Case Study

Marks & Spencer (M&S)
INSTRUCTIONS FOR CANDIDATES

The Supply Chain Management in Practice examination is designed to assess your ability to apply the essential theories, principles and techniques of purchasing and supply chain management to a realistic business situation.

The Supply Chain Management in Practice examination is a three hour open-book examination. The examination questions will draw on material from the other compulsory Level 6 Graduate Diploma in Purchasing and Supply units: Leading and Influencing in Purchasing; and Strategic Supply Chain Management. Furthermore, the content of the Level 5, Advanced Diploma in Purchasing and Supply compulsory units is assumed to be underpinning knowledge.

You will be expected to demonstrate your knowledge and understanding of relevant theoretical principles, concepts and techniques; to apply these appropriately to the particular situation described in the case study and; above all, to make sound decisions. You will not gain marks by writing a general essay on the topic. Prepared notes may not be included as part of the answer.

Please note that all work should be your own. Copying or plagiarism will not be tolerated and could result in no marks being awarded. If quotes or short extracts are used they should be attributed or the source of the information identified. You should acquaint yourself thoroughly with the case study before the examination.

You must take your copy of the case study into the examination.

The Supply Chain Management in Practice examination is to be held on Wednesday 19th November 2008 from 13:30 to 16:30.
Taking the lead at M&S

The following case study is based on the UK retailer Marks & Spencer, about which further background information can be accessed at www.marksandspencer.com. It specifically focuses on the events leading up to March 2008.

This case study has been prepared purely for assessment purposes and may not reflect the current position of the organisation. For this reason, any events relating to Marks & Spencer that happened after March 2008 will not be considered within the assessment of candidate responses.

The Influence of Sir Stuart Rose

Rarely a day goes by without some mention of Marks & Spencer (M&S) in the UK’s national press. The British public have an established love affair with the retailer which is unique among public limited companies. It is a ‘national institution’, a ‘jewel in the crown’ of British commerce and one of the world’s most admired companies.

Few people can claim to have as much influence on the British retail industry as M&S leader, Sir Stuart Rose. Just seven days after receiving his knighthood for turning the once-beleaguered company around, he gave an interview to the BBC (on 9th January 2008) in which he claimed the market was ‘slowing down’ and becoming ‘tougher than it has been for ten years’. Commenting on M&S’s financial performance, Rose admitted that few retailers would be able to increase their prices for at least 12 months.

The shock waves from this interview had an immediate affect on the financial markets, with some commentators claiming that Rose had created something approaching a panic among stock market traders. Share prices fell by record amounts for most UK retailers: M&S shares fell by 18.7%, while other retailers saw slumps of between 5% and 10% in a single day. The following day, and for the first time since he had been made chief executive, Rose witnessed the M&S share price fall back beneath the ‘magic’ 400 pence threshold.

This was a symbolic moment for the company: Rose had joined just less than four years previously, when the company was struggling under the threat of a potential takeover from Sir Phillip Green, the billionaire owner of the Bhs Group. Green’s final offer price on M&S shares had been 400 pence, but under Rose’s leadership the share price had been lifted high above this amount, to a peak of nearly 800 pence during the summer of 2007.

Rose is viewed as the orchestrator of M&S’s remarkable revival, and his list of achievements is extensive: he has dramatically reduced outdated stock, added new clothing lines, opened new stores, sharpened up the image and branding of the company, focused on corporate social responsibility (CSR), and launched exciting new marketing initiatives. As a result he has overseen a tremendous growth in popularity, sales, and profits for the company and its shareholders.

The accolades that have followed on from this success are equally impressive. They have included M&S being voted ‘Company of the Year 2006’ as part of the Business in the Community’s Awards for Excellence; Rose himself being announced as the 2006 Business Leader of the Year by the World Leadership Forum; M&S winning the No. 1 spot and replacing Tesco as Britain’s Most Admired Company in 2007; and finally, at the end of 2007, Rose being awarded a knighthood in the New Year’s Honours List for his services to British commerce.
Humble Beginnings

M&S’s roots can be traced back to the late nineteenth century, when Michael Marks arrived in Britain as an immigrant worker fleeing the anti-Semitic pogroms that were taking place in Poland at the time. Marks went looking for work in Yorkshire and, after a successful meeting with the wealthy wholesaler Isaac Dewhirst, he was lent £5 to set up as an independent merchant. At the time, Marks could not speak English, so he had a sign fixed to his bicycle that read: ‘Don’t ask the price, it’s a penny’. Thus he began his first trade as a pedlar, cycling around Yorkshire’s villages selling small consumable items such as soap, candles, cotton reels and buttons. He chose his items well and, as a result, quickly became successful.

Within two years, Marks had set up a stall at Kirkgate, the open market in Leeds. He continued to do well, and over the next few years he built up a strong relationship with Isaac Dewhirst. He also established a series of penny bazaars – small shops in which every item sold for just one penny – which proved immensely popular. During this time, Marks was particularly impressed with Dewhirst’s chief cashier, Tom Spencer, and in September 1894 Marks persuaded Spencer to part with his life savings of £300 in return for a half share in his retail outlets. Thus the partnership of Marks & Spencer was born – the roots of the most successful retailing dynasty in British history.

From these humble beginnings, the ethos of Marks & Spencer was always to be different. The first Marks & Spencer shop (on Cheetham Hill Road in Manchester) had a sign above the entrance that read: ‘admission free’. The general public were invited in to browse through the goods that were on display. This was in sharp contrast to other shops at the time, which kept their products under the counter.

By the end of the nineteenth century, Marks & Spencer was becoming an established retailing name, with 23 penny bazaars in market halls, and 11 other branch establishments throughout many of the major towns and cities of northern England.

