

MarketLine Case Study

Marks & Spencer in decline

Extensive remedial action required for turnaround plan to work

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The logo for MarketLine, featuring the word "MarketLine" in a bold, white, sans-serif font. The "Line" part is stylized with a thick, white, horizontal bar that extends to the right and then curves upwards, forming a sort of underline or a stylized 'e'.

OVERVIEW

Catalyst

Monotonous decline has been a prominent feature of Marks & Spencer performance for a considerable period, only occasionally interrupted by a good year – most notably 2008. Now the store closure program is being extended and the company recently registered a substantial decrease in profits. The apparel retailer faces numerous problems needing significant remediation. Catching up with rivals will not be easy – M&S is far behind in key areas such as supply chain technology and selling the brand image. Even if the latest turnaround plan improves company fortunes, chances are any recovery will be slow – that much work needs to be done.

Summary

Since the May 2018 announcement of store closures in addition to those already known about, a considerable amount of attention has been placed upon the headline financial figures which reveal a history of steady decline. The plan is founded on sound principles, even if somewhat late. Retail stores, especially clothing outlets, historically hemorrhage money when consumers are attracted elsewhere. Few expect the pace of internal change to be especially rapid; persuading customers to return is never easy, and winning new custom from rival brands is frequently very challenging to do. Slowing the opening of the Simply Food stores will help matters. Given recent business performance the company scarcely needs to incur losses from expanding that part of the brand excessively quickly.

Compared to other high-street retail chains the supply chain for Marks & Spencer has been outdated for years. Rivals including Next, Inditex (owner of the Zara brand) and H&M have closely integrated with suppliers, taking much more direct control over factories, enabling those brands to replenish stores faster and offer more frequent changes to product lines. Although much of the news surrounding the present condition of the supply chain network employed by Marks & Spencer is gloomy, a point of positivity is the model for a highly efficient supply chain has already been created. A long-term ambition of Marks & Spencer senior management should be to replicate such systems; the financial gains of getting more people paying full-price and being able to change product lines at the optimum time are substantial.

Once the decision to go online had been taken, initial efforts did not prove adequate: the product range and supply chain were too complicated to compete against nimbler rivals, and consumers did not enjoy the website. That the firm is now only starting to take the required steps to compete better reveals the extent of development that now must be undertaken to create an attractive online purchasing experience. Some critics pointed towards a lack of aggressiveness in the speed of change CEO Steve Rowe appeared to be calling for in official reports. It is vitally important that investment continues at a pace. The reduction by half in 2017 from 2016 of investment into the type of infrastructure needed to establish the company as a leader in combining modern technology with a customer friendly shopping experience is a concerning move.

Evidence of disconnect between consumers and the clothing section of the business can be seen in the company's annual financial fillings. Clothing accounted for 45% of total revenues during 2015; now that figure stands at just 40% and will probably slide further. Ending the discount culture at M&S has been ongoing for a few years; leading managers even cited it as a reason for falling clothing sales. Eradicating discounts and increasingly burdensome and aggressive end-of-season sales should be a successful strategy if the quality of the clothing ranges matches the price. A plethora of brands dilute the impact Marks & Spencer can have as a recognizable brand itself; excessive variety makes adapting to the frenetic pace of change that fashion retailers must now adhere to in order to keep up with changing tastes much tougher.

The assessment of Steve Rowe concerning the management structure at Marks & Spencer was sufficiently scathing that it could easily have been penned by a journalist writing an opinion piece. After criticizing sharply the management structure, Rowe said the company was only three or four miles into a marathon and change would take time. Near constant change at the top has not helped matters. Interrupted by a successful year in 2008, the performance of Marks & Spencer has been characterized by steady decline since the late 1990s. Store closure announcements have become commonplace on the high street, and analysts are on the lookout for which company will be the next to be forced into store closures, administration or disappear altogether – as proved to be the case for BHS – which does not bode well.

TABLE OF CONTENTS

Overview	2
Catalyst.....	2
Summary	2
Marks & Spencer initiates turnaround strategy.....	6
Announced store closures are necessary to slim down business.....	6
Signs are store closures are helping to initiate a slow turnaround in business performance	7
Reforming supply chain to meet modern expectations is now essential	8
Change of supply chain will help Marks & Spencer to become nimbler.....	8
High-street rivals remain far ahead, leaving Marks & Spencer with much work to do	9
Renowned retailer facing struggle to catch up in online realm	11
Initial foray into online and omnichannel shopping failed to inspire consumers.....	11
Infrastructure for modern shopping experience leaves Marks & Spencer trailing	12
Positive early signs of success after change in selling strategy	13
Ending the discount culture will help restore brand image of being a high-quality retailer	13
Sales have fallen in response, but that is not such a bad thing when the complete picture is examined	14
Marks & Spencer is not selling in an attractive manner, making it harder to win over customers.....	14
Long period of stagnation suggests recovery will be difficult to achieve	16
Cited as a reason for decline, restructuring management will yield results but is a slow process	16
Current problems have longstanding histories, pointing towards a slow recovery at best	17
Trouble elsewhere on the high-street points towards any recovery being hard to win.....	18
Conclusions.....	19
Marks & Spencer is not out of trouble but is moving ahead on slow path to recovery	19
Appendix	20
Sources	20
Further Reading.....	20
Ask the analyst	21
About MarketLine	21
Disclaimer.....	21

