response, with few exceptions, from all grades of staff. This response expresses itself in loyalty to the firm's cooperation with management, greater labor stability, and a willing acceptance of new and more modern methods. 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 that make for contented and hard-working staff and to pay better wages based on genuinely increased productivity.

Management designed the M&S personnel organization to implement their philosophy of concern (see *Exhibit 2*). In each outlet, a store personnel executive oversaw the training, movement, and welfare of the store's staff. The job of the head office personnel executive was similar but somewhat less structured due to the close relationships between headquarter's top executives and staff. Of particular importance was the post of pension and welfare executive, who not only ran M&S's pension plan but also looked after retired M&S employees. Retired employees remained attached to a particular store from which the company provided various services, including a free medical plan and periodic lunches. The pension plan itself—long noncontributory—provided well above average benefits.

Concerning these policies Sir Marcus commented, "The word *welfare* has an old-fashioned sound reminiscent of the Victorian era, but I do not know a better one to replace it. People do have troubles, and it is a fundamental part of a good staff policy to be able unobtrusively and, above all, speedily to give help and advice when needed."

M&S also offered current employees a rich and varied program of free activities including riverboat trips, table tennis, and bowling and concert tickets. Of these amenities Sir Marcus said, "They should be of such a nature that executives are pleased to take advantage of them. . . . If the facilities are not good enough for top management, then they are not good enough for staff whatever the grade." By 1972 annual welfare costs at M&S exceeded £4.5 million.

Ultimate responsibility for the company's personnel and welfare policies rested with a welfare committee of nine senior managers. The committee, which met weekly, handled those cases that exceeded local store authority or that required a "common handwriting." The committee's decisions were never questioned.

M&S's emphasis on family atmosphere and employee welfare resulted in a distinctive work environment. An employee described M&S's "house rules":

1. The first thing to remember is that it is a *family* business. Because we're a family business, we care for people. It's a paternal business. How does that affect the professional? You have to receive your inoculation. If you get a violent reaction, you'd better go. And then you grow with the business. It comes back to a recruitment policy. We have to get them young and train them ourselves.
2. You can't be a loner. You have to be part of the team.
3. You have to spread your decisions around. Some in-house decisions are "I don't like it." You learn to accept a decision and wait your time to come back with it.

4. You have to learn how to handle people in an ordinary, decent way.
5. Nobody succeeds who can't talk clearly and simply to the management.

Marketing. M&S's marketing philosophy, like its personnel policy, developed from traditional antecedents. The late Lord Israel Sieff summarized it thus:

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 produces it by means of a staff humanely organized, we can meet any economic trend and challenge.

M&S believed in offering the customer a selective and streamlined range of products aimed at rapid turnover. In Lord Sieff's words, "In each section there are a few lines which do a large percentage of the business and, generally speaking, it is these items whose development merits our first consideration. It is no use wasting time on articles that can have no future." The 3,000-item range of textile products included women's clothing and lingerie, men's clothing and underwear, children's clothing, footwear, domestic furnishings, floor coverings, accessories, and toiletries. Among the 700 food offerings were bakery goods, confectionaries, produce, poultry and meat, dairy products, beverages, and frozen foods. The articles selected typically 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 "value for money."

Though M&S had always attempted to maintain a policy of one markup percentage for all merchandise, the range of markups had been expanding. Markups for food ranged from 18% to 24% with a target of 23%; textiles from 26% to 33% with a target of 30%. In 1974 the annual report announced that margins had been "deliberately and substantially" cut, with "attendant loss of profit" to counteract rising prices and costs.

M&S never held sales, and it reduced merchandise for clearance purposes only. It did little advertising (0.3% of sales versus 2%–3% in the United States), which was limited to information (i.e., new product line). Executives believed that the products sold themselves and so relied largely on word of mouth.

Sales within the store were for cash only, as executives believed that credit only increased costs. The company provided no fitting rooms but did maintain a liberal refund policy. M&S accepted virtually all returns on face value, thus eliminating customers' anxieties.

President J. Edward Sieff summarized M&S's basic marketing principles, "We do what's best for our suppliers, staff, and customers, and we get better at it all the time."

Production and product line organization. In 1960 Lord Marks stated, "It is easy enough to test goods when they are made. What is more important is to be sure they will be well made from the start. What we want to have is process control and testing at the point of production."

Although M&S did not manufacture the goods it sold, it was often responsible for 75%–90% of a suppliers' output. The company worked closely with the approximately 175 food and 400 nonfood independents providing St. Michael merchandise to M&S specifications. Indeed, according to Brian Howard, "Management at M&S is concerned with a flow that begins with the manufacture

of synthetic fibers or the import of raw goods and ends with what we hope is a steady movement of merchandise across store counters."

Supplier relationships often stretched back 30 years or more, allowing many suppliers to share in M&S's growth. In 1975 the company employed over 250 scientists, engineers, and support staff, working in teams with merchandising departments and suppliers to develop product specifications and monitor product quality. Suppliers manufactured goods according to an M&S-planned schedule and held them until the company requested delivery to specific stores, at which time M&S accepted title.

