

Marks and spencer group plc swot analysis

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plc © Datamonitor Page 4 MARKS AND SPENCER GROUP PLC Company

Overview COMPANY OVERVIEW Marks and Spencer is one of the UK's leading retailers of clothing, foods, home ware and financial services, serving 10 million customers a week in over 300 UK stores. The company used to trade

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in over 25 countries worldwide. However, it has been forced to divest much of its overseas operations, including US clothing retailer Brooks Brothers, to secure the viability of its core domestic business. Marks and Spencer is headquartered in London, UK. For the year ended March 2003, M&S posted a turnover of \$13, 219 million (£8, 077. 2 million), a 6% increase on the previous year. The company's revenues were impacted by increases in each of its reported segments: UK Retail, International Retail and Financial Services, with UK and International Retail experiencing revenue increases in the region of 7%. KEY FACTS Head Office Marks and Spencer Group plc Michael House Baker Street London W1U 8EP United Kingdom Phone +44 20 7935 4422 Fax +44 20 7487 2679 Web Address <http://www.marksandspencer.com>

Revenues/turnover (US\$ Mn) 13219. 3 Financial Year End March Employees 67133 SIC Codes SIC 5311 Department Stores NAICS Codes 45211 London Ticker MKS Marks and Spencer Group plc ©

Datamonitor Page 5 MARKS AND SPENCER GROUP PLC SWOT Analysis SWOT ANALYSIS Marks & Spencer is one of the UK's leading non-food and food retailers, offering clothing , home furnishings, food, and also financial services (store cards, loans, unit trusts, insurance). Troubled in recent years and suffering from slipping market share, the company has divested itself of non-core and overseas interests and has begun to show signs of improvement. Strengths Extensive brand width and recognition M&S operates some 300 outlets in the UK in four broad categories: department stores, regional centers, high street and small stores. The group accounts for 11% of UK clothing sales and 4% of the food market. It also has a growing share of the market for home products. All merchandise is sold under a

range of M&S private labels, often sourced through dedicated suppliers. The company operates exclusively in the UK and Eire, with the exception of a few overseas franchise and Asian outlets. The financial services division offers account cards, personal loans, unit trust management and pensions. Supply chain savings

Strengths Weaknesses Extensive brand width and recognition Supply chain savings Food offerings Simply Food Poor performance in smaller outlets Product selection problems Execution errors Overseas retail Opportunities Threats Realignment of stores Improved access to food stores Home market Clothing Financial services threats Competition The Wal-Mart effect

Marks and Spencer Group plc © Datamonitor Page 6 MARKS AND SPENCER GROUP PLC SWOT Analysis M&S is likely to at least match the additional savings (3% of sales or c£100 million EBIT over the next three years) it has identified from the supply chain. Indeed, the company was ahead of schedule at the recent interim results announcement. The location of factories continues to be modified whilst further efficiencies are being gained from centralizing certain activities and better utilization of manufacturing and logistics capacity. On top of this, there is scope to tighten terms with suppliers as these remain below best practice. Overall a reasonable contingency reserve over the 3% is available to the group, which could be deployed in sharper pricing if the market requires it. In addition, any gains in cost ratios would be invested in product specification or selling prices. Food offerings Simply Food The key to the success of the M&S Simply Food format is that it resolves the problem of the accessibility of the M&S food product. Over half the population are more than ten minute's drive from it and this explains the limited deflection from the core estate. More

importantly, the concept appears to be working in a wide range of locations, from suburban commuters' journey's end, BR hubs, market towns in the north that do not justify a Neighborhood store, petrol station forecourts and now a motorway service station test. This suggests that the 150-target store number by March 2006 given by the company (which should deliver more than £500 million of incremental sales) could be raised in time. This also provides valuable learning and extra scale to the core food division.

Weaknesses Poor performance in smaller outlets Half of M&S's clothing space is made up from smaller stores that produce only 60% of the sales density of the larger units. This means that M&S has four million sq ft of under-performing space. This low sales density in smaller stores is the result of structural issues (under investment, increasing competition, footfall drift) and execution faults (erosion of store manager role, inflexible product cataloguing). M&S is attempting to solve these problems through tests that introduce better performing ranges, improve logistics support and update the store environment. Closing half of the gap in sales density between the small and large stores would yield over £400 million of additional sales.

Product selection problems Marks and Spencer Group plc © Datamonitor

Page 7 MARKS AND SPENCER GROUP PLC SWOT Analysis M&S has already expressed its disappointment that it failed to increase market share in the six months to the end of September and that certain product selection problems had been identified within the autumn ranges. The company's admission of these range failures, coupled with lackluster trading reports from other clothing chains, has caused a flurry of media reports that trading at M&S has worsened significantly in recent weeks. The company's profit

