TBS908 Supply Chain Management

Assignment 2 “Moving Mountains at Marks and Spencer”

Marks & Spencer Situation Analyse and Suggestion

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Introduction

Marks and Spencer as the internationally well known department store, was once represented the ‘quality, service and value for money’ and having turned in record profits for 1998. Marks and Spencer’s supply chain management strategy “Partnership Approach” was a textbook favourite and the topics of numerous magazine articles. Suddenly things shifted dramatically, Marks and Spencer was no longer the high expanding and the leading retail company. The fast changing market environments turned Marks and Spencer in very bad situation, the profit drop, customers’ dissatisfaction, and suppliers’ relationship broken.

This report is going to study the following questions:

1. What is the reason for the current situation at Marks and Spencer?
2. Has increased overseas sourcing helped or hindered the marketplace performance?
3. Given that costs must be reduced, how can Marks and Spencer capture the potential benefits of low-cost sourcing whilst still improving responsiveness?
4. Is the current ‘one-size-fits all’ approach to supply chain management strategy the best way forward for the company or there are better alternatives
5. How a total end-to-end supply chain strategy might be developed at Marks and Spencer?

Background

Marks and Spencer was formed in 1894 by Michael Marks and Tom Spencer. Marks and Spencer started as a 'Penny Bazaars', and in 1920s the company tried to buy directly from the manufacturers rather than through wholesalers, which led to ultimate success that few rivals could match. In 1926, Marks and Spencer was floated on the London Stock Exchange. In the late 1920s, Marks and Spencer registered the St. Michael trademark, and gradually to remove the manufacturers' own brands from the products in Marks and Spencer. During the 1930s, Marks and Spencer developed a presence on London's fashionable Oxford Street and introduced the canned products to the food departments. For the period of Second World War (1939 – 1945), Marks and Spencer acted as the expertise for the British Government set up the wartime Utility Scheme, for bring clothing of reliable quality and availability for everyone.

Marks and Spencer had expanded overseas to Canada in 1973. Marks and Spencer kept its momentum, its first two Continental European branch opened in Paris, France capital, and Brussels, Belgium capital, in 1975. Clothing business particularly women's wear was the stronghold of the business. In the 1980s and early 1990s, Marks and Spencer reached its 'golden' period; even Prime Minister Margaret Thatcher was dressing the Marks and Spencer ladies suits regularly to attend high profile political events. In addition to woman's wears, Marks and Spencer dominant the underwear market, and held a great share of the children's and man's clothing in UK market. Marks and Spencer was the symbol of 'Quality, Service, and Value for Money'.

By June 1997, Marks and Spencer's retail empire stretched to 651 locations across 31 countries. Planned intention to expand oversees selling space by a further 40% in the three years to 2000. Throughout the business years of the mid 1990s, Marks and Spencer had maintained its position as the UK's leading retailer of lingerie, men's suits and classic styled ladies outerwear. It was the single largest retailer in even women's shoes and women's jeans in 1997. The company acknowledged that its achievements owed much on long-standing partnerships with its leading suppliers; especially the 'big four', William Baird, Courtaulds Textiles, Dewhirst and Coats Viyella. This relationship enabled Marks and Spencer to further enlarge its product portfolio.

Marks and Spencer kept expanding in 1997, "Marks and Spencer aims to become the world's leading volume retailer with a global brand and global recognition", [Marks and Spencer Annual Report, 1997]. In Asia, although the Korean market had collapsed, South East Asia and Australia markets were the target to expand. Marks and Spencer also planed to use Hong Kong branch as a step stone to expand into Mainland China.

In Europe Marks and Spencer concentrated on developing critical mass in and around the population's centers by buying stores, and franchising the store to local partners in the Aegean and the Gulf states.

Back in the UK, Marks and Spencer planned to increase 20% in retail space. New large stores were opened; town center stores were bought from struggling competitors. "The largest Marks and Spencer store in the world would be the anchor of the new development (in Manchester)". [Martin Christopher and Helen Peck, 2001]

At the end of 1998, an unexpected recession among the British retailing. Marks and Spencer, this time could not come through safely. The CEO of Marks and Spencer, Richard Greenbury said in November 1998;

> "*It's a bloodbath out there on the clothing front. I won't call it a retail recession, but business has fallen off a cliff…We all thought that sales would recover in September and October and in fact they have gone further south. The entire high street is on sale*." [Sir R. Greenbury, 1998]

The recession was the starting point, the hidden problems of Marks and Spencer then accented to surface. The procurement problems, forecasting problems, distribution problems etc led Marks and Spencer further south.

