

UGB 233 OPERATIONS MANAGEMENT COURSEWORK ASSIGNMENT 2009/10

Case Study: Marks & Spencer

Source: R Johnston, S Chambers, C Harland and N Slack *Cases in Operations Management*, FT Prentice Hall; 3rd Ed, 2003.

Introduction

Marks & Spencer (M&S) is a leading retailer of clothing, food, homeware and financial services. Around 10 million customers per week are served in around 300 UK stores. The company was started in 1884, when Michael Marks (a Russian-born Polish refugee) opened a stall at Leeds Kirkgate Market. By 1997, M&S had grown into an international group with an annual sales turnover in excess of £8 billion - combined with one of the highest net margins in retailing.

M&S experienced a wrenching time since those glory days, having become highly vulnerable in its core customer base - women aged between 35 and 55. The very advantages that M&S had painstakingly built up became liabilities in the market downturn of autumn, 1998. For example, lengthy supply chain procedures meant that the company was buying 9 to 12 months ahead of the market. Traditionally M&S bought twice a year for spring and autumn with phased buying in between - that is, there were just two main sales 'seasons' per year. Nimble competitors exploited many seasons per year for fashion items at one end of the market, and everyday low pricing that M&S could not match at the other. The M&S counteroffensive took a long time to formulate. Luc Vandeveld, the third CEO in as many years, said in his annual review to shareholders in 2001:

'...we have been able to conduct a thorough strategic review. Although some of the decisions we've taken are painful, they are necessary if M&S is to return to growth, and they will improve our ability to compete and respond more quickly to operational demands.'

As part of this strategic review, the UK retail management team, led by Roger Holmes, developed an operational plan that envisaged building on the strengths of M&S and exploiting new growth opportunities. A key part of the recovery plan included major improvements in product appeal, availability and value in order to rebuild relationships with the core womenswear customer base.

A former supplier's view

Many of the 'painful decisions' related to Marks & Spencer's traditional UK supply base, which had been decimated in the scramble to reduce costs. In some ways, this had made the slowness to respond to market changes even worse. A former employee of a former M&S supplier, which has now closed most of its UK factories, commented on the recent changes:

'Three years ago M&S operated a very standard, very formalised route from order to contract, production and distribution. Each item had to have an M&S garment number as identification all the way through production, which precluded suppliers from manufacturing items for other retailers. More recent supplier

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rationalisation has changed this approach, but it is still very formalised and in reality a more informal approach is taken on a daily basis to actually get things done.'

Much of the manufacture of M&S products had been transferred abroad. There is very little capital expenditure in clothing. Typically, raw materials account for 50 per cent of the product cost, and labour for 30 per cent. Labour costs were much cheaper in countries like China, Cambodia and Bangladesh, but this has had a significant impact on lead-times: it takes four to six weeks to ship from the Far East. Airfreight is used sparingly, as it has not been possible to get the type of costs required for routine airfreight.

When buying standard ranges there is a balance between buying few colour ranges at higher volumes, or more colours at lower volumes. Combinations add to complexity: if there are eight colours and eight sizes, there are 64 stock keeping units (SKUs) in the range. M&S bought in a ratio across sizes based on sales history, but actual sales in a season - especially colours - were difficult to forecast. Responding to changes in volume and mix in the marketplace was difficult enough for the ponderous M&S systems, but the company's insistence on a single brand brought further problems:

'M&S procedures do not allow flexibility for short lead times. Had they agreed to sub brand in the past, it would have been possible to produce to different quality standards for different product ranges.'

New product development was also slow and costly. All suppliers were asked to develop all ranges - M&S would then decide who would manufacture what and where. This increased development costs all round. The company has become more skilled at assessing supplier capabilities in advance. Suppliers who are low-cost producers receive orders for commodity products, while those with strengths in product or material development receive orders for more innovative lines.

Improving the supply chain

M&S identified opportunities to reduce supply chain costs substantially, and achieved targeted savings of £120 million in 2000. The priorities were to eliminate duplication and to increase transparency. Some of the savings were achieved by using fewer suppliers and by working more effectively with them. This enabled M&S to get goods to the shops faster and to respond more quickly to emerging customer demands. By reestablishing closer working relationships with its supply partners - historically a unique strength - M&S wanted to achieve further improvements in quality, value, product appeal and availability.

Using information about customer preferences, buyers were better able to give suppliers the information needed to be more flexible and efficient in production. The company admitted that the speed of the changes made, and the replacement of a major supplier, did create availability problems in the autumn and spring of 2000/2001 - particularly in knitwear and lingerie. A focus on the 500 best-selling products, particularly basic items like socks and knickers, sought to ensure that customers noticed an improvement in availability.

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Improving the segmentation of clothing

M&S has concentrated on regaining the loyalty of its core customers, who prefer classically stylish clothes. In the past, the company had resisted splitting its traditional *St Michael* brand name, preferring to leverage the power of a single name that became synonymous with the company. As part of its new plan to segment products across different lifestyles, the company recognized that this was no longer tenable. For example, George Davies was appointed to design and supply a collection for the fashion conscious woman. Davies had risen to fame as a result of making the retailer Next well known on the UK high street with his innovative designs and methods, and by his subsequent success in developing the *George* range of clothing at Asda supermarkets. His sub-brand at M&S was labeled *per una*, and 50 selected M&S stores were laid out by lifestyle to give impact and clarity to the display. Supply chain issues were also attended to.

'per una is "ring fenced" within the M&S system so that the range can be produced to a different standard. This enables George Davies to achieve a four-week turnaround.'

