Would M&S benefit from a food-only strategy?

Marks and Spencer

SWOT analysis

Ian Marcousé looks at a top UK company in terms of its strengths, weaknesses, opportunities and threats (SWOT) to give you a better insight into how business works

Marks and Spencer (M&S) has been a British high street fixture for more than 100 years. It has huge name recognition and consumer trust. On your parents' wedding anniversary, you'd feel safe buying them a bottle of champagne from M&S.

Strengths

M&S food has long been recognised as innovative, high-quality and highly relevant to modern consumers, with a lot of eat-as-you-go food, ready meals and other ways of meeting the modern desire for convenience and speed of preparation. It's great for time-poor adults. Figure 1 shows the steady growth of M&S food sales.

Despite years of sales decline in its clothing division, M&S still sells 25% of the nation's underwear and has a share of about 10% in sales of menswear and womenswear — in other words it remains a big part of the UK clothing market.

Despite many financial pressures in recent years, M&S's finances are strong. In April 2016 its gearing was 46%, a touch down on its 2015 figure of 47.4%. Its current ratio of 0.69 was exactly the same as 2015, suggesting liquidity is stable, if slightly on the low side.

New chief executive Steve Rowe has spent more than 25 years with the business. Not only does this show loyalty but it also suggests an understanding of the famously bureaucratic nature of the company. In September 2016, Rowe cut 500 head office jobs.

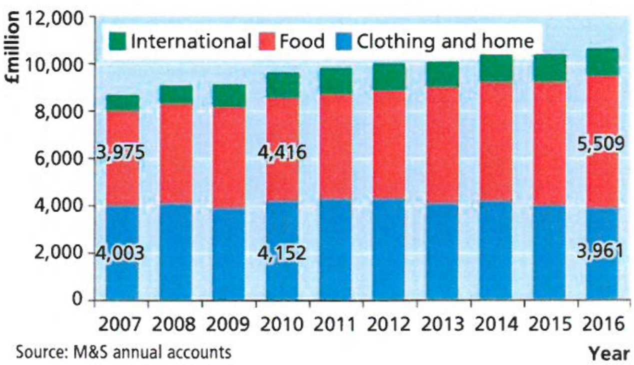


Figure 1 Marks and Spencer sales breakdown

Weaknesses

New chief executives have come and gone, all promising to turn around the decline in clothing sales. All have failed. Although they might claim that they weren't given long enough for their new strategy to succeed, there's an argument that some were given far too long. Marc Bolland had 6 years (2010–2016) of repeated failure.

Bolland's strategy was to look for growth from M&S internationally, opening outlets in Paris, Beijing and other cities. Anyone who went to a Beijing M&S could see it was the only shop around with no customers, which is never a good look. Only in the 2016 accounts are the failures of the strategy being admitted (Figure 2).

In 2016 M&S paid out a far higher dividend to shareholders than it should have — it paid out 76% of its earnings (profit after tax) in dividends to shareholders. Most companies pay out no more than 30–50%. If you're paying out 76%, you risk starving the business of the internal finance needed for growth or to finance change. M&S presumably did this to prop up the share price, which in turn keeps the market capitalisation high, stopping others from buying M&S on the cheap.

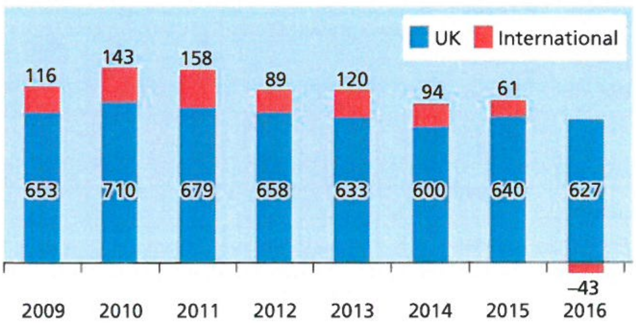
The key marketing weakness for Marks and Spencer is its failure to appeal to under-30s. This rules the company out of huge sectors within the clothing/fashion market. Years ago, the M&S problem was under-20s, now it's under-30s, so this is a massive weakness that is getting worse.

Among its many strategic failings, M&S took a long time to get its website sorted out. Even today its online sales are believed to be far behind those of rival John Lewis, though M&S doesn't publish the data required to be certain.

Opportunities

Does M&S's biggest opportunity lie in closing down the clothing business altogether, slashing the head office staff numbers and focusing on food? When the food section opened, the rationale was to exploit the customer numbers drawn in by the clothing. Today those numbers have diminished and young people may be put off. Food-only may work better.

There's also an opportunity to act rationally on the M&S store portfolio. The least successful might be closed down, and others converted to food-only. Marks and Spencer has never been run like other retailers — it has always seen itself as too important. Now might be the time to boost profits by ordinary, businesslike decision making



Source: M&S annual accounts

Figure 2 Marks and Spencer operating profits (£million)


M&S food is innovative, high-quality and highly relevant to modern customers

Before Rosie Huntingdon-Whiteley or Alexa Chung, Marks and Spencer had the most admired clothing brand in the country: St Michael, which were British-made clothes of real quality. A 'back to the future' strategy would probably sit well with the company's true market: middle-aged and older people.

Threats

Woolworths kept on going long after it ceased to have a proper role in the high street. Marks and Spencer is in that same position today, apart from its food business. When the next nasty economic event happens, M&S might end up closing down a lot of stores.

M&S shareholders have been hugely patient, perhaps bribed with their own money in the form of high dividend payouts. But a takeover bid by a tough — perhaps American — retailer would surely be accepted. Then all sorts of hard decisions would be taken quickly.

Online-only clothing retailers such as ASOS have been growing rapidly. Its 2016 sales figures are 26% up on 2015. Marks and Spencer — like many others on the high street — might find it a struggle to keep shop sales moving forward. Technology may have changed everything.

Conclusion

SWOT analysis is the most widely used technique for managing business strategy. With Marks and Spencer, it helpfully sorts current issues into strengths and weaknesses and future ones into opportunities and threats. This could help directors when considering what to do next. A SWOT analysis gives a starting point for agreeing what's going well or badly, and deciding how to manage the business for the future.

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Ian Marcousé runs business and economics Easter revision courses for A-Z Business Training (www.a-zbusinesstraining.com).