

Business case study: marks and spencer



**ASSIGN
BUSTER**

Marks and Spencer:

Marks and Spencer is a well-known retail company. The business that I have chosen to do is well known in the UK retail. Famous for setting the highest of standards in the retail industry, pioneering its own charge card and generating such snob value on its products, yet controlling prices to bring their products within most people's reach. Marks and Spencer has extended its brand overseas where it continues to achieve substantial growth. This is likely to be its main source of growth in the near and long term future as the company develops its franchise business.

Marks & Spencer (M&S) was one of the world's great retailers, enjoying legendary and iconic status, being often held up as one of the best managed and admired businesses in the world (Mellahi, Jackson & Sparks, 2002)

They are spread across many locations worldwide. The company also makes great weight of how it is run – first class customer service, operating efficiency (through economies of scale), long-term partnership with suppliers, financial services, staff remuneration and overall packages the best in the high street. Following a wide-ranging and detailed strategic review of its business, the Board of Marks & Spencer has announced significant changes to the Group strategy and structure.

The Board and management team is committed to restoring profitable growth. This will be achieved by total focus on the recovery of the UK Retail business.

Marks and Spencer always have the objective of gaining market leadership and there are substantial fluctuations about their position in the market. According to exhibit 1 it is understood that M&S has occupied 26% of the market share followed by women's wear, men's wear and children's wear at an average share of 11%. The categories M&S trades also have made a prominent place in the market (BBC news)

Case Analysis and overview

Nineteenth century is when the roots of Marks and Spencer laid by Michael marks starting with 5 pounds as a pedlar around Yorkshire villages. Within 2 years Marks was able to set up his first stall in Krikgate and in the next 4 years he had set up a series of penny bazaar. Tom Spencer joined Marks as a partner in 1894 and that is when the birth of Marks and Spencer took place. With multiple growths and achievements M&S had formed a limited liability company by early 19th century, soon after few years Spencer died and then Marks. That is when the concern of M&S raised within the board members. Simon Mark was made a director and he became chairman of M&S in 1916 until 1964 during when the company had prospered and floated in London stock market. Company have added many new inventions to it list like adding new fresh fruits and vegetables list, range of clothing & household items and opened its first departmental store.

M&S has the history of maintaining symbolic relationships with their Suppliers throughout the journey for decades. Due to M&S volume of business, longevity, preferential supply, low process and flexibility have made the supplier relationships last for decades. These activities of M&S helped to keep the UK textile industry not just alive but prosperous. Simon

<https://assignbuster.com/business-case-study-marks-and-spencer/>

Marks laid down five guiding principles of M&S success to offer customers a range of high quality, well designed at reasonable prices, to encourage suppliers to use modern techniques, to get supplier cooperation to enforce highest standard of quality control, to plan the expansion of M&S stores for better visual merchandising and to maintain good human relations with suppliers, customers and staff.

Sir Richard Greenbury took over as a chairman of M&S in 1991 when Britain was in the recession since the 2nd world war. Over years Greenbury had performed nearly every job in M&S and brought it into a successful standing place in the British retail industry. The issue of Corporate Governance is raised when the Sir Adrian Cadbury report is released of all public limited companies where at M&S the executive power had traditionally resided with the chairman of the company. Keeping them apart Greenbury had made many innovations to business with number of achievements by switching strategies in business. As there will be strike back for every growth, M&S also had to face it by late 1995 due to differences in board members and imbalanced corporate governance form in the company. Greenbury was involved into other government activities and also have marital issues in his personal life, which made him difficult to look at M&S business like before.

Supply chain problem started coming out from globally placed stores as the suppliers remained same for international supply which will be discussed in detail in the later part of the report. Greenbury appointed Peter Salsbury as the Chief Executive of the company which is when the direction of M&S changed its way. The directions lead to cost cuttings, changes in suppliers, terminating few supplier relationships followed by drop down in share prices,

profits, sales and finally customer confidence for M&S. Though some improvements were bought by Rodger Homes who was appointed under Vandevalde as non-executive chairman, like closing down couple of international stores and adding new brands to the collection of merchandise, major changes were yet to be placed in M&S that make difference to the business and reputation. That is when M&S is offered for acquisition by Sir Philip Green.