LIST OF TABLES

Table 1: Marks & Spencer UK stores due for closure during 2018-19 6

LIST OF FIGURES

Figure 1: Location of Marks & Spencer suppliers in Europe and Asia-Pacific, September 2017.....	8
Figure 2: Zara shop owned by Inditex	9
Figure 3: Marks & Spencer shopping app	11
Figure 4: Marks & Spencer discounts	13
Figure 5: Clothing & Home segment revenue (£m) Mark & Spencer 2011 to 2017	14
Figure 6: CEO Stuart Rowe.....	16
Figure 7: Marks & Spencer net profit 2007 to 2017 (£m).....	17

MARKS & SPENCER INITIATES TURNAROUND STRATEGY

Since Marks & Spencer became the first British retailer to register a pre-tax profit of over £1bn (\$1.65bn) in 1998, the company has failed to relive those heady heights of retail success. Instead the apparel and food firm has worked through a plethora of turnaround plans, each of which was billed as the plan needed to finally end years of steady decline, each of which subsequently failing to achieve the business ambitions as determined by the authors. Now another turnaround plan has been pressed into action – only this time a much more aggressive version of what has gone before. Whilst the plan itself remains in the formative stages of implementation, assessing the likely long-term impact is troublesome. Early signs suggest the strategy is the correct option.

Announced store closures are necessary to slim down business

The Marks & Spencer business model is a curious one that stands apart from the remainder of major brands on the average British high street. Even though the leading supermarkets sell clothing under the same roof as food, no other company has two such distinct lines of business. Since the May 2018 announcement of further store closures in addition to those already known about, a considerable amount of attention has been placed upon the headline financial figures, revealing the scale of the years of decline. Whilst like-for-like food sales have been falling, the most serious trouble is to be found in clothing retail. It is this section of the business the bulk of closures will be aimed at. Even by retail standards margins have been under severe pressure lately; leading brands such as New Look came perilously close to entering administration. Considering the clothing section of the business is struggling more than most, under pressure even from retailers such as Primark, cutting store numbers now was the correct plan for one of the most highly regarded high-street names of the consumer society.

Table 1: Marks & Spencer UK stores due for closure during 2018-19

UK Location			
Bayswater	Falkirk	Newton Abbot	Stockton
Clacton-On-Sea	Fleetwood	Newmarket	Walsall
Darlington	Holloway Road	New Mersey Speke	
East Kilbride	Kettering	Northampton	

SOURCE: Guardian

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Underpinning store closures is the desire to move sales online – a shopping avenue Marks & Spencer has been widely criticized for failing to take advantage of years ago. Even though the core customer is typically a woman aged over 50 years, the days of internet shopping being the preserve of younger generations have long since passed.

The plan is founded on sound principles – even if somewhat late.

Retail stores, especially clothing outlets, historically hemorrhage money when consumers are attracted elsewhere. A reduced number of stores enable poorly functioning locations to be ditched, opening the way to invest into the best performing. Not only is the value of a location being placed at the forefront but also the customer experience. Marks and Spencer has received criticism from the business press and consumers alike that customer service has not matched the premium brand image that is advertised. Too long overlooked as a reason for an erosion of influence among shoppers, improving interactions between staff and customers by increasing staff numbers, and providing them with hand-held technology to help with customer queries, marks a welcome step towards regaining trust and matching the advertising with positive in-store experiences.

The latest round of store closures is much closer to the ambition that the original turnaround plan of failed to attain. Initially only 30 shops were earmarked for closure within five years. Later 60 closures were announced; and now the total figure stands at 100. It is possible more could follow if results following the closing down of stores do not reveal a marked improvement over the past few years. Certainly the scale of closures suggests the 'forensic' review by the chief executive, Steve Rowe, which resulted in 30 store closures, was not nearly as ambitious as was required to solve the most critical problems.

Signs are store closures are helping to initiate a slow turnaround in business performance

Steve Rowe is playing the long-game regarding returning the business to the glory days of the late 1990s. Describing the turnaround plan at a meeting with shareholders as a marathon in which the firm is currently at mile three or four, Rowe has so far achieved 2.7% growth in full price sales as well as a significant reduction in discounting, resulting in expanding profit margins. Few expect the pace of change to be especially rapid: persuading customers to return is never easy, and winning new custom from rival brands is frequently very challenging to do. Consequently, investors are unlikely to be concerned about the collapse in the headline profit figure that was widely reported – much of the decline can be attributed to the costs of closing stores and implementing plans to revive the fortunes of the company. Announcements about modernizing the supply chain and building the online business to the point where it is a serious competitor and can help drive footfall to the physical stores will help assuage fears of further decline.

Slowing the opening of the Simply Food stores will help matters. Given recent business performance, the company scarcely needs to incur losses from expanding that part of the brand excessively quickly. Prudence here is sensible due to adjustments being made to the product offering. More value products are due to be stocked, and for Marks & Spencer a 'wait and see' approach could prove highly beneficial. Whilst most food retailers are permanently engaged in a race to the bottom, premium brands must remain careful not to dilute brand image by targeting consumers who would not ordinarily think about shopping at an M&S food store. Not only could the core audience be deterred from returning, but the audience the company hopes to win over may easily never know they are being courted. At a time when the company is hoping to radically expand online sales, analyzing the impact of the current strategy before moving onwards would appear to be a prudent approach. However, the strategy is not without risk. By moving relatively slowly on Simply Food now, Marks & Spencer is granting more time and opportunities to budget outlets to normalize more luxurious products among regular customers, making it harder for M&S to utilize the premium brand image.

