

Strategic Analysis of Marks & Spencer Plc



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Focus Keyword: Strategy

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Introduction

This paper examines Marks & Spencer Plc - an iconic brand and one of the UK's leading retailers.

A general overview of Marks & Spencer is followed by a PESTEL analysis which offers a comprehensive look at the company's strategic business environment. An in-depth SWOT analysis that assesses both the internal (strengths and weaknesses) and external (opportunities and threats) environment of the company is given. In addition, Porter's Five Forces Analysis discusses the industry's competitiveness and the firms' competitive positioning in the marketplace. The paper concludes with a value chain analysis which examines inbound logistics, operations, outbound logistics, marketing, and sales and services.

Keywords: M&S; Marks & Spencer; SWOT; PESTEL; Porter's Five Forces; Strategy; Value Chain Analysis

I. Company Overview

Marks and Spencer plc was set up in 1884 in Leeds by Michael Marks and re-branded as Marks & Spencer (M&S) ten years later when a partnership with Thomas Spencer was formed. Having begun as a market stall, today it is considered to be one of the UK's leading multinational retailers with over 1,382 stores worldwide, including 468 stores in Eurasia and the Middle East. M&S offers clothing, home products and luxury food products both in store and online (Marks & Spencer, 2015).

The company's 914 UK stores – 222 owned and 349 franchises of Simply Food stores – as well as the 302 full-line clothing and home stores and an e-commerce platform with over seven million registered users serve 33 million customers in two divisions (food and general merchandise) with a revenue of £5.2 billion and £4.0 billion respectively. In the UK market, M&S is a market leader in womenswear, menswear and lingerie. The company's international business, which comprises 468 wholly-owned, jointly-owned or franchised stores and spans 59 territories in Europe, Asia and the Middle East, had revenue of £1.1 billion in the last financial year (Marks & Spencer, 2016).

During the years of the financial crisis, the company continued its strong 'brand momentum' by maintaining premium pricing and backing it through investments in advertising. Consequentially, the slight decline of sales and share prices in 2008 were followed by steady improvements in both these indicators a year later, thus escaping the hard to reverse grip of discounted prices felt by many other competitive retailers (The Marketing Society, 2010). Plan A, the company's social, ethical and environmental business commitments, have also helped the retailer build a strong brand positioning centred on responsible sourcing, waste reduction and community care (Marks & Spencer, 2016).

II. Strategic Business Analysis of Marks & Spencer

A. PESTEL Analysis

A PESTEL analysis provides a framework to investigate a company's non-controllable external factors that have the potential to affect its operations. By examining these, a company is in a better position to consider likely implications and minimise any future organisation-related risks (Makos, 2014).



Figure 1: PESTEL Analysis Framework (Makos, 2014)

1. Political Factors

According to analysts, M&S has been favourably affected by the European Commission's free trade agreements which have made product imports much easier (EC, 2013) and have led to a decrease in sourcing costs. However, the run-up to and outcome of the British EU referendum on 23 June 2016 resulted in a dip in the company's sales in its last quarter (Davey, 2016). Due to a comparatively higher cost structure, the company has also suffered market share losses when entering new markets (Marks & Spencer, 2015). In 2015, M&S experienced stalled growth in its international business due to global uncertainties, substandard infrastructure and decreased profitability in new markets which lead to the closing of twelve stores in 2016. Geopolitical unrest also affected the company's overseas operations (Marks & Spencer, 2016). The international franchise businesses of M&S in the Middle East, Russia and Ukraine also suffered significant decline due to geopolitical instability, local currency fluctuations and decreased consumer demand (Marks & Spencer, 2015).

The company, eponymous with its environmental and ethical 'Plan A' green strategy, has also been critical of the lack of clarity in the government's flagship energy efficiency scheme, the green deal, as well as in its shifting green measures legislation. One example is the lack of a charge on plastic carrier bags and how this is affecting the company's efforts to implement

sustainability measures (Vaughan, 2012).