Sir Stuart Rose was appointed as the new Chief Executive after Homes left in M&S. One of the first meetings by Rose was with buyers and then with suppliers and all as an initial move. The steps of rose moved towards improvement quickly which gave confidence to M&S and declined Greens bid. Rose was able to solve all the burning issues like excess stock and suppliers prices. Kate Bostock was hired as women's wear director and identified number of gaps in women's merchandising and considerably worked hard to close them. Company started participating in Corporate Social Responsibility activities as a part of marketing approach along with Sharp that continued to keep M&S prosperous.

Exhibit 3 describes the supplier relationship with M&S and various leading British companies, where the M&S has close collaboration with suppliers with a medium product ranges.

Risks occurred in M&S due to changes in nature of relationships with suppliers prior to Sir Stuart Rose

The risks occurred in Marks and Spencer's prior to Sir Stuart Rose due to changes in the nature of relationships with suppliers have led to heavy

impact on the organizational operations. Relationship between the buyer and supplier plays a very vital role in the performance of any organization.

According to Carter, J. and Narasimhan (1996) a number of studies are also published concerning the importance of strategic purchasing.

Supply Chain Management refers to the process of how products are designed, sourced through an often-complex network, manufactured and distributed from raw material to the end customer (Smock, 2003).

The position presented here is that proactive supply management is qualitatively different from reactive supply management. Also, it is more than integrative procurement management and more than strategic purchasing management. Proactive supply management is concerned with a significant additional issue: risk management (Larry R. Smeltzer and Sue P. Siferd, 2006). Supply chain strategy is aligned with purchasing strategy and integrated with manufacturing strategy. Purchasing strategy involves effective strategic sourcing and transaction management between organizations and suppliers which will lead to good supplier relationship management.

Purchasing Strategy [Online image]

According to Charles Scott and Roy Westbrook (1991) the most important is perhaps the extent of dependence on the chain. There are two dimensions in any customer/supplier relationship – first, the relative importance of the customer to the supplier's order book and second the relative importance of those suppliers to the customer's purchased materials. Supplier independence has typically been seen as desirable, global competition is

<https://assignbuster.com/business-case-study-marks-and-spencer/>

now forcing organizations to collaborate in order to compete. Typical Western attitudes to purchasing have to be revised. These attitudes assume that there are numerous suppliers who need to be monitored closely and who can be changed at will, rather than fewer suppliers with whom a customer, whilst still demanding high standards of performance, can collaborate.

The changes occurred within M&S supplier relationships are the major reasons that gave birth to risks in the organization:

The impact of Globalization of M&S's supply base, demanded cost reductions within the organization due to its centralized supply chain system.

Inability of domestic suppliers to compete with meet the international product needs of the M&S.

Insufficient response and coordination between domestic suppliers and international markets lead to disappointments of fashion conscious M&S customers.

Termination of companies 30 year old relationships one of the textile manufacturer that resulted in closure of 16 factories and the loss of 4, 500 jobs

Sudden decrease of orders to domestic suppliers to reduce international operations costs.

Multiple approaches by M&S to reduce costs on the material resulted in inconsistent trust within the suppliers, due to which loss of another textile manufacturer with a long-standing relationship with M&S.

As an overview from all the above details it is understood that there are 3 major changes that took place in M&S prior to Stuart Rose they are

Cost concerns/transaction costs

Impact of Globalization of M&S of supplier efficiency

Termination/loss of long-term supplier relationships.

Risks occurred due to changes in M&S and analysis:

Cost Concern/transaction cost: The attempt of M&S to reduce the costs that are involved in supply of materials had a great impact on the relationship between buyer and supplier. A cooperative relationship between suppliers and buyers refers to the process of working together, over an extended period of time, for the benefit of both firms, that discusses the importance of costs economics and its role in buyer-supplier exchange relationships (Ring, P. S. and Van de Ven, A. H., 1992). At this rate assessing and identifying the risk in such circumstances becomes extremely important, that occurs due to multiple negotiations in costs with the suppliers.