Responsibility for handling the flow from suppliers to M&S rested with the merchandise teams (see *Exhibit 3*). Within the textiles division two subdivisions existed, each headed by a managing director. One director supervised men's and boys' wear, home furnishings, footwear, accessories, and new products; the other, women's and girls' wear. Reporting to the managing director of each subdivision were one or more senior executives, each of whom had charge of one or more product lines handled by the division. Each line was further subdivided into segments overseen by junior executives (e.g., menswear subdivisions included knitwear and outerwear). Junior executives, in turn, supervised selectors responsible for developing merchandise ranges and merchandisers responsible for sales estimates, production, packaging, and distribution.

The food division, though more centralized, adhered to the same basic philosophies and procedures as did textiles. Each product group within the food division had a selector and merchandiser. Merchandise teams tested new items with recipes and tasting panels. Product shelf-life frequently required a shorter time span for food division operations than for textiles.

At the store level, food operations differed slightly from textiles. Store staff, responsible for determining the merchandise they carried, prepared weekly lists of stock on hand that indicated what they wanted delivered on each day of the following week. The merchandisers who controlled distribution edited these orders. After the individual store orders were submitted, a computer, programmed weekly with the production capacity and location of each supplier, generated a production plan for each supplier and geographical area. The merchandise was subsequently ordered. All food orders were transported to the stores via depots operated by independent contractors. Perishable goods were delivered daily. Each product bore a clear sell-out date, and it was the responsibility of the merchandise and store staffs to monitor the freshness of the food continually. In addition to testing all new products and resampling trail lines, M&S staff randomly selected items from stores and brought them to the laboratory for inspection.

Merchandising began with semiannual estimates for the coming season, including budgets for sale, stock, and production. Merchandisers, selectors, and merchandise executives held joint responsibility for estimates. The board of directors calculated the total estimate for the company and for each major decision. All estimates were made exclusively in pounds sterling.

Senior executives monitored sales performance personally and by means of reports. Of particular interest was the Stock Checking List Summary, which was used in both foods and textiles and circulated weekly to the directors (see *Exhibit 4*). Most merchandise executives believed that the basics needed monitoring while fashion items would "take care of themselves." Senior management was reluctant to accept external conditions as justification for results below plan. Generally, if department sales were unsatisfactory, internal procedures were evaluated first. Senior management constantly monitored departments when performance was smooth and eased up in the face of difficult problems. The reasoning was that good performance deteriorated easily if not continually pressured.

Store divisional organization. In 1974 M&S had 251 stores divided into 11 divisions, each under a corporate director with responsibility for store operations, building and equipment, transportation,

packaging, and real estate. Twelve divisional superintendents, covering regional groups of stores, acted as Baker Street's field representatives and helped store managers as needed. The store managers were the senior line managers in each store and were held responsible by the board for implementing its policies.

In practice, the store manager concentrated on sales. Relieved of responsibility for profit margins and usually ignorant of individual margins, managers strove to increase volume, control store expenses, monitor turnover, eliminate "counter cloggers," and insure adequate stock in fast-moving items. The staff manageress was responsible for staff selection, training, assignment, development, and welfare. Most store managers were men, but some women had recently been promoted to that position.

The dual authority structure was designed to instill a "family spirit" in each store. The manager and manageress of a new store always had comparable experience in other stores and were expected to achieve a family spirit within six months.

The typical store in 1973 had a manager, an assistant manager, a staff manageress, 2 or 3 department managers, a warehouse manager, a cashier, 10 department supervisors, and 150 general staff. All managerial staff received training in company stores. By age 30, however, most staff and line managers embarked on different career paths, with staff people centralized at headquarters (see *Exhibit 5*).

The sales assistant occupied one of the most important positions in the company. Assigned to specific departments and attired in identical uniforms, sales assistants monitored product quality, kept stock plentiful and neat, operated the cash registers, and assisted customers. They had authority to replenish stock and to reject goods that seemed of poor quality or inappropriate for the department. However, rejection of stock seldom occurred.

A Look at a Store

A tour of a large downtown London store began in the unusually clean and tidy stock and receiving area. Merchandise was received on conveyor belts, spot-counted, and immediately put into stock. A large, spotless area, used for food stock and storage, included freezers and cold storage rooms. Unique baskets enabled stacking so that food products would not be damaged.

Staff amenities included a medical room and a nurse, with periodic visits from a physician, dentist, and chiroprapist; a one-room infirmary; a hairdressing salon (charge 75¢), where women were served lunch under the dryers; 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, and the charge for all three was 25¢ per day. The food compared favorably with that served in executive dining rooms (see *Exhibits 6 and 7*).

The main sales floor was arranged to reflect shopping behavior rather than production process, e.g., knitwear was separated into men's, women's, and children's. Except for area identification signs, there were no graphics or displays. Merchandise was displayed on tables and garment racks (see *Exhibit 8*).