In 1903, Michael Marks and Tom Spencer formed a limited liability company; by this time they had 36 market bazaars and shops, including three in London, and business was booming. Unfortunately disaster struck soon after. In 1904, Tom Spencer retired from the business, intent on enjoying the profits he had made as a result of his hard work. Three years later, in 1907, he died. It has been said that Michael Marks was distraught with grief, and a few months later he too died, leaving the other directors and store managers to run the business as they saw fit.

But M&S was a strong going concern. Shrewd succession planning left the company in family ownership. Michael Marks’s son Simon was made a director in 1911, and in 1916 he became chairman, a position he retained until his death in 1964.

Under Simon Marks the company prospered, and it floated on the London Stock Exchange in 1926. Later the company added fresh fruit and vegetables to its range of clothing and household items, and opened its first full department store to the public. Table 1 (see appendices) indicates the financial and organisational development of M&S since its flotation. It shows steady year-on-year growth right up until the late 1990s.

Over the years, M&S developed a reputation for understated quality and customer service. Every large town throughout the UK had an M&S store, which sold reliable goods across a range of departments, namely women, men, children, household items and food. Clothing lines were changed twice a year, and summer and winter collections were eagerly awaited. At the end of each season, a sale would be held to dispose of any over-stocked items or redundant lines, thus enabling customers to pick up last-minute bargains.
The formula worked well. Expansion and growth in the domestic market helped secure increased sales and profits, while cautious development in international markets allowed for a broader base to be developed across the company.

A Tradition of Good Supplier Relationships

It was often said that M&S was the UK’s largest manufacturer without any factories, and that its suppliers were retailers without shops. For decades this symbiotic relationship between principal and provider had been a hallmark of M&S tradition. M&S was given preferential supply, low prices, flexibility and, above all, security of quality and capacity. In return, M&S purchased huge volumes and offered longevity of tenure – many key supplier relationships lasted decades. The supply chain was simply a natural extension of the retailing operation. Thus, for the British consumer, making purchases from M&S stores guaranteed ‘buying British’. As such, M&S was considered the largest public institution outside of the public sector.

During the 1980s, M&S could boast that it purchased over 20% of the output of the UK textile industry, and although the number of employees in this industry fell during this period, the number that were employed on M&S accounts actually increased. For many years M&S helped to keep the UK textile industry not just alive, but prosperous.

The traditional view in M&S was that supplier relationships should be like a marriage: ‘for better or worse’. During the prosperous years, suppliers profited from their M&S relationship, and during the leaner years they cut their margins to make a contribution to the success of the supply chain.

These views were embodied in the five guiding principles of M&S’s success that were first laid down by Simon Marks in the 1940s and 1950s. These were:

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 modern and efficient techniques of production and quality control, dictated by the latest discoveries in science and technology.
3. With the co-operation 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.

This culture of ‘co-destiny’ between M&S and its suppliers continued throughout the twentieth century, from Simon Marks right through to the end of Sir Richard Greenbury’s reign in 1999.

Buying goods from a UK supply base had many advantages: lines of communication were short, there were no currency risks, quality control was easy to enforce, and the predictable nature of long lead times and large volumes allowed suppliers to offer great value to M&S and its customers.

M&S would co-operate fully with its main suppliers. Often designers and technologists would be sent in to advise suppliers on yarn, fabric and/or dyeing techniques. This often involved carrying out stringent quality tests, and also ensuring that suppliers maintained M&S’s high standards of hygiene and safety throughout their premises.

Business relationships between M&S and its suppliers generally started at the chairman-to-chairman level; that was how important they were considered to be. Colin Dyer, chief
executive of Courtaulds Textiles and a former director of M&S operations, explained it like this: “Along with our own fabric suppliers and the M&S buying departments, we move in like a vortex on product solutions. It is like a spider’s web of communication between their merchandisers and selectors and our designers and sales staff. Their technologists work closely with our factory production staff, designers and material suppliers.” (Bower & Matthews, 1994).

Glory Years

Along with its traditions regarding the supply chain, M&S held to a tradition of promoting its executives from within. There was a belief that only home-grown talent could fully understand and successfully lead the company. It ensured that a known entity continued to lead M&S, and that the company could continue to build on its previous successes.

Sir Richard Greenbury was no exception to this rule. He took over as chairman and chief executive of M&S in April 1991, at a time when Britain was caught in the grip of its second worst recession since the Second World War. Growth had slowed, and some commentators were beginning to complain that the company was at risk of losing touch with its customers, who simply could not afford the prices that M&S quality demanded.

Greenbury put in place a recovery plan, immediately paring down the number of M&S employees by nearly 10%, to just over 51,000. He also called up all the main suppliers that he knew personally and asked them to reduce their margins, as a way of making a ‘contribution’ to the on-going success of both M&S and their own businesses.

Greenbury also streamlined the product range, and in the autumn of 1992 M&S launched its ‘outstanding value’ range. After the excesses of the 1980s, M&S was now living up to its promise of value to the customer once again. Customers flocked back to the stores and sales began to increase.

Good buying lay at the heart of this recovery. At M&S, as at many other retailers, the buying role was typically split into three main tasks. ‘Selectors’ had the role of evaluating fashion trends and identifying the suppliers, product lines and styles that needed to be sourced for future sales. They were also responsible for the visual appearance of the products and the store layout required to sell them effectively. This was a ‘market-oriented’ role that concentrated on consumer tastes and trends, rather than a more traditional purchasing role. The selector was often supported by a ‘merchandiser’ who took responsibility for the commercial aspects of the buying, and a ‘clothing technologist’ who would then help with the technical aspects of design and production.