REFORMING SUPPLY CHAIN TO MEET MODERN EXPECTATIONS IS NOW ESSENTIAL

Over the recent past Marks & Spencer has been left behind when it comes to creating a highly adaptable and cost effective supply chain able to meet the modern demands of the high-street shopper. Inditex and others have perfected the art; changing whole product lines in just a few weeks to suit a sudden change in fashionable taste has become their hallmark. M&S is working on updating systems to compete, but the company has suffered from lagging behind in supply chain technology. As money is spent online, the infrastructure behind supplying clothing to customers is more important than ever – M&S is under pressure to do better.

Change of supply chain will help Marks & Spencer to become nimbler

Compared to other high-street retail chains, the supply chain for Marks & Spencer has been outdated for a while. Next, Inditex and H&M have closely integrated with suppliers, taking much more direct control over factories and enabling those brands to replenish stores faster and offer more frequent changes to product lines. Traditionally Marks & Spencer relied upon third-party suppliers to create, manufacture and ship most of its garments. Last financial year the company spent £538m (\$690m, up by 3.5% on the previous year) on warehousing and distribution; improving how that money is spent would represent significant efficiency gains for the beleaguered company.

Figure 1: Location of Marks & Spencer suppliers in Europe and Asia-Pacific, September 2017



SOURCE: Marks & Spencer

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Improving adaptability and cost effectiveness is essential if the much vaunted turnaround plan is to achieve the success its architects hope for. Modernizing is a prudent decision: Marks & Spencer announced in early 2018 the intention to build a new mechanized clothing and homeware logistics center in Welham Green, Hertfordshire in the UK. The new site will serve 150 shops in the south east of the country but will not be operated by Marks & Spencer themselves. Operations at Neasden distribution center in London will cease and work transferred to other sites in the distribution network. Investment into this area of the business has long been overlooked, a view issued even by Archie Norman when appointed Chairman in November 2017.

He accused the company of “drifting” for the preceding 15 years on supply chain modernization.

Whilst it is true Marks & Spencer was, and to a large extent remains, far behind the opposition, the full extent of the lack of action may have been overstated. As part of ‘Project 2020’ the company reduced the number of warehouses from 110 to just 19 distribution centers. Bold though the decrease was, it also exposed the gap between Marks & Spencer and other retailers by revealing the amount of work and investment still needed to create first-class systems for moving goods from factory to the customer. Improved efficiency is therefore essential. Repeats of the problems at the Castle Donington fulfillment center struggling to cope with the strain imposed by peak demand threaten to undermine efforts to reinvigorate the company. Systems are reported to be dated at the fulfillment center; changing that is essential if the latest turnaround plan is to be a success.

Further developments are afoot. Core supplier services will be transferred directly to Tata Consultancy Services (TCS), and the contractor will also take control of the day-to-day relationships and project management of specialist suppliers. Designing more goods in-house will help to improve the functioning of the supply chain; Marks & Spencer will be less dependent upon outside parties, enabling the company to take decisions faster and enact them sooner.

High-street rivals remain far ahead, leaving Marks & Spencer with much work to do

Although much of the news surrounding the present condition of the supply chain network employed by Marks & Spencer is gloomy, a potential point of positivity is the model for a highly efficient supply chain has already been created. To improve the functioning of the company M&S does not have to create new means of creating products and then moving them to where the customer wishes to buy them. Inditex through the Zara brand has set the gold-standard in terms of efficiency, gaining competitive advantages in being able to stock shops with the latest fashion trend exceptionally fast, leaving many other apparel retailers trailing far behind.

Figure 2: Zara shop owned by Inditex



SOURCE: Independent

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Conventional wisdom still holds that suddenly changing production (especially regarding a mass produced item) is fantastically costly. Inditex has managed it, however, by keeping most production in-house. Factories are largely controlled by the company, enabling 85% of capacity to be dedicated to in-season adjustments. Data gathered from stores reveals in precise detail where in the retail cycle a certain product is, and the company can adjust accordingly. Better still, production can be very closely linked to demand, for the most part preventing extensive discounting that is often costly in what is a low margin market. Most people shopping at Zara for most of the time will pay full-price for a garment. Fast turnaround times ensure only 15% to 25% of a season's line is arranged six months in advance, in stark contrast to M&S which is believed to plan many more products months ahead of time.

For Inditex, leaving it late demands equally rapid means of sourcing fabrics and manufacturing techniques.

The long-term ambition of Marks & Spencer senior management should be to replicate such systems because the financial gains of getting more people paying full-price, and changing product lines at the optimum time, are substantial. Yet the investment to achieve parity with Inditex and other retailers must go far beyond simply using big data analytics to react fast in clothing design; the whole supply chain must be geared towards coping with the time constraints placed upon it. Reaching the 15 days that Inditex are reported to have taken to transform concepts into salable items would take much fine-tuning and experience to reach, but there is plenty of scope to reduce the time currently consumed significantly. Exactly how much money would be ploughed into the company to incite such major change in supply chain infrastructure is tough to estimate, but for Marks & Spencer it would be a sound investment.

Although the company is in a fair amount of trouble regarding the relative sophistication of its supply chain systems and management, now is a good time to solve hefty chunks of the problem given the company is seeking to radically advance the online offering. Getting the online shop to work in conjunction with the physical shop and the supply chain is a highly complex undertaking. Choosing to focus resources on improving one area of the business, whilst not devoting equal time and money to other critical areas, runs the risk of creating larger problems later on.