The food department had a separate checkout but no barriers to the department store. All food was packaged in see-through containers. Many shelves were completely empty because M&S ordered only a one-day supply plus minimal stock for the next (see *Exhibit 9*). When shelf life expired, unsold goods were available to staff at half price or less.

Movement of both textiles and foods was continuously monitored by the store manager. He remarked, "By 12:00 noon I know the fastest-moving item in the store. It's my job to move that

merchandise and make sure we get enough of it. The major problem I face is that if I can't get what I know to be the best, what will I settle for as next best?"

Finance. According to John Samuel, financial officer, M&S's financial policy aimed to provide sufficient resources for capital development, retained earnings, and dividends. The board determined the specific amounts to be committed. A pretax profit-goal of 10%–10¹/₂% and an expense level of about 12% together implied need for about a 25% gross profit margin. Only senior board members dealt with profitability, but even they regarded profit as a required residual and focused on sales volume and expenses in pounds sterling. They tried to balance food and clothing sales as related to margins and overall volume. Store-level goals were set in relation to sales and expenses, while merchandising and buying dealt with production and distribution cost and quality.

Despite growth, major percentage relationships changed little over time. For example, expenses remained at 11%–12% of sales from 1970 to 1974. Samuel indicated that M&S's size minimized the effects of change and eliminated the threat of violent shifts.

The company made every effort to finance its continual growth internally. Although dividend payout was high, Samuel reported a "massive scaling down of proportions paid out to the shareholders in order to finance continued growth."

During the period of domestic expansion, M&S also built up exports to 159 retailers in 41 countries, who operated St. Michael shops in departments stocked exclusively with M&S merchandise. In 1974 exports rose 31% to \$31,920,050. The company was also beginning to move directly into foreign markets. In 1972 a 50% joint venture was formed with People's Department Stores of Canada under the name St. Michael Shops of Canada. Major developments were also under way for France (two stores) and Belgium (one store). Although these operations required local borrowing, retained earnings remained the major source of investment funds for both Canadian and European expansion.

In recent years the company's freedom in financial matters had been increasingly circumscribed by government actions, which included (1) raising the corporate tax rate from 40% to 52% in 1974; (2) mandating, under the provisions of the Counter-Inflation Act of 1973, that the gross equivalent of ordinary dividends declared in 1973 could not exceed those of the previous year by more than 5%; and (3) forcing all retailers to reduce gross margins by 10% in the spring of 1974.

Management Style

A typical week at Baker Street began with an 8:30 A.M. meeting in the chairman's office. Generally eight or nine of the senior members met daily with the chairman, M&S's chief operational director. The members most frequently in attendance included the president, J. Edward Sieff; the vice chairmen and joint managing directors, M. Sacher and Michael Sieff; joint managing directors, Henry Lewis and Derek Rayner; and directors, R. Greenbury, W. B. Howard, and G. D. Sacher.

Upon entering the chairman's office, each member received sales and stock figures for the previous week. The chairman generally started the meeting by relating a particular incident he had observed during the previous several days. He frequently spoke for several minutes on one or two particular problems and how they related to the business. General comments were then interchanged by all present. The chairman then went around the room and asked each director if he had anything he wished to discuss, starting with the vice chairman, Michael Sacher. The following excerpts are from a meeting held on January 15, 1975.

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 (president): I want to make a plea for self-restraint in cloth buying on price points. There's no point in buying more expensive fabrics. We are only interested in the desirability of the article. Once we see the retail price in print, it qualifies the cost price, which doesn't necessarily represent value. We should ask ourselves, "Is it better, of more value, and better quality?"

Sir Marcus: I think the president is absolutely right. It's a matter of self-restraint. Anything else, Teddy?

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?

Sacher: I'm concerned about two operations in the stores—training of the cashiers and methods of filling up the displays. For £45 million of goods, we handle £180 million at Marble Arch. We accept too much of this and take too many things for granted. We handle everything four times before it gets to the customer.

R. Greenbury (director): I have set up a team to look at the handling of bread and crisps [potato chips].

J. Edward Sieff: Anything to learn from Safeway or Migros [grocery chains]?

Sir Marcus: Let's ask them. Or Sainsbury. They'll tell us. No need to invent everything ourselves.

Greenbury: I've asked them.

Sir Marcus: O.K., but let's *do* something. I don't want to see the perfect solution.

On Mondays only, after the 8:30 meeting, those meeting with the chairman proceeded to a conference room for the 10:00 A.M. meeting of all directors and senior executives. A total of approximately 25 to 30 people gathered around a long table. The meeting was conducted similar to the 8:30 A.M. meeting. The following are excerpts of the January 30 meeting:

Sir Marcus: 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 we 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 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.

Another point concerns customers' criticism and complaints. Ninety-four percent of them are replied to by me within a maximum of 48 hours. This procedure should apply around this table. It is a job for the senior members, not the subordinate member. "A soft answer turneth away wrath."

