

**UNIVERSITY OF BOLTON**

**BOLTON BUSINESS SCHOOL**

**BA (HONS) BUSINESS ADMINISTRATION (DL): KL  
INTAKE 21**

**BA (HONS) ACCOUNTANCY (DL): KL INTAKE 17**

**SEMESTER ONE EXAMINATIONS 2008/2009**

**BUSINESS POLICY KL INTAKE 21  
/ CORPORATE STRATEGY KL INTAKE 17**

**MODULE NO: BST3003DL / ACC3005DL**

Date: 06/12/2008

Time: 3 Hours

---

**INSTRUCTIONS TO CANDIDATES:**

Attempt all **FOUR** questions.

**NOTE:**

1. All questions are equally weighted and carry 25 marks each
2. This is an open book examination. During the examination you are allowed to use your own notes [*not textbooks or module handbook*].
3. A fresh copy of the Case Study is attached to the examination paper

Candidates are advised that the examiners attach importance to legibility of writing and clarity of expression.

---

Bolton Business School  
BA (Hons) Business Administration / Accountancy DL  
Semester 1 Examination 2008/2009  
Business Policy / Corporate Strategy  
Module No. BST3003DL / ACC3005DL

**See attached Case Study**

**Question One**

**Critically evaluate the role of leadership within Marks & Spencer as presented in this case study. (25 marks)**

**Question Two**

**Identify and analyse Marks & Spencer's organisational culture as presented in this case study. (25 marks)**

**Question Three**

**Describe and analyse the industry structure within which Marks & Spencer operates as presented in this case study. (25 marks)**

**Question Four**

**Critically evaluate the strategic changes made by Marks & Spencer in response to market changes as presented in this case study. (25 marks)**

**END OF QUESTIONS**

# Marks and Spencer

Nardine Collier

*Marks and Spencer became a household name internationally by the early 1990s. However, the last part of that decade began to see decline. This case examines successive attempts to reverse this decline, with many new initiatives and new managers over several years. These efforts appeared inadequate to turning round the company and culminated in the 2004 resignation of Marks and Spencer's chairman.*



Michael Marks began what was to become one of the most recognised brands on the planet by establishing a penny bazaar in the late 1880s, it was a huge success with the majority of products only costing one penny. Marks rapidly expanded his business, and soon decided he needed a partner to help run the growing firm. Tom Spencer, a cashier of Marks' supplier, was recommended and from this partnership Marks and Spencer (M&S) steadily grew. A successful retail formula had begun to emerge surrounding this growth, but by the early 21st century, M&S's success was beginning to run out.

## The M&S formula for success

Simon Marks took over the running of M&S from his father. He was aggressive with his ideas for the firm, and went to America to investigate how they ran their stores. On his return to Britain he made a number of changes to the penny bazaars, firstly by turning them into stores, establishing a simple pricing policy and introducing the 'St Michael' logo as a sign of quality. There was feeling of camaraderie and a close-knit family atmosphere within the stores, which was compounded by employing staff whom the managers believed would 'fit in' and become part of that family. The staff were also treated better and paid more than sales assistants in other companies. The family nature of this firm dominated the top management too: until the late

1970s the board was made up of family members only.

Marks was renowned for his personal control over the business and his attention to detail. According to a Channel 4 programme (25 February 2001) his was a style of top-down management which could often take the form of shouting and bullying. This concern for control was also manifested in the way Marks dealt with suppliers. He always used the same UK-based suppliers and meticulously ensured that goods were exactly to specification; a relationship designed to build reliance of the suppliers and ensure high and consistent quality.

Until the late 1990s M&S was hugely successful both in terms of profit and market share. It achieved this by applying a structured formula to all its operations and maintained it by establishing a set of fundamental principles which were held as core and used in all of its business activities. In his book on Marks and Spencer Tse (1982) described these principles:

- 1 to offer our customers a selective range of high-quality, well designed and attractive merchandise at reasonable prices under the brand name St Michael;
- 2 to encourage suppliers to use the most modern and efficient production techniques;
- 3 to work with suppliers to ensure the highest standards of quality control;

---

This case was prepared by Nardine Collier, Cranfield School of Management. It is intended as a basis for class discussion and not as an illustration of either good or bad management practice. © N. Collier, 2004. Not to be reproduced or quoted without permission.

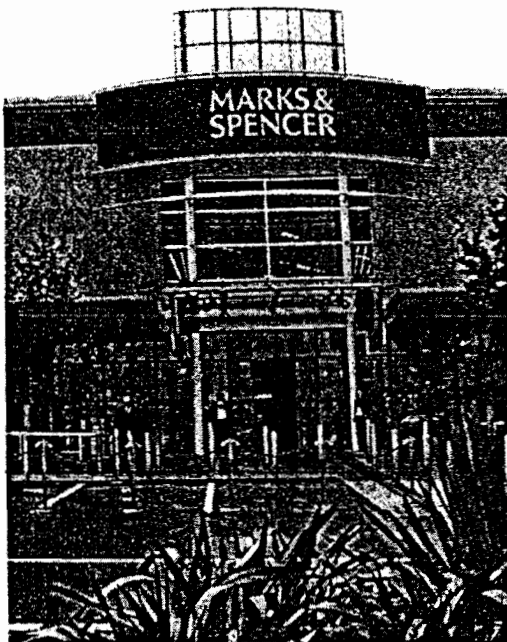


Photo: Marks and Spencer

- 4 to provide friendly, helpful service and greater shopping comfort and convenience to our customers;
- 5 to improve the efficiency of the business, by simplifying operating procedures;
- 6 to foster good human relations with customers, suppliers and staff and in the communities in which we trade.

Other components of this formula were developed. Its specialist buyers operated from a central buying office from which goods were allocated to the stores: a formula which stood M&S in good stead for most of its years. The store managers followed central direction on merchandising, layout, store design, training and so on. Every M&S store was identical in the procedures it followed, leading to a consistency of image and a guarantee of M&S standards. However, it also meant conformity to central direction, with store managers being severely restricted in how they could respond to the local needs of customers.

