

Marks and spencer group plcs corporate governance report



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This is a financial report on Marks and Spencers Group plc which was generated in order to assist potential investors in making their decision. To achieve this we will be analysing Marks and Spencer Group plc's annual financial reports. We will be calculating relevant ratios which will help us to determine how successful the business is. The ratios will also give us an idea of the strengths and weaknesses for the business. The report will conclude with a recommendation to our client to give them a clear idea on whether or not they should invest in the business.

Company Background

Marks and Spencer's is one of the UK's leading retailers with around 21 million people visiting their store each week. The company offers a range of products like clothing, home products as well as quality food. It employs over 78, 000 people in the UK and abroad and has over 700 UK stores and 361 stores in more than 40 countries, with an expanding international business. Marks and Spencer's Group PLC was founded in 1884 by Michael Marks and Thomas Spencer in Leeds, England, UK.

The duo first started trading off trading as open market stall in many locations around the North West of England. M&S, made its reputation only in the 20th century by selling goods made in Britain. They entered into a long term relationship with British manufacturers selling products under the " St Michael Brand". In the year the 1926, they became a public limited company. In the year 1957 the company started a stocking size measuring system. The company main importance was on the quality of their products. The company has a reputation for providing customers products with a good value for money. Their dedication to customer relationship was

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communicated by the slogan in the year 1953 “ the customer is always and completely right”.

The business Marks and Spencer’s is known to be one of the number one providers of women’s wear and lingerie in the UK, and are said to be growing in Market Share for Menswear, Kids wear and home wear products, with a growing online business. Marks and Spencer’s clothing and home ware sales account for 49% of the business and the other 51% of the business is in food. The business is also known for its green credentials because of the five-year eco plan put in place by the company, this plan will allow the company to become more carbon neutral and cut done on landfill by the year 2012.

(Annual Report, 2012)

The business Marks and Spencer’s PLC, has set out a strategy in the November of 2010. It’s a three year plan that can transform Marks and Spencer PLC into an international, multi-channel retailer. The businesses first priority from 2010 to 2013 is to focus on improving the UK market. They want to achieve this by developing the Marks and Spencer’s brand, improving their stores, focusing of the clothing, Home and Food range of the company. They also would like to improve their Multi-channels methods of doing business. The company has already improved their online traffic on the business website with an average of 3. 4m visitors weekly. However, they plan to improve their shopping experience for their customers. Other than this the business also has a strategy to transform M&S into an international, multi-channel retailer so that they would not have to depend on the UK economy as much. They are meeting this target by opening new stores in

different parts of the world. They are planning to do better to concentrating of markets like India, China, Russia and the Middle East. (PlanA, 2012)

The main competitors to the business Marks and Spencer's are Debenhams, John Lewis, Waitrose, Wm Morrison. Sainsbury, Tesco, ASDA. However, their competitors also diverse in many other services like electronics and other goods. They still are ahead of their competitors as the business competes with them in terms of providing services like M&S banking, Restaurants.

Corporate Governance

Corporate governance is a system of rules, practices and processes by which a company is controlled. The purpose of corporate governance is to balance the interest of many stakeholders in a company which include the shareholders, management, customers, suppliers, financiers, government and the community. (Investopedia, n. d.)

Marks and Spencer Group plc's Corporate Governance Report

The board's objective to build a sustainable business through consistent, profitable growth and to make sure that the business acts responsibly in meeting the businesses accountabilities to shareholders and its wider stakeholders. Marks and Spencer follows the governance principle in the UK Corporate Governance Code 2010 that applies to all UK companies that are listed on the London stock exchanges. The governance report states that the company has complied with all provisions of the code. The company's governance principles include Engagement, Accountability, Effectiveness and Leadership.

Board of Directors

The role of the board is to effectively operate the day to day activities of the business and be responsible for the success of the company. The board as specified in the governance report has to provide entrepreneurial leadership for the company within an outline of careful and effective control. The board is also responsible for setting up the company's strategic aims and also ensuring the company has necessary financial and human resources in order for the company to meet its objectives. The board have to ensure that the company's obligations to its shareholder and other investors are met by them.

Committees appointed by the Board

The different committees formed by the board of directors are the:

Audit Committee

Nomination Committee

Remuneration Report

Audit Committee

The Audit Committee comprises four independent non-executive directors Jeremy Darroch (Chairman), Martha Lane Fox, Steven Holliday and Jan du Plessis. The Audit Committee met six times during the year and private meetings have been held separately with the external auditors and internal audit after each Committee meeting. The main role of the audit committee is

to focus on risk profile for each business unit and review what actions have to be taken or processes put in place to manage or mitigate their risks.