2. Economic Factors

During the financial crisis of 2008, while competitors such as Aldi, Asos or Tesco followed a strategy of discounted pricing, M&S emphasised higher quality products and better consumer satisfaction (The Marketing Society, 2010). Whilst this strategy led to a short-term decrease in sales, it resulted in a long-term increase in consumer confidence due to British customers' preference and desire to seek both value and quality. In 2015, this strategy helped the company maintain its market share in most of its markets and achieve strong sales in key owned markets such as Hong Kong or India (Marks & Spencer, 2015). Yet, the prolonged financial crisis has also increased the price sensitivity of once loyal M&S customers. In addition, in the past couple of months various macroeconomic issues, falling commodity prices, pound fluctuations and a sudden drop following the Brexit vote caused consumer confidence to drop. Further, clothing sales reached a ten-year low in Britain (Davey, 2016) and falling oil prices negatively impacted stores' performance in the Middle East (M&S, 2016).

3. Socio-Cultural Factors

Two external factors that affect the retailer include changing values in the population and a generation shift – with the Baby Boomer generation retiring, the company has to redirect its attention to Generation X and the Millennials. Different generations bring perceptible shifts in consumer behaviour, from the way customers do their shopping, the channels and technology they use to how products are perceived. Two trends the retailer should take into consideration are the different generations' customer preferences for fashionable items and/or the growing perception that British produce is no longer considered to be of high quality (Experian, 2015).

Green consumerism and customers' ethical concerns about the socio-environmental costs of brands they use is one of the factors contributing to the development of companies' sustainability reporting and related activities. In the case of M&S, the company has placed considerable emphasis on its social agenda. As stated in its last annual report, and as part of its Plan A, the now nine-year-old strategic sustainability plan of the company – building relationships with customers and suppliers and the communities in which they operate – is essential for the

company. In 2015, food surpluses were allocated by working with redistribution partners through a 'Community Shop' programme, whilst in 2016 a 'Spark Something Good' campaign engaged 1000 employees in community work and charity action days (Marks & Spencer, 2016).

4. Technological Factors

M&S is in a good strategic position to enjoy the benefits of an altering media landscape, the proliferation of social networks and a rising mobile wave. As regards its fashion business, the speed with which the latest trends are being communicated to designers has increased as has the speed of transportation. The shopping experience is now largely seamless through the integration of online, tablet, mobile and the physical experience in the shop (TaylorWessing, 2015). How is the company reacting?

It has moved from a platform hosted by Amazon to its own web platform which was launched at the end of 2014 to provide more delivery options and streamlined multichannel services. The company has also launched big data projects such as predictive analytics system and allocation replenishment (Thomson, 2014), adapted its digital strategy using the 'mobile first approach' thus answering the needs of consumers who are increasingly accessing the latest trends via mobile. A dedicated digital lab team of 150 in-house software engineers is working to make sure the company stays at the forefront of technological developments (Marks & Spencer, 2016).

5. Environmental (Ecological) Factors

With stricter environmental rules and regulations both at European and international level and increasing consumer pressure concerning business practices, major international retailers and brands have to examine the life cycle of its products from cradle to grave – from the suppliers to end usage and disposal – to be completely transparent about their strategic and tactical environmental practices and be fully accountable. Plan A, the environmental and ethical plan M&S has adopted to serve as a backbone to the way business is being conducted within and outside the company, has helped the company stay ahead of the curve by sourcing responsibly, reducing waste and helping stakeholder communities.

In 2015 a third of the company's products had been sourced from Gold and Silver sustainability

standard producers, while another initiative called Shwopping has resulted in 10.6 million garments (equating to £7.3 million) being donated to Oxfam (Marks & Spencer, 2015). Continuous investment in the scheme has resulted in numerous Plan A products, a Plan A incubator for the development of sustainable products and services as well as the first UK eco-factory (European Commission, 2011). In 2016 the company has also become completely transparent about its supply chain by publishing a map of where the company sources its products (Marks & Spencer, 2015). With sustainability becoming an increasingly necessary and lucrative strategy, the company is ahead of its competitors in this area.