During M&S's growth period there were few changes to its methods of operation or strategies. It stocked generic clothing ranges with a wide appeal to the public: buyers often made choices which would outlast the current fashion and trends seen in other high street retailers. Its reputation

for good quality clothing was built on basics, the essentials which every customer needed; for example in womenswear this included underwear, jumpers and skirts. As it did not have fitting rooms till the 1990s, all assistants carried tape measures and M&S would give a 'no quibble' refund to any customer who was unhappy with the product he/she had purchased. As its products remained in the stores all year round for most of its history it never held sales. It priced its goods at a 'reasonable' level while emphasising the products' high quality: a claim which it believed was accepted because of its insistence on using mainly British suppliers. (More than 90 per cent of the suppliers were British.)

The success of M&S continued into the 1990s, with ever-rising profits and share prices. Richard Greenbury, the CEO from 1991, explained this success as follows:

I think that the simple answer is that we followed absolutely and totally the principles of the business with which I was imbued... I ran the business with the aid of my colleagues based upon the very long standing, and proven ways of running it.

(Radio 4, August 2000)

This commitment from the very top to the M&S way of doing things had been evident since the time of Marks and for all the succeeding chief executives. Indeed, chief executives of M&S were renowned for their attention to detail in terms of supplier control, merchandise and store layout; and it had seemed to work. M&S's success under Marks was often attributed to his understanding of customer preferences and trends. However, because of this, it could also mean that buyers tended to select merchandise which they knew chief executives would approve of. For example, the BBC's *Money Programme* (1 November 2000) reported that since it was known Greenbury did not want M&S to be at the cutting edge of fashion, buyers concentrated on the types of product they knew he would like - 'classic, wearable fashions'.

The same programme also reported on the problems of centralised authority; on one occasion Greenbury had decided that to control costs there would be less full-time sales assistants. Although this led to an inability in stores to meet the service levels required by M&S, when Greenbury visited, store managers ensured they were fully staffed by bringing in all available employees so that it appeared the stores were giving levels of service that, at other times, they were not. It also meant

there was little disagreement with directives sent down from the top, so policies and decisions remained unchallenged even when executives or store managers were concerned about negative effects. The *Money Programme* also claimed that customer satisfaction surveys showing decreasing satisfaction throughout the late 1990s (positive view of M&S: 71 per cent - 1995; 62 per cent - 1998; 45 per cent - 1999) were kept from Greenbury by senior executives, who felt he might be annoyed by the results. Responding to this Greenbury stated that he never saw customer surveys results, but used sales figures and visits to stores as the basis to make judgements on how M&S was operating.

### A hitch in the formula

M&S's problems began to hit the headlines in October 1998 when it halted its expansion programme in Europe and America. The expansion programme had begun in the early 1990s when M&S had moved into a number of overseas markets, where it implemented its tried and trusted formula. In America M&S operated as Brooks Brothers, and in Canada opened 22 stores via a joint venture. It had stated it would spend £130m (= €200m) a year on the expansion until 2001, as it was essential for the firm's long-term progress. However in 1998 it admitted having financial difficulties worldwide, having been hampered by tough trading conditions.

In November M&S announced a 23 per cent decline in first-half profits, causing its shares to fall drastically. Greenbury, chairman and CEO, blamed a turbulent competitive environment, saying that M&S had lost sales and market share to its competitors from both the top and bottom ends of the retail market. Competitors at the top end of the market were niche organisations such as The Gap, Oasis and Next, offering similarly priced goods, yet more design focused with up-to-date fashions, and from which obvious comparisons could be made against the more traditional M&S merchandise. Furthermore these stores were attracting customers who would have naturally moved on to become M&S customers. At the bottom end of the market there was competition from discount stores, such as Matalan, and supermarkets, such as the 'George' range at Asda. These stores were competing against M&S by offering essential and basic clothing, but at significantly lower prices. Moreover, Tesco and

Sainsburys moved into offering added value foods, which had been pioneered by M&S.

It was frequently reported in the press that M&S no longer understood or reacted to its customers' needs. It misread its target market, and could not understand that customers who purchased food or underwear might not want products from its home furnishings range.

It was seen to have been too complacent and ignoring changes in the domestic market which have now caught up with it.

*(Financial Times, 16 January 1999)*

Analysts commented that M&S had continued too long with its traditional risk-averse formula and ignored the changes in the marketplace. Its competitors, meanwhile, were being praised for improving their performance as they quickly reacted to the changes. Although Greenbury blamed the competitive environment for M&S's difficulties, a Channel 4 programme (25 February 2001) felt that it was his focus on the day-to-day operations of the firm rather than long term strategy that had been the problem. The programme also reported that M&S was firmly placed in the 'middle ground', and tied to a generalised view of the market, instead of trying to understand and tailor offerings to the various market segments.

Commentators tried to make sense of what had happened. M&S did not have a loyalty card at a time when almost every other retailer did. Although a large proportion of M&S customers were women and much of the merchandise was womenswear, top management was dominated by men. It was also accused of having an inward looking culture. Almost all M&S managers and executives were promoted internally, starting at the bottom of the organisation, and becoming immersed in the routines and established traditions of M&S, a culture that had been established, and continually reinforced, since its creation. There had never been a CEO of M&S who had not been a member of the founder's family or a lifetime employee. It was believed that the culture was also strongly reinforced by Greenbury and not helped by his autocratic approach:

I would strenuously deny that I was autocratic, what I would say is that I was extremely demanding, I was considered to be tough but fair . . . I introduced to the business a method of discussion in the boardroom, and outside of the boardroom that was far reaching down the business in terms of discussing what we were doing. I was like any chairman, I had strong

views and if I could persuade people of my views then obviously I tried to.