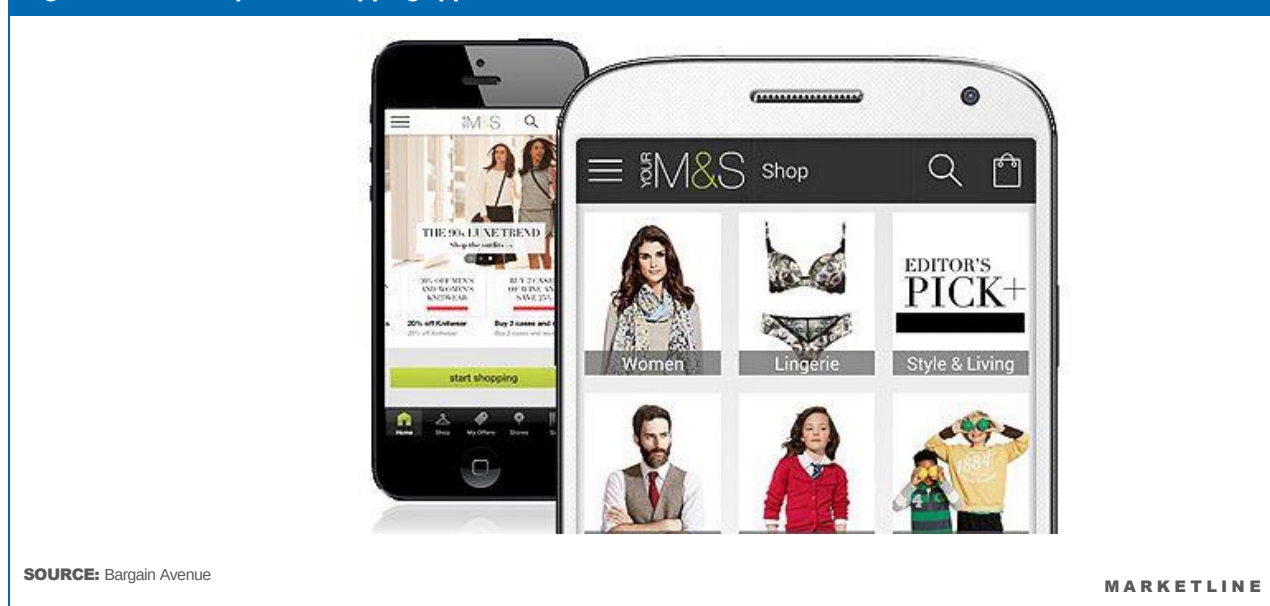
RENOWNED RETAILER FACING STRUGGLE TO CATCH UP IN ONLINE REALM

Marks & Spencer is not alone in having failed to realize the full impact online shopping was going to have on the UK retail market. Early movers established a hold over that part of the modern retail experience. Now the company is seeking to catchup and has set out boldly to reach one-third of total sales being made online. Failure in this task would more than likely result in the long slide which began nearly 20 years ago continuing further still. Much now rests upon the success of the omnichannel strategy that seeks to combine the convenience of online buying with the experience of shopping in physical stores. Problematically for the 134-year-old company, many rivals are far ahead; making up lost ground will be far from easy.

Initial foray into online and omnichannel shopping failed to inspire consumers

Chief Executive Steve Rowe made many of the right noises when he was presenting the half year results of the company during September 2017. Rowe announced Marks & Spencer would invest in a more personalized and seamless customer journey and that the company must take advantage of convenience; so far, he declared, store closures had indeed propelled customers to shop online. Targeting one-third of clothing sales to be made online in the medium term does not, therefore, sound out of reach. Indeed, the transfer of sales from closed stores to the online shopping site was better than Rowe originally anticipated, suggesting there are lucrative opportunities to be exploited provided the company pursues them correctly. Yet after a previous ill-fated attempt at entering online shopping the company has a lot of work to do.

Figure 3: Marks & Spencer shopping app



A frequent problem for struggling companies is one of knowing who the competition is. For Marks & Spencer the distinction between competing against budget retailers or up-market retailers became blurred, and this indecision accounts for some of why the company did not strike out into online shopping in the way other competitors did. Once the decision to go online had been taken, initial efforts did not prove adequate: the product range and supply chain were too complicated to compete against more adaptable rivals, and consumers did not enjoy the website design. Management outsourced the online shop to Amazon, but the system used was not suited to the purposes Marks & Spencer needed fulfilling. A clumsy re-launch did not help matters either, although numbers quickly picked up again. Even though customers are moving to the online store quicker than expected, causing the rationalization program to be sped up, whether the company can achieve a return to former glories remains to be seen.

Older consumers are increasingly using the internet as a means of shopping (the days of the 'silver surfer' being a novelty are long gone), but the most lucrative online shoppers are the younger generations. So far, at least, Marks & Spencer has failed to capture this market, suggesting that despite initial promise the road to building a thriving online shop that will thrust revenues upwards is likely to be lengthy.