J. Edward Sieff. I've heard complaints about hosiery that doesn't stay up. We must look at the technicians' role. We are not calling on our technicians sufficiently. Secondly, I'd like to talk about our taste, which should be one of classic simplicity. We give too much credibility to gimmicks that we see in foreign fairs. I know the young people want the showy goods, but we must draw the balance. What are the parameters of taste?

Sir Marcus: Decent taste, reasonably up-to-date taste.

Michael Sieff (vice chairman and joint managing director): The opening of Paris—we have very poor stock conditions. The outstanding orders aren't being filled. I want to know what's happening. Next, markdowns. The trial reports and evaluations are important. We must be cautious to avoid markdowns. Thirdly, price increases. Some of our margins have been increased to 32% or 33%, which makes up for the budget line of 24%. To talk to the stores about margin is difficult. Should we bring in margin? It may not be wise.

Sacher: Their job is to sell whatever they've got at whatever price, including the reduced items. I don't think they should be told.

Sir Marcus: I received a letter from the Wolverhampton store about our plan for extension there. As you know, we canceled plans to extend the operation. The letter was written by departmental supervisors asking for an extension of their store. It's a very well-written letter. Let me read it to you [*reads the letter*]. I think we should look into the situation again. [Sir Marcus noted in March 1975 that the supervisors' letter led to an investment of over £1 million.]

At the conclusion of the general meeting, many directors and senior executives met with their respective groups. Senior directors often joined such gatherings. At a food meeting attended by a researcher, one of the vice chairmen came in and threw a package of rhubarb crumble on the table. He scathingly commented on the poor taste and consistency of the dish. "This is the most disgusting

thing I have ever had the pleasure of serving to guests. The rhubarb was unripe and overcooked—it was inedible. Also, the product is overpackaged. We should take a closer look at our packaging policies.”

Elsewhere at Baker Street, a constant parade of people went in and out of offices. Standard procedure was to knock and immediately enter, without awaiting a response. The object was to project an open-door policy; often the visitor would get an answer to a question and leave. Outside each door was an “engaged” sign that could be lit from the occupant’s desk to avoid being disturbed. Executives were constantly available to anyone who wanted to work with them. In each office and in the halls, was a light with four colors (much like a traffic light). Each board member and senior executive was assigned a combination of colors. These lights flashed whenever someone wanted to reach an executive who was not in his office. Those without a light combination carried pocket beepers.

Most executive offices featured two phones. One could be used for any purpose. The other was answered by an operator; the executive told the operator whom to look for, hung up, and was called back when the party was located. Thus, all executives, unless off the premises, were available to anyone who wanted to see or talk with them.

Concerns about the Future

The executives of M&S were figures of considerable public importance, well known in the business community. Asked about the future, the chairman spoke of his concern for the economic future of M&S and the nation.

We believe that if we guard the standards of our goods, improve our systems, and look after both our staff and our customers, we shall continue to grow and to make profits.

We need profits, after paying taxes:

1. To improve the pay and working conditions of our staff and to take care of them during retirement. The high morale and productivity of our staff owe much to these factors; most of them take pride in working for a successful business that is quality oriented.
2. To have funds for investment in the development of the business, which is clearly desired by our many customers.
3. To pay a proper dividend to our 240,000 shareholders, who include many small savers, individual pensioners, and pension funds.

Marks and Spencer has, over the years, under a private enterprise system, made a significant contribution to the economic life of the country and has helped to raise the standard of living. We doubt whether we could have achieved this under any other system.

Sir Marcus was particularly upset with inept government interventions in business. When asked what these actions would mean to his basic strategy of expansion in Britain, he commented:

First we have to be concerned with our liquidity. We will not spend our reserves. The result is, whereas we were going to spend £40 million a year to upgrade our stores, we’re now going to spend £20 million. We have to preserve our

position. The consequences will not be important in the short term. But as a pattern they will hurt Britain severely in three to four years' time.

A particularly clear expression of Sir Marcus's views was made in a corporate statement issued on October 8, 1974, two days before the 1974 parliamentary elections. The statement made headlines in all of Britain's major papers.

Retailing performs a major role in the chain of production and distribution. We cooperate with whatever government is in office, but some ministers and their advisers do not seem to appreciate the significant contribution which a healthy and competitive retail industry can make in stemming the rise in the cost of living. We are not helped in this task by misguided interference.

Corporation tax takes more than half our profits. The Government criticizes the private sector for its failure to invest but it omits to explain that much investment is financed out of our profits. If our profits are subject to politically motivated restrictions and massively reduced, confidence is eroded, and investment on which the maintenance of employment and the future prosperity of the country depends slows down.

The remaining profit [after tax and dividends] is retained in the business to finance its future growth. Present Government policy has substantially reduced the money available for such development in the immediate future.

