

# Porters 5 forces analysis of marks and spencer marketing essay



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This paper looks at Marks and Spencer (MandS), one of the UK leading retailers and a very successful brand. It examines the environment in which MandS is operating with the help of the PESTEL analysis and then goes on to scrutinise the attractiveness and competitiveness of the retailing industry in the United Kingdom (Porter's Five Forces analysis). Finally, a SWOT analysis is undertaken to highlight the company's strengths and weaknesses and to reveal any opportunities it can capitalise on and threats it may encounter in the process of further development (SWOT).

Marks & Spencer, SWOT; PESTEL; Porter's Five Forces

## **Marks & Spencer: Success and Change**

### **Company Overview**

M&S was founded by Michael Marks and Thomas Spencer in Leeds in 1894 (Marks and Spencer, 2008). It went on to become one of the UK's leading department stores and enduring brands. Through good times and economic turbulence, it remained a traditionally English brand with a focus on quality, value-for-money and practicality. M&S specialises in selling food and drink, apparel and household items, but it has also recently diversified into financial products such as credit cards and insurance. The company was in a difficult financial position in the early 2000s due to problems with its supply chain and poor product offerings. The most difficult was perhaps the year ending March 31, 2001 when net profit was as low as £2. 8m on revenue of more than £8bn (M&S, 2008). However, following the appointment of Sir Stuart Rose as the CEO in 2004, the retailer managed to turn its fortunes and has since achieved a remarkable growth in profits due to rigorous cost cutting, extensive store refurbishment and aggressive marketing campaigns.

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Thus, profit before tax (£937m) and net profit (£660m) for the year ending March 31, 2007 were at their highest since 1998 (M&S, 2007). However, due to the credit crunch in the US and difficult trading conditions in the UK over the 2007 Christmas period, the company's sales growth saw a marked slow-down and its shares plummeted almost overnight (Economist, 2008). M&S is traditionally called a 'bell-weather' of the UK retailing industry, which means that if M&S is struggling, hard times are ahead for the whole sector. To this end, the PESTEL analysis below looks at the macro-environment in which M&S is operating and tries to identify forces having the greatest impact on the company and its performance.

## **PESTEL Analysis**

### **Political**

The dissolution of the Communist bloc and the accession of new member states to the EU has opened up geographical and economical borders for Western companies struggling to make profits in their mature markets and wishing to establish a presence in fast-growing Eastern European and Asian regions. As East European countries now have to open their boundaries to goods, services and capital from the West – in line with EU trade directives – it makes it easier for the likes of M&S to set up subsidiaries or franchises there. Thus, M&S has opened stores in Croatia, the Czech Republic, Hungary, Bulgaria, Bosnia and Herzegovina, Baltic states and Russia (M&S, 2008).

Similarly, when China acceded to the WTO in 2001, it committed to removing all protectionist trade barriers and encourage free flow of foreign goods (WTO, 2008). Although M&S do not yet have stores in China, they are

seriously considering the possibility, as the Chinese with their rising incomes and fascinated as they are by all Western brands, present a great business opportunity (M&S, 2008).

In the UK, the Government is to decrease the rate of corporation tax from 30% down to 28%, which will save big companies such as M&S millions of pounds (HM Treasury, 2008).

## **Economic**

The so-called credit crunch has already started affecting major Western economies. Warren Buffet, the billionaire founder of Berkshire Hathaway, hailed as the most successful investor ever, described the US economy as already in recession (ABC News, 2008). Invariably, the economic downturn will reach Europe and the UK as well. This will mean that people's disposable incomes may go down. At the same time, consumer spending will slow down even more in the face of higher inflation and job market uncertainty.

This may directly affect M&S, as it is viewed as a more expensive option as opposed to Tesco or Asda. Consumers may switch to cheaper stores and start shopping in M&S as a 'treat'.

At the same time, incomes are rising in Eastern Europe, Russia and Dubai where M&S recently opened its stores. Revenues from these markets may partly offset the decrease in consumer spending in the West.

One can assume that people tend to eat out less in times of economic turmoil. This may, actually, benefit M&S as people stay home and buy its foods, perceived to be of higher quality.

Rising oil prices are adversely affecting all companies including M&S. Both WTI and Brent oil traded for more than \$100 a barrel as at the time of writing (FT, 2008).

## **Social**

Greater work mobility means that people have no time to cook, and often eat on the go. Food stores can benefit from this by offering a variety of ready meals, snacks and sandwiches.

People now live longer, which means they can spend more during their lifetimes. As M&S' main customer base is people aged over 40, with a large proportion over 55, this presents a good business opportunity for M&S (The Economist, 2008).

At the same time, fashion trends are changing with people wishing to look younger and more fashionable, which explains the success of Topshop, Next and Zara. M&S lines have long been criticised for being too conservative. Although new designs have been introduced, the brand has not to date established itself among younger customers (Armstrong, 2008).