Reason of Current Situation

During the recession, the Marks and Spencer had made several enhancements, such as improving distribution efficiency through information technology, outsourcing the physical distribution of merchandise for years to specialist suppliers, and reconsidering the sourcing strategy that the UK-centric sourcing and supply strategy was inhibiting the development of the business in Asia and the Pacific.

These enhancements hopefully could help the Marks and Spencer to increase the efficiency, reduce the cost, and raise the customer satisfaction. However, there was inefficient communication between

1) The upper level of management and the lower level of management, such as

The children's clothing removed from the smaller stores was unpopular with store-level managers.

2) Marks and Spencer and suppliers

Marks and Spencer forcing its suppliers to shift their production overseas, the Marks and Spencer's favoured place Sri-Lanka, without considering the limitations, such as political unstable and the textile import quota, of those place; and the favourable of suppliers.

"The business can make money, but for us to try to get it to that point would take considerable time and investment… It's not a sensible thing for us to do. Moving production overseas is a very long haul" [Kazia Kantor, September 2000]

3) Marks and Spencer and customers.

"*In the past, if a shop had run out of something I needed, I thought it was my fault for getting there too late. Now I'm not so tolerant. I expect stores to rearrange themselves so they're always ready for me"* [Marks and Spencer Customer, May 2000]

"When are you going to realize that women in their fifties don't have the

same waistline as they did when they were 18? … Your underwear is boring, too. I may be 52, but I like my underwear sexy. And BhS underwear is a darn sight more sexy" [Teresa Vanneck-Surplice, Shareholder, July 1999]

Insufficient communication network led the top management always make the wrong decision. The Withdrawal of children's clothing from smaller stores resulting 4% decrease of sales, that the top management was unaware. The poor information exchange within the Marks and Spencer also influenced the stock level.

"We made mistakes. Of course we did. The biggest one was too much stock." [Peter Salsbury, January 1999]

Beside the insufficient communication network, the "Bullwhip Effect" cumbered the Marks and Spencer's simultaneously, which led the top and low level of management and the suppliers and Marks and Spencer itself could not react to the change immediately.

The evidences of "Bullwhip Effect" can be divided as follows:

1. Demand forecasting

As mention above Marks and Spencer's poor communication between top and low level management, and with the customers, the forecasting of Marks and Spencer was really inadequate.

"M&S summer sales started on the 23rd of June, only a few days earlier than usual, but it immediately fuelled speculation that the retailer was overburdened with stock. When the sale commenced bargain hunters found the whole Autograph range was marked down by 40%, (it was) adding credence to rumors that the range was not selling as quickly as hoped." [Martin Christopher and Helen Peck, 2001]

"Clothing, footwear, and gifts accounted for most of the rep orted drop in sales partly; it was admitted, due to poor availability." [Martin Christopher and Helen Peck, 2001]

2. Long Lead Time

Marks and Spencer with its suppliers had an excellent relationship before the recession.

> *"We encourage suppliers to invest to our mutual benefit, innovation comes from sharing our knowledge as a retailer with their knowledge in production, distribution, logistics or information technology."* [Keith Oates, July 1998]

> *"The close partnerships arrangement also alleviated M&S of th e need to allocate resources of its own to technological research and development activities…Decades of experience had taught the suppliers that their reward for servicing such a demanding client was a culture of continuous improvement within their businesses and the loyalty of M&S through good times and bad."* [Martin Christopher and Helen Peck, 2001]

Therefore, Marks and Spencer used to order twice a year, and to use massive scale forward planning, about nine months before the season, to place orders without problems, at least not been seen. However, the recession that started at the end of 1998 changed the whole picture. Marks and Spencer's inefficiencies order procedures were announced by William Baird's Managing Director David Suddens *"a crazy duplication of effort within the retailer."* [David Suddens, 1999]

> *"There were also clams that clothing orders (from Marks and Spencer) that could have been turned around in four weeks were taking eight months to reach M&S showroom."* [Martin Christopher and Helen Peck, 2001]

Although Marks and Spencer shifted up its order to forth a year later on and hoped to reduce the lead times to three months, it is still way behind its rivals. The Gap had 14 seasons per year and change stock at least once a month.

