

General Certificate of Secondary Education
June 2005



BUSINESS STUDIES SPECIFICATION A
Foundation and Higher Tiers

3132/PM

F&H

Case Study

To be distributed to candidates no sooner than Thursday 10 March 2005

NOTICE TO CANDIDATES

You will be given **one** copy of this Case Study for use during your preparation for the examination, which you may annotate as you wish, but which you will **not** be allowed to take into the examination.

You will be provided with a clean copy of the Case Study, along with the question paper, for use in the examination.

You are advised to carry out your own research using this Case Study. It is the business concepts and ideas raised by the Case Study which should be researched.

DO NOT ASK THE COMPANY ITSELF FOR MORE INFORMATION.

Your teacher is encouraged to give assistance and advice as required.

MARKS & SPENCER



Key website: www.marksandspencer.com

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Background to the Company

Marks and Spencer plc is a UK-based company. Many people regard the business as a national institution. It is affectionately called “M&S” and “Marks and Sparks”. The business is known best as a retailer. There are over 370 Marks & Spencer stores throughout the UK that sell clothing, food and household goods. The core of its retailing business is clothing, particularly women’s.

Over 80% of Marks & Spencer’s stores are sited in traditional high street locations. More than 10 million customers a week buy products from one of its stores. An increasing number of customers are using the internet to buy on-line. Many stores have modern cafés, which operate under the name, Café Revive.



Figure 1: Café Revive



Figure 2: Simply Food

Marks & Spencer has franchised overseas. Franchisees operate Marks & Spencer stores in several countries, including Turkey, Saudi Arabia and Kuwait. In return for receiving a royalty payment, Marks & Spencer provides the franchisees with training and access to its branded goods. In the UK, it has recently franchised its ‘Simply Food’ stores at major railway stations. ‘Simply Food’ stores sell Marks & Spencer food items.

The Company’s headquarters were, for many years, in Baker Street in London. The Company has recently decided to move its head office out of central London. It was felt that it would be better to have several individual headquarters throughout the country, rather than a single London base. This way, the needs of the different parts of the business could be better served.

History

Marks & Spencer began in 1894 in Manchester as a partnership between Michael Marks and Tom Spencer.

Michael Marks came to Britain as a refugee from Russia when he was a child. He was 25 years old when he started in business, selling goods from stalls in Yorkshire markets. Marks gained many customers by offering goods at a cheaper price than other stallholders. He started a number of ‘penny stalls’, where all the items were sold for one penny.



**Figure 3:
Michael Marks**



**Figure 4:
Tom Spencer**

Michael Marks realised that he needed a partner if the business was to develop. It was Tom Spencer, a cashier at a Leeds wholesaler’s, who provided the £300 capital to buy a half share in the new partnership.

In 1903, Marks and Spencer became a private limited company. There followed a period of rapid growth in the business, which led to Marks & Spencer becoming a public company in 1926.



Figure 5:
An early Marks & Spencer store

In the 1980s, the Company diversified into the financial sector. Marks & Spencer Financial Services (MSFS) is based at Chester in Cheshire. This part of the business deals in personal loans, savings, insurance and the ‘&more’ credit card.



Figure 6: &more credit card

In the late 1990s, the Company faced serious problems that threatened its very survival. Many of its long-standing customers were no longer shopping at its stores and its profits were falling. Marks & Spencer realised that it needed to make changes to the company. A decision was made to rethink completely the types of clothing that were sold.

In 2001, Marks & Spencer closed down its European stores in an attempt to improve its profitability. It also sold off the US-based Brooks Brothers clothing chain that it had bought some years earlier.

By 2003, Marks & Spencer had recovered from its financial problems. Sales had increased and the Company had increased its market share. Most of this growth had come from increases in the number of customers in the 30-plus age group, both men and women.



Figure 7: A modern Marks & Spencer store

Financial services are greatly affected by the state of the economy. In 2003, Marks & Spencer experienced a downturn in its financial services business. Low levels of economic growth and uncertainty meant some people were reluctant to borrow money, despite interest rates being very low.

Turn over ►

 Finances

Tables 1 and 2 show some Marks & Spencer Group financial figures taken from the company accounts. The amounts have been rounded, where appropriate, to the nearest £m.

Year	2004	2003	2002
Turnover from: retailing	£ 7972m	£ 7689m	£ 7267m
financial services	£ 330m	£ 330m	£ 351m
Operating Profit	£ 824m	£ 729m	£ 644m
Earnings per share	24.7p	23.3p	16.3p
Dividends per share	11.5p	10.5p	9.5p

Table 1

Year	2004	2003	2002
Fixed Assets	£ 3508m	£ 3467m	£ 3432m
Current Assets	£ 3870m	£ 3246m	£ 3761m
Current Liabilities	£ 1885m	£ 1711m	£ 1751m
Net Current Assets	£ 1985m	£ 1535m	£ 2010m

Table 2

Marks & Spencer had suffered a large fall in profits in 2000, when they were £418m. The Company recognised that it had lost sight of what their customers wanted. The Company Chairman announced that Marks & Spencer had failed to move with the times. He stated that the Company needed to begin a programme of change to improve profits. His first job was to replace several of the Company's directors.

The new board of directors then had to make a series of difficult decisions. One of these was to close the European branches of the Marks & Spencer stores. The Company received some poor publicity when it made many of its European employees redundant. Marks & Spencer recognised that, if it was to survive, cuts like these were needed.