6. Legal Factors

Health and safety regulations, consumer rights, environmental, antitrust and other legal factors affect the company. One of the company's initiatives, 'Behind the Barcode', gives consumers an omni-channel experience by enabling them to order items online for home delivery or in-store collection by scanning a product in-store (Thomson, 2012). This is an example of the high standards by which the company abides. M&S has to ensure that it does not obstruct any laws or regulations both in its home market, in international markets during expansion as well as in the countries alongside its value chain. The company's legal environment and hence its legal department were paramount during the company's 'Simply Food' chain expansion in 2007 and especially in allocating new store sites at BP petrol stations (Dry, 2007). The new reporting regulations M&S adopted in 2014, including a summary of their remuneration framework (Marks & Spencer, 2015) aim to provide even greater transparency to its stakeholders.

Following the UK's decision to exit the EU, the company, as will other UK retailers, is likely to face legal issues. Losing access to the common market will affect supply chains, the free movement of people, IP rights, international contracts and more. The decision will require new VAT rules as opposed to the VAT zero rating for intra-EU purchases and import duties and tariffs will be imposed (Dentons, 2016). In combination with the reduced buying power of the pound and with £1.1 billion in revenue coming from international markets, the company needs to put together a strategic plan on how the likely impact of Brexit can be minimised.

B. Porter's Five Forces Analysis

Porter's model was designed and developed by Michael Porter in the 1980s to determine the competitive intensity and attractiveness of an industry (Spencer, 2015). In the case of M&S, the five forces that influence the industry are as follows:



Figure 2: Porter's Five Forces Analysis (Krish, 2012)

1. Threat of new entrants (barriers to entry)

The retailing sector has a low threat of new entrants due to high capital investment costs needed to enter the market, market maturity and strong brands names which have gained customer's loyalty. Potential entrants would be discouraged by the strong loyalty of M&S customers, the company's strategy of focusing on quality products and a long-established and well-developed supply chain network (Vizard, 2015). However, despite considerable barriers to entry, the company is facing incoming competition in both its clothing and food sectors. At the lower end of the market, under the umbrella of ASDA, brands such as George and Matalan are targeting previously loyal M&S customers with lower prices. Indeed, Asda became Britain's second-biggest clothing retailer by volume in the summer of 2014 (Butler, 2015). At the other end, fashion brands such as Zara, H&M, Gap and Next are targeting younger, fashion-oriented clientele with their latest fashions and affordable prices. Online fashion retailer, ASOS, has been one of the company's main competitors in recent years (Davey, 2016). In addition, online supermarkets such as Ocado are starting to get the market share of traditional store-only food retailers. The newly launched M&S site has yet to gain a foothold in its own High Street consumers who are currently shopping online with its competitors (The Telegraph, 2014).

2. Threat of substitute products

M&S operates in a market in which innovation is paramount to keeping one's brand consistent and in line with the requirements of an ever-changing customer base (PWC, 2015). As regards its

clothing business, the threat of substitutes is high – copying or imitating existing designs is becoming ever easier. The decline of M&S post the 1990s was largely due to competitive retailers operating with foreign imports. Its premium position is threatened by shifting customer preferences; they might prefer to shop for a label or look for similar quality products offered at a better price elsewhere (The Marketing Society, 2010). As regards the company's food business, of the four big supermarkets in the British market – Tesco, Asda, Sainsbury's and Morrison's – Tesco and Sainsbury's have already developed a high quality range of foods which were previously considered a traditional market for M&S (Ruddick, 2013).

3. Bargaining power of buyers

In the industries within which M&S operates, customer's bargaining power is high. Several shifts in the consumer market such as the increasing price sensitivity of customers seeking classical designs, increasing preference for fashionable items or the disloyalty of UK consumers to British products are increasingly affecting the retailer (Cunningham, 2016). The primarily product-oriented strategy of the company that places a strong emphasis on its M&S brand is not beneficial at a time when M&S's competitors are employing a customer-oriented approach and investing in building strong consumer relationships (Ruddick, 2013). However, weaker consumer confidence following the Brexit vote (Reuters, 2016) is likely to affect sales growth and result in the company cutting its prices and focussing on its consumer needs.