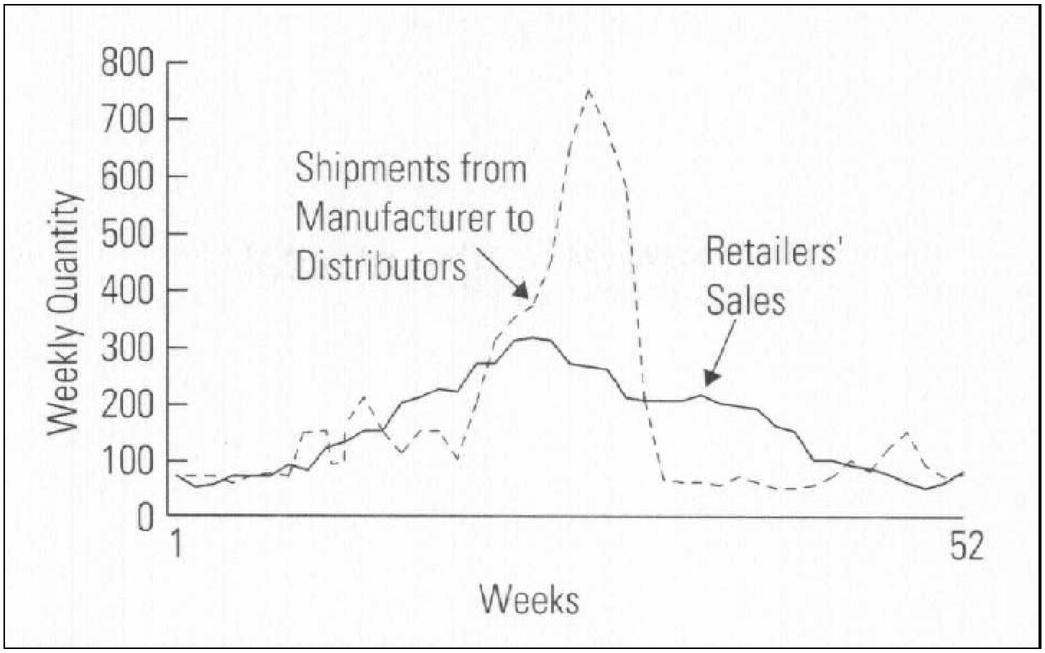
3. Price Fluctuation

Marks and Spencer periodically had short term promotions between each seasons intentionally to liven up the sales; however, these promotions also resulting the price fluctuations that influence the pattern of customers' buying, which is forward buying.

> *"The result is that customers buy in quantities that do not reflect their*

immediate needs; they buy in bigger quantities and stock up for the future…The customer's buying pattern does not reflect its consumption pattern, and the variation of th e buying quantities is much bigger than the variation of theconsumption rate - the bullwhip effect." [Hau L Lee, V Padmanabhan, and Seungjin Whang, 1997]

Bullwhip Effect due to Seasonal Sales of Soup



Source from "The Bullwhip Effect in Supply Chains" [H au L Lee, V Padmanabhan, and Seungjin Whang, 1997]

Combine results the insufficient communication network and the bullwhip effect, Marks and Spencer therefore stuck in the current situation. Actually, the aggressive recovery strategy was the minor result; however, if Marks and Spencer had good communication network, the aggressive recovery strategy would be effective in some circumstances.

Affect of Overseas Sourcing

Before the recession of 1998, Marks and Spencer was heavily reliance on the UK suppliers. *"In 1983 the company had sourced 90% of its clothing in the UK, by 1994 this had slipped to 75% and then to an estimated 65% in 1998."* [Martin Christopher and Helen Peck, 2001] Although it had reduced the proportion of local source, it was still the main sourcing location.