Over the course of his career, Greenbury had performed nearly every job in M&S’s buying department, and he understood the psychology of the profession better than most. He knew that the three buying roles needed to work well together, and he placed his trust in the selectors by urging them to buy ‘narrow and deep’\(^1\). He also took a personal interest in the suppliers and their operations, ensuring they understood what their contribution was to making M&S and themselves successful. In 1992 Greenbury was knighted for his services to commerce, and by 1993 he had been named ‘Retailer of the Year’, by NatWest Securities (source: Bevan, 2007).

\(^1\) A retail marketing expression for concentrating products in high numbers, but also keeping a strong focus and affinity with the brand.
But M&S’s success under Greenbury came at a price, and this was best viewed as a by-product of his enthusiasm and passion for the company’s success. Rightly, Greenbury felt that board meetings should be a place where all of the directors could speak their mind, make decisions and create policy. He therefore encouraged each person to make their contribution and share their views. However, as time went on, fewer executive directors said what they really thought, preferring to say what they thought Greenbury wanted to hear. Greenbury became increasingly over-bearing in his passion for the company, and would often summon directors to his office or phone them at weekends to ensure they were supportive of his proposals before discussions began in the boardroom (Bevan, 2002).

The issue was one of corporate governance. In December 1992, Sir Adrian Cadbury published his report on how UK public limited companies should be governed. It recommended that the roles of chairman and chief executive should be split, so that no single party had excessive power in the boardroom. The Cadbury Report has had significant impact on the corporate governance of many large PLCs, but at the time M&S was not aligned with its recommendations.

At M&S, executive power had traditionally resided with the chairman of the company. This was the way it had always been and there was little internal appetite for change. In view of the Cadbury report, and at a time of growing criticism of M&S’s corporate governance, an M&S spokesman stated: “We have never subscribed to the view that the chairman takes care of strategy while the chief executive runs the business on a day to day basis. Our chairman has always taken a hands-on role.” Soon after, Greenbury berated a journalist: “The idea that chairmen do the long-term stuff and the chief executive does the short-term stuff is rubbish, business school rubbish” (Bevan, 2002).

And so Greenbury developed a reputation for leading M&S in his own way, based on his own decisions and beliefs regarding the best way forward for the retailing giant, and profits continued to rise. Greenbury had a knack for pushing selectors to find new products that were still in the M&S tradition, and thus continued to be successful. By 1994, pre-tax profits were up to £851m and more new products were becoming best sellers. These included women’s leggings, the ‘body’ (a women’s undergarment made of Lycra), and a range of new food products, including Aberdeen Angus steak, smoked salmon mousse, and a pre-packaged, 47-ingredient Cantonese-style meal for two.

Greenbury was pushing the business on all fronts. Some commentators have suggested that he became obsessed with reaching the target of £1 billion in pre-tax profits. As well as pushing for more product lines, Greenbury also understood the need to be cautious on cost. Company expenditure was constantly being cut back – so much so that some believed it to be counter-productive. As an example, M&S rationalised its clothes hanger down to just one variety, but as one former selector commented: “You can’t hang a T-shirt and a cashmere jumper on the same hanger; it just doesn’t look right.” (Bevan, 2002).

During the early 1990s, M&S started to move its high street department stores to the edges of towns. Supermarkets were already reaping huge rewards from this strategy, and M&S needed to cash in on the changing demographics of consumer retailing within the UK. It had originally opened its first edge-of-town store in Cheshunt in 1988, as a joint venture with Tesco. Greenbury recognised its potential and in 1991, three new edge-of-town stores were added, followed by another four in 1992, one in 1993 and three in 1994.

To support this switch in strategy, Greenbury sanctioned a major capital expenditure programme costing an average of £411 million a year for each year of his tenure. Linked to the closure of some of M&S’s smaller, less profitable stores, that were often located in less prosperous parts of the country, Greenbury changed the way M&S sold to the
British consumer. From 1991 to 1998, M&S’s retailing space increased from 9.5 million square feet to 11 million square feet, with the addition of 22 edge-of-town stores. Furthermore, in a bid to push for yet more profits, M&S’s retailing space jumped to 12 million square feet during the ill-fated year of 1999.

As the 1990s wore on, Greenbury became increasingly isolated in his leadership position at M&S, but was continually gratified by the encouraging sales and profits figures that resulted from his growth strategies. He began to look to international markets to help support his strategy for growth and, in particular, the Asian market. By 1995, M&S had seven stores in Hong Kong, and other franchised stores in the Philippines, Singapore, Indonesia, Malaysia and Thailand. M&S also had a diverse range of stores across mainland Europe, with 29 stores in France, Spain, Holland, Belgium and, in 1996, Germany.

For a UK-centric retailing group, this direction seemed increasingly attractive. The global economic markets were opening up with increasing speed. Global travel, the media and information technologies were suddenly making the world a smaller and far more accessible place for large corporations. To the essentially UK-based shareholders of M&S, the penetration of international markets by one of Britain’s greatest retailing brands seemed obvious.

Clouds on the Horizon

But all was not well at M&S. The issue of corporate governance, and in particular succession planning for Greenbury, returned to trouble the board. Greenbury was forced to appoint Keith Oates as deputy chairman, and this in itself created tensions among the directors, many of whom were eager to be given the opportunity to succeed Greenbury as M&S chairman.

Under political pressure at the time, the Conservative prime minister John Major was keen to co-opt the support of successful business leaders in an attempt to win public support for his premiership. He was fighting allegations of sleaze and corruption within his political party, and a general public perception that corporate directors were exploiting their positions and paying themselves exorbitant salaries (the so-called ‘fat cats’ allegation).

