A porters’ five forces analysis of the marks and spencer

In this report we are going to be looking at the Marks & Spencer ‘; More’ credit/store card using one of the tools given to us in the Business Policy classes.

The ‘; More’ card is the evolution of the Marks & Spencer chargecard. It was introduced to give users more freedom with their purchases and rewarded customers for purchases within and outwith Marks & Spencer stores. Ultimately the customer received loyalty points which eventually amounted to vouchers which could be redeemed against purchases in M&S stores. The card was launched on 6th October 2003 with a massive advertising campaign to support it.

We will be examining the ‘; More’ card using the Porters Five Forces Model (as shown below)

We will discuss each element in turn and show how they relate to the ‘; More’ card.

The Marks and Spencer ‘; More’ Card, albeit a new product itself, is at constant threat from new retailers or existing retailers coming into the market by launching store cards similar to that offered by Marks and Spencer. We will discuss later in this report the threat of substitution with other store cards already on the market. In this section we will look at potential entrants and the barriers they may face.

The obvious and potentially most worrying new entrant into the market would be Next who are now seen as one of if not the market leader on the

High Street. They capitalised on the slump that Marks went through in the mid to late 90s to grow and develop into the force they are today.

Other potential entrants into the market are stores which offer a single store card. An example of this would be The House of Fraser. At present they offer a store card and a loyalty card individually. Both cards offer loyalty points with the account card giving more per pound than the loyalty card. The downside of these cards is that they can only be used in House of Fraser stores. The novelty of the & More card is that it can be used as a straight credit card. The tie ups with MasterCard and VISA allows the card to be used anywhere. Extra points are rewarded for purchases made in Marks and Spencer. The introduction of a similar card may be difficult due to barriers which we are now going to look at.

Barriers to entry are more than the normal equilibrium adjustments that markets typically make. For example, when industry profits increase, we would expect additional firms to enter the market to take advantage of the high profit levels. Firms may be reluctant to enter markets that are extremely uncertain, especially if entering involves expensive start-up costs. The barriers to entry discussed by Michael Porter are mostly applicable to goods for sale, for example MP3 players.

However the premise of this report is to look at a credit card so some barriers would not apply. We will look at each the barriers in turn and explain why they are or are not applicable.

The first barrier to entry is Economies of Scale. This is a factor when the market is based on production. Effectively it means that a larger company can say for example buy raw materials in bulk and get a better deal than smaller firms who have to buy small quantities and don’t benefit. It is clear that this barrier would not have much effect on entrants into a credit card market.

The next barrier is The Capital Cost of Entry. As the title suggest, this is the costs associated with setting up and entering a market. This is a very important barrier for potential threats to Marks and Spencer. Marks and Spencer have the finances to underwrite a credit card whereas the Joe Bloggs retailer may not. This is due to turnover and assets available to the firm.

Another barrier would be having Access to Distribution Channels. This is particular prevalent for companies selling goods where there may be restrictions on where you can sell your products. This would not be a barrier to the market as it is in a sense a “ virtual market”.

The next barrier is Experience. It is difficult to break into a market where there is an experienced operator in the market who has good relationships with key buyers and suppliers. Again this would be very relevant for companies involved in producing goods however it is also relevant in the context of our report. The longer Marks and Spencer operate in the market by themselves, the bigger the advantage and more experience then will gain.

The final barrier that we will look at is Legislation or government actions. This is very important for potential entrants into the new card market.

The Consumer Credit Act 1974 requires most businesses that offer goods or services on credit or lend money to consumers to be licensed by The Office of Fair Trading (OFT). Trading without a licence is a criminal offence and can result in a fine and/or imprisonment. The Act also requires certain credit and hire agreements to be set out in a particular way and to contain certain information. This means that any potential new entry has to obtain a licence and make sure that their product, systems and guidelines meet the regulations set out in the Act.

Marks ; Spencer face another threat with their '&More' card, namely, credit cards offered by other alternatives such as River Island, Dorothy Perkins, Burtons, and USC among others. To overcome this challenge, the '&More' card must offer more benefits to the eyes of its customers, so they value it more than the other cards. This aspect of Porter's Five Forces is the element of substitution, or threat of substitutes.

" Substitution reduces demand for a particular ' class' of products as customers switch to alternatives."