Another range called *The Autograph* was created by top designers to offer fashion items at High Street prices. A compromise was reached in sourcing this range, which was originally produced in UK factories but moved to Portugal. This had the benefit of cheaper labour costs than the UK and shorter lead-times than the Far East.

M&S also planned to regain the confidence of its customers in the quality and fit of its clothing. It chose to sharpen pricing by rebalancing the price structure and by extending the range of entry prices. The aim was to deliver 'inspirational quality at great value'.

Womenswear ranges for autumn 2001

M&S further segmented its womenswear products to appeal to different lifestyles by introducing a number of ranges and sub-brands in addition to *per una* and *The Autograph*, including *The Perfect Collection* and *The Classic Collection*.

The Perfect Collection

The Perfect Collection focused on classically stylish merchandise for core customers. There are 60 lines for women and men which 'return to basics', and they include plain, white shirts, black roll-neck sweaters and jeans. With many items machine washable, non-iron and tumble-dry friendly, they're aimed at the customer with a busy lifestyle who is looking for quality and value at a reasonable price. The brochure described them as 'timeless essentials that you can wear with just about anything'.

The Classic Collection

The Classic Collection was aimed at the more mature customer, and the advertising concentrated on design, comfort, long-lasting style and versatility -'Every piece in the Classic Collection is designed to skim and flatter the natural body shape, whatever your size'. The Classic Collection is a range of smart,

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elegant clothes, made from high-quality fabrics at value-for-money prices. 'It's a timeless collection that reflects your style and finesse, and not just the latest fashion.'

The Autograph range

The category manager, Liz Alcock, states: 'The *Autograph* philosophy is to bring cutting-edge design to a wider audience within a unique environment'. Like *per una*, *The Autograph* label, which was launched in the spring/summer 2000 range, was made available in selected stores only. M&S recruited some of the best designers in the business - such as Julien Macdonald, Philip Treacy and Sonja Nuttall - to create womenswear, menswear and accessories collections. For example, Philip Treacy's hat collection was launched in 15 M&S *Autograph* boutiques nationwide in March 2001 and comprised 18 hats and 10 bags with no more than 60 of each color way and style. *Autograph* brings top designer collections to M&S customers at high street prices, within a designer boutique environment.

per una

This high-quality range was designed to appeal to broad catchments at competitive prices, and was launched in September 2001 into selected stores. The target customers were fashion-conscious women aged between 25 and 35, sizes 8-18. The aim was to provide 'superb designs at very affordable prices'. George Davies controls the supply chain, including sourcing and merchandising as well as control of the look of the selling space in store. In the brochure, he says *per una* embodies principles of 'the highest quality materials ... designs inspired by the very latest trends ... limited editions ... individual cuts for every size ... fanatical attention to detail ... ease of shopping'. The 300piece collection was sourced from 90 suppliers from Hong Kong to central Europe. Production runs were short with no repeats, and speed of reaction was important to ensure that goods made it from design concept to shop rails in weeks not months.

In *Marks & Spencer Magazine*, September 2001, George Davies was quoted as saying:

'I know women don't want to see loads of the same thing around. It's OK for plainer pieces, but if it's distinctive, they want it to be rare. Which is why we'll have a series of limited-edition: items introduced throughout the life of a three-month collection - so buy them because they won't be in store for long.'

Unlike other ranges in store where up to 20 of a style can be seen together, *per una* items were presented in small numbers, making each style 'special' and more exclusive. *per una* was 10 per cent more expensive than the M&S main range. However, the rollout programme had to be scaled down because the company could not keep up with higher than expected customer demand.

Customer comments

Two M&S customers were asked: 'What are you looking for?' and 'What is important to you when considering buying a standard item or a high fashion item?' The first was a smartly dressed lady, aged 54, who said:

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'For a standard item it's important that my size is available but quality and price are also important. In terms of quality, a jumper, for example, must be value for money, wash well and not require specialist washing (hand wash or dry clean!). For a premium item I don't want to be wearing something that is instantly recognisable as M&S - if I'm paying a premium price, therefore, "exclusive" design is a must. Quality is also important if I'm paying a higher price, as it must be well made and expected to last.'

The second customer, a fashionably dressed lady, aged 33, was asked the same questions, and said:

'I get very frustrated if an item is not available in my size. I am annoyed when I find that it is only currently in stock in sizes 8-10 as the larger sizes have sold out. They never seem to have enough of the bigger sizes. For a standard item I expect value for money and a "reasonable" quality - colour not to fade and it won't shrink when washed. Availability of a variety of colour shades for a shirt or jumper is helpful but not a key driver (size availability is key). For premium/high-fashion items, quality is not as important to me as design. If it's a high-fashion item I expect to wear it only a few times before replacing it. I would not make a specific trip to a store to buy such an item from M&S (unlike a standard item). It would tend to be more of an impulse purchase.'

Case Questions:

- 1 Identify and explain the different customer needs of which the three M&S clothing ranges aimed to serve? Assume that the Perfect and Classic ranges serve essentially the same customer segment.
- 2 Identify and explain the order winners and qualifiers for these three different clothing ranges at M&S (Fill in the following table as part of your answer).
- 3 Apply the polar diagram to analyse and compare the different operations performance objectives for these three different clothing ranges at M&S.

	<i>Perfect and Classic ranges</i>	<i>Autograph range</i>	<i>per una range</i>
Product range			
Design changes			
Price			
Quality			
Sales volumes SKU			
Order winners			
Order qualifiers			
Operations priorities			

The M&S website is at: www.marksandspencer.com

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