(Greenbury, Radio 4, August 2000)

In November 1998, after months of speculation and boardroom arguments, Greenbury announced that he would be stepping down. There then ensued a series of heavily publicised arguments between Keith Oates, Greenbury's deputy, and another senior director, Peter Salsbury, whom the media suggested was Greenbury's favoured successor. The in-fighting at M&S came to a conclusion when Greenbury returned to Britain after a sudden end to his holiday. He held a five-hour long meeting with the board and non-executive directors to determine who would be the successor. However, when put to the vote, Oates did not attend and elected to take early retirement. Salsbury was appointed as CEO. This was poorly received by shareholders and the City, where M&S shares fell 25 $\frac{1}{4}$ p. Analysts commented that, as Salsbury had only worked in womenswear, one of the worst-performing units in M&S, it might have been wiser to bring in an outsider (Channel 4, 25 February 2001).

During this period of boardroom scuffles, M&S's problems were compounded by its £192m purchase of 19 Littlewoods department stores, on the grounds that they were situated in prime locations and complemented the existing M&S stores. The stores were acquired with the aim of being refurbished (at a cost of £100m), so that a full range of M&S products could be stocked in city centre locations. However, not only were the Littlewoods stores being refurbished, but so were the existing M&S stores. The disruption caused by the double refurbishment had a far worse effect on customers than M&S had predicted, leading Greenbury to describe the clothing section as a 'bloodbath'.

In January 1999 M&S announced its second profits warning. This caused a rapid sell-off of M&S shares. M&S blamed customers who it believed had been unwilling to pay full price for products over the Christmas period, especially when they could buy similar items cheaper from competitors. Furthermore, it had over-estimated sales and bought £250m worth of stock. The excess stock then had to be heavily discounted for a quick sale so that there was storage space for the next season's stock. There were also problems with its European operations. M&S had been pursuing a series of rapid expansion initiatives in Europe, yet many of the countries were difficult to expand in.

These stores' performance had been worsening over the previous months, totalling a cost of £25m. As they continued to show no signs of improvement, a programme was put in place to gradually close most of the European stores.

## New tactics

To overcome the difficulties M&S had been facing, and in an attempt to regain confidence, Salsbury implemented a restructuring strategy, splitting the company into three: UK retail business, overseas business and financial services. His plans also involved establishing a company-wide marketing department to break down the power of the traditional buying fiefdoms, which were established around product lines. Salsbury wanted the marketing department to adopt a customer-focused approach, rather than allowing the buyers to dictate what the stores should stock. M&S also launched new clothing and food ranges, reinforced by a large-scale promotional campaign, to attempt to restore its image as an innovative retailer offering unique, quality products. Salsbury also issued a memorandum explaining that he wanted to move M&S away from its bureaucratic culture, by creating a decision-making environment that was unencumbered by hierarchy. He wanted to challenge the traditional ways that M&S operated, as he believed these were the root cause of its problems.

However, by May 1999 Salsbury was forced to announce a severe drop in trading and a halving of profits. He then outlined more measures he would take to alter the perception of M&S. As well as stripping away further layers of hierarchy, M&S would take a lifestyle approach to buying and presenting products. For example, previously it had placed together all types of trousers, even to the extent of separating suits. One analyst commented:

M&S has behaved more like a wholesale buyer of products... rather than thinking about the sort of person that was buying the item and what else they could sell to that customer.

(*Financial Times*, 19 May 1999)

M&S also established a property division to enable it to charge rents to the individual stores, this was done to make store managers more accountable for their branches' actions.

In June Greenbury retired a year early; a decision which came just before the board entered a

three-day meeting to discuss 'a few hundred pages of its new strategy'. Salsbury commented:

What we are doing has moved away from his [Greenbury's] methodology and thought processes and decisions were reached without him being able to have an input.

(*Financial Times*, 23 June 1999)

In another attempt to slow the profits decline, July saw the closure of six European stores, a reduction in the size of its head office, and the closure of all its Canadian stores, which had been operating at a loss for 24 out of 25 years of trading (*Financial Times*, 10 July 1999). In the UK market M&S implemented a costly store change strategy. It commissioned design consultants to create a new store image. The pilot store displayed new lighting and flooring to create a mood which 'looks to the future with the anticipation of creating change'.

### ... And more problems

In September 1999 M&S announced further changes as a result of a strategic business review conducted over the previous 18 months. It stated that it was in the process of overseas sourcing while severing links with UK suppliers, streamlining international operations, diversifying into home and internet shopping, and creating a department dedicated to identifying new business opportunities.

Shortly after these plans were announced there was yet another profits warning, despite major investments to make the stores more customer friendly, a new well-received fashion range, and more shop floor staff to improve customer service. Customers continued to voice their concerns regarding the clothing range, and customer comments were reported in the press:

There are so many items here to find and they don't tend to segregate it out, so there's something I might like next to something my granny might like.

(*Financial Times*, 28 September 1999)

By November M&S had more bad news for its shareholders when it revealed its shares had fallen to 250¼p, the lowest price since 1991. By December there were stories of companies being interested in acquiring M&S. Those interested included Tesco, American pension fund companies, and Philip Green, the retail entrepreneur. Yet observers believed that acquisition was not the

answer. They felt there continued to remain deep structural problems in the marketplace, as there were high costs of entry and maintenance to remain in the clothing market. In an effort to counteract the acquisition rumours, and restore the wavering faith in the company, M&S implemented another management restructuring to become more customer focused. It attempted to achieve this by splitting into seven business units: lingerie, womenswear, menswear, childrenswear, food, home, and beauty. Executives were appointed at just below board level to head the units, reporting directly to Salsbury who believed the flatter structure allowed M&S to be more responsive to market changes and customer needs.

### A new horizon

January 2000 did not just bring a new millennium, but also a new chairman for M&S. Belgian-born, 48-year-old Luc Vandeveldde was appointed with a two-year contract, a £2.2m 'golden hello', and a salary of £1.3m a year plus share options. In taking the position at M&S, Vandeveldde had left his managing director role at Promodés, the French food retailer. At Promodés he had achieved a six-fold increase in stock value, and finalised its sale to Carrefour, thus creating the second largest retailer in the world. This was the first time anyone from outside M&S had been appointed to the position of chairman. Vandeveldde explained that he wanted to revitalise the domestic brand and then go overseas with an extensive expansion programme. Further, he wanted M&S to become a multi-format retailer, as was Promodés. Analysts observed that this would certainly require a major culture change for the organisation.