The strength of Marks and Spencer was in supplying the middle classes with good quality, fairly conservative clothing at sensible prices. However, this market of the middle classes has been squeezed both by discount stores at the lower end (e.g. Matalan which by 2000 had gained 9% of the total UK clothing market) and by niche rivals catering for specific age groups or lifestyles (e.g. The Gap, Zara). Furthermore, *"the middle market was reported to be in terminal decline."* [Martin Christopher and Helen Peck, 2001] Ironically the need for more competitive pricing was together with a demand from consumers for improved quality, more fashionable styling and a heightened shopping experience.

> *"High volume, low-price warehouse clubs and discounters were doing well, so were the higher priced low-volume designer labels."* [Martin Christopher and Helen Peck, 2001]

In other words the challenge was to find ways to enhance consumer value. Marks and Spencer's response to this was to reduce its cost-base by forcing that its suppliers source more of their products from locations where labor costs are low.

> *"First suppliers were warned of the need to become more price(s) competitive. Inevitably this would involve switching a greater proportion of production overseas. M&S had already indicated its intention to reduce UK sourcing to under 50% within the next few years, urging its largest suppliers to relocate production to low-wage economies…Sri Lanka had been identified by M&S as the preferred location, though South Africa and Cambodia were also seen as attractive alternatives."* [Martin Christopher and Helen Peck, 2001]

The potential for cost reduction through this process was impressive, at least theoretically.

First of all the problems of overseas sourcing for Marks and Spencer is that there is a real risk that replenishment lead-times maybe significantly extended.

> *"Dewhirst, M&S's oldest supplier...though this itself had highlighted inefficiencies in M&S's distribution system, for example, Moro ccan made goods were traveling to the UK via France before some were distributed back to France."* [Martin Christopher and Helen Peck, 2001]

Secondly, overseas sourcing to low labour cost location has to take the potential risk of low quality and less efficient working practices. Due to the education level of the low labour cost countries are usually low, the concept of quality are low. Also, the efficiency is not high due to the absent of the techniques required.

The third problem among overseas souring is the resistance from the supplier. As mention above, overseas sourcing involved huge investment, not each an every supplier can afford. For Marks and Spencer's suppliers, one of the "Big Four", Coats Viyella announced that terminated the 70 years relationship with Marks and Spencer.

> *"The business can make money, but for us to try to get it to that point would take considerable time and investment…It's not a sensible thing for us to do. Moving production overseas is a very long haul."* [Kazia Kantor, 2000]
> *"Some manufacturers were also reluctant to abandon existing transport agreements and switch to M&S preferred transport suppliers."* [Martin Christopher and Helen Peck, 2001]

The Forth problem is the textile import quota and the protectionism. Marks and Spencer's favoured location Sri-Lanka had the textile import quota, which must be considered before sourcing to there. However, no one recognized until the quota of the year was used up by June. This led the customs declaration issue more complicated.

> *"There wear the difficulties arising from attempts to switch suppliers over to FOB (free on board) terms of supply. M&S had hitherto bought from its suppliers on a DDP (duty deliver paid) basis with an agreed price per time."* [Martin Christopher and Helen Peck, 2001]

Furthermore, the protectionism of *"an importing country might invoke defensive* *measures to protect its domestic market"* [PricewaterhouseCoopers, 2004]

Additionally, overseas sourcing increased the risk of stock level fluctuation due to the long pipeline time and fast moving markets. Marks and Spencer had experienced both over-stocks, *"the retailer was overburdened with stock"* [Martin Christopher and Helen Peck, 2001], and stock-outs, *"the (sales) problem was particularly acute…due to poor availability"* [Martin Christopher and Helen Peck, 2001] situations.

The last but not least, overseas sourcing obviously needs to lay off some local labours and cull the uncompetitive suppliers; result in poor ethical image or, more serious, legal action from the supplier. Marks and Spencer encountered both.