In 2011/2012 the progress made by the company includes improved risk management. This led to a better understanding and awareness of the business main activities and higher engagement of the employees. The committee aims to continue to assess risk, risk tolerance and risk appetite with the business in the next financial year. The committee also developed and implemented an anti-bribery policy following the bribery act that has come into force. These will be managed by the each department within the business and reviewed annually by the internal auditors of the business.

Nomination Committee

The main role of the nomination committee is to select potential candidates to succeed existing directors in the business. In the year 2011/12 the committee was able to appoint two non-executive directors Vindi Banga and Miranda Curtis. They considered a wide range of criteria's in terms of choosing the right people who can support the company in their aim of becoming an international multi-channel retailer. The committee also took into account the advice of external consultants as well. The new members were also given extensive induction programmes to ensure they have a good understanding of the business and its future goal.

During the meetings the board of directors did several changes to the Committee composition as well such as the appointment of Jan du Plessis as Senior Independent Director. In addition to this, members of the committee of Marks and Spencer Group plc reviewed their succession planning and <https://assignbuster.com/marks-and-spencer-group-plcs-corporate-governance-report/>

focused on greater engagement with main managers with non-executive director-only meetings.

Remuneration Report

The role of the Remuneration Committee is to propose a senior remuneration strategy and framework, which guarantees a good financial and commercial health of the business. Their job also includes making sure that the directors and senior managers are fairly rewarded for the contributions they make to the business.

During the year 2011/12 some of the activities carried out by the committee were an annual review of the bonus scheme and all executive directors' and senior managers' base salaries and benefits. They also analysed the director shareholding guidelines and achievements for each directors. In addition to this the performance measures and targets for 2012 Performance Share Plan awards as well as the committee performance in 2011/2012 were evaluated.

(Marks and Spencers Plc, 2012)

Ratio analysis

Ratio analysis is a method which is used to estimate company's strengths and weaknesses. It is used by managers, shareholder, investors, etc. It enables the user to make comparison and can provide insight into competitive position. (Yeap, 2013) We have conducted a ratio analysis for Marks and Spencer Group Plc. The profitability, financial gearing and investment ratios for the last 5 years were calculated and included in the analysis.

Profitability ratios

Profitability ratios are used measure if the organisation is able to reach desired profit levels. (Yeap, 2013) We can identify from the conducted analysis that in 2009 Marks and Spencer had its ratios changed drastically. The cause of this was the recession which began in 2008. However, it managed to recover and started to improve in the following years. (Marks and Spencer 2009, 2010) We can assume that all of the profitability ratios were quite stable after the economic downturn in 2008. There are four types of profitability ratios that proved the statements above-gross profit margin, operating profit margin, net profit margin and return on ordinary shares.

Gross Profit Margin

The gross profit margin is calculated gross profit divided by sales revenue. This is the percentage by which the gross profit exceeds its production cost. Although the percentage of the gross profit margin for year 2012 is slightly lower than 2011 it's still high and this means the company in control of their costs.

Operating Profit Margin

This margin shows how much profit the company obtains after paying their operating costs. The highest operating profit margin was achieved in 2008 before the recession with 13. 4% compared to 2012 which is only 7. 5 %. This means that Marks and Spencer is making lower profit.

Net profit margins

This margin measures the profit which is made by every pound earned. We can see that the percentage of this ratio is quite low for the last year for Marks and Spencer Group Plc. and every 6 pence of every pound is profit compared to the 8 pence in 2011.

Return on ordinary shareholders' funds

The return on ordinary shareholders' funds estimates how much are the company's profit and also how much of it is paid to the shareholders. We can identify that this ratio was 24.4% in 2009 compared to the 42% in 2008 which is nearly the half. The percentage for 2012 is lower by the one in 2011 but it is still high as overall.

Financial Gearing ratios

These ratios help to assess the company's ability to handle its financing. (Yeap, 2013) The types we used in our analysis are gearing ratio and Interest cover ratio.

Gearing Ratio

The higher the gearing ratio, the higher the risk that the company can go out of business. (Yeap, 2013) However, by the calculations we have done it is obvious that this ratio is lowering every year so this means the company is improving. And if we compare the 5 years there is about 20 % difference between year 2008 and year 2012.

This ratio is used to measure how easily an entity can cover their interest expenses for their debts. The percentage of this ratio is quite low for Marks

and Spencer Group Plc. and that means the company is having lower operating profit. But after the recession in 2009 when they had only 4.1 higher operating profit they have been improving their finances and in 2012 reached 5.5 times.