By February M&S promised an extra 4,000 staff to operate on the shop floor. By directly serving and helping customers, M&S felt it was offering a more personal service. It also entered into deals with two football clubs as part of its plan to tailor stores geographically, and unveiled an exclusive clothes collection designed by haute couture fashion designers. Purchasing of the clothing range was also shifted to almost 100 per cent Asian sources.

In March 2000 M&S declared a dramatic overhaul to its brand. It planned a new corporate image. It stopped using its famous green carrier bags and downgraded the once acclaimed, and seemingly invaluable, St Michael brand. The plans

encompassed a complete overhaul of the firm, as the stores, uniforms, packaging and labelling all had to be altered to fit with the new image. However, Vandeveldé said he thought the changes were 'evolutionary rather than revolutionary' (*Financial Times*, 13 March 2000). M&S explained that customers were confused about the differences between the St Michael and Marks and Spencer brands and felt that it needed to use one distinct brand which everyone could understand. The new-look M&S brand was launched in a range of colours each indicating different departments. The St Michael brand was relegated to inside clothing labels as a symbol of quality and trust.

Vandeveldé also changed M&S's supply chain. He grouped the stores on the bases of demographic characteristics and lifestyle patterns, instead of operating with the old system which allocated merchandise dependent on floor space. This new move was widely accepted and received positively as one of the first major steps to becoming customer focused.

Vandeveldé conducted numerous interviews in an effort to raise awareness and his and M&S's profile, mainly with the City, investors and shareholders. In an interview with the *Financial Times* (4 April 2000) he admitted that in the past M&S had lost its way in a fast-changing market where new competitors were making the rules. He argued that the strategies he intended to implement would not involve drastic changes to the board or the structure of the organisation, and added:

I think in the glory days of M&S everybody felt proud to be associated... it drove our reputation and our share price up to levels that we may not have deserved. Whereas when things started going slightly sour I guess everybody just exaggerated and we probably were punished a bit more than we deserved as well. Understanding that is important...

There is one general theme and that is that we are probably too 'push' and not enough 'pull' orientated... this is echoing a theme that the group was not focused sufficiently on the customers. Today it is much more difficult to come up with real unique propositions and customers are much more intelligent and have minds of their own, so they don't wait for a retailer to tell them to come by. We have got to start with the customer and work our way backwards.

(*Financial Times*, 4 April 2000)

He also explained that because of their geographic distance and lack of influence from the atmosphere in the UK, the overseas stores had developed their own strategies which were tailored to the needs

of the local market. Vandeveldé hoped that the ideas and strategies they had experimented with would provide leverages that could be exploited in the UK.

In May 2000 M&S announced its figures for the year, reporting £8.2bn of sales, the same as in 1999, and a fall in profit of £71.2m. So despite new measures and strategies there was no visible improvement. M&S's shareholders were also unimpressed after receiving the first cut in their dividend, seeing it fall from 14p to 9p. Salsbury commented that M&S had slowed the sales decrease, and that customers had noticed a difference in the stores and products: the dividend cut was made so that future investment capacity was not compromised.

## The grand plan

Vandeveldé planned to stabilise M&S in the UK and then relaunch internationally. His strategy for the year focused on four overarching priorities, which again had the objective of moving the business closer to the customer: (1) creating clear profit centres; (2) creating a customer-facing organisation; (3) restoring overseas profitability; and (4) building the financial services sector. He was confident that this would start M&S on a path of sustained recovery. He aimed to achieve these objectives by a further restructuring of M&S into five operating divisions: UK retail; international retail; financial services; property and ventures. Within the UK retail division seven customer business units were established, and to ensure customer focus each unit would have dedicated buying and selling teams. M&S also created a Customer Insight Unit to perform in-depth research with customers to gain an understanding of shopping habits, demographics and their perceptions of the M&S brand. Vandeveldé said that the in-depth research had already identified that one in five items from the clothing range was the wrong offering for the stores' local market.

As for the stores, a series of different formats would be launched; there would be further modernisation; more customer advisors on the shop floor; and the opening of three prototype stores where all new initiatives and concepts would be tested. In addition M&S disclosed its plans to offer clothes at a discounted price in factory outlet malls, which would be used to sell excess stock, something its more aggressive competitors had

been doing for a number of years. Although space could be quickly cleared for new stock and money recouped from slow-selling items, commentators wondered what loyal customers would think when the clothes, to which they attributed a certain standard of quality and price, were being sold up to 50 per cent cheaper. Then, in September 2000, Salsbury retired from M&S.

In March 2001 M&S announced its plans to withdraw from its 38 stores in Europe and Brooks Brothers in America. Its stores in Hong Kong were sold to franchises. M&S also closed its 'Direct' catalogue operations at a cost of £300m. Vandeveld explained that the disposals were necessary so that M&S could focus on its core domestic clothing. However the European retrenchment did not proceed smoothly. The problems began in France, where 1,700 jobs were to be lost. At the announcement of M&S's plans French unions stepped in to represent the employees and organise strike action. Although analysts could see the wisdom of the withdrawal, consumers were concerned by the negative headlines and employee demonstrations through London. The situation was compounded by the French government who, after an investigation, determined that M&S had broken French employment law. The restructuring plans were suspended and M&S fined for 'manifestly illegal trouble-making'. This meant M&S had to completely restart the withdrawal process. Analysts were astonished that Vandeveld, formerly head of French group Promodés, had so seriously misjudged both the legal obligations and the extent to which French politics would unite to stop the closures. It was not until the end of 2001, when Brooks Brothers was sold for \$225m (originally purchased for \$750m in 1988), that the withdrawal process was completed.

In the midst of the store closure fracas, news broke that Vandeveld was going to be awarded a bonus worth £810,000, originally guaranteed when he joined M&S. As Vandeveld's strategic targets had all been met, M&S could not deny him his bonus. Yet that did not prevent a wave of hostile emotion, not only from the trade unions, but also from senior executives at Baker Street who were annoyed that Vandeveld would receive a bonus when they were unlikely to get one themselves, because they had failed to meet their financial targets. Following the controversy, and taking advice from the non-executive directors, Vandeveld decided to defer his right to the bonus for a year.