After the dropped of one of Marks and Spencer's "big four" supplier William Baird, it announced that

> *"Five factories had already been closed, as production was shifted to three facilities in Sir Lanka. Of the remaining 16…were likely to close with a loss of 4,500 jobs."* [Martin Christopher and Helen Peck, 2001]

Later on William Baird sued Marks and Spencer for breach of contract. Although they had no formal contract, the High Court in London *"ruled that the (Baird's) £53.6 million compensation claim based on good faith should proceed."* [Martin Christopher and Helen Peck, 2001]

Preparation of Overseas Sourcing

In the previous topic, overseas sourcing seems to be not a good way to lower the cost. In fact, with sufficient preparation, overseas sourcing is the most popular and efficient way for low-cost sourcing. There are a series of steps Marks and Spencer can take to substantially reduce the risk of something going wrong. Here are some general guidelines:

Eliminate the replenishment lead time

It is possible to lessen some of the risks by spotting the geographically closer low-cost source locations, for UK-based Marks and Spencer. Morocco and other Eastern Europe countries such as Romania and Poland were the possibilities and to some extent Marks and Spencer and it suppliers were looking into this. Also the use of air freight rather than surface can significantly reduce pipeline time.

> *"In the spring of 1999, it was testing a 72-hour air bridge system that would allow the company to lift product from its major distribution and storage centers to stores anywhere in the world within three days."* [Martin Christopher and Helen Peck, 2001]

However, there should be a unique management process to monitor across traditionally separate activities such as customs, freight forwarding, surface transportation and production scheduling.

Establish and maintain good communications between Marks and Spencer and the suppliers.

As mention in "the Reason of Current Situation", Marks and Spencer need to improve its communication network. Though it may seem time consuming, ongoing communication is the foundation for successful consignment of the relationship, which can minimize the conflict. The affect will be obvious.

Implement the EDI (Electronic Data Exchange)

> *"EDI's saves unnecessary re-capture of data. This leads to faster transfer of*

data, far fewer errors, less time wasted on exception-handling, and hence a more stream-lined business process. Benefits can be achieved in such areas as inventory management, transport and distribution, administration and cash management. EDI offers the prospect of easy and cheap communication of structured information throughout the government community, and between government agencies and their suppliers and clients.

EDI can be used to automate existing processes. In addition, the opportunity can be taken to rationalize procedures, and thereby reduce costs, and improve the speed and quality of services. Because EDI necessarily involves business partners, it can be used as a catalyst for gaining efficiencies across organizational boundaries. This strategic potential inherent in EDI is expected to be, in the medium term, even more significant that the short-term cost, speed and quality benefits." [Roger Clarke, 1998]

Maintain update with the local restriction

Without the understanding of the local restriction, such as import quota, labour law, and transportation restriction, overseas sourcing will disturb the success. Marks and Spencer had paid for it.

Enhance the quality and the efficiency

Quality assurance processes must be introduced along with the overseas souring. These processes although must involve massive of training, expertise of quality assurance, plenty of time and, no doubt, noticeable among of money; the result is worth.

Planning and negotiation

Marks and Spencer had paid a huge among money for compensation claim due to the overseas sourcing result by cutting off one major supplier. The dropped was in short notice. They did not have any negotiation beforehand, which resulting the legal action from the supplier. Actually negotiation can minimize the impact, and eliminate the drawback of company's public image.

Supply Chain Management Strategy

"Traditional supply chain strategies are often categorized as push or pull strategies" [D. Simchi-Levi, P. Kaminsky, E. Simchi-Levi, 2003]. Marks and Spencer were using, as traditional, the pushing strategy before the recession of 1998.

> *"M&S (led) the way with innovative new products and fabrics resulting in, amongst other things, the introduction of the non-iron shirt and machine washable silk sweater"* [Martin Christopher and Helen Peck, 2001].

> *"The profitability of each product category was analyzed resulting in some of the less profitable ranges – such as children's clothing – being removed from the smaller stores"* [Martin Christopher and Helen Peck, 2001].

During the recession, because the customers' buying habit changed, Marks and Spencer tried to change its SCM strategy to pull strategy.

> *"We must restore profitability overseas by reorganizing our local businesses to serve their local customers"* [Martin Christopher and Helen Peck, 2001].

> *"Our challenge is not to buy more efficiently, but to buy more effectively – to reorient our vast supply structure so that decisions are driven by what customers actually want"* [Martin Christopher and Helen Peck, 2001].

However, Marks and Spencer was not really using the pull strategy.