Sir Richard Greenbury was approached to help the government, as he had sympathetic political views. In January 1995 it was announced that Greenbury was to lead a select group to review executive remuneration and publish wide-ranging recommendations by July of that year.

This was an extraordinarily tight timescale for such an immense issue. Furthermore, Greenbury’s health was deteriorating and he was in need of a hip replacement. However, he could not afford to take three months off to recuperate from such an operation, and so he decided to defer the operation until 1996 – a decision that had, quite literally, a crippling affect on him.

The strain on Greenbury proved immense, particularly as at that time he was experiencing some marital problems with his second wife, Gabrielle, an outgoing and vivacious woman some 20 years younger than him.

Had there been effective executive support for Greenbury within M&S, there may have been some protest at the amount of time, effort and distraction this executive remuneration task would require. In effect, Greenbury was distracted from his primary responsibility of leading M&S, but sadly many of the other directors appeared to be pleased that Greenbury’s attention had been diverted from day-to-day operations at M&S (Bevan, 2002).
Later, Greenbury observed that 1995 and 1996 were the unhappiest years of his life. He suffered huge personal torment and unwelcome publicity as a result of his findings on directors’ remuneration (published in the so-called Greenbury Report), his wife Gabrielle left him during the summer of 1995, and by early 1996 he found himself barely able to walk, and in dire need of his hip replacement operation.

However, Greenbury rallied, and the success of M&S continued. Within the UK it still dominated the market, with over 13% of women’s clothing sales – nearly double that of its nearest rival. Greenbury continued to drive the company’s growth strategy hard and, in 1997, he realised his dream of breaking the target of £1 billion in pre-tax profits. Over the five previous years, Greenbury had presided over an 87% rise in profits and a 98% rise in earnings per share, both of which were based on a sales increase of just 35%.

Once the £1 billion target had been reached, however, the pressure mounted for this to continue. With the value of hindsight, many commentators have suggested that this target was too ambitious, and that the company was being placed under pressure by too many initiatives at the same time. Financial pressures emerged in the Asian markets in the late 1990s, which had started with the collapse of the Thai baht in 1997. M&S’s profits started to show signs of strain. Meanwhile, it had acquired the Littlewoods chain of department stores and had continued its own capital renewal programme, both of which required heavy investment.

Questions started to be asked about the company’s growth strategy. An observation was made that there was extreme diversity in the company’s store design, and even Greenbury himself remarked that ‘there is no longer a typical Marks & Spencer store. Outlets vary enormously...’

Supply Chain Challenges

Meanwhile, there were problems in M&S’s supply chain. In the 1980s approximately 80% of expenditure had been placed with domestic suppliers, and it was not long before costs started to become an issue. The globalisation of markets had offered plenty of opportunity for increased sales, but M&S had not applied the same logic to its supply base. Increasingly M&S found that its competitors were able to source cheaper products from their global supply chains. These competitors and their suppliers were often less costly, with shorter production cycles and more rapid response times to the leading fashion houses of the moment. In short, M&S’s traditional supply chain of long-standing relationships with domestic suppliers was not able to compete in a rapidly developing global marketplace. The high quality of domestically sourced M&S products was no longer perceived to provide sufficient competitive advantage. M&S’s supply chain was insufficiently responsive for the needs of modern global retailing, in which consumers were becoming increasingly fashion-conscious and fickle in their pursuit of the latest products and designs.

To counteract this, Greenbury tried to encourage his UK suppliers to set up production facilities in international locations. But M&S’s selectors lacked experience of international markets and the merchandisers lacked experience of international buying. The result was that M&S could not get its UK-led international supply chain to compete as effectively. Even at the end of the 1990s, M&S still sourced 60% of its products directly from the UK.

At the same time, the tensions in M&S’s boardroom continued to cause problems. The political positioning and infighting carried on behind closed doors, with much of the public at large completely unaware of the power struggles within M&S. These struggles have been well documented in Judi Bevan’s award-winning book ‘The rise and fall of Marks & Spencer ...and how it rose again’ (first published by Profile Books Ltd, London,
2002). In it, Bevan documents the struggles between heir apparent Keith Oates and his fellow directors at a time when Greenbury was placing unprecedented pressure on all the company’s operations for higher and higher short-term profits.

In a final bid to resolve the leadership tensions, in 1998 Greenbury agreed to relinquish his chief executive role to Peter Salsbury (formerly M&S’s managing director of general merchandise), in line with the Cadbury guidelines on corporate governance. Some believed that Greenbury saw Salsbury as easy to influence, and that his appointment allowed him to retain control in his capacity as chairman. However, tensions quickly flared between these two leaders, and antipathy grew.

There is no doubt that these tensions resulted in a certain amount of distraction, and a loss of unity of purpose and direction, at M&S. Nevertheless, nobody could have foreseen the extent of the drop in profits that came in 1999. M&S found itself in a position where it had massively overbought stock at a time when it was investing in a major capital programme and facing a dramatic downturn in sales. In short, customers were not buying M&S products, and as a result, cash flow was strangled, and profits plummeted.

Soon after the publication of M&S’s 1999 annual report, Sir Richard Greenbury resigned as chairman of M&S and the so-called ‘glory years’ of the 1990s were over.

Changes in Direction

As chief executive, Peter Salsbury had ‘won’ the boardroom arguments, and when asked about his proposals for taking M&S in a new direction, he said: “What we are doing has moved away from his methodology and thought processes; decisions were reached without him being able to have an input. The executive directors needed active impetus from the top that Rick [Greenbury] was unable to provide.” (Bevan, 2002).