In reporting its end of year results, the comments continued to be negative. Discussing the results Vandeveld scaled back on the promises he had made at his arrival 15 months prior for recovery within two years. Although he remained confident that the group would recover, he admitted it was taking much longer than anticipated. The fall in underlying pre-tax profits was primarily blamed on intense high street competition, price deflation and a poorly performing core clothing range. Yet even though better purchasing had improved margins it had had little effect because, Vandeveld admitted, M&S was still resorting to heavy mark-downs to clear its stock. Commentators stressed that reducing the number of mark-downs necessary required better stock control and cooperation with suppliers, with whom M&S had only just begun to rebuild relations after shifting the majority of its sourcing overseas.

However Vandeveld was confident that he had the right recipe for recovery, it was just a matter of time. In an interview with the *Financial Times* (23 May 2001) he commented that turning M&S around was like making mayonnaise. You never know when the mixture of oil, eggs and vinegar will blend perfectly – but you know it will eventually if you keep beating it:

There is nothing mechanical about this business – there is no one thing you can turn to make it go right. It is a synthesis of many things. The structure has to be right; the people have got to be right. At some point it will eventually turn positive.

(*Financial Times*, 23 May 2001)

He also admitted that things were far worse at M&S than he had expected before he joined the group and had famously made himself hostage to fortune by predicting rapid upturns. Vandeveld refused to make further predictions for M&S's future performance. Instead he was said to be hoping for 'small pockets' of improvement that would restore confidence.

It was also at this time when some promising news emerged from the M&S camp. M&S planned to move out of its headquarters in Baker Street, London and into a new building in Paddington in Spring 2004. Commentators were delighted as they felt it showed M&S was interested in making meaningful changes and tackling the problems at its core, not just altering merchandise and store layout:

In recent months much has been written about M&S's big portfolio of stores, but little, if anything, about

its HQ. The headquarters is the cultural centre of any company, a window on its soul. Anyone looking into Baker Street today will see a static environment with many closed offices and long corridors, redolent of a company that has not fully embraced modern management techniques and working methods – regardless of what the consumer on the high street is seeing... Until the heart of the organisation understands and lives the new values, the people who deal with the consumer will be unsure of the conviction behind any new direction that they are asked to take. The opportunity to relocate the headquarters, for any organisation, is a catalyst for real and deep-seated change that can yield benefits well beyond cost savings.

(*Financial Times*, 24 April 2001)

Analysts and the press hoped that the new headquarters would be redesigned to reflect the values M&S needed to emphasise, and that it signalled its intent to reform its culture.

For those who had worked in M&S's headquarters, the grey and imposing building symbolised much that had gone wrong with the retailer. Its endless corridors were described as Kremlin-like, and the small individual offices reflected the status of the occupant by the thickness of the carpet. Former managers described the building as 'oppressive', with facilities that were not conducive to modern working practices, few casual meeting rooms, and a highly structured hierarchy for the 4,000 employees who worked there. Fluid communication and the building of *esprit de corps* were felt to be prevented because executives and directors sat in offices which were separate from their staff.

Not long after this news the Annual Report was published. It explained that M&S's priority was to restore the confidence of its 'core' customer, the classically stylish woman who admired and relied on M&S, and would like to feel she could rely on it again. In addition the employee initiatives that had been implemented were described. In her book on M&S Bevan (2001) described these initiatives, a campaign entitled 'Fighting Back' was meant to be a rallying cry, encouraging staff to get behind M&S and make a difference in key areas of recovery. Posters appeared in staff rooms, with an accusing Kitchener-type finger pointing, asking what 'You' were doing to bring customers back. In the run-up to Christmas, over 2,000 head office staff, including Board members, directors and senior executives, were drafted to work one day in a local store, helping customers to pack or stacking shelves. The idea was to give an insight to those

who usually operated 'behind the scenes', and to lift employee morale.

Vandavelde then spoke to shareholders about M&S's position:

Stories in the news often claim the M&S brand has lost its lustre, is no longer attractive, and that people don't want to shop with us any more. Naturally I disagree with this view. This is still a unique company, with unique fundamental strengths and the most dedicated staff of any retailer in the UK... In summary, we have made mistakes and have admitted them. We know that this year our most loyal customers haven't always found the clothes they want in our stores.

(Annual Report, 2001)

Shortly after, M&S unveiled its Autumn-Winter fashion collection presided over by Yasmin Yusuf, the new creative director. This was where it was aiming to achieve recovery because clothing sales remained in steep decline with most weeks showing double-digit falls in women's wear. The new collection marked a return to M&S's roots with the main focus on classically styled clothing such as tweeds in neutral colours and classic knitwear, targeted at the group's more traditional shoppers. There was also a formally tailored range, evening wear and a new range entitled 'Perfect', a back-to-basics collection which included jeans, classic shirts and polo-necks. Analysts commented that the collection was more appealing for core customers than M&S's clothing had been for years.

## More time

At the group's AGM in mid-July Vandavelde again told shareholders that he needed more time to turn M&S around. He explained that he was confident recovery was achievable, despite a further drop in group sales, but believed the only way to achieve this was by attracting and retaining the best people. To accomplish this he asked shareholders to double the share options available for key executives, to three times annual salary. Although given a tough time at the AGM shareholders praised him:

He was excellent really, I can't say I am happy about the performance of M&S or the outcome of the meeting, but that man could sell refrigerators to the Eskimos.

(*Financial Times*, 12 July 2001)

Vandavelde left the AGM again promising to significantly improve its clothing ranges' performance.

One way it attempted to do this was through a joint venture to design and source children's clothing with one of its leading suppliers, Desmond & Sons. Analysts suggested that this was a tacit admission that its children's range was not as good as it could be. Yet positively the analysts felt it showed they had begun to look at themselves radically. M&S hoped that the joint venture would allow them to deliver more fashionable clothes faster.