Marks and Spencer once had a very close relationship with its suppliers. This partnership had been run near a centenary, and led Marks and Spencer became the UK largest retailer. This relationship also allowed Marks and Spencer “ to lead the way with innovative new products.” (Martin Christopher and Helen Peck, 2001)

<https://assignbuster.com/business-case-study-marks-and-spencer/>

This close partnership started collapse when the aggressive overseas sourcing strategy that forced the suppliers to relocate their production line. The collapse went further south when Marks and Spencer increased its force to urge their supplier to cut their price further, to retain Marks and Spencer's own profit.

Marks and Spencer needs to re-establish its strategic alliances with the suppliers. Marks and Spencer's top level commitments is essential, as well as the "Trust" between suppliers and Marks and Spencer. Because the sharing of information, even those be called as confidential, and the shift of the power.

Challenges faced by M&S by moving from UK sourcing to international sourcing

Marks and Spencer was heavily reliance on the UK suppliers. Although it had reduced the proportion of local source, it was still the main sourcing location. The strength of Marks and Spencer was in supplying the middle classes with good quality, fairly conservative clothing at sensible prices. In other words the challenge was to find ways to enhance consumer value. Marks and Spencer's response to this was to reduce its cost-base by forcing that its suppliers source more of their products from locations where labor costs are low. " First suppliers were warned of the need to become more price(s) competitive. Inevitably this would involve switching a greater proportion of production overseas. M&S had already indicated its intention to reduce UK sourcing, urging its largest suppliers to relocate production to local companies.

The potential for cost reduction through this process was impressive, at least theoretically.

First of all the problems of overseas sourcing for Marks and Spencer is that there is a real risk that replenishment lead-times maybe significantly extended.

Secondly, overseas sourcing to low labour cost location has to take the potential risk of low quality and less efficient working practices. Due to the education level of the low labour cost countries are usually low, the concept of quality are low. Also, the efficiency is not high due to the absent of the techniques required.

The third problem among overseas sourcing is the resistance from the supplier. As mention above, overseas sourcing involved huge investment, not each and every supplier can afford

The Forth problem is the textile import quota and the protectionism. Marks and Spencer's favoured location Sri-Lanka had the textile import quota, which must be considered before sourcing to there. However, no one recognized until the quota of the year was used up by June. This led the customs declaration issue more complicated. Additionally, overseas sourcing increased the risk of stock level fluctuation due to the long pipeline time and fast moving markets. Marks and Spencer had experienced both over-stocks, and stock-outs problem was particularly acute...due to poor availability

The last but not least, overseas sourcing obviously needs to lay off some local labours and cull the uncompetitive suppliers; result in poor ethical image or, more serious, legal action from the supplier.

After the dropped of one of Marks and Spencer's "big four" supplier William Baird the lack of confidence among the suppliers will have heave impact on the production. In fact, with sufficient preparation, overseas sourcing is the most popular and efficient way for low-cost sourcing. There are a series of steps Marks and Spencer can take to substantially reduce the risk of something going wrong. Here are some general guidelines:

Eliminate the replenishment lead time

It is possible to lessen some of the risks by spotting the geographically closer low-cost source locations, for UK-based Marks and Spencer. Morocco and other Eastern Europe countries such as Romania and Poland were the possibilities and to some extent Marks and Spencer and it suppliers were looking into this. Also the use of air freight rather than surface can significantly reduce pipeline time.

However, there should be a unique management process to monitor across traditionally separate activities such as customs, freight forwarding, surface transportation and production scheduling.

Establish and maintain good communications between Marks and Spencer and the suppliers.

As mention in "the Reason of Current Situation", Marks and Spencer need to improve its communication network. Though it may seem time consuming,

ongoing communication is the foundation for successful consignment of the relationship, which can minimize the conflict. The affect will be obvious.