Salsbury searched for a new strategic direction and decided that M&S needed more focus. He brought in swaths of management consultants (which, according to Bevan, resulted in a bill of over £40m in 2000 alone) and invested in a new marketing and advertising campaign in an attempt to bolster sales, but both market share and sales continued to slide. Despite cost-cutting exercises, Salsbury’s net impact was to increase the overall expenditure at M&S.

Salsbury then turned to M&S’s supply base for cost reductions, and decided to terminate the company’s 30-year-old relationship with the textile manufacturer William Baird, resulting in the closure of 16 factories and the loss of 4,500 UK jobs. He also informed the company’s remaining UK suppliers that orders would decrease as M&S sought to source more products from international suppliers. And finally, he reduced the number of staff in M&S’s buying departments.

In May 2000, the new chairman Luc Vandevelde cut shareholders’ dividends by over a third, in response to declining profits – another unprecedented move in M&S’s history and a symbolic gesture from a troubled company.

Salsbury, in an effort to reduce costs still further, went back to the suppliers and demanded further reductions in their prices. It was a request that Coats Viyella, another textile manufacturer with a long-standing relationship with M&S, found unacceptable. It stopped supplying M&S with almost immediate effect, causing yet further losses for the retailer. At this point, Vandevelde began to search for a new chief executive.
Mixed Fortunes and Threats of Acquisition

For the next two years, M&S went through a difficult period. Sales, profits, share price and consumer confidence were all down. Roger Holmes was finally appointed chief executive in 2002, under Vandevelde as non-executive chairman, and he brought some direction to the company.

Some of M&S’s international stores were closed, while new brands (such as George Davies’ brand, Per Una) were launched in the UK. M&S opened 20 new ‘Simply Food’ stores in the UK, which focused solely on offering quality food products to consumers. Holmes put a stop to the constant restructuring programmes that had plagued the company during Salsbury’s reign and, for a while at least, M&S experienced a period of slow recovery.

However, just as the first signs of prosperity were starting to show, Vandevelde began to show interest in other companies, such as French retailing giant Carrefour. Some have argued this loss of focus proved costly for M&S, and sales certainly suffered, as did the share price, which struggled to stay above 270 pence.

It was during this time that Sir Phillip Green started to take a renewed interest in the acquisition of M&S and approached the board with an initial bid. Such a move was unthinkable: M&S was the leading retailer in the UK, with pre-tax profits in excess of £700m; it simply could not be taken over by another retailer.

Green’s first formal bid came at the end of May 2004 – a mixture of cash and equity that valued the share price at between 290 and 310 pence – and in the M&S boardroom panic set in. Many senior M&S staff believed they would automatically lose their jobs if Green’s bid was successful; there was an air of defeat around head office and a loss of confidence in the leadership of the company.

Enter Stuart Rose

The son of a civil servant, Stuart Rose grew up in Yorkshire and was educated at a Quaker boarding school. He started his career in retailing in 1972 after joining M&S as a management trainee, where he remained for 17 years, holding a variety of roles in the textiles and foods divisions, before being appointed commercial director of M&S’s European operations.

In 1989, Rose joined the Burton Group, which at the time included the retailers Debenhams (a department store chain), Burton (a men’s fashion retailer), and Top Shop and Dorothy Perkins (both leading women’s fashion retailers). In 1998, he was appointed chief executive of Argos, where he helped secure a successful sale to retail giant GUS. In 2002, as head of Arcadia, he solidified his reputation for successful leadership by turning around the retailing giant and ultimately selling it to Sir Phillip Green (and making £25 million for himself in the process).

But Rose has argued that in his heart he remained loyal to M&S, and that he always dreamed of one day returning to his former employer to help drive its success.

Rose had watched the M&S share price falter over the early months of 2004 and was personally considering whether he could launch his own ‘management buy-in’ for the company. He started acquiring a healthy stock of shares and making general enquiries about the company’s welfare.

Meanwhile Kevin Lomax, M&S’s senior non-executive director, was becoming increasingly concerned about the future of the company under Holmes’s leadership.
He and his non-executive colleagues finally persuaded Vandevelde that Holmes had to go – there was no way, they insisted, that M&S could fight off a takeover bid from Green while Holmes was still at the helm.

And so by happy coincidence, Rose was approached by head hunters to discuss the future direction of M&S just as he was taking an interest in the company’s fate. Rose was well-prepared for the discussion, as he had spent the previous few weeks researching what he felt was required to get M&S back on track.

The announcement came in May 2004, on the Friday afternoon of the week in which Green made his initial bid for M&S: Stuart Rose had been appointed as the company’s new chief executive. “I didn’t have to think about it,” he told reporters later. “I had been thinking about it for ten years.”

Initiating the Turnaround

Rose hit the ground running. In many ways, Green had done Rose a huge favour by creating a ‘burning platform of crisis’ in the boardroom, thus uniting and motivating the board to act decisively. He addressed the board in his first meeting and spoke with no reference to presentation materials or slides – he simply spoke from the heart. He referred to previous chairmen with fondness, and described the heritage and culture of the company with enthusiasm. It was as though M&S was remembering its past, and everyone realised that Rose was passionate about making it a success once again (Bevan, 2007).

Two weeks later, Green’s revised price of 370 pence per share was rejected as Rose set about making his initial changes.

One of his first meetings was with all of M&S’s buyers. Rose had been overwhelmed with the level of stock that M&S was carrying. “You can do whatever you like this week, but do not buy anything,” Rose told them. Rose then proceeded to call in each of the main suppliers to M&S and re-negotiated the discount levels they were offering, from 3.75% to 7.5%. The choice was simple: they could continue to supply M&S or they could face supplying a completely different organisation if the takeover went ahead. Payment terms were kept at seven days, however, in order to maintain good relationships with suppliers.

