The background of marks and spencers business essay

Business

Submitted toDr. R. Makawa, Dave Andrews

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Critically evaluate the strategies adopted by Marks and Spencer during late 90's

Drucker (1990) makes the point that there will always be change (Lecture notes, 2013). The question is how do you make it work in your favour? Johnson and Collier (2005) states that the success of organisation is often the root of its failure. Marks and Spencer is one of the examples that ran into unprecented troubles at the end of the 1990s. M&S is one of the UK's leading retailers delivering great value clothing, quality food and home products and also the financial services (Kippenberger, 1997). Since M&S is established, the company has made a well know reputation in the retail sector and also has a record of profitability and success. In the financial year (ended 31 march 1998), M&S made a profit of £1. 17 Billion competing Walmart and making itself a profitable retailer in Europe (The Economist, 2001). Later, in January 1999, due to sharp decline in sales and profits, questions raised about M&S management. The focus of this essay is to critically evaluate change strategies adopted by M&S in mid to late 1990's and also the key drivers that were responsible for the decline of company's performance in terms of services and sales. In order to achieve sufficient depth of case analysis & factors that influences change in M&S, the author scans the external and internal business environment under PEST framework (Witcher and Chau, 2010) and by doing resource audit (Johnson et. al, 1999) respectively and identifies the types of strategies followed by the management. Further, the author also analysis what actually went wrong in the organisation and gives substitute ways in which change could have been better managed, using McKinsey 7S model (Witcher and Chau, 2010) and finally, a conclusion follows. Witcher and Chau (2010) argue that the external environment of an organisation consists of the conditions that influence the company to make a change. The author starts with external analysis using PESTEL factors that caused deterioration of company's performance. In case of M&S, Economic, Social and Technological factors were more relevant. By mid 1990's, the high street was changing rapidly. The customers became more fashion orientated and the competitors like GAP and NEXT were focussing to satisfy their needs by offering fashionable and exotic collections whilst M&S was concentrating on more classic and traditional stylings. Further, as seen in video case study and sources, the economic factors that were responsible in decline of M&S includes costs associated with buying 19 Littlewoods stores, overbuying to support expansion, a fall in overseas profits and finally with a notion of not giving discounts to the customers during or end of the season because of which the customers started buying same product (which M&S was offering) from other brands on less price. Recession in year 1998 forced the customers to buy clothes at cheap rates and also no visits to M&S stores resulted in decline in profits. Another idiosyncrasy for loss in profits was technology which M&S was not unable to keep up. Simple schemes like credit cards acceptance were not in place (Paisley, 1999). To analyze M&S's internal environment, the author audits the resources of the company which are needed to survive and prosper in existing market (Johnson et. al, 2009, p61). These includes Physical, Human, Financial and Intangible resources. The information from the written case study and sources suggests that in some instances , M&S did not have adequate resources but on the other hand the resources available to the company were not well utilised. During mid 90’s, M&S owned a wide number of stores worldwide which indicates their strength but all stores were identical in terms of procedures, layouts, design and image which led to limitation of changes according to local changes. M&S staff was not smart rather hard workers. There was lack of skills in buying or outsourcing departments. The customer services were not good at all. The company was more male oriented and due to M&S bureaucratic culture, no good communication was there in between the head quarters and stores. M&S profits were declining from 1998 until 2001 which indicates that the company did not have a healthy sign of cash availability which made M&S to stop its expansion programme overseas . Customer faith and loyalty towards M&S was eroded due to change of market fashion and low costs products. M&S was not having knowledge of management systems like customers and suppliers data base. All these issues led to less customer focused approach than those of its rivals who were majorly focusing on customer demands. Further, as seen in video case study, a proposal was made in year 1997 to remove children products from the smaller stores but Former Regional Manager felt that customers will not be happy. A formal meeting was conducted to discuss the issue but none of the manager spoke against the policy which resulted in drop in sales by 4% in year 1998. Moreover, the decline in sales was not informed to Greenbury and even customer surveys were never shown to him. The senior managers were invited to London for reviewing the latest Autumn 98 collection which was again a shock because the collection was not appealing at all. The selected trendier darker shades were not arranged properly in the collection. The company was already facing loss but to support expansion programme, wrong merchandise was bought. Greenbury is seen as an autocratic leader with command view who brooked no argument and expected other managers to implement his decisions. And finally all these problems resulted in strategic drift (Johnson and Scholes, 1999). Due to doubts aroused about M&S's corporate strategy, R. Greenbury was replaced by Peter Salsbury in November 1998 and asked to stay for at least 2 years as non executive chairman. In January 1999, in order to improve the corporate strategy, changes to M&S management structure were announced. Salsbury had a fresh vision and reduced number of U. K suppliers in attempt to control the financial resources going forward. Management consultants were brought in the organization and traditional buying systems were turned upside down. For the first time in M&S's history a marketing department was set up to take care of customer tastes and demands (Paisley, 1999). In July 1999, Greenbury left the company meanwhile profits were continued to collapse. According to written case study, Salisbury aim was to adopt a customer centric and in order to achieve it; structure was redesigned to reduce bureaucracy. The