> *"I can't believe that they don't know what is selling and what isn't…Why should they be going to focus groups? What is wrong with their systems? That should be telling them that they need more of the larger sizes"* [Retail Analyst, 1999]

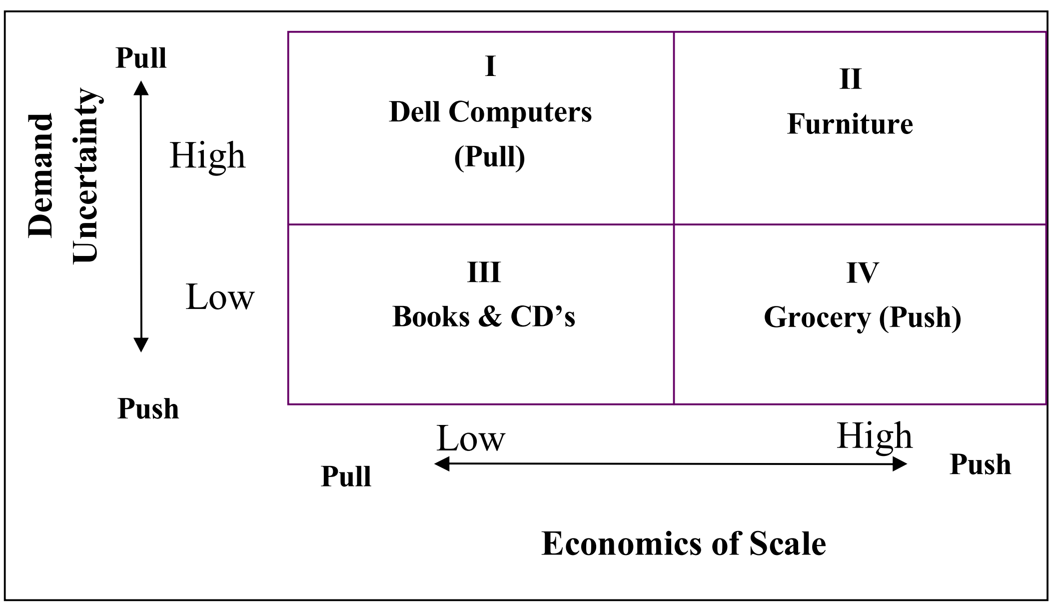
Before suggesting the SCM strategy for Marks and Spencer, let us go through the characteristics of both strategies.

Characteristics of Push and Pull

	Push	Pull
Objective	Minimize Cost	Maximize service
Complexity	High	Low
Focus	Resource allocation	Responsiveness
Lead-time	Long	Short
Processes	Supply chain planning	Order fulfillment

Source from Designing & Managing the Supply Chain [D. Simchi -Levi, P. Kaminsky, E. Simchi-Levi, 2003]

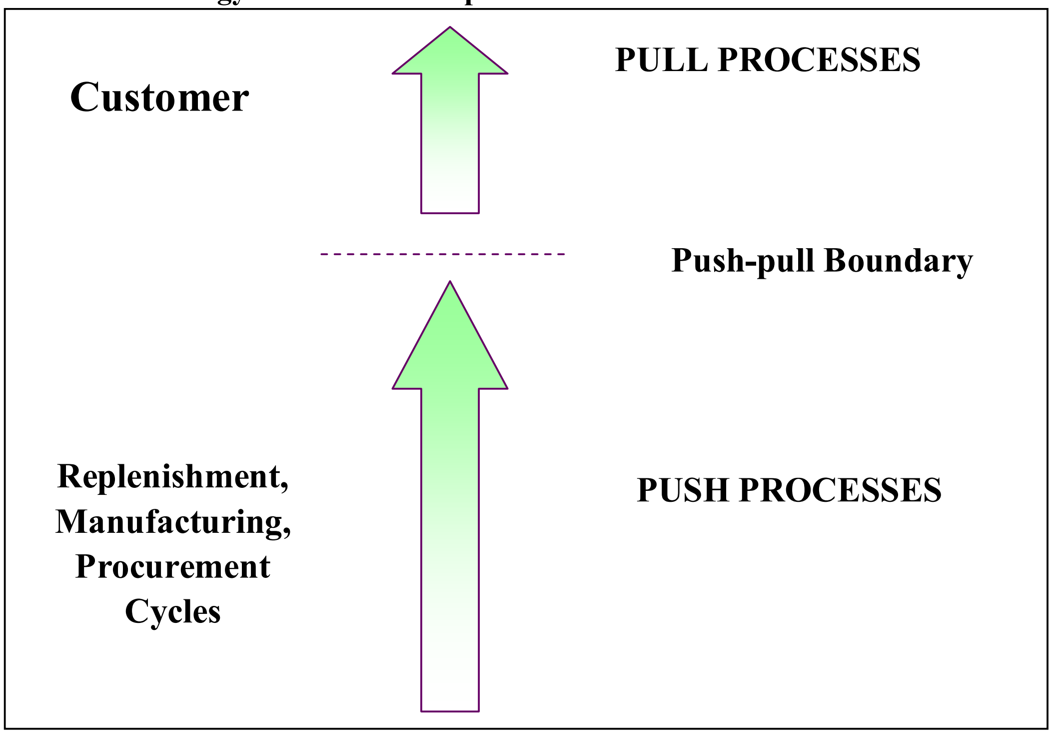
Matching Supply Chain Strategies with Product