In July 2004, Rose made his first speech to City analysts and shareholders, and he had a few surprises in store for them. Rose knew that he could not provide false hope about the future to his audience; they would need something tangible. So he announced the sale of M&S’s financial services arm to HSBC for £762 million, together with the purchase of the Per Una brand for £125 million. He also announced the closure of M&S’s struggling ‘Lifestore’ shops, which resulted in the loss of 650 jobs.

Rose’s speech centred on ‘less is more’: “We need to get the business back to acting like one shop. Our key message is focus,” he declared. “There will be no smoke or mirrors – only the conviction that if we return to our roots, we can restore customer excitement and confidence.” (Bevan, 2007)

At the time, Green renewed his takeover bid and was looking to private shareholders and investors to accept his revised price of 400 pence per share. But after his presentation, Rose received a show of 98% support from shareholders, and M&S formally declined Green’s final bid. M&S had successfully fought off the threat of a takeover, but the real work was only just beginning.
Rose was finally given some breathing space to investigate the company he was running more thoroughly. He observed that the divisional structure was creating a defensive mindset among executives. As he recalled: “I found five or six robber barons running businesses that just happened to be trading under a label called Marks & Spencer. They were all fighting each other... They had no vision about what M&S stood for and no understanding that they were sitting on a magnificent brand with fantastic opportunities.” (Bevan, 2007)

And so Rose drew his own conclusions from the current state of the M&S business: there was gross overstocking, a lack of focus, too many product lines, and tediously long decision-making paths (Bevan, 2007). He spent breakfast, lunch and dinner having meetings with key staff, talking with them, giving them encouragement, and raising morale. He also set about sacking every consultant he could find, and banning fellow directors from commissioning them – there were too many unrelated initiatives going on, and M&S needed to return to the business it knew best.

Rose banned the word ‘vision’ from the meetings he had. Instead he preferred the words ‘focus’, ‘drive’ and ‘broaden’ – a simple summary of his strategy for turning M&S around. At the time, M&S was the 32nd largest retailer in the world – a far cry from its 2nd place of ten years previously under Greenbury.

But Rose was still struggling with the overstocking issue. Under the previous leadership, the buying department had bought ahead to secure volume deals with M&S’s suppliers. Now Rose faced a situation where this excess of stock created a huge inertia – the company was committed nearly ten months ahead of itself, and so was unable to respond quickly to changing fashions or to introduce popular new lines quickly.

One of Rose’s favourite phrases was ‘price architecture’, a term which refers to the relative percentage splits between merchandise of medium, high and outstanding value. Rose was stuck with £2 billion worth of the wrong type of stock; it was weighing down the company both financially and in terms of market responsiveness – he needed to shift it quickly in order to bring some relevance and excitement back into the stores (what Rose refers to as ‘treats for the girls’).

So M&S held unprecedented ‘20% sales’ days, where it shifted the excess stock and re-injected cash back into the business. Suddenly customers were flocking back to the stores and stock turn had increased notably.

Rose’s next focus was the brand, for which he hired Steven Sharp. Marks & Spencer was quickly reduced to the more familiar M&S, and the ‘Your M&S’ branding was created to strengthen the personal association many British consumers felt they had with the institution. Rose and Sharp used the ‘Your M&S’ brand to replace most of the sub-brands that had worked their way into the stores over the previous ten years. Almost overnight the image of the company changed, from dowdy and suburban to sophisticated, modern and sleek.

Advertising was also targeted. Rose and Sharp introduced a series of high quality television advertisements for the food division, where the focus was on the quality of the food: ‘This is not just food, this is M&S food’, said the slogan.

Launched in Easter 2005 during one of the UK’s most popular soaps, the campaign was a huge success, and produce began to fly off the shelves. Suddenly everyone was talking about it, and the advertising campaign went on to win a gold award from the Institute of Practitioners in Advertising in October 2006.
Kate Bostock

Kate Bostock was hired as the director of womenswear at around the same time as Rose was appointed. From a merchandising background, Bostock had formerly been the product director for the highly successful George clothing brand at Asda (part of the Wal-Mart retailing group).

Both Rose and Bostock believed that womenswear held the key to M&S’s revival, but that recent activities at M&S had alienated the all-important core customer: the middle-aged British woman. When she arrived at M&S in October 2004, Bostock asked the womenswear team for the current plan, and was shocked to find that there was none. Aside from the overstocking issue, Bostock noticed considerable gaps in the current ranges: no petite sizes, no larger sizes and no real fashion items. She decided that she needed to get rid of nearly half the merchandising team at M&S and bring in her own people. Rose supported her: “Do what you have to do, because we don’t have time to mess around,” he said.

Bostock’s mantra became ‘every woman, every time’, indicating that any woman should be able to visit an M&S store and find something she likes. Next she stipulated dramatically shorter lead times, with new ranges being introduced to the stores every seven weeks. To achieve this, she needed to work with the suppliers to reduce their lead times from 22 weeks to 14, as well as introduce a fast-track system for high-fashion items. With these systems in place, M&S could start to become more responsive to customer demands and market trends.

Bostock worked hard to achieve her goals, often clocking up 14 hour days, seven days a week: “I saw this amazing opportunity to re-connect with millions of women who were really cross and disappointed with M&S.” But not everyone liked the changes Bostock introduced. Suddenly there were fewer production runs for each item – sometimes just 12,000 of a dress in a particular colour, never to be repeated.