## **Technological**

The Internet has become a powerful selling channel in the West. It is predicted that by 2011 online retail sales in Europe will have reached Eur263bn, with British shoppers accounting for more than a third of all revenue. The Internet accounts for 8% of global advertising spend and is growing rapidly (The Economist, 2007). M&S online sales reached £100m in

2007 – an increase of 60% year-on-year. The goal is to generate £500m in online revenues within 5 years (M&S, 2007).

Mobile phone shopping is just taking off but it is thought it will grow considerably in the years to come, which presents a clear business opportunity.

## **Environmental**

Governments, media and the public are urging companies to be environmentally friendly and to reduce packaging. M&S have long been criticised for overpackaging (Pidd, 2007). To change the situation, M&S announced that it would charge customers 5p per plastic bag after a similar step in Northern Ireland had helped decrease bag usage by 70% (BBC, 2008).

Waste management presents another dilemma for companies as well as criticism in adding to CO2 pollution. M&S has declared that it aims not to send any waste to landfills by 2012 thanks to operational efficiencies and recycling (BBC, 2008). It has developed a comprehensive Plan A aimed at reducing waste, fair trading and helping local communities (M&S, 2007).

## **Legal**

As consumers get more aware of their rights and litigious, the risk of being sued increases, especially in the West. Recently, M&S was sued by a man who claimed that defective M&S shoes had caused him fall and injure himself. Although the case was lost, such negative publicity is not favourable for any company (Legal&Medical, 2008).

Rising obesity levels and health concerns prompt regulators to enforce strict disclosure and advertising rules, which are a financial burden on companies.

## **Porter's Five Forces**

### **Level of competition**

Competition in the retailing sector is extremely fierce. The problem is exacerbated by the fact that companies are trying to diversify into non-core fields thus creating additional competition.

M&S is particularly vulnerable to competition as it sells not only food but also apparel and household items. Thus it faces competition from both supermarkets such as Tesco, Asda and Sainsbury's and clothes retailers such as Topshop, Next, Zara and John Lewis.

Porter (1985) wrote that companies pursue one of three generic strategies: low cost, differentiation or hybrid. M&S has long tried to differentiate itself from competition by positioning itself as a higher quality value-for-money brand. However, it recently started to significantly cut apparel prices and to try to be all things to all people, which risks devaluing the brand in the market where specialisation is becoming increasingly important (Armstrong, 2008).

Banks and building societies compete with M&S Financial but it is not a core business for M&S.

### **Threat of Substitutes**

Overall, there are no substitutes to food and clothes, which makes the threat of substitutes low.

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However, M&S food and apparel can be substituted by products from other retailers. Notably, the most direct rival in food market is probably Waitrose, while John Lewis and Peter Jones offer high quality apparel. Tesco and Asda have also introduced cheaper alternatives and are even selling dinner jackets (Wilkes, 2007). In this respect, the threat of substitutes is high.

### **Threat of New Entrants**

Threat of new entrants is low. This is because it takes enormous capital investments to set up a successful chain of stores. The market is mature and an entrant would need to offer something radically new, which is rather difficult to do in food and apparel retailing.

All major retailers have strong established brand names and so enjoy customer loyalty, which becomes increasingly important in homogenous markets (Doyle, 2002).

The incumbents are firmly holding their market shares and would utilise all means to counter any new entrants, including litigation.

Importantly, absence of experience and knowledge of operating in these markets – especially for foreign companies – would be a barrier to any new entrants.

### **Bargaining Power of Buyers**

Is high. The concentration of buyers is high and they therefore can dictate their rules/tastes.

There are plenty of alternatives and switching costs are low.



The UK economy is likely to slow down in 2008 forcing retailers to cut prices and focus even more on customer needs (BBC, 2007).

Similarly, as people's incomes become more uncertain, they will shop around more.

## **Bargaining Power of Suppliers**

Is rather low. M&S is a huge listed company with a massive turnover and suppliers want their goods on the retailer's shelves to reach the large customer base.

Furthermore, M&S is not as dependent on suppliers as other stores as it mainly sells own branded products. This means that it largely buys raw materials and not finished goods, which is favourable for margins (M&S, 2007).

Many suppliers are from developing countries, which depend on Western companies for their contracts.

## **SWOT Analysis**

### **Strengths**

M&S has a strong brand embodying quality, value-for-money and practicality, which appeals to many people and promotes customer loyalty.

M&S' profits have been rising steadily since 2001 and the cash position was very strong as at the year ended 31 March 2007 (M&S, 2007).

The executive team is very experienced with CEO Stuart Rose widely praised for having reversed M&S fortunes in the early 2000s.

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M&S markets itself aggressively and involves celebrities like Twiggy, Myleene Klass, Laura Bailey and Take That (M&S, 2007).