Source from Designing & Managing the Supply Chai n [D. Simchi-Levi, P. Kaminsky, E. Simchi-Levi, 2003]

As show on the about graph, the variation of products that Marks and Spencer does, it is not suitable for it to use only either one of them. The best SCM strategy for Marks and Spencer is "Push-Pull Strategies". The following figure will illustrate the push-pull supply chains for Marks and Spencer.

Push-Pull Strategy for Marks and Spencer



Strategic Alliances

Marks and Spencer, a historical retail company, once had a very close relationship with its suppliers. This partnership had been run near a centenary, and led Marks and Spencer became the UK largest retailer. This relationship also allowed Marks and Spencer *"to lead the way with innovative new products."* [Martin Christopher and Helen Peck, 2001]

> *"We encourage our supplier to invest to our mutual benefit; innovation comes from sharing our knowledge as a retailer with their knowledge in production, distribution, logistics or information technology".* [Keith Oates, July 1998]

This close partnership started collapse when the aggressive overseas sourcing strategy that forced the suppliers to relocate their production line. The collapse went further south when Marks and Spencer increased it force to urge their supplier to cut their price further, to retain Marks and Spencer's own profit.

> *"This is contrary to what they always said they stood for. It shows that all their values have vanished and that they no longer treat suppliers as partners."* [Anonymous Supplier, 2000]

> *"The suppliers are outraged because M&S is not using the money to reduce prices for the customer and drive up sales – which would be good for everyone. They are doing it just to push up their own profits… M&S is getting margin greedy rather than concentrating on having the right product in the stores."* [Anonymous Information, 2000]

Marks and Spencer needs to re-establish its strategic alliances with the suppliers. Based on the long relation with the suppliers, the method "Vendor-Managed Inventory" (VMI) of retailer-supplier partnerships (RSP) is the proper way.

For implementing the RSP, Marks and Spencer must enhance the information systems on both suppliers and itself. As advised before, an EDI system is a must, also the electronic point-of-sales (EPOS) must be improved to cover virtually whole world. *"The inventory, production control, and planning systems must be on-line, accurate, and integrated to take advantage of the additional information available (as well)."*

[D. Simchi-Levi, P. Kaminsky, E. Simchi-Levi, 2003]

Marks and Spencer's top level commitments is essential, as well as the "Trust" between suppliers and Marks and Spencer. Because the sharing of information, even those be called as confidential, and the shift of the power.

The inventory ownership is critical, especially using the VMI, because the pre-set stock level will be managed by the suppliers. The inventory used to be owned by the retailer side, now it is more sensible to be owned by the suppliers, since the replenishment decisions are made by suppliers not Marks and Spencer.

Conclusion

For Marks and Spencer to get out of today situation, communication is playing the essential role. No matter what types of implementation, resistance always there; but communication can not only eliminate the resistance but, maybe enhance the implementation. Marks and Spencer as advised, must improving its communication channels, with the customers, within the company and with the suppliers.

Based on the communication, the strategic alliance is approaching to success. This means the cost of inventory will be lower, the products' quality will be enhance, the lead time will be reduced, the profit will be increased, the customers' satisfactory will be higher, and at last the company will be more competitive.

The day of Marks and Spencer a by-word for "Quality, Service and Value for Money" is coming back very soon.

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