Infrastructure for modern shopping experience leaves Marks & Spencer trailing

The latest Marks & Spencer annual report declares significant investment into upgrading in-store Wi-Fi networks and additional handheld devices designed to improve efficiency and aid the customer experience. Cloud based software solutions are also being pursued. Budgets ploughed into these areas of the business are important but for too long this kind of technology was not treated with the same degree of urgency other retail competitors had done. That the firm is now only starting to take the required steps reveals the extent of development that now must be undertaken. Some critics pointed towards a lack of aggressiveness in the speed of change Rowe appeared to be calling for in official reports. When widespread speculation regarding an online food service and delivery outlet brewed up, Rowe downplayed the possibility of moving in that direction instead of redoubling efforts to translate public and media enthusiasm into a working business. Despite this, there are reasons why Rowe would want to move slower than some in the business media at the time wanted him to. Many customers in the food section of the business are frequent visitors, rarely buying in bulk, making an online delivery business harder to make profitable.

It is vitally important investment continues at a pace. The reduction by nearly half in 2017 from 2016 of capital expenditure into the supply chain and online shop (from £89.1m to £46.1m), needed to establish the company as a leader in combining modern technology with a customer friendly shopping experience, is a concerning move. If predictions are correct the shopping experience of the future will be technology intensive. Marks & Spencer needs to invest now so that when hologram and other technologies become cost effective enough to hit the high street, the company is ready to seize the available opportunities. Whilst the current core customer groups are not seeking the shop of tomorrow, the average customer ten years into the future probably will. Furthermore, older consumers are increasingly becoming comfortable with the inclusion of technology into aspects of everyday life, limiting the time left the old-fashioned way of selling goods has left to run.

The problem the company faces is that it will forever be playing catch-up against rivals able to move much more dynamically with shifting times. Worryingly for company management, major players in high-street retail are already experimenting with advanced technology in upmarket stores, most notably in London. Samsung has been working on an interactive mirror, and in some stores video footage of a model wearing an item of clothing a customer has just picked up automatically plays on a large wall. Many are predicting that in a relatively abbreviated period, this is how many high-street shops will look. Whilst Marks & Spencer is investing into improving the current condition of infrastructure, the tone of official statements does not imply the same degree of aggressiveness that rivals are using to ensure other companies do not gain crucial competitive advantages.

POSITIVE EARLY SIGNS OF SUCCESS AFTER CHANGE IN SELLING STRATEGY

Marks & Spencer has suffered from a fundamental problem over the past two decades: the company has become increasingly lost in who the average M&S shopper should be and how to tempt them away from rivals. Worse still, the retailer has struggled to change approach to suit younger consumers, becoming too reliant upon the over 50-year-old woman section of the demographic. The brand is more divided than ever. Although some steps have been taken, generating some initial signs of success, much more must be done in the near future to generate revenue expansion.

Ending the discount culture will help restore brand image of being a high-quality retailer

For years John Lewis sold a company image built upon the mantra 'reassuringly expensive', a nod to the trait that exists among most consumers that price is a key indicator of quality. Companies such as Marks & Spencer over at least the last one hundred years were able to thrive despite operating at the higher cost end of the market. People were happy to spend more money, not only to capture a part of the aspirational image that came with purchases made at the Leeds founded business but also because they were aware they were buying into quality. Losing the highly regarded brand image among certain consumers has been a major contributing factor to the steady decline the company has experienced over the past two decades. Only as clothing sales slid did the company feel the need to compete against insurgent budget rivals with discounts. Discounts dominate many high-street retail brands, but these operate at the lower cost end of the market, meaning that is what a great many consumers are looking for. Not so at Marks & Spencer. Instead those discounts have proven to be deterrence to some loyal customers, confirming what many suspected: the revered retailer was cutting down on quality to better compete against lower cost rivals.

Figure 4: Marks & Spencer discounts



SOURCE: Accrington Observer

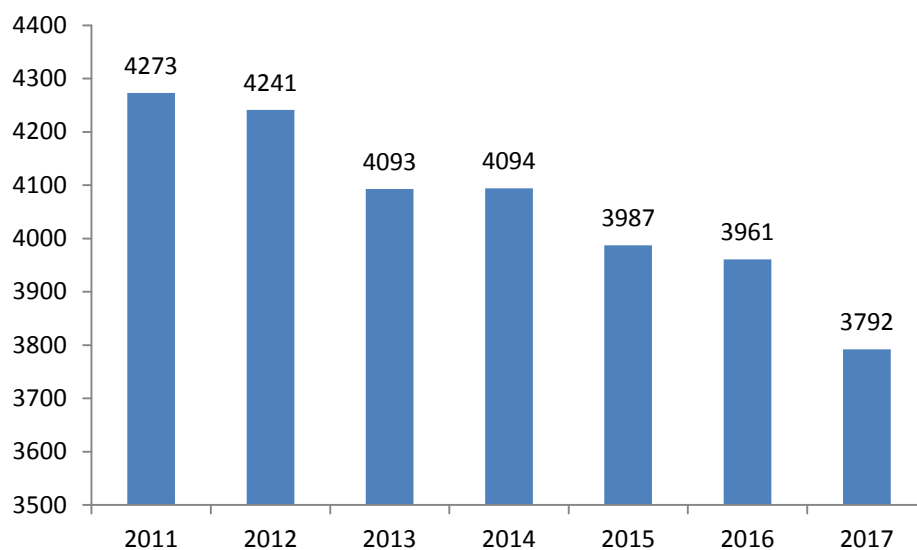
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Evidence of disconnect between consumers and the clothing section of the business can be seen in the company's annual fillings. During 2015 clothing accounted for 45% of total revenues; now the figure stands at just 40% and will probably slide further even if the strategy to from senior management to restore clothing sales works as planned due to the time likely to be consumed during implementation. That the company appears to be much better at selling premium food than clothing reveals a growing divide in the company that will not be easily remedied. Significant progress has already been made towards ending the discount culture: towards the end of 2017 CEO Steve Rowe said M&S had removed 27 promotions from stores and also removed a big clearance sale event. This is important for the future health of the company, and more work in this area of the business needs to be done. In comparison, retailers such as Inditex engage in very little discounting due the level of demand for that brand.