Substitution, in this sense, can be in various forms:

1. Substitution of Need – Where a good renders another product redundant. For example, digital cameras do not require the user to go to printing booths and photo agents to get their photographs developed. This saves money and time for the consumer.

2. Generic Substitution – Where goods compete for disposable income, and the providers of that product or service are not necessarily within the same

market. For example, a cinema competes for the customer's leisure time and money, amongst a gym, a comedy club, and an amusement park to name a few.

3. Product-for-Product Substitution – Where a good with higher perceived advantages takes over from another good aimed at the same market. This is the segment the '&more' card is aimed at, and will try to outdo its competitors in.

In trying to compete in the current market, Marks ; Spencer have launched their new '&More' credit card in such a fashion as to try to obtain competitive advantage. The launch itself has been recorded to be the largest credit card launch in Europe ever. The question in the customer's minds is why should they choose the '; More' card over any other credit card aimed at the same market?

The major advantage that Marks & Spencer have is their image. A lot of customers choose to go to Marks & Spencer because the image is associated with product reliability, efficient service, and customer loyalty. To any customer holding the previous Marks & Spencer charge card, the balance is transferred over to the '; More' card without any deductions. One aspect that the '; More' card offers to attract older customers to transfer to the new card, and to obtain new customers, is that it offers one point for every pound spent in Marks & Spencer, and one point for every two pounds spent elsewhere using that card; reward vouchers are sent out at every 100 points gathered.

The store card Marks & Spencer previously offered was beginning to be seen as outdated, and despite any advantages it offered, the scale of customers it attracted was decreasing. Laurel Powers, the new director, brought ' new blood' into the organisation and launched the '; More' card which incorporated a MasterCard / VISA credit card along with the store card, being managed by Marks & Spencer.

They are the only company aimed at the food/clothing market which offers a loyalty card in combination with a credit card, and in trying to outdo its competitors, they offer loyalty points for that card being used anywhere where VISA or MasterCard are accepted.

They still face a threat where customers are hesitant to have a credit card managed by a superstore and not by a recognised bank such as Halifax. Simply having a store card and a credit card, would mean less confusion for the younger market, whereas it is convenient for the older market to have the combination of the two as they are more confident in dealing with bank issues.

" Supplier power is the degree to which the suppliers to an industry have the power to dictate prices, quality standards, delivery lead times and other terms and conditions to the firms that they are supplying." (Page 4, notes/handouts, Term 1, Week 3, 23. 10. 03).

This is contrasted to the power of buyers. " The extent to which an industry's customers have the power to dictate prices, quality standards and other terms and conditions to the firms that they are supplying them." (Page 3, notes/handouts, Term 1, Week 3, 23. 10. 03).

The power of suppliers is quite simply the weight of power that the supplier can put onto the buyer in order to gain a higher price for the product/service that they are selling. Alternatively the power of buyers is the weight of power held over the supplier in order to gain a lower price.

Supplier power could, arguably, be at its greatest when a monopoly is in place. This gives an extreme amount of power to the supplier as it “ does not face any competition from any other firm” in its market. (p23, Pricing in Business, D. C. Hague). A monopoly is “ characterised by the total absence of competition as supply is concentrated in the hands of a single seller, the monopolist” (p6, Business and Prices, Sonkodi). A monopoly entitles the company to sell their product/service at whatever price they deem to be appropriate (or more likely attainable). The firm knows that it has no competition and can therefore sell its product to the market at a high price, assuming that the consumer wants or needs the product.

One of the lowest points of supplier power is where there is a great amount of competition. The more competitors there are in a specific market the less the suppliers can pull their weight. This in turn gives the buyer a greater amount of power. Buyer power is at its highest where many suppliers exist. It allows the buyers to “ shop around” to find the best buy and therefore best suited to what they want to purchase.

When relating these ideas to the Marks and Spencer ‘&More’ Card, we can see that the consumer should have a fairly high amount of power. This is due to there being a great deal of competitors that M&S have to deal with. Many other stores have similar store cards where the consumer can collect points over time by buying more products from their stores.

As shown previously in this report, there is a lot of competition for such rewards cards. This makes the Marks and Spencer’s ‘&More’ Cards more difficult to sell. The buyer has a great deal of power and the supplier (M&S) has only a small amount.