4. Bargaining power of suppliers

Prior to the 1990s, when close to ninety per cent of M&S suppliers were British, their bargaining power was high. However, post the 1990s M&S experienced a rapid decline in sales and was forced to outsource globally and work with overseas suppliers who offered much more competitive pricing. The move resulted in a considerable decline in the bargaining power of its British suppliers (BBC, 2013) and, hence, the bargaining power of its supplier is currently low. Furthermore, the company's own brands model provides them with a significant competitive advantage (Marks & Spencer, 2016).

5. Intensity of competitive rivalry

In the retail sector in which Marks and Spencer operates, competition is strong and growing – the company is facing intense rivalry from supermarkets chains, homewear stores and fashion retailers. The company's food business is being rivalled by supermarkets such as Tesco, Sainsbury's and Asda, and it is competing with clothing and homewear retailers such as Topshop, Zara and John Lewis (Retail Week, 2016).

In addition, the competitive retailing landscape is going through another major transformation – the steady rise of online and catalogue shopping and competitors offering goods of almost the same quality at affordable prices as well as convenient and enhanced in-store experiences for customers (Retail Week, 2016). Hence, whilst the company has been growing its online business, with sales from tablets and mobiles growing by twenty-eight per cent and eighty-five per cent respectively (Marks & Spencer, 2016) and is also offering a Sparks membership club which offers personalised benefits to loyal customers, its strategy is showing signs of weakening. The company which is currently 132 years old has built its image on offering a quality value-for-money products strategy has recently started refocusing on a low cost strategy for its clothing business. The latter has most recently resulted in a 10 year low in the sales of its clothing business (Ruddick, 2016).

C. SWOT Analysis

A SWOT analysis assesses the external environment and internal capabilities of a company (Harrison, 2015). The ensuing analysis aims to look at the strengths, weaknesses, opportunities and threats faced by M&S

1. Strengths



Figure 3: SWOT Analysis, Figure by: Kheng

- Marks & Spencer plc is known through its 1,382 stores worldwide. The company's international expansion via franchise agreements gives it a strong competitive advantage compared with other UK businesses that trading only on the UK market (Rogers, 2012).

M&S, currently operating in 59 territories across Europe, Asia and the Middle East via wholly owned retail businesses, retail joint ventures, retail franchise operations or website only territories (Marks & Spencer, 2016) is developing particularly well in priority markets such as India, while its food business is growing in regions such as Hong Kong and Europe (Marks & Spencer, 2015). The geographical diversification inherent in the international strategy of M&S mitigates any potential risks of being overly exposed in a single country whilst its two-fold international business (food and clothing) is providing even more stability (BBC, 2013).

- Marks & Spencer plc is an iconic brand which has been trading since 1884 and is still considered one of the UK's top ten brands today (Vizard, 2015). Its decision to maintain investments in innovations and brand-building advertising throughout the recession has successfully strengthened its brand positioning as a company offering high quality and good value products (Marks & Spencer, 2016)
- The company's strong food business managed to deliver like-for-like growth in every quarter in the last financial year, maintaining its margins and outperforming the market by 3.5% due to its distinct and differentiated specialist strategy (Marks & Spencer, 2015).
- A shift from a strong focus on products to a more consumer-focussed strategy has benefited the company. The company's new focus on providing customers with a superb experience including in the online sector on top of its High Street chains has enabled the growth of M&S.com in the last quarter of 2014 (Marks & Spencer, 2015).

2. Weaknesses

- Multiple initiatives including adding new sub-brands such as Autograph and Per Una, attracting employees from rival companies as well as launching a website in 2014 have been introduced in an attempt to strengthen the clothing arm of the business and thus reverse a decade of market share decline in what was once considered the company's most profitable business (The Telegraph, 2014). Yet, these attempts have so far not resulted in a desirable outcome (BBC, 2013). Despite a slight rise in April 2015, the company's

clothing sales have been falling for four years in a row with the company facing its worst quarter since 2005 in the second quarter of 2016 (Davey, 2016). According to analysts, a steeper fall is expected in the coming years (Macalister, 2015). The decline in sales led to the head of the clothing branch of the company, John Dixon, leaving the company in July 2015 (Macalister, 2015).