Sales have fallen in response, but that is not such a bad thing when the complete picture is examined

Ending the discount culture at M&S has been ongoing for a few years and has been cited as a reason for falling clothing sales. Although the company has trimmed prices to push sales in some areas – in 2016 sales of women's leggings rose 149% in response to a reduction in price by nearly a quarter – what became established practices of slashing prices to hit quarterly sales targets has now largely been eradicated. History, however, suggests sticking to the current strategy may prove a tough undertaking – the company has been here before. During 2005 then CEO Stuart Rose also sought to end discounting in a bid to improve revenues by increasing the average price consumers paid for items even if that resulted in a dip in overall sales. Over a decade later and the same process is being repeated, suggesting the actual problem was ingrained into the company structure and has remained an alluring short-term strategy to boost sales.

Figure 5: Clothing & Home segment revenue (£m) Mark & Spencer 2011 to 2017



SOURCE: Marks & Spencer financials

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Eradicating discounts and increasingly burdensome sales should be a successful strategy if the quality of the clothing ranges matches the prices set. In theory that should be achievable: food is every bit as competitive as clothing retail, and is an area the company has remained successful in despite the downward pressure on prices caused by Tesco and others. Now accounting for a widening majority of revenues in the overall business, M&S food proves there is a substantial and sustainable market for premium products. The company sells 22% of ready meals and 38% of party food bought in Britain. Replicating the aspirational image for clothing should be the primary focus now.

Consequently, the drop in sales caused by a reduction in discounting should not immediately be seen as a bad event, rather as the first step towards restoring the image of M&S clothing in the imagination of the wider public. However, restoring confidence among consumers that the clothing matches the same relative level of quality as the food does is essential if the strategy is to work – becoming known for overpricing is a commercial disaster for the modern retailer.

Marks & Spencer is not selling in an attractive manner, making it harder to win over customers

The decision to reduce space handed over to selling clothing is a short-term solution that can only be justified on the grounds the food section of the business is doing very well considering the market conditions, whilst clothing has been sliding in revenues for quite some time. Yet, unless the CEO intends to ultimately withdraw from clothing (a possibility nobody is suggesting seriously), Rowe should be careful in extending the strategy and ensure clothing is not sacrificed for the sake of temporary boosts in overall performance.

Cutting back on space, product ranges and stores selling clothing merely makes the task of growing that area of the business much tougher than it otherwise should be. Placing greater emphasis on creating a satisfying shopping experience – one commensurate with the premium brand image the company is sold upon – would be a productive means of improving sales. Happy customers are typically more willing to pay the level of prices that Marks & Spencer needs to maintain to avoid unhealthy comparisons with budget retailers.

Rather than cutting store space devoted to clothing, Rowe should first improve the quality of product offering. Whilst it is true the high-street is now dominated by fast-fashion – leading to a reduction in quality as manufacturing costs are cut and the expected usage a garment will receive falls ever lower – there remains a substantial number of people who do not engage in such purchasing behavior. Upping the quality of garments sold in stores would go some way to convincing former customers that the primary reason for entering a Marks & Spencer store – buying high quality at affordable prices – has returned. Simplifying the product offering would go some considerable way to achieving this aim. At present the range is far too fragmented, hinting at what many suspect – the company is unsure of who it should be targeting set against the context of intense rivalry from alternative brands. A smaller number of brands not only makes it clearer who products are being aimed at, but would also force the retailer to more accurately decide upon what type of person might want to buy products from a Marks & Spencer shop.

Not only does a plethora of brands dilute the impact Marks & Spencer can have as a recognizable brand itself, but also makes adapting to the frenetic pace of change that fashion retailers must now adhere to in order to keep up with changing tastes. No longer can several months be taken to design clothing and manufacture it in sufficient numbers to be sold in hundreds of stores; Inditex claim to have reduced the time needed to complete the process down to just a few weeks without incurring prohibitive costs along the way. M&S are unlikely to require such a frantic pace of change as Inditex does, but gaining the capacity to be more adaptable to the changing market would enhance prospects of initiating a long lasting recovery in clothing sales.

LONG PERIOD OF STAGNATION SUGGESTS RECOVERY WILL BE DIFFICULT TO ACHIEVE

Stories appearing in the press about another bad results day for Marks & Spencer are nothing new – they have been taking place for years despite numerous turnaround plans and new appointments to senior management. That the much anticipated transformation in fortunes has so far failed to materialize suggests that even if current CEO Steve Rowe does initiate an upturn in fortunes, the climb back up to past glories will be slow. Trading conditions are hardly conducive for sudden change and persuading a new generation of consumers to shop at Marks & Spencer stores will not happen quickly.