Michael Sacher, vice chairman, commented on some of the firm's internal issues and problems:

What has always astounded me is how few people have learned the simple principles on which we operate. I think we have carved a market out here which is quality goods at lower prices. As long as we stick to that we'll be okay, as long as the younger people learn the principles of the business. You have to have a clear policy where you upgrade areas in which you are weak and stay out of the caviar business. The board can help here but there are so many things distracting us from being shopkeepers—bombs, the government, and so on. But we implement by generalizing from the particular. That is how you teach young people.

I always try to pick out one thing and then work on it. Take frozen cannelloni; it's a new line that I think will move very well. People like cannelloni and it's hard to make. Someone else suggested spaghetti. The housewife can make perfectly good spaghetti with ease, why should we? It just requires a bit of common sense. It's no good developing a slip department if everyone's wearing pants.

Researcher: Isn't it inevitable that you sell the spaghetti as well?

Michael Sacher: No, I don't think so. We don't believe in a high degree of specialization, and it has always been our practice to move selectors around the business. So much of selection is taste, feel, and common sense.

I was going to say something else, also immodest, and it's true of other senior colleagues. You have to become expert in a wide variety of activities: selecting goods, feel for merchandise, know what's coming, principles of building, and rudimentary technological questions.

I hear a lecture in Israel about tomatoes, so I know something about them. I've been shown cell sections of frozen material, so I can ask why our beans and sprouts have such lassitude. I've acquired enough garbage to ask technological questions that they can't throw out.

In the end, the decision has to be taken by management, not the experts. And you have to be humble. I just try to take a jolly good look at everything that's been here a long time in the same place. Repotting is healthy managerially if not horticulturally.

I do see problems: you can't help but lean on the strengths that you have. Take Teddy. He has an astronomic knowledge of textiles and he applies himself. His taste is not perfect, but he knows what an M&S range should be. He's done a wonderful job in his new role.

The family is a binding force. Members of the family can talk to each other in a candid way that I find extremely difficult to discover with professional managers. It happens with some, but it takes time.

Researcher: How much does great wealth have to do with it?

Michael Sacher: Well, there is something to that. We know what good taste is. We see fashion as it emerges and whether it lasts. I once suggested that we send our selectors to the Caribbean for the winter holiday to see what is being worn.

Another problem is that most of our executives have joined us straight from the university. It compels you to have a series of graded courses outside the university. Not so much for what they learn, but they can test themselves against peers. My generation had the war in which to measure themselves.

Senior members of the board agreed that the major question facing M&S concerned the proper rate of expansion in Britain, and the moves into the Common Market and Canada. Sir Marcus articulated his reasons for the moves. "First, as an opportunity for more profit. Given the deteriorating situation in Britain we think Canada can become very important for us. Second, as a chance to expand British exports. And finally, should things be really bad, it's a lifeline for us abroad."

Exhibit 1 Financial Data, 1973–1974 (£000)

Years Ended March 31	1974	1973
<i>Profit and Loss Account</i>		
Gross store sales	591,570	511,934
Export sales	<u>13,583</u>	<u>10,370</u>
Net sales	605,153	522,304
Operating profit	76,825	70,036
Taxation	<u>39,900</u>	<u>24,900</u>
Profit after taxation	36,925	45,136
Extraordinary item		
Surplus on disposal of fixed assets	<u>2,383</u>	176
	39,308	45,312
Dividends	<u>19,008</u>	<u>21,388</u>
Undistributed surplus	<u>20,300</u>	<u>23,924</u>
Earnings per share	11.4p	13.9p
As of March 31	1974	1973
<i>Balance Sheet</i>		
Assets		
Current assets		
Inventory	31,472	29,638
Cash and short-term deposits	18,460	44,612
Debtors and prepayments	10,502	8,150
Tax reserve certificates	—	4,000
Total current assets	60,434	86,400
Fixed assets		
Properties	221,895	182,710
Fixtures and equipment	<u>19,825</u>	<u>15,668</u>
Total assets	<u>304,364^a</u>	<u>284,830^b</u>
Liabilities		
Current liabilities		
Creditors and accrued charges	28,055	29,971
Corporation tax	28,237	23,359
Dividends (interim payable and final proposed)	<u>12,255</u>	<u>21,283</u>
Total current liabilities	68,547	74,613
Long-term liability		
Deferred taxation	18,400	13,100
Debenture stock	<u>45,000</u>	<u>45,000</u>
Total	63,400	38,100
Net worth		
Shareholders' interest	<u>172,417</u>	<u>152,117</u>
Total liabilities	<u>304,364</u>	<u>284,830</u>

a. Investment in subsidiary companies was £1,040; investment in associated company was £1,170.

b. Investment in associated company was £52.