Company Principles

Marks & Spencer believes that it is important that it has a good reputation in society. As a large business, it feels that it must conduct itself in a responsible manner. The business has outlined the way it wants to operate in three statements, or principles. These are shown in Table 3.

Principle One	Take care and act responsibly in delivering high quality products and services
Principle Two	Create great places to work
Principle Three	Help make our communities good places in which to live and work

Table 3

Marks & Spencer aims to live up to these principles, even when profits fall as they did in the 1990s.

Stakeholders

Employees

By 2004, Marks & Spencer employed more than 65 000 employees, a number of whom worked part-time. To help employees with other commitments, Marks & Spencer offers a range of flexible working or 'lifestyle' options. These include school term-time only working, as well as leave for new parents and carers. There is also an employee welfare telephone helpline for those needing advice for personal problems at work or home.

The Company has a long history of looking after the welfare of its employees. In the 1930s, for instance, Marks & Spencer introduced pensions, hairdressing facilities and subsidised canteens for its employees.

The Company still offers many perks to its employees, such as a subsidised share scheme, cheap loans and store discount cards. It believes that employees should be provided with opportunities for personal development. Marks & Spencer provides a wide range of educational opportunities to enable its employees to grow and prosper.

School leavers are given the chance to work at Marks & Spencer stores to gain valuable work experience.

Turn over ►



Figure 8: AGM

Customers

Over the years, Marks & Spencer has gained a strong reputation for selling good quality products. The Company worked hard at regaining the market share which it lost in the 1990s when it failed to provide the stylish designs that customers wanted.

A colourful event that encouraged Marks & Spencer to recognise that changes were needed happened at the 1999 shareholders' AGM. Shareholder Teresa Vanneck-Surplice complained to the directors that Marks & Spencer's underwear had become boring. A lack of imagination in the designs, particularly of women's clothing, was thought to be to blame for the fall in custom.

Marks & Spencer has won several awards in recent years for the way in which it runs its business. In August 2003, for example, the environmental pressure group, Greenpeace, ranked the Company as the top food retailer for its performance on non-GM foods.

Suppliers

Marks & Spencer was the first retailer to sell products under its own brand name, 'St Michael'. The Company does not manufacture the goods it sells, but contracts manufacturers to produce the garments. This way, it can be sure that no other shops will be selling identical designs.

Marks & Spencer has a close working relationship with its suppliers. Shortening the channel of distribution allows the Company to take more responsibility for the quality of the products it sells as well as for reducing costs. Marks & Spencer also insists that its suppliers have been awarded the ISO 9000 quality mark. This ensures that they have procedures in place to produce consistently good quality products.

 Marketing

Target market

Marks & Spencer's target market has changed considerably since Michael Marks started his penny stalls. Customers now are more likely to be similar to those who read the Company's store magazine 'Your M&S'.

Female	77%
ABC1 readers	72%
Homeowners	87%

Source: National Readership
Survey July - Dec 2002

Table 4**Products**

Much of Marks & Spencer's clothing is now targeted at specific market segments. Some examples of these are given in Table 5.

Brand	
per una	Young, trendy designs based on the work of fashion designer George Davis
View From	High performance, stylish sportswear to tap a market in which the Company had not done well
DB07	Trendy boys' wear designed by David Beckham
MW	Sensuous and sexy underwear and lingerie for both young men and women
Sp.	This brand is aimed at men in their 30s. It covers the range from office to casual wear
Limited	Aimed at women who like to look stylish with classic designs, but who are prepared to experiment with their clothes

Table 5



Figure 9: Women's fashion



Figure 10: Sp. Men's fashion

Promotion

Marks & Spencer uses many forms of promotion. It chooses not to advertise regularly on television, but will use this medium to promote a particular aspect of its business. For instance, in 2003 an advertising campaign was used to introduce new food products.

Like most clothing retailers, Marks & Spencer has end-of-season sales. It has been found that in-store displays influence people to buy products, so care is taken to ensure that goods are well presented.

Price

Marks & Spencer operates in a competitive market, so it needs to price its goods accordingly. The Company has always had to compete with general retailers such as BHS and Debenhams, which sell a similar range of goods. Marks & Spencer has also experienced greater competition from a number of national chains. Multiples, such as GAP, River Island, New Look and Next, are attractive alternatives for younger consumers. Marks & Spencer also recognises that some large supermarket chains, such as Tesco, are increasing their sales of clothing. These supermarkets occasionally sell some clothing items very cheaply, sometimes as loss leaders.

Place

Internet shopping is becoming more popular for Marks & Spencer's customers. A wide range of the items available in its stores can now be bought on-line.

Challenges for the future

- Marks & Spencer does not want to return to the financial problems it had in the late 1990s. It wants to be streamlined, yet look after the interests of all of its stakeholders.
- The Company faces increasing competition from multiple chains, especially those selling younger women's clothing. Marks & Spencer needs to consider ways of attracting younger customers who currently shop at these other outlets.
- Marks & Spencer is decentralising its head office. The Company will have to monitor the new arrangements to ensure it leads to improved efficiency.
- Should Marks & Spencer continue to diversify into new markets? Or should it concentrate on selling food and clothing, the goods in which it has gained an international reputation for quality?

END OF CASE STUDY

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