Maintain update with the local restriction

Without the understanding of the local restriction, such as import quota, labour law, and transportation restriction, overseas sourcing will disturb the success. Marks and Spencer had paid for it.

Enhance the quality and the efficiency

Quality assurance processes must be introduced along with the overseas sourcing. These processes although must involve massive of training, expertise of quality assurance, plenty of time and, no doubt, noticeable among of money; the result is worth.

Planning and negotiation

Marks and Spencer had paid a huge among money for compensation claim due to the overseas sourcing result by cutting off one major supplier. The dropped was in short notice. They did not have any negotiation beforehand, which resulting the legal action from the supplier. Actually negotiation can minimize the impact, and eliminate the drawback of company's public image.

M&S's approach to purchasing under the leadership of Sir Stuart Rose

Purchasing has become more interesting and important to managers and researchers in the 1990s. And the definition will have limited utility unless it facilitates measurement of strategic purchasing (Kerlinger, 1973). Sir Stuart Rose has many implications when started to streamlining purchasing division

in M&S. He initially found to have identified the overstocking issue under the previous leadership. According to purchasing portfolio index developed by Kraljic (1983) the strength of the company can be determined basing on the supply market strength (exhibit 2).

Ammer (1989) indicated the status of purchasing in the firm is related to the level of strategic purchasing because only purchasing functions viewed as strategic will be integrated in the firm's strategic planning process.

According to the purchasing model by Smeltzer (1997) there are levels in applying a purchasing model at an organization that includes status, knowledge and skills, risk involved in applications and Resources required.

Strategic purchasing model (Larry R Smeltzer 1997)

Status

Levels of strategic purchasing

Knowledge and skills

Risk

Resources

M&S was in a unique stage of purchasing when Sir Stuart started with his part in M&S. The approaches towards purchasing in solving the stock issues by Rose are:

Excess Stocks: Immediate implementation of sales days in M&S have reduced the stocks up to an extent and cash re-injected into business. The attempt was majorly to pull the customers back into the stores.

Brand Image: 1) The strategy of developing a brand image to strengthen the personal association with many British customers, for which Rose along with Steven Sharp launched a series of television advertisements focusing on the quality in food divisions in M&S. 2) Introduction of advertising campaigns for 'every woman every time' mantra in women's wear.

Women's wear: 1) Considerable gaps in women's wear stocks like lack of appropriate sizes, and fashion is identified to be addressed immediately by Kate Bostock. Half of the merchandising team in women's wear is replaced. 2) Shorter lead times were introduced after discussing with suppliers to ensure that customers get updated fashion stock every seven weeks. 3) Introduction of fast track system for high fashion items. 4) Introduction of buying academy to train the buyers, selectors and merchandisers and appointed new design executives.

Corporate Social responsibility: Launch of plan A- that could make M&S carbon neutral, stressing the paramount importance of environment within M&S's thinking. It is an attempt to revolutionize the way M&S's products are manufactured and sourced, which is very well received by public.

Conclusion:

To sum up, regarding our experts' voice, Marks & Spencer became now one of the UK's leading retailers again because they have had several strategic responses to business difficulties by improving the quality of food, concerned

more about hygienic and sanitation, launching new brand with new design of clothes and try to enhance quality and value of products as well as attempted to improve cosmetics quality with reasonable price. Moreover, they provide selection of financial services and changing the way of payment by accepting credit cards now. Furthermore, they offer a variety store to provide a great deal of alternative for customers along with lift up employees' performance by increasing their income. It might be concluded that Marks & Spencer tried to eliminate every aspects of products' and services' weakness until they could reach customers' satisfaction again. It might be that the continued success of Marks & Spencer depends on the attempt to improve their goods and services.

Appendices

Exhibit 1

According to the latest survey results the market leadership by Marks and Spencer are as mentioned below:

Exhibit 2

The purchasing portfolio matrix: Kraljic (1983)

Exhibit 3

Supplier relationship grid