Exhibit 1 (continued) Ten-Year Financial Statement (£000)

Years Ended March 31	1965 ^a	1966	1967	1968	1969	1970	1971 ^a	1972	1973	1974
Turnover ^b	208,636	226,135	242,954	268,607	299,672	338,843	390,915	438,600	522,304	605,153
Operating profit	27,506	29,618	30,659	33,871	38,123	43,705	50,115	53,766	70,036	76,825
Profit after taxation	12,706	18,268	18,959	20,121	21,773	26,005	31,215	34,416	45,136	36,925
Corporation tax rate	nc	40%	40%	42.5%	45%	42.5%	40%	40%	40%	52%
Earnings per share	nc	5.6p	5.8p	6.2p	6.7p	8.0p	9.6p	10.6p	13.9p	11.4p ^c
Dividend payments to shareholders	9,258	9,928	9,950	10,266	10,609	11,928	13,904	15,528	17,826	19,008
Retained profit	3,246	4,322	2,461	2,536	3,667	5,747	8,220 ^d	9,132	23,924	17,917 ^d
Depreciation	1,844	1,993	2,177	2,488	2,987	3,534	4,177	4,620	5,055	5,464
Ordinary share capital and reserves	105,468	109,790	112,251	114,788	118,455	123,132	127,711	136,843	150,767	171,067
Total sales area (000 square feet)	3,337	3,471	3,635	3,929	4,214	4,408	4,708	4,944	5,059	5,489

Source: Company records

Note: nc = not comparable

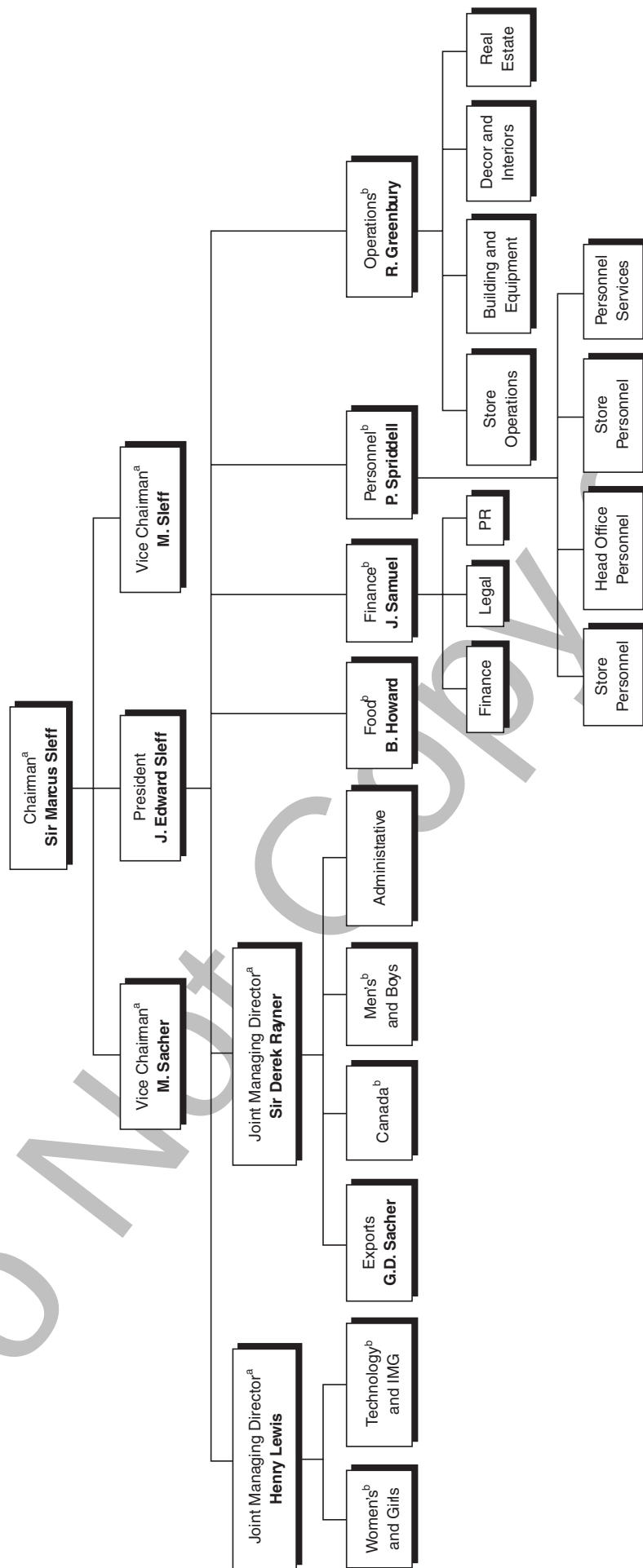
a. 53 weeks.

b. Turnover for the year ending March 31, 1974, is shown after deduction of V.A.T. For the purpose of comparison, turnover figures for previous years have been shown after deduction of purchase tax.

c. Earnings per share are not comparable by reason of the change in basis of taxation.

d. Excluding surplus on disposal of assets: 1971 = £2,393,000; 1974 = £2,383,000.