## **Weaknesses**

M&S performance slipped over 2007 Christmas period. While all retailers did badly, M&S was particularly exposed. As at the time of writing, the share price was 361p with the 52-week low of 367p and high of 759p, which means that M&S has lost more than 50% of its value during the year (Sunday Times, 2008).

Similarly, the price/earnings ratio of 9.4 is much lower than that of its competitors. P/e ratio is the major indicator of investor confidence in a company (Arnold, 2002).

M&S started cutting prices and trying to be all things to all people. This may devalue the brand (The Economist, 2008).

The company was recently criticised for promoting CEO Stuart Rose to chairmanship as well, fuelling accusations of poor corporate governance, lack of transparency and segregation of duties. The move infuriated many large investors (Hawkes and Hosking, 2008).

## **Opportunities**

Developing markets of China and India present huge opportunities for M&S.

Designing and promoting trendier clothes would attract younger customers to the stores.

Online sales are a great opportunity as well, since online margins are higher (M&S, 2007).

Healthy lifestyles present yet another opportunity to sell healthy foods and sports gear.

## **Threats**

Currently, M&S target group are older customers many over the age of 45. This may be risky as today's 20-30 year olds will still remain trendy after 10-20 years and might be reluctant to shop in M&S, especially taking into account people's obsession to look younger these days.

Jeremy Paxman created a storm of negative publicity when he criticised M&S underwear for lack of support (Nugent and Hawkes, 2008). As every fifth man and every third woman in the UK buy M&S underwear, the publicity may adversely affect sales (M&S, 2007).

Accusation of poor corporate governance may damage the reputation of the retailer and dent investors' confidence in it.

## **Value Chain**

The value chain analysis singles out the set of specific activities practiced by a company that can create competitive advantage over the rival firms in the sector (Dess et al, 2004)

## **Primary Value Chain Activities:**

### **Inbound Logistics**

At the stage of inbound logistics M&S keeps to absolute transparency about the origin of input materials and products. The company starts to build its supply chain choosing reliable suppliers and quality production. During the inventory control replenishment is fulfilled very fast (within half an hour) (M&S, 2007).

### **Operations**

Here the activities associated with manufacturing process and assembling are implied. M&S practice the so-called smart packaging technologies that enable to preserve the quality and safety of the distributed food products. Besides, smart packaging provides convenience for customers and strong brand associations (M&S, 2007).

### **Outbound Logistics**

Multi-User Warehouse System (MUWS) was chosen to be the mainframe-bases system of warehouse management in Marks and Spencer. The information about availability and delivery of goods is communicated to stores and warehouses automatically. The volume of the production delivered to retail stores is previously forecasted (M&S, 2007).

### **Marketing and Sales**

M&S tends to popularise its brands putting the stress on the exclusiveness of goods and especially underlining the idea of “ Britishness”. The company applies various advertising techniques predominantly relying on traditional tools such as outdoor, print, TV and the Internet. A new marketing campaign

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“Your M&S” has been launched recently aiming at promoting the core brand. By means of this project, the corporation tends to overcome the stereotype of a middle-class and boring typical retailer of food supplies and clothing. With the beginning of the financial crisis, M&S started to reduce prices (Armstrong, 2008; M&S, 2007).

## **Service**

M&S has developed rather extended customer service programme that aims to guarantee the maximum customer satisfaction. However, the call centre staff is said to lack professional training and support from their employers. The company is ready to handle complaints for the shortest period of time (M&S, 2007).

## **Support Value Chain Activities:**

### **Procurement**

M&S tends to establish and preserve the most reasonable ratio between the premium quality and moderate prices.

### **Technology Development**

Much attention is given in the company to the automatisations on various stages. Thus, the information about delivery and in-stock resources is distributed via automatic means. Besides, M&S plans to intensify on-line shopping, because it does not require considerable costs. The company is considered to be one of the leaders of Customer Relationship Management (M&S, 2007).

## **Human Resource Management (HRM)**

Human resource management can be considered strong in M&S. Internal organisation, training of employees and high level of motivation help to create competitive advantage over the rival firms. The company is quite selective about applicants for employment. They are to fully satisfy the requirements and pass the interview successfully (M&S, 2007).

## **Firm Infrastructure**

The firm's organisational structure is built in the way to generate effective competitive strategies. Such departments as Management Information System (MIS), accounting division and others are responsible for this. The infrastructure includes all facilities of the company such as retail stores, warehouses and offices. These are essential for conducting healthy business operations (M&S, 2007).

## **Conclusion**

Although M&S managed to overcome its financial difficulties in the early 2000s, it now faces a slowdown. This is partly because of the US credit crunch spreading to Europe and the UK. As consumer spending decreases, customers get more cautious and start to shop around more. M&S has many strengths to help it regain its position, however it should manage its weaknesses and be particularly careful with regard to any bad publicity. It should also avoid upsetting investors and consider restructuring its executive team to enhance its responsible image. Developing markets and online sales present great opportunities and M&S should not hesitate to embrace them.