- The company is losing key employees to its main competitors, including product developers, food technologists and General Merchandise design team members. This will not only result in the company having to invest in the recruitment, hiring and training of new employees, but also in the company facing the risk of its show how, know-how and contacts (related to current or potential contracts and business) becoming readily available to competitors (Davey, 2016).
- Having only decided on implementing a digital transformation strategy in 2010, the company has been a latecomer into the digital user-centred retail space. Its own M&S.com was only launched in 2014 after three years of development (The Telegraph, 2014). In addition, the company experienced technical difficulties and privacy breaches on its website when introducing their members' club and card scheme at the end of 2015, leading to a temporary website shutdown (Curtis, 2015).

3. Opportunities

- While sales in the clothing branch of the company are falling M&S, has a strong hold in the food business with a successful specialist strategy leading to an increase in sales. The company is utilising this trend by expanding its network of convenience stores, Simply Food, and planning the fastest food store opening programme in the history of the company in 2015/2016 (The Economist, 2015).
- The M&S website currently has six million online customers and has yet to reach, engage and convert 14.5 million customers who engage with the company only at its High Street stores and shop online with its competitors (The Telegraph, 2014). The launch of a members club called Sparks at the end of 2015 with four million registered members is

expected to drive online footfall through the introduction of a personalised shopping experience and individually tailored loyalty schemes.

- M&S Bank, which was started in 1985, recently (2014) launched a current account facility with no monthly fee and a £100 M&S gift card. This initiative has been largely praised and with its operating performance strong in 2015 (Marks & Spencer, 2016), is considered a 'threat' to High Street banks (Jones, 2014). Further developments in this regards can present opportunities for the company (Brignall, 2016).

4. Threats

- M&S has been affected by the recession and has seen a big slump in sales in 2009, a four-year decline in its clothing sales and most recently, a ten-year low in its clothing sales in the second quarter of 2016 (Davey, 2016). Macroeconomic factors and a weakening euro are still considered to be a challenge, especially in the Middle East (Marks & Spencer, 2016).
- Once the biggest clothing retailer by volume, M&S has now dropped to third position after Primark and Asda (Butler, 2015). Even though the company still holds the first position in terms of sales by value, its 14 quarter slump preceding a one-off rise in sales in the first quarter in 2015 makes it likely that the company will be moving its focus from clothes to food (The Economist, 2015)
- Unstable political and economic conditions in several international franchise markets in which the company operates such as the Middle East, Russia and Ukraine pose a threat to both franchise receivables and on the company's development in these areas (Marks & Spencer, 2015).
- Increasing terrorism attacks across Europe are also impacting consumer confidence and retail spending (Marks & Spencer, 2016). The company's food and clothing and homewear stores are often located in locations that are attractive as targets for terrorists due to the large footfall and whilst there has been an increase in safety measures, the latter

can also alienate customers if, for example, screening or security measures are implemented (Whitehead & Foster, 2015).

- The economic uncertainty prior to and after the Brexit referendum has already posed a threat to M&S – in addition to the impact that was immediately felt, such as a decrease in the buying power of the pound, the vote will have an impact on product imports in ways that will probably make the retailer restructure its supply chains (Reuters, 2016). In addition, with regard to the free movement of people, work visas or residence permits would be required for both UK citizens working abroad and EU workers employed in the UK. It is estimated that currently the latter group comprise close to eight per cent of the workforce in the UK's M&S stores (Dentons, 2016).



Source: Reuters, Image by unknown

D. Value Chain Analysis

A value chain analysis is a strategic tool use to identify the activities in and close to an organisation which lead to the creation of a product or a service. They consist of the following:

1. Inbound logistics

Inbound logistics concern the transport, storage and delivery of goods coming into a business. With the launch of the company's Plan A in 2007 and having won the GBS supply chain award for implementing a truly disruptive supply chain (Purt, 2012) the company is ahead of its competition as regards the social and environmental impact of its business. Its 180 supply chain-related targets backed by financial incentives for its buying teams include ethical trade, energy efficiency and sustainable sourcing and are helping make M&S 'the world's most sustainable retailer' (Purt, 2012).