The other attempt to improve its clothing was a collaboration with George Davies, founder of Next and the creator of the 'George' clothing range at Asda supermarket. It was Davies' responsibility to design a women's range that would specifically cater for M&S's fashion-conscious customers. The new range, named 'Per Una', Italian for 'for one woman', targeted women aged 25-35 who wished to wear designer-style clothing, and attempted to compete with brands like Mango and Kookai. Davies had secured a deal whereby he owned Per Una, and retained the profits from supplying M&S. To operate so autonomously he had invested £21m of his own money. He was therefore designing, manufacturing and distributing the clothes independently of M&S.

Davies believed that to appeal to the twenty-something age group Per Una should be at the front of the store, and used as a mechanism to attract them into the store. He felt that M&S was too old-fashioned and sent too many different messages, and so decided his range needed its own separate, walled floor space and different shop fittings from the rest of the store; this was something M&S had never done before. Unlike M&S's traditional ranges Per Una was merchandised in 'fashion capsules', where jumpers were displayed with matching trousers.

One month after Per Una's September launch, M&S reported better trading figures to the press, and a rise in share price. Per Una was well received by customers, with sales running at more than double the original targets. However this resulted in demand outrunning supply, so M&S had to scale down its rollout programme. Critics commented that as well as M&S had performed it would have done better had it had more stock. Although analysts were pleased with M&S's results, some investors remained sceptical, preferring to wait for reassurance that Per Una's successful sales were not simply a result of cannibalisation of M&S's other clothing range's sales.

By October 2001 Vandeveld's initiatives seemed to be coming to fruition, as it produced

its first quarter-on-quarter sales increase for three years. Even with this positive news Vandeveld refused to make any predictions for the future:

Every retailer always hopes that next Christmas will be the best ever. But we'll let our customers judge (that)... Last year was a desperate cry - I needed to create enough emotional willingness from our customers and everybody else because we didn't have the ammunition from our performance.

(*Financial Times*, 10 October 2001)

Per Una and M&S's own 'Perfect' range also continued to perform well, and as such shares rose 10 per cent. Vandeveld said it was a sign that customers were positive about the improvements to the core ranges. Yet in discussing the next interim results he commented:

One quarter of positive trading is not good enough to talk about a turnaround... But we are seeing the first results of almost 18 months of very hard work which is coming together and convincing our customers.

(*Financial Times*, 7 November 2001)

This news was compounded by the sale of shares in the group from M&S's two biggest investors and was heralded by analysts as a sign that M&S's recovery was on track.

## A new style

At this time M&S employed Roger Holmes, who had been poached from the Kingfisher group, to be M&S's head of UK retailing. One of Holmes' first tasks was to implement a store refurbishment programme. In the stores beige walls were replaced with white ones, the floors and lighting updated, and 'shops within shops' created with the intention of giving customers an idea of how different styles worked together. Yet Holmes insisted that this was achieved at a cost of only £14 a square foot, previously M&S had spent up to £70 a square foot achieving their designs.

M&S was then rewarded with the news that it had the best performing stock on the FTSE100 for 2001. It also reported its strongest Christmas sales in years, although this was achieved in buoyant conditions. Analysts were impressed with the news:

Through luck, judgement or building up the right team, Luc seems to have turned it round more quickly than people thought he would be able to.

(*Financial Times*, 17 January 2002)

The strong Christmas figures were credited to increases from both Per Una and M&S's more traditional ranges. This resulted in Vandeveldt receiving his £650,000 bonus for the year, plus the bonus he had previously deferred.

In March 2002 M&S closed its final salary pension scheme to new members. The pension had been regarded as one of the best in the UK. As well as being set to save M&S millions, it was seen as a symbolic move away from one of its last acts of corporate paternalism.

M&S then delivered its end of year results: although there had been a rise in pre-tax profits Vandeveldt was keen to state that M&S was not secure in its recovery, but that it had 'turned the corner'. He stressed that the revival so far had been aided by buoyant trading conditions over the year. M&S then outlined its next steps. Its objectives were to maintain the revival of its core clothing and footwear departments, with a three-pronged approach to expansion in the UK:

- Development of its homeware department in existing stores and dedicated satellite outlets in out-of-town locations.
- Expansion of its 'Simply Food' convenience store format, targeted at high-traffic areas such as railway and underground stations.
- Leveraging of its financial services operations.

Although financial services had strong brand recognition and trust among customers, it was the most under-exploited part of M&S. Over the year its profits had fallen £12.1m with much of this blamed on M&S's decision to accept rival credit cards, as this had minimised usage of its own charge card. To attempt to leverage some of its 5m cardholders it launched a pilot scheme of its own combined credit and loyalty card. However less than a month later Vandeveldt put financial services under strategic review. To solve the problems in financial services M&S considered joint venture, outsourcing and a partial flotation.

At the AGM in July Vandeveldt announced his resignation as CEO, to become part-time Chairman. Unsurprising to many, Holmes was promoted to fill the vacant position. These moves worried some analysts who felt Vandeveldt was leaving too early in the recovery process, whereas others believed it indicated he was confident about M&S's revival and were crediting Holmes for much of its recent success. The mood at the AGM was upbeat and

friendly, something which shareholders reflected had not happened for a number of years.

Holmes had been credited with much of the responsibility for the recovery. He had spoken to the actual customers and walked with them around the stores:

I was very struck by how inwardly focused the company had remained through the period of change. They had been through all this de-layering but they were still all looking backwards. Nobody seemed to be asking how many customers . . . were actually experiencing a difference.

(Bevan, 2001)

His conclusion was 'we needed to get back to a passion for product' (Bevan, 2001). Holmes was seen as the driving force behind the revitalisation of women's clothing, specifically the collaboration with Davies, and the recruitment of Yasmin Yusuf to produce 'classic clothes that are not boring - classics with a twist' (Bevan, 2001). He injected innovation into the food ranges, with the popular 'steam cuisine' being protected by patent, and had been crucial in the overseas with *Grawal*.