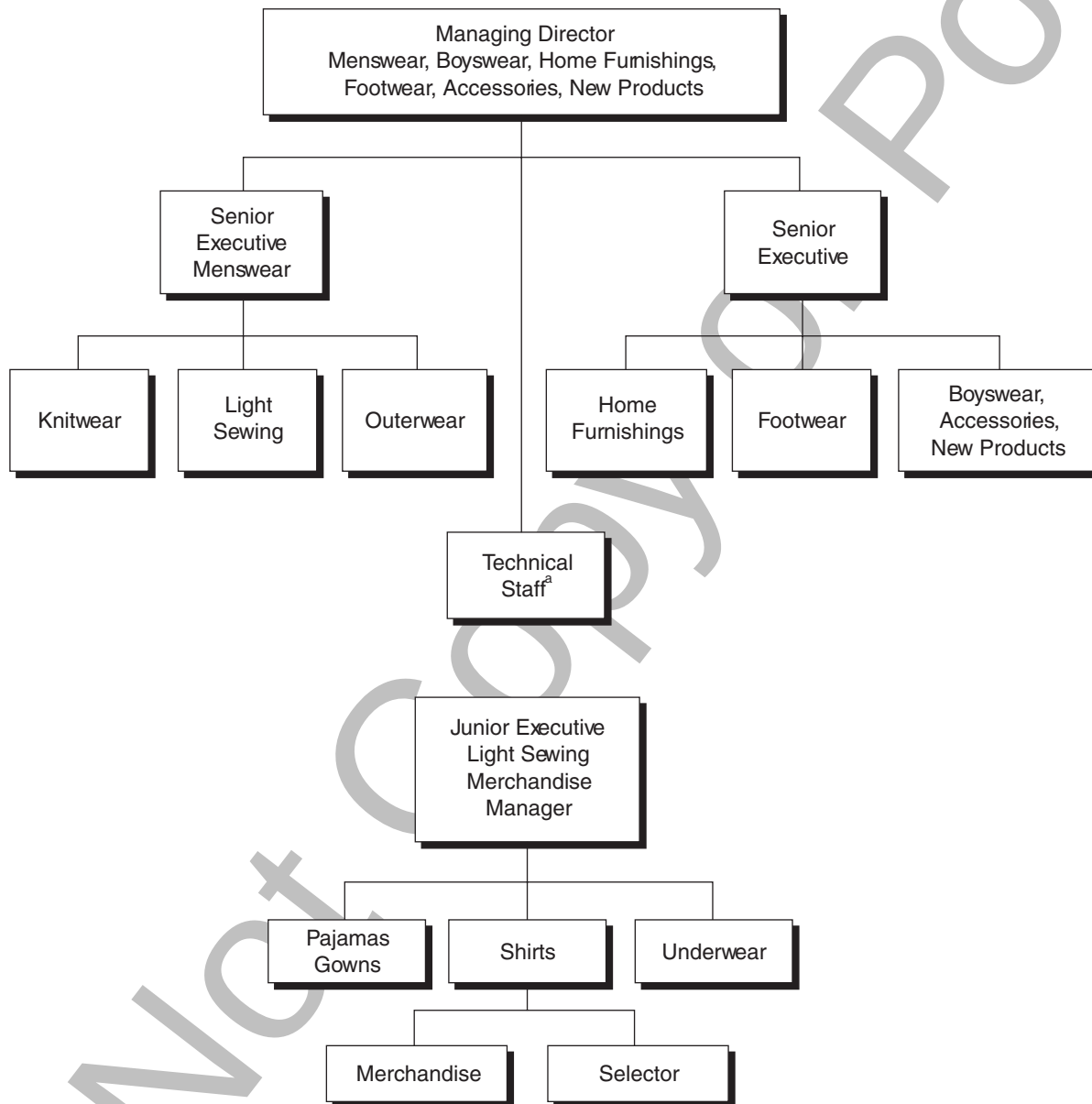
Exhibit 2 Organization Chart, 1975



Source: Casewriter's notes.

a. Joint managing director.

b. There were 22 directors altogether.