Bostock also introduced a ‘Buying Academy’ to train M&S’s buyers, selectors and merchandisers, and appointed five new design executives. With a keen eye for the product, she was also able to convert catwalk fashion into mass-market products. Her suppliers were on-board and, for once, the supply chain began to act more responsively. She also reintroduced a maternity range: “It is small, but if you don’t do it then young women go elsewhere, and we had lost share in the 25-45 age group,” said Bostock. “And it is incremental. Once people are in the store they buy other things, like childrenswear.” (Bevan, 2007)

Of Bostock, Rose has commented: “Kate’s a great motivator of people. Thanks to her, our womenswear buyers are rediscovering their confidence and credentials, and women are starting to feel proud to wear our clothes again.” (The Daily Telegraph, 2007)

However, by the time Rose needed to report back to City analysts and shareholders in the summer of 2005, Bostock had been given little opportunity to see her developments yield any notable success. Rose was downbeat in his address, promising little but remaining optimistic that he had now put the key cornerstones of success in place. He had completed the ‘focus’ part of his strategy; now M&S needed to ‘drive and broaden’. With this in mind, he shifted his strategy towards one of growth.

The next challenge for Rose and Sharp was to convert Bostock’s ‘every woman, every time’ mantra into a successful advertising campaign. A chance meeting with Lesley Hornby (aka Twiggy, the 1960s pop-star and fashion icon) gave Sharp an idea. He decided to team Hornby up with top models Erin Connor, Laura Bailey and Noemie Lenoir, thus creating a group of successful models spanning the ages, from 1960s ‘baby boomers’ through to women in their mid-twenties.
But the inspiration was really Lesley Hornby – seeing Twiggy back on their television screens, with the backing soundtrack ‘Mr Blue Sky’ from 1970s band ELO, had a profound impact on Britain’s middle-aged women. It was as though they had been reminded of their youth again, and M&S provided the means of capturing those moments once more.

Trading figures began to show improvements, first slowly, then steadily, and finally markedly. M&S had re-engaged with its core customers and once more seemed to occupy a place in the hearts of British consumers.

By November 2005, the share price had broken the all-important 400 pence barrier, and by the end of that year it had risen to 500 pence for the first time in seven years. Trading was up 4.8% in clothing and 8% in food. “I am very pleased with this set of results, but we have a lot more work to do,” warned Rose. “Two swallows do not make a summer.” He knew the risks of declaring victory too soon in the turnaround campaign of M&S.

In March 2006, Rose controversially increased the pressure on his suppliers once again. Writing to every single one of them, he asked them to increase their discounts to 10.5% as part of their contribution to the business. He argued that suppliers were benefiting from higher volumes, and that, in return, they needed to make contributions towards the costs of advertising. Despite some negative reaction at the time, the stock markets responded favourably to Rose’s show of determination, and shares rose to 570 pence, the highest they had been for eight years.

Next, Rose turned his attention to the internet, realising that this was an untapped distribution channel, and one that was sorely lacking when compared with what other leading UK retailers, such as Tesco and Next, were doing. So M&S joined up with Amazon to build a new technology platform – an integrated service across the food, clothing and household divisions to link directly with and complement telephone-based and store-based ordering.

Meanwhile, during the summer of 2006, Bostock’s team launched an array of low-cost, brightly coloured garments just as a heatwave hit. Stores featured a range of eye-catching summer T-shirts for just £5 each which went on to sell more than a million units. “That’s 200 a minute,” declared Bostock with pride. “They went faster than strawberries. I checked.”

Sales continued to soar throughout 2006, and by the start of 2007, Rose was first heard to mutter the word ‘recovery’. He was now on track for delivering nearly £1 billion in pre-tax profits, and once again consumers, shareholders and City analysts were delighted with the company’s performance. The accolades started to roll in, and by the end of 2007 Stuart Rose found his name on the New Year’s Honours List.

Plan A – Because There is no Plan B

A visit to any M&S store, or a quick browse through its internet site, reveals a lot. Not only are they exciting places to shop, with many vibrant and fashionable products on offer, but there is one significant underlying theme that comes across again and again: M&S cares about its ethical stance and the environment in which it is operating.

Many commentators have written about corporate social responsibility and its current impact on industry, while others have simply seen it as a marketing opportunity. However, even a brief look at M&S’s operations is enough to make you realise that it really means what it says: this is not lip service.

The story goes that Al Gore is responsible for much of the ethical revolution within M&S. Stuart Rose took Gore’s book ‘An Inconvenient Truth’ on his summer holiday in 2006 and returned saying: “This is interesting!”

L6-03/Nov08/M&S/IT
Rose subsequently invited the top 100 people in M&S to watch the film of the book one evening after work, and received a flurry of e-mails in support. And so ‘Plan A’ was devised and launched in January 2007: a £200 million, 100-point plan that would make M&S carbon neutral, and the UK’s greenest retailer, by 2012.

Plan A is so-called ‘because there is no Plan B’ (see Table 3), thus stressing the paramount importance of the environment within M&S’s thinking. It involves action across 35,000 product lines, 2,000 factories, 10,000 farms and 250,000 workers, as well as M&S’s own 75,000 employees and 16 million customers.

The potential impact of such an initiative is huge. Simply by making its UK and Irish operations carbon neutral, M&S would be making an equivalent contribution of taking 100,000 cars off the road each year. It would achieve its own personal challenge of reducing carbon emissions by 80% (as set out in the Stern Review in 2006) 40 years ahead of target.

The plan affects M&S’s supply chain significantly, placing a greater emphasis on local produce and removing the dependency on food imported by air. It also affects its logistics operations, not least because it plans to adopt 50% bio-diesel in all of its lorries. It also impacts on the ingredients used within M&S produce: a switch to Fairtrade cotton in men’s and women’s clothing, a greater use of free range meat products, and so on.