Cited as a reason for decline, restructuring management will yield results but is a slow process

The assessment of Stuart Rowe of the management structure at Marks & Spencer was sufficiently scathing that it could easily have been penned by a journalist writing an opinion piece: “M&S has been bureaucratic, too slow, too cumbersome, [and] not agile enough. We have to change this and those changes start with the people and the structure – too many layers, too many communities, too corporate, too many divisions and roles that lack accountability.” Rowe is correct in his assessment that simplifying the structure will yield better results on the shop floor. Not only is a company culture transmitted down through the chain of command starting at the top, but a simple structure at the top is typically better placed to make good decisions based upon sound reasoning. Complex structures are often regarded as being good at producing convoluted decisions which do not create solutions to very real problems on the shop floor.

Figure 6: CEO Stuart Rowe



SOURCE: webfg.com

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Changing this will take time. Businesses such as M&S are often likened to giant oil supertankers – they take a very long time and a great deal of effort to turnaround. Rowe said the company was only three or four miles into a marathon after criticizing sharply the management structure. Near constant change at the top has not helped matters either. In the space of 15 years the top job changed many times – Luc Vandeveld, Roger Holmes, Stuart Rose, Marc Bolland and now Steve Rowe have all held the CEO role. Despite hiring major figures such as Stuart Rose, only once, in 2008, did profits exceed those recorded two decades previous.

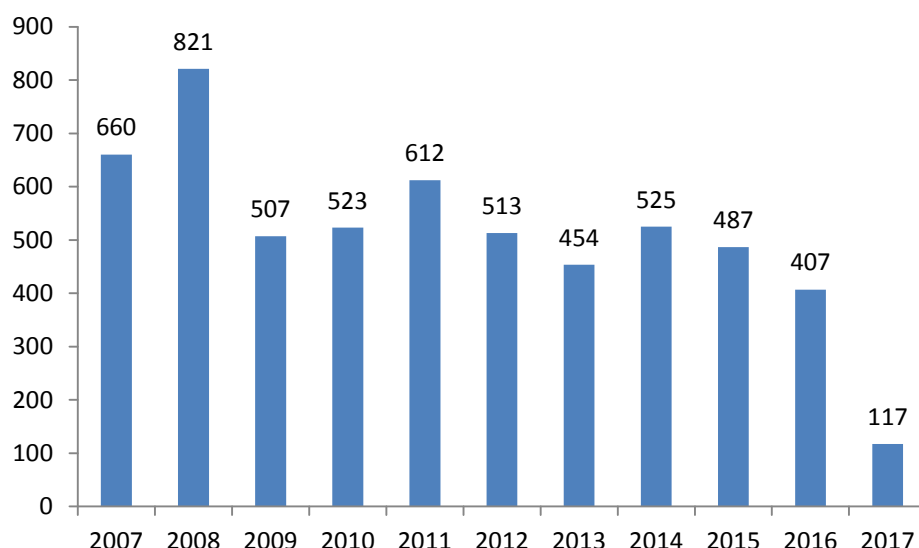
The scale of the task ahead is perhaps best exhibited by the problems housing all of the central office staff inside company headquarters, but progress is being made towards improving how the top of the company functions. March 2018 saw the removal of several top figures. Andy Adcock made way for supermarket veteran Stuart Machin. Since September 2016 the clothing & beauty director, store and online operations head, and finance officer have all been replaced) as well as the merging of the womenswear and kidswear teams. Jill Stanton, who previously worked as executive vice president at Old Navy, was selected to run the new larger division. Only time will tell if the latest shakeup will have the desired impact upon financial results. Imposing a new structure will not be easy and the results will likely take a while to materialize.

Current problems have longstanding histories, pointing towards a slow recovery at best

Interrupted by a successful year in 2008, the performance of Marks & Spencer has been characterized by steady decline since the 1990s. Since then the company has struggled to satisfy the core audience and customers have been attracted by alternative offerings. Unsure as to what exactly the typical M&S shopper wants, or who they are, the company has gradually lost relevance. Determining if the brand should be competing against either Primark or John Lewis caused problems in direction, leading to a growth in perception that M&S products were reducing in quality but not price – a problem not incurred by either of those two rivals.

A serious problem for the company to overcome is that during the 1980s and 1990s a whole generation shopped regularly at stores dotted all over the country, but following generations rarely want to go to the same shops as their parents did. Success with one generation is exceptionally difficult to replicate with the next. Other retailers, such as River Island, do not suffer because the supply of young teenagers and 20-somethings (the core market) constantly replenishes, meaning the company merely has to keep up-to-date with whatever is the fashion at the present moment. Marks & Spencer does not have that luxury, making the task of pleasing current customers whilst attracting new customers much tougher. Worse still, this problem has been with the company for a long period of time. Fast fashion and a taste for disposable items of homeware have harmed brands predicated upon reliability and durability – in this regard Marks & Spencer is not alone.

Figure 7: Marks & Spencer net profit 2007 to 2017 (£m)



SOURCE: Marks & Spencer financials

MARKETLINE

However, some injuries have been self-inflicted. The company has never fully recovered from the decision in 2000 to drop the St Michael brand and replace it with 13 other brands, only one of which survives now.

Ending the iconic brand served to sever emotional bonds between customers and shopping at an M&S store. Rivals moved into the space created and the retailer has failed to reconnect with consumers in the same way that was possible before the St Michael brand was scrapped. Sub-brands were intended to capture the youthful market whilst still catering for the desires of the older core market, but all that resulted was confused consumers choosing to shop elsewhere. The loss of identity, what the retailer is actually trying to do, has afflicted the company ever since.