estimates now reflect a reduction in clothing sales growth in the second half of 2003 from 3.4% to 1.6%. Execution errors M&S has compounded its own recent problems with execution errors, primarily the gradual erosion of the role of store managers and the rigid approach to range selection in smaller outlets. M&S catalogues these outlets by installing core products (generally for middle/ older customers) first. This is complemented with more fashion/ contemporary/classic lines depending on space availability. There is currently little flexibility and the store managers, being primarily involved with logistics, remain largely isolated from the range allocation process in marked contrast to Next and fashion chains H&M, New Look and Zara (Inditex). M&S's smaller outlets also operate with five weeks' stock cover, to ensure good availability in all colors and sizes. This policy is maintained despite having daily delivery to all stores. In addition, the product profile, with a broadly matched ratio of outfit tops to bottoms, is seriously misaligned with customer spending habits. Overseas retail The company's overseas operations are a shadow of their former selves. When in the disposal phase Marks failed to obtain a satisfactory price for Kings Supermarkets and the latter therefore remains within the portfolio; it is expected that the contribution from Kings will remain approximately static in the future. The franchise operations in Europe and the Far East have made good progress though further out a conservative line on the contribution is expected here as well. Opportunities Realignment of stores The introduction of Per Una into six smaller stores (four more to follow) has generally worked well. The Per Una space delivers an average of 45% higher sales density than the core-clothing offering. This figure is rising and there have been

notably strong responses in certain towns, for example Chester. This reflects the younger pitch to the Marks and Spencer Group plc © Datamonitor Page 8

MARKS AND SPENCER GROUP PLC SWOT Analysis merchandise and the modern shop fit in which it is presented both in marked contrast to the rest of the store. Improved access to food stores The M&S food division's main challenge is to improve customers' access to the product. According to the Competition Commission, few customers are willing to drive more than 10 minutes for a food shop. Over half of the population is outside this for M&S. Neighborhood stores can display the whole range in 10, 000 sq ft but the need for parking restricts planning. The Simply Food format allows the company to access customers that are generally out of the reach of the existing chain. The format is now working in a wide range of locations suburban commuters' journey's end, BR hubs, market towns in the north that do not justify a Neighbourhood store, petrol station forecourts and now a motorway service station test. Home market M&S has not yet been specific on its ambitions for the home market though its intentions have been made clear with the recruitment of Vittorio Radice and an expensive new store prototype at Gateshead. Although M&S has been offering products for the home for many years, it has had difficulty harnessing the core values that underpin its clothing business and has never approached the market share achieved there. Most clothing-based formats have identified home as an area of growth, for example, Next, Bhs, Matalan, House of Fraser and the mail order houses. Similarly, most heavier end chains (eg, Homebase, Argos and MFI) have reasserted it as a core growth area. These, like M&S, have been attracted by a market that is large (around £20 billion depending on

sample, against £35 billion for apparel), fast growing (circa 6- 8% pa against 2-4% for apparel) and apparently fragmented. Against this, it may be helpful for M&S that branded goods have low market penetration, even if this reduces barriers to entry. Clothing For reasons of profits, market sentiment, share price and just about everything else, what Marks really needs is a significant upturn in clothing sales and specifically womenswear, which is where the troubles of the last year have chiefly been concentrated. Marks and Spencer Group plc © Datamonitor Page 9 MARKS AND SPENCER GROUP PLC SWOT Analysis More substantial encouragement ought to be taken from the fact that some of the obvious issues and obvious underperformers within clothing have been addressed in terms of departmental management. Given the lags involved these management changes will take time to have an impact, but they will, hopefully, lead to at least some improvement in the underperforming categories. Threats Financial services threats M&S is attempting to leverage its offering to the highly competitive credit card market. Looking at examples of retailers that have entered the credit card field, the combination of a strong retail brand and competitive credit card offer with wide distribution capability does not guarantee success. It is generally the case that the speed of card take up depends on the attractiveness of the introductory offer, which may reflect discounts on the price of core products and services obviously reducing profit elsewhere in the business. Attempts to offer existing store card customers wider credit facilities can lead to substitution of business, rather than growth in the overall receivables portfolio, while actively soliciting customers to transfer activity from store cards to credit cards can raise marketing and bad debt

costs without generating an increase in interest income. Finally, most retailers operating credit cards are looking to dispose of the portfolios and the value likely to be realized on these sales may not greatly exceed the book value after any securitization.

Competition The major threat facing the company comes from the intense competition that exists in the UK food retailing market. The company has a 4% share of the UK food market, and remains a significant distance behind food retailers like Tesco, Sainsbury and ASDA. The intense rivalry that exists between such competitors has led to a price war within many areas of the food industry. As M&S charge relatively high prices for food products the development of the group's market share is likely to remain a problematic area for the foreseeable future. To make a further impact within the food retail market the company would have to reduce its price to match the current cost-conscious outlook of today's consumer. Such a move would be unlikely as this would move dramatically away from the M&S target market and its required perception to customers.

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The Wal-Mart effect The increasing dominance of Wal-Mart and companies like it are adding to the growing pressures facing the traditional supermarket channel and are also reshaping the interactions between manufacturers and retailers in all markets, including foods, apparel and financial services. Wal-Mart is a very different customer than the traditional supermarket as it offers lower prices and carries far fewer brands on its shelves. This every day low price (EDLP) is one that scares many manufacturers, as it predicts significant compression in profitability and potentially forebodes a significant change in the balance of negotiation

power within the industry. The continued expansion of such companies into 2004 is likely to effect retail sectors throughout the target markets of M&S.