It seemed as if M&S were pulling out all the stops for its recovery, as it forged a surprising alliance with England captain, and then Manchester United star, David Beckham. M&S negotiated a three year children's wear deal with Beckham, seen as a natural hero and role model for boys, who would also reflect the company's brand values. The boys range was launched in September 2002, and exceeded all sales targets. By October the jubilation surrounding M&S continued as in poor performing market conditions it had achieved an increase in first half sales. The only area continuing to lose market share was children's clothing. A month later and the problems with the children's range had worsened. Overstocking in both children's and women's wear had spoilt M&S's recovery story, where M&S admitted it had got its targets wrong, purchased too much stock, and had a vast number of items reduced for sale.

In December M&S achieved what many commentators regarded as a coup, when it poached Vittorio Radice with a £1.7m package from the chief executive position at Selfridges to head its home furnishings division. Analysts and investors alike were impressed by M&S's new found ability to attract such widely renowned creative talent, feeling that it was a sure sign of its recovery, further commenting that its rivals should be worried.

In the new year M&S reported on its Christmas trading period. It presented its second successful Christmas in a row, where sales had risen 6.7 per cent, which led it to outperform most of its competitors and beat the City's predictions. Holmes was pleased:

I think there is a building confidence among our customers. In the end, it all comes down to product and in clothing we have got the core fashionability right.

(*Financial Times*, 16 January 2003)

However in spite of this there were further mark-downs, the full cost of which was 5 per cent higher than in 2001. Holmes blamed unseasonably warm weather for slow sales of winter coats and associated apparel. This resulted in a 6 per cent fall in its share price. Yet Holmes had been right about one thing, confidence was building with the customers. As such M&S was back in the rankings of the 'World's Most Respected Companies' after an absence of three years. It had regained its place because of the way it had restructured and refocused itself, and underlined the strength of the brand and culture.

To improve its recovery further M&S streamlined its general merchandise logistics by cutting its contractors from four to two, producing a saving of £20m per year. While in another move to strengthen its financial services arm, after successful pilot trials, it decided to launch a nationwide credit and loyalty card scheme, entitled '&more', which it hoped would make it one of the UK's biggest issuers. &more would allow card holders to earn points for purchases they made, redeemable as M&S vouchers. M&S also won a Queens Award for Enterprise for its washable suit, which had been on sale since 2001. In winning this award M&S was hopeful of instilling a culture of innovation through its workforce.

In May Vandevelde reported the end of year figures, where shareholders were pleased to hear him disclose both a rise in profits and an increase to the dividend. Holmes then promised that M&S would soon recover from its recent sales slowdown, and would begin winning back market share and customers from its competitors. To achieve this he vowed that the top priority would remain clothing and food. Radice also announced his growth plans for homeware. He intended to build 25 stand-alone stores, entitled 'Lifestores', which would only stock homeware products. The centrepiece of each store would be a house designed by an elite designer. The house would

be fully functioning, designed so that customers could see the homeware range in situ. It was hoped that customers would not simply buy one item, but instead purchase the way of life.

June 2003 saw M&S take a further step away from its former image as a bastion of corporate paternalism. It introduced new staff contracts resulting in cuts to overtime pay. The press believed it was a sign that M&S was less concerned with staff retention than it used to be. However by July, after significant employee uproar, M&S decided to bow to staff opinion and concluded that reduced overtime pay would only be implemented for new staff.

At this time M&S also announced that it was considering opening food stores in motorway service stations, as an expansion of the Simply Food format. Although stressing that it would proceed cautiously with its new formula, it admitted planning to open 150 Simply Food stores by 2006. M&S explained that while operating smaller stores presented new challenges, they had delivered sales in excess of the average return per square foot for food.

Then followed more changes at M&S as Vandevelde further reduced his role of chairman, as he handed over chairmanship of financial services to Holmes. His contract was also altered so that he was paid entirely in shares:

It is a vote of confidence in the team that my remuneration is closely tied to the value which we create for our shareholders.

(Vandevelde, *Financial Times*, 9 July 2003)

In addition Vandevelde shocked investors because as well as his position as non-executive chairman at Change Capital Partners he had taken a similar role at Vodafone. The press were unimpressed by his decision, feeling that it was far too early in M&S's recovery to be distracted by other commitments.

## Where from there?

By November 2003 there were concerns that M&S's recovery had seriously faltered. Both senior and middle management were reported to be increasingly disappointed with the organisation's lack of progress. Now Holmes was seen as the problem, being blamed for being too nice, taking too long to make decisions, and lacking relevant experience.

Everyone likes Roger, but he's really a management consultant, not a clothing retailer. Instead of taking a decision, there'll be another committee formed.

(*Daily Telegraph*, 3 November 2003)

M&S's complicated structure compounded these problems, where underneath the main board was a group operating committee made up of 19 members. An M&S insider commented:

Decision making is so slow. The bureaucracy hasn't really changed. They had a go at it, but now its gone back to the old ways. There's a lot of people who are fed up. There's a general level of frustration and discontent.

(*Daily Telegraph*, 3 November 2003)

In addition to these concerns, many employees talked about 'turf wars' between Davies and Yusuf regarding space and designs. Further, commentators were shocked to see M&S holding an unprecedented '20 per cent off' knitwear campaign, as a move to gain interest in its autumn sales. They felt that such severe discounts meant M&S must have sold new goods at less than cost price.

Yet in discussing the interim results, Holmes explained that he felt M&S had made a very solid performance because its profits had increased. Against the accusation that the recovery was running out of steam, Holmes stressed how much M&S had achieved over the last few years, most importantly he felt that it had regained customer trust. Childrenswear and women's formalwear continued to be a problem. To counter this Holmes explained M&S was planning to segment its offerings more attractively by introducing mix and match tailoring solutions. Anthony Thompson, a former M&S employee, rejoined as head of childrenswear, where he was optimistic that the range would soon be a success.

Problems with food also returned, where, although M&S continued to grow market share, it still underperformed the market. In response to this it announced an increase in the role of its Simply Food stores, as they were performing better than the main stores for sales per foot. In addition homeware was having problems. Holmes blamed this on a dependence on promotions and under-exploiting opportunities. He continued to feel confident for the future, explaining his intention to bring greater breadth and 'newness' to M&S's products and styles. M&S also reported the success of its &more card. After a massive advertising campaign prior to Christmas, M&S disclosed that

it was on track with its plans. More than just revitalising financial services, it had given M&S an opportunity to build a relationship with what Holmes called its 'most important customers'. He explained that through &more M&S was able to build loyalty, understand its customers and open a lasting dialogue with them.