The longstanding problem the company has is that it is situated in the middle of the market, harming the acquisition of new customers. Whilst the brand image of dependability with luxury proved a hit in the post-war years, such values are not as attractive now as they once were. Defining much more succinctly who M&S wants to be its target customer and providing products to meet the expectations of that customer would likely prove to be a much improved bet than the current situation. Whilst this is what the firm has become known for, the direction the clothing market appears to be heading in suggests each major high-street brand needs to have a very clearly defined idea as to who wants to shop at each type of store. As the decline of Marks & Spencer has dragged inexorably onwards, the need to successfully do this has become ever more pressing. Failure to do so now could easily result in the fall of what was once the most respected name on the high-street carrying on further still.

Trouble elsewhere on the high-street points towards any recovery being hard to win

The average high-street in locations all across the United Kingdom has been characterized in recent times by store closures. Long established brands such as New Look – which came close to entering administration and has suffered heavy losses despite scoring some notable fashion hits during the last winter season – have been forced into radical action to stay in business. Store closure announcements are now commonplace and analysts are on the lookout for which company will be the next to be forced into store closures, administration or disappear altogether as proved to be the case for BHS. Executive chairman Alistair McGeorge was forced to announce in March 2018 the chain needed to go under a company voluntary arrangement (CVA), which is an insolvency procedure involving creditors, in order to restore its profits. The example of New Look serves to show how hard it will be for Marks & Spencer to launch some kind of recovery. New Look has always targeted the teenage and under 30-year-old market, and has very clearly sold the company image on the basis of low costs and a fast turnaround in product lines, but this has still not been sufficient to prevent the company sliding into trouble following an 11% drop in like-for-like sales.

The decline and then eventual extinguishing of another high-street staple brand, BHS, should reveal to senior management the importance of investing in the shopping experience to win customers back before the performance of the business drops to a level at which the extent of investment required is no longer possible – not without causing a plethora of other critical issues. Without large sums of money needed to improve the product lineup and improve the shopping experience for would be customers, BHS gradually lost ground on rivals, eventually spiraling into an irrecoverable decline. Given the approximate target audience for Marks & Spencer is similar to that targeted by BHS, the fall of the former Philip Green owned business evidences the importance of the latest turnaround plan working. Previous plans have failed to meet the goals the management team at the time of each had hoped to meet, dampening expectations among some observers that the latest will perform as required.

CONCLUSIONS

Marks & Spencer is not out of trouble but is moving ahead on slow path to recovery

The announced store closures – another numerical expansion on the already announced round of closures – is essential for Marks & Spencer to become a nimbler retailer, able to match rivals on the high-street. Underpinning the decision to reduce store numbers is the intention to deal with more business online; so far, customers in areas where closures have occurred would appear to have moved to the online shop. For the time being at least that is good news for the long-established retailer. Slowing the expansion of the Simply Food part of the business will help whilst the reduced clothing section undergoes further reform. The company is attempting to readjust who the food is aimed at and can't afford more high-profile mistakes.

The supply chain is now more important to major retailers than almost any other part of the business because of the now very short turnaround time the clothing retail industry has come to expect. Unfortunately for Marks & Spencer, this area of the business has long been neglected – even the chairman has publicly stated this view. The beleaguered retailer has undertaken a fair degree of reform but still lags far behind other high-street brands which have reduced the time to go from concept to shop floor to just a few weeks. At present the supply chain at M&S is changing; a body of opinion suggests it needs to reform faster – only time will tell if it is changing fast enough.

Failing to spot the potential of online retail early enough was a major failing at Marks & Spencer; getting it wrong when the company did move online was another. The progression into online shopping and the omnichannel selling strategy did not pay off for the company in the way many had hoped and which was required for past successes to be repeated. Older consumers, traditionally the core customer group of the firm, are increasingly using the internet to shop, easing the transition from physical to online selling. To make a success of the omnichannel shopping idea, more money needs to go into in-store technology. Rivals are viewing this as the next step in the retail experience – Marks & Spencer cannot afford to be left behind again.

When CEO Steve Rowe talked about eradicating the discount culture at the company, he echoed similar sentiments uttered by the previous CEO Stuart Rose many years earlier. Ending discounts as a means of hitting quarterly targets is important for the retailer. The brand image was built upon the mantra of affordable quality, and discounts have no real place in that idea. Although sales have fallen in response to less discounting, more people are paying full-price – and that is essential for a recovery in fortunes to take place. Yet more work must be done on making the shopping experience more attractive to consumers. Too often consumers are being lured elsewhere by brands that have done a better job at identifying who their core audience is and how to attract them.

The senior management structure has been criticized even by those involved as being too complicated. Stuart Rowe described it as being too slow and cumbersome. A culture at a company is often determined by those at the top, and a bad structure does feed down the decision-making processes of the firm. Major problems that currently occupy the attention of those at the top are longstanding, despite numerous efforts by previous management to solve them. Trouble elsewhere on the high-street suggests a recovery at M&S will be slow and hard to achieve.

APPENDIX

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Marks and Spencer Group plc - Company Profile published by MarketLine

United Kingdom: Apparel Retail - Industry Profiles published by MarketLine

United Kingdom: Online Retail - Industry Profiles published by MarketLine

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MarketLine | John Carpenter House, John Carpenter Street |
London, United Kingdom, EC4Y 0AN
T: +44(0)203 377 3042, F: +44 (0) 870 134 4371
E: REACHUS@MARKETLINE.COM
WWW.MARKETLINE.COM

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