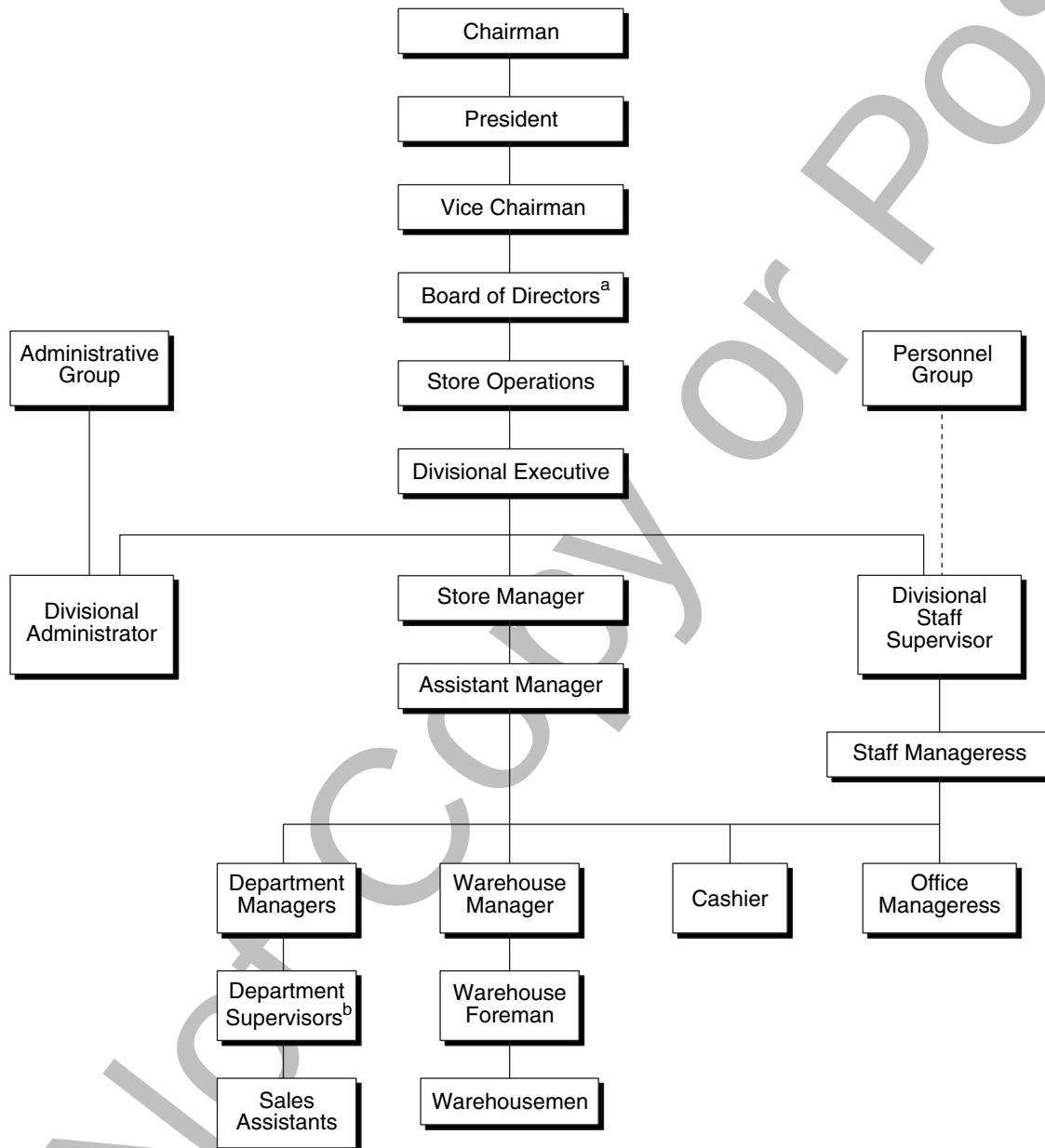
Exhibit 3 Textiles Division Organization Chart with Detailed Organization for Menswear

Source: Casewriter's notes.

a. For all individual merchandise groups.

[illegible]

Source: Company document.

Exhibit 5 Organization for Store Operation

a. Including managing directors.

b. Present only in larger stores, but in some instances numbering 10.

Exhibit 6 Store Hairdressing Salon

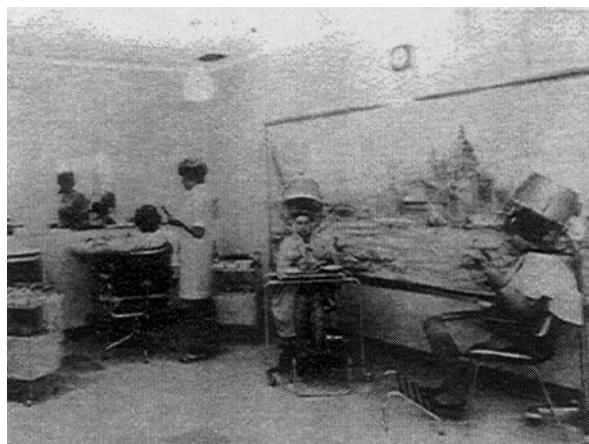


Exhibit 7 Store Dining Facilities

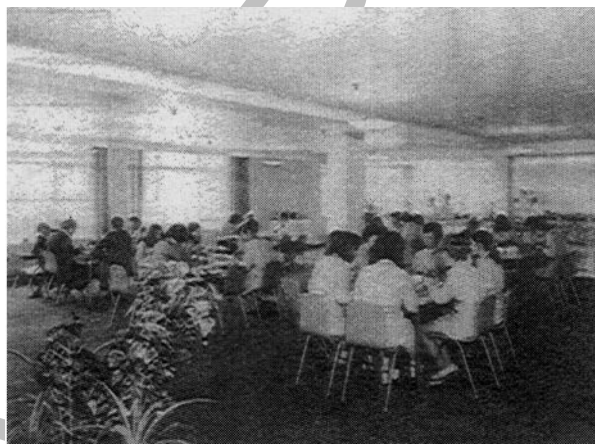


Exhibit 8 Textile Area



Exhibit 9 Food Area