However, in January 2004 M&S issued its trading statement, which underlined the problems it was experiencing. Total sales were down, with the main area of concern again being clothing, where Holmes described the womenswear ranges as 'not strong enough', with 'the wrong products in place'. As a result of this David Norgrove stepped down from his position of Director of Clothing, and Holmes stated that he would be taking a more direct interest in womenswear, until the appointment of a new director. Holmes also reported that the home division had underperformed, and described food's performance simply as 'adequate'. Commentators agreed that despite some obvious changes that had been made to M&S, Vandevelde and Holmes had failed to make an impression on the culture.

Shortly after these results, in May 2004, Vandevelde resigned. The board were reported to be extremely concerned that Vandevelde had 'lost interest' in the job, because of the increasing time he was spending on the Vodafone and Carrefour boards, and running Change Capital, a private equity fund. One M&S executive remarked:

In retrospect, it's clear that what Luc did was to tart us up with a lick of paint.

(*Sunday Telegraph*, 9 May 2004)

Commentators felt that although quick results for sales and profits had been achieved, underlying structural problems had not been dealt with.

## Sources

BBC2, 'Sparks at Marks', *The Money Programme*, 1 November 2000. BBC2, 'Marks and Spencer', *Trouble at the Top*, 6 December 2001. Beaver, G., 'Competitive advantage and corporate governance: Shop soiled and needing attention, the case of Marks and Spencer plc', *Strategic Change*, vol. 8, 1999, pp. 325-34. Bevan, J., *The Rise and Fall of Marks and Spencer*, Profile Books: London, 2001. Channel 4, 'Inside Marks and Spencer', 25 February 2001. Radio 4, Interview with Sir Richard Greenbury, 22 August 2000. Rees, G., *St Michael: A History of Marks and Spencer*, Weidenfeld and Nicolson, London, 1969. Tse, K., *Marks and Spencer: Anatomy of Britain's most efficiently managed company*, Pergamon, Oxford, 1985.

## APPENDIX

## Marks and Spencer Group financial record, 2003-1997

	2003 (£m)**	2002 (£m)	2001 (£m)	2000 (£m)	1999 (£m)	1998 (£m)	1997* (£m)
<b>Profit and loss account</b>							
<i>Turnover</i>	8077.2	8135.4	8075.7	8195.5	8224.0	8243.3	7841.9
Operating profit/loss before exceptional operating costs	761.8	643.8	467.0	543.0	600.5	1050.5	1700.2
Exceptional operating costs	<u>-43.9</u>	<u>-</u>	<u>-26.5</u>	<u>-72.0</u>	<u>-88.5</u>	<u>53.2</u>	<u>-</u>
Total operating profit/loss	717.9	643.8	440.5	471.0	512.0	1103.7	1037.9
Profit/loss on sale of property/fixed assets	1.6	41.2	-83.2	-22.3	6.2	-2.8	-1.8
Provision for loss on operations to be discontinued	-	-	224.0	-	-	-	-
Loss on sale/termination of operations	-1.5	-366.7	-	-	-	-	-
Net interest (expense)/payable	<u>-40.5</u>	<u>17.6</u>	<u>13.9</u>	<u>14.2</u>	<u>27.9</u>	<u>54.1</u>	<u>65.9</u>
<b>Profit/loss on ordinary activities</b>							
<i>before taxation</i>	677.5	335.9	145.5	417.2	546.1	1155.0	1102.0
Taxation	<u>-197.4</u>	<u>-182.5</u>	<u>-142.7</u>	<u>-158.2</u>	<u>-176.1</u>	<u>-338.7</u>	<u>-346.1</u>
Profit/loss on ordinary activities after taxation	480.1	153.4	2.8	259.3	370.0	816.3	755.9
Minority interests	<u>0.4</u>	<u>-0.4</u>	<u>-1.5</u>	<u>-0.6</u>	<u>2.1</u>	<u>-0.4</u>	<u>-1.3</u>
Dividends	<u>-246.0</u>	<u>-238.9</u>	<u>-258.3</u>	<u>-258.6</u>	<u>-413.3</u>	<u>-409.1</u>	<u>-368.6</u>
<b>Retained profit/loss for the year</b>	234.5	-85.9	-257.0	0.1	-41.2	406.8	386.0
<b>Balance Sheets</b>							
Fixed Assets	3466.6	3431.5	4177.2	4298.4	4448.7	4034.5	3646.5
Net current assets	3289.1	3760.7	3516.2	3717.1	3355.9	3401.5	3204.2
Short-term creditors	1610.2	1750.8	1981.6	2162.8	2029.8	2345.0	1775.1
Long-term creditors	1810.0	2156.3	735.1	804.3	772.6	187.2	495.8
Provisions for liabilities and charges	<u>228.4</u>	<u>203.8</u>	<u>315.7</u>	<u>126.6</u>	<u>105.0</u>	<u>31.0</u>	<u>31.8</u>
<b>Net assets</b>	<u>3038.4</u>	<u>3081.3</u>	<u>4661.0</u>	<u>4921.8</u>	<u>4897.2</u>	<u>4872.8</u>	<u>4548.0</u>
<b>Equity shareholders' funds</b>	3038.4	3080.9	4645.4	4905.3	4883.9	4853.7	4529.3
<b>Statistics</b>							
Earnings/loss per share	20.7p	5.4p	0p	9.0p	13.0p	28.6p	26.7p
Adjusted earnings/loss per share	22.2p	16.3p	11.4p	13.2p	15.8p	27.3p	26.7p
Dividends per share	10.5p	9.5p	9p	9.0p	14.4p	14.3p	13.0p

\* Marks and Spencer altered its accounting practices in 1998 and therefore the figures for 1997 are not strictly comparable with those from the other years.

\*\* £1 = approx. €1.5.