In short, M&S is revolutionising the way its products are manufactured and sourced, and this is being well-received by the public.

Of Plan A, Blake Lee-Harwood, campaign director for Greenpeace UK, has said:

“We’re glad a company like M&S has proposals that begin to match the scale of the challenge of climate change and protecting our oceans and forests. If every retailer in Britain followed Marks and Spencer’s lead it would be a major step forward in meeting the challenge of creating a sustainable society.”

**Proposed Changes at the Top**

In March 2008, Sir Stuart Rose announced changes to the governance of M&S, which proposed that he become executive chairman as of June 2008, as part of his pledge to stay with the company until 2011. However, the proposed changes would leave a major gap in the role of chief executive, with no obvious director to replace him.

Also in March 2008, seven senior figures left the business and a number of other key appointments were made to the board, including the appointment of Kate Bostock as clothing director. It has been reported that Rose needed to create ‘headroom’ for one of the younger directors to be groomed to step up to the challenge of leading M&S. Other rumours have suggested that either Bostock or finance and operations director Ian Dyson seem the most likely to succeed. For Kate Bostock, becoming chief executive of M&S would mean becoming probably the most powerful woman in business.

However, not everyone greeted the proposed changes warmly, and there was some criticism of Rose for falling into the same trap as his predecessor Sir Richard Greenbury. Strictly speaking, the changes mean M&S might breach the code of corporate governance laid down by the Cadbury Report, and they arguably place too much executive power in one person: Sir Stuart Rose. Whilst M&S executives were quick to play down the issue, many outsiders believe this could be a case of déjà vu for the retailing giant.

At the time of writing, no decision regarding the role of chief executive at M&S had been announced.
Ancillary Background Reading for Students

The following are references to the source material used to develop this case study. This is not intended to be an exhaustive list of the sources of information available. Candidates are encouraged to read widely around the issues raised by the case study.


In addition, students may find the following internet sources helpful:

  - www.marksandspencer.com (refer to the company pages for annual reviews, statements, a history of the company, and details of Plan A)
  - www.bbc.co.uk/business (search under ‘Marks & Spencer’ for archived articles)
### Table 1 – Financial and Organisational Development of M&S Since Flotation in 1926

<table>
<thead>
<tr>
<th>Year</th>
<th>Pre-tax profits (£m)</th>
<th>Sales revenue (£m)</th>
<th>Number of UK stores</th>
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<tr>
<td>1927</td>
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<td>1.3</td>
<td>135</td>
</tr>
<tr>
<td>1930</td>
<td>0.335</td>
<td>3.6</td>
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<tr>
<td>1935</td>
<td>1.1</td>
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<td>1940</td>
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</tr>
<tr>
<td>1945</td>
<td>1.9</td>
<td>18.1</td>
<td>-</td>
</tr>
<tr>
<td>1950</td>
<td>4.6</td>
<td>52.6</td>
<td>-</td>
</tr>
<tr>
<td>1955</td>
<td>9.2</td>
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<td>1960</td>
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<tr>
<td>1965</td>
<td>27.5</td>
<td>219.8</td>
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<td>1970</td>
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<td>360.9</td>
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<td>1975</td>
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<td>1980</td>
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<tr>
<td>2006</td>
<td>751.4</td>
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<tr>
<td>2007</td>
<td>965.2</td>
<td>8,588.1</td>
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Table 2 – Historical Record of M&S Governance

<table>
<thead>
<tr>
<th>Tenure</th>
<th>M&amp;S Chairman</th>
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<tbody>
<tr>
<td>1894 – 1907</td>
<td>Michael Marks</td>
</tr>
<tr>
<td>1908 – 1916</td>
<td>William Chapman</td>
</tr>
<tr>
<td>1916 – 1964</td>
<td>Lord Simon Marks</td>
</tr>
<tr>
<td>1964 – 1967</td>
<td>Lord Israel Sieff</td>
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<td>1967 – 1972</td>
<td>Edward Sieff</td>
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<tr>
<td>1972 – 1984</td>
<td>Lord Marcus Sieff</td>
</tr>
<tr>
<td>1984 – 1991</td>
<td>Sir Derek Rayner</td>
</tr>
<tr>
<td>1999 – 2000</td>
<td>Brian Baldock (with Peter Salsbury as chief executive)</td>
</tr>
<tr>
<td>2000 – 2004</td>
<td>Luc Vandeveld (with Roger Holmes as chief executive from 2002)</td>
</tr>
<tr>
<td>2004 – 2006</td>
<td>Paul Myners (with Stuart Rose as chief executive)</td>
</tr>
<tr>
<td>2006 – 2008</td>
<td>Sir Terence Burns (with Stuart Rose as chief executive)</td>
</tr>
<tr>
<td>From 2008</td>
<td>Sir Stuart Rose (no chief executive appointed)</td>
</tr>
</tbody>
</table>
### Table 3 – Plan A Summary

**Climate Change**
We aim to make our UK and Irish operations carbon neutral within five years. We will minimise energy use, maximise the use of renewables, and offset only as a last resort.

**Waste**
We’ll reduce packaging by 25%, find new ways to recycle, and stop sending waste to landfill from our stores, offices and warehouses.

**Sustainable Raw Materials**
From fish to forests, our goal is to make sure our key raw materials come from the most sustainable sources available.

**Fair Partner**
By being a fair partner, we’ll help improve the lives of hundreds of thousands of people in our worldwide supply chain and in local communities.

**Health**
We’ll help customers and employees choose healthier lifestyles through healthy food ranges and clear labelling.

*Source: M&S annual report 2007*