Further, the company has decreased its former dependency on full-service vendors (FSVs) and provided more corporate control of its supply chain. It is expected to source sixty-five per cent of its inventory from direct vendors (O'Reilly, 2010).

2. Operations

M&S has invested in a multitude of sub-brands, in-store bakeries and an improved in-store customer experience, thus meeting the changing needs of its consumers (Marks & Spencer, 2016). However, in 2014–2015 the company experienced difficulties in marrying its online operations and distribution from its Castle Donington centre. This resulted in customers cancelling delayed orders (Butler, 2015). Further investments are being made in GM IT systems and a logistics network with the aim of delivering better supply chain flexibility and customer availability. At the end of 2015 the company had to temporarily shut down its website due to a security breach (Curtis, 2015) and in 2016, poorly integrated IT systems in the company are still being experienced.

3. Outbound logistics

Outbound logistics concerns the transport, storage and delivery of goods going out of a business. M&S has multiple channel operations and allows customers flexibility in terms of order and

delivery options, including online shopping.

Following the appointment of Mark Bolland in 2010, the British retailer has accelerated a programme of making its supply chain more efficient by targeting \$280 million in savings by 2020. The company has closed its smaller regional warehouses and in 2010 it opened a super warehouse in Bradford. It is expected to launch a redeveloped Bradford National Distribution Centre in 2016 (Marks & Spencer, 2016).

In addition, in 2009 the company set annual recycling targets (Waste Management Word, 2010) and in 2012 achieved zero waste to landfill (Russell, 2012).

4. Marketing and Sales

The marketing strategy of M&S is to emphasise the quality and style of its products. To modernise, simplify and create a distinct brand across its various offerings, in 2014–2015 the company created a unified storytelling-based brand identity for its food and clothing markets via ‘Only M&S’ while preserving ‘Est. 1884’ thus celebrating its heritage (Swift, 2014). M&S is investing in its digital development which is evident through the launch of marksandspencer.com in 2014, engaging with 2.6 million people via social media, platforms and social media websites such as Twitter, Instagram and Facebook (Ratcliff, 2014).

The company has traditionally invested in TV and magazine advertising as well as in-store visual merchandising. Recently it has utilised its customer loyalty data to organise targeted marketing and promotional activities and focus on high-impact promotions, which result in better value for customers and increased sales (Spencer, 2015)

5. Service

Despite several setbacks in its in-store service, such as an increasing number of out-of-stock items (Ruddick, 2016) and online service (Curtis, 2015) M&S is investing in customer service. In its clothing business, it has introduced free delivery for purchases above £50, free next day store collection and free returns by post or in store up to 35 days after purchase. In its food sector, the company has introduced staff zoning across food halls and is increasing the number of staff in the store on an ongoing basis.

III. Conclusion

M&S is one of the leading UK retailers of food, clothing and homewear with 1382 stores all over the world. Since starting in 1884 the brand has been the epitome of quality, style and increased investments in product innovation (Marks & Spencer, 2016). However, despite its successful specialist positioning,

Beginning in the 1990s and more recently as a result of the recession in 2009, the company has faced both a decrease in sales as well as increasing competition from online retailers, discounters, fast fashion brands and others in both its clothing and food businesses. The former, once the flagship of the company, has suffered a considerable decrease in its market share over recent years and reached a ten-year low in terms of sales in the second quarter of 2016 (Davey, 2016).

In addition, the recent Brexit vote is likely to have a substantial impact on the retailer in both its home stores and abroad. Weakened consumer confidence and a decrease in the buying power of the pound have already had an impact on sales growth, whilst the decision is expected to affect the retailer in various other ways in future years. It may need to restructure its supply chain once it loses access to the EU's open market and UK citizens working in stores in the EU as well as EU nationals employed in UK stores may be affected when the freedom of movement of workers is no longer applied in the UK (Dentons, 2016).

The company is facing serious macro- and microeconomic issues despite its strong brand, solid positioning in the food business, and ongoing innovation in the digital transformation of its operations as well as the implementation of Plan A, its social, environmental and ethical business strategy. Whether the company is well enough prepared to preserve its spot as the leading food and clothing retailer in the UK market and abroad remains to be seen.

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