existing staff was asked to reapply for their jobs because of which the staff loyalty evaporated. Salsbury made a radical change to the organization meanwhile, the profits / services continued to fall. Salsbury was struggling to found real areas of optimism about M&S business and lacked vigorous spirit to run a good retail business. The company was desperately in a need of new chairman who can carry the things forward through his skills (The Guardian, 1999). The written case study mentions that in 2000, Luc Vandervelde of Belgium, an outsider with different perspectives and new concepts was appointed as new chairman, to revitalize the company. Instead of looking at past, he adopted a forward looking planned approach. Vandervelde decided to follow mainly a market penetration strategy as he wanted to give new life to the domestic brand then move overseas. He also split the organization into operating divisions that facilitates the company in being able to recognize which areas are performing well and ensures customer focus through each unit by having dedicated selling and buying teams. New look concept stores were launched and finally credit cards were accepted. Store layouts were changed to align clothes much more appealing to the customers. To refresh the image of brand, the company came up with new message as " Exclusively for everyone" that can make customers think about M&S in a different way. (The Guardian, 2001). Based on the analysis of the company, the author uses Mc Kinsey 7S model to explain what went wrong actually and proposes strategies that could have been followed to manage changes in better way. Waterman and Peters argue that the 7 variables are very important for an organization and most importantly these are interlinked, so it is impossible to make progress in one area without making in others (Witcher and Chau, 2010, p248). These variables are used in identifying what areas were needed to be realigned to improve M&S's performance and also to maintain the performance during other changes. 7 variables are strategy, structure, systems, style, staff, skills and shared values. To start with strategy, In order to regain the customer's confidence and trust, M&S could have used the hybrid strategy which could have been the best option to achieve differentiation in the areas of clothes, food, home and financial services and a price lower than its competitors (Johnson et. al, 2002, p155) which Salsbury did not follow because his main focus was on customers' needs and demands. M&S was in need to change its corporate culture to be customer oriented and dedicated to customer satisfaction which Salsbury and Vandervelde focused by encouraging the decision making environment that was not weight down by hierarchy, i. e. decentralized structure. Moreover, the management of the company was predominantly male (Paisley, 1999). To know customers better, a gender balance in management hierarchy could have achieved. Communication is an essential process that can influence an organisation to adjust in change. Greenbury could have arranged meetings to exchange ideas and review the company executives' commitment to visit stores, talking to customers about their demands and trend, and soliciting suggestions from employees to improve the brand rather than focusing on expansion programme (Hayes, 2007). At the time of Greenbury advertising in News Papers, TV, and Satellite channels were essential to keep up with M&S competitors. All these measures were taken by Salsbury with customer centric approach. An effective and convenient customer opinion and feedback system could have been developed, preferably through the internet. M&S also was in need to focus on the top end of the clothing market but deliver stylish clothes with fantastic value. Greenbury focused on its core customers, slightly old 35-55 and neglected younger ages comparing with its competitors. But at the time of Vandervelde, the brand image was refreshed with a new message. Searching on how the consumer's shopping experience could be improved, Greenbury could have changed the stores environment, by changing the layout, design, separating clothes to make the stores more attractive and enjoyable which can improve customer satisfaction. Most importantly , Greenbury could have understood each store as individual strategic business units (SBU) which would have helped them to compete successfully in the market by focusing on how they could achieved an advantage over competitors and what new opportunities they can create in the market taking care of customers if they are satisfied(Johnson and Scholes, 1999, p12). In terms of systems, E-commerce, the use of web-based ordering system could have launched to reduce the costs. Furthermore, the latest market trends knowledge could have been communicated to the designers and producers through media, so that they can deliver it fast to keep ahead of its competitors similar to Next, Zara, Gap's concept (Hayes 2007). Richard Hyman, Chairman of retail Consultancy Verdict, says:" Basically they were victim of their own success. Being the best as M&S were for so long is bound to foster an element of arrogance and being inward looking" (The Guardian, 2000). The author analysis that instead of improving the existing stores or research existing markets, Greenbury could have found out where the stores were lacking behind. There was also no need of radical changes in the company’s structure which was done by Salsbury; rather he could have focused on the resources which the company was lacking and implementing incremental changes to the organisation. M&S was drifted away from its core values such as consumer care and customer satisfaction. Most of consumers consider M&S to be old fashioned company but to change the company’s image the two charismatic leaders Salsbury and Vandervelde brought a fresh vision to the brand and started working with great enthusiasm. In January 2001, due to again fall in Christmas profits since 1998, M&S was marked as worst performing high street retailer (The Guardian, 2001). . M&S owed to its value for money, good and high quality services which eroded because of wrong management style and decisions. There was no need of new chairmen in the company if Greenbury could have focused and implemented above mentioned changes to the organisation. Finally, the author suggests that to cope up with change in the market and to make an organisation successful, one must do analysis of the market aligning 7S in harmony, then reviewing customer’s expectations and demands, in addition aware of the latest trends and then simply need to make some adjustments with the strategies. Then only, one organisation can have answers to the question " How to make the change work in your favor?"