Investment Ratios

Investment ratios are used to evaluate the investment potential and also they help shareholders to measure the returns on their investments. To do analysis we have calculated earnings per share and price to earnings ratios.

Earnings per share ratio

Earnings per share ratio is a good tool used by potential investors to assess firm's performance. It indicates the potential returns on investments. We can see a slight lowering in this ratio for Marks and Spencer but compared to its competitor Sainsbury's which have 28.1p it is still high.

Price to earnings ratio

This ratio reflects investor's expectations for the future performance of the company. As for Marks and Spencer Group Plc. we can estimate a gradually increasing percentage. It has grown by 2 times more since 2008 with the 11.7 times in 2012.

Strengths and weaknesses

Strengths

M&S provides the highest standards of quality; it understands customer's preferences and trends of elderly customers. According to the Mintel report

(2009) there is a shift to shoppers buying quality products rather than buying large quantity, which is about 27%. It also states that 72% of M&S clothing offer in the better or best price brackets, M&S has maintain its reputation by still continuing to offer a higher quality products to its loyal customers.

Bunston (2008) stated that products element of M&S marketing mix is one of the strengths of the company. This is because M&S has the strong reputation of providing high quality both in food and clothing products.

M&S has a popular brand name which is well known all over the world, St Michael is another asset to the company as high quality products have been delivery in the past under this name. It has built strong reputations over the years and by embodying quality, value-for-money and practicality M&S have managed attract many people and have promoted customers loyalty.

Customers' willingness to spend on products e. g. foods, this has played a significant role on M&S strengths. The food business remains its top strengths as it has continued to be very successful in a competitors market; e. g. their Simply Fuller Longer and Count On Us brands are now the number one and number two UK healthy eating brands. Their food business sales increased by 3. 9% and market by 3. 8% despite continuing the inflation pressure (Annual Report, 2012) Customers have the trust on M&S that they are getting something truly special and they turned to trust the retailers, especially for important occasions; therefore M&S continuing to innovate and expand to their healthy eating ranges. (Annual Report, 2012)

Markets and Spencer's stores are located on well-known high street e. g. Oxford Street, which are highly populated, hence suitable for lunchtime and

convenient market. It allows online shopping 24/7 and first class delivery reaches to customers within 24 hours.

Weaknesses

Marks and Spencer's is said to be an expensive place to shop at and has a lot of competitors such as BHS that targets women aged between thirty-five to fifty-five just like Marks and Spencer's. Because of their high prices during recession not many of their products were able to sell out. (Rose, 2004)

Marks and Spencer's do not have a wide range of products in the food department as well as the beauty department which lead to unsatisfied customers. They mainly sell food made by M&S which means certain products that may be a favourite to many customers such as Kellogg's or Cadbury won't be found or not much of it at their store. (Coppock, 2006).

Therefore, Marks and Spencer's should start to sell a range of different foods which can help to target a wider range of audience. If they were to sell 'halal' or kosher food then this could mean more Muslims/Jews being able to come and purchase food from there. (Coppock, 2006).

Also, customers want to see more of a range of their beauty products as they do not have much which means they could be losing out on potential profit.

Therefore, marks and Spencer's are planning on opening up beauty shops in more than 50 of its 180 stores. (Dailymail, 2013). When having a range of other competitors that provide a range of products this makes it a big threat to Marks and Spencer's. This is because customers may decide to shop elsewhere as they may find everything they want in one store rather than shopping in many stores making it time consuming for customers.

(Telegraph, 2004)

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“ M&S customers have been promised revamped clothing range, with “ sharper pricing”” (Dailymail, 2013). As shown by this quote Marks and Spencer’s are aiming to produce a wider range of clothes which will help suit their customer’s needs and wants as well as making the prices satisfying to both the customers and their company. Clothing wear is the main area which enables Marks and Spencer’s to have substantial future growth. (Rose, 2004). Therefore, Marks and Spencer’s have to improve upon this area as to many customers it was felt that it didn’t meet their needs/wants. (Dailymail, 2013). By promising their customers a revamped clothing range, Marks and Spencer’s will also be launching a sub brand designed by George Davis who launched the George clothing in Tesco and Asda. (Dailymail, 2013). They will have to do this as they are surrounded by many competitors so they must ensure they are able to give what their other competitors are giving and more. Marks and Spencer’s need to ensure that their clothing is more fashionable for their young consumers therefore they should improve their designs, styles and colour to show everyone’s own personality.