

MARKS & SPENCER

Grounds for hope at Marks & Spencer as profits rise at last

The retailer's first increase in full-year earnings will have lifted spirits, but can it maintain momentum? **Caroline Baldwin** examines how it plans to build on the performance

Marks & Spencer reported its first underlying profit increase in four years last week, meaning the outlook for boss Marc Bolland is looking brighter.

It may be a sign that his step-by-step approach to turning around the business is paying off, but while food remains M&S's golden child – accounting for 55% of sales – how will the retailer improve its showing in the crucial general merchandise category?

Food is carrying the rest of the M&S business at the moment. Year-on-year sales in the category rose 3.4% and like-for-likes edged up 0.6%. The retailer also plans to boost the number of new Simply Food stores it plans to open, from 200 to 250 by March 2017.

Bolland aims to maintain this growth in food despite a difficult grocery environment by offering a different food shopping experience.

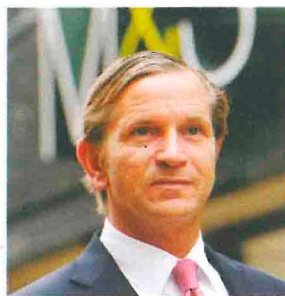
"The big four have seriously flagged that it's going to be a hard year. However, we believe that we are well prepared for that," he explains.

M&S has positioned itself as a specialist food supplier, which makes it stand out against competitors. "That step away from the supermarket environment has been the right strategy for us," he says.

Last year the retailer launched 1,700 new food lines thanks to its chefs and product developers, who travel the world for inspiration to create convenience food. The M&S Taste range, which is based on Asian food, sold 6 million items last year.

Bolland says customers shop for food in a particular way at its stores. "Around 40% of our shoppers come in to shop for tonight, and take something home for tomorrow for breakfast maybe," he says.

"That's completely different from somebody going into one of the larger supermarkets with a shopping list. Lots of people come in [to M&S] and have no idea what they are going



"It's not going to be easier. However, we believe that we are well prepared"

Marc Bolland, Marks & Spencer

to have for dinner that evening and that's why they like all these new things like the Taste of Thailand, because they say 'let me be surprised'."

Better fashion quality

But the retailer's general merchandise – notably fashion – remains under pressure. M&S reported a general merchandise sales drop of 2.5% and like-for-like sales were down 3.1%. But there is hope of an uplift after sales in the fourth quarter inched up 0.7% for the first time in 14 consecutive quarters.

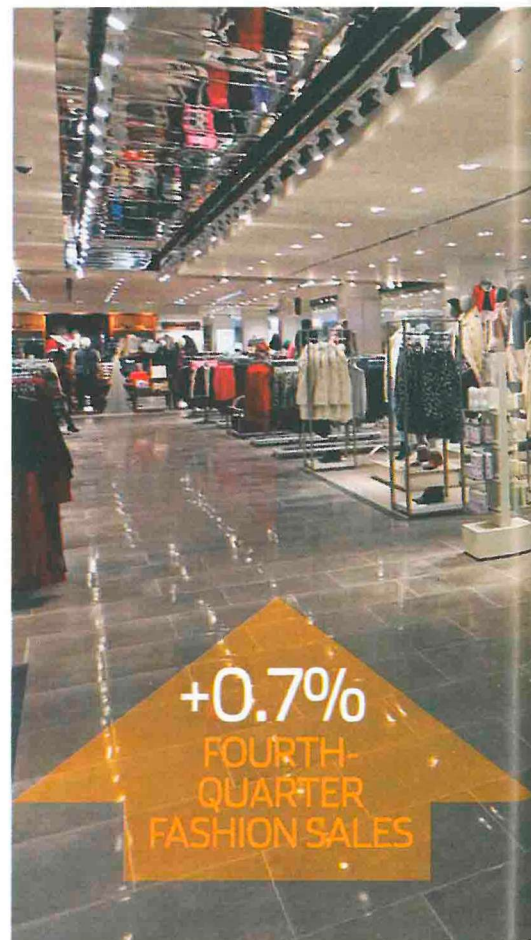
"As a full year, this is not good enough," Bolland says. But he notes the retailer is continuing to improve style and quality, as well as becoming more on-trend with designs.

Even though results for clothing are disappointing he says sales of dresses over the last year were up 18% thanks to M&S prints being much more fashionable than before.

M&S's autumn/winter 'into the blue' jeans trend, which continued into spring/summer, resulted in an 11% rise in sales of the product.

One item that has gained a lot of attention in the fashion press is the retailer's suede skirt. It was launched online and in flagships this month and Bolland says the retailer sold 500 of the £199 skirts in 24 hours, as it became one of this year's must-have purchases.

But when it comes to status products such as the suede skirt, he says M&S needs to be careful to strike the right balance between availability and exclusivity.



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“That’s a very good retail mix, because what it does is gives people that real opportunity to get it, while at the same time you don’t want to be seen in something that everybody is wearing the next day if it is something that is presented as a fashion item.”

Bolland says the retailer is also improving its response times when it comes to introducing new lines, now narrowing the window from design to store to four to five weeks.

“When you now walk into a store, every two to three weeks you’ll find new product,” says Bolland. A couple of years ago its new products came into stores every two months.

Despite some positive signs Freddie George, analyst at Cantor Fitzgerald, warns it may be difficult to continue momentum in both food and fashion.

“Although we believe that at last there have been some visible improvements to the fashionability and quality and more consistency with the womenswear ranges over the last year, it will be a challenge to keep the positive momentum going in sales in both general merchandise and food,” he says.

Online improvement

M&S.com also faced a difficult year with sales down 2% after it replatformed its website away from Amazon in February last year,



M&S sold 500 of its suede skirts in 24 hours

to be fully controlled in-house. But the retailer managed growth in its fourth quarter, with a 13.8% increase in online sales, so there is hope the worst is over.

“It’s difficult for a company to do the online development yourself,” Bolland says. “You need to build the infrastructure to launch a more contemporary business and be competitive going forward.”

M&S.com now has a team of around 200 people working on its website. The new site provides M&S with improved tablet functionality as well as better performance and speed to checkout. That has led to a 15% increase in website traffic, while mobile and tablet traffic is up 33%.

Bolland says the new website’s editorial content is helping conversion through elements such as outfit building and food recipes.

He also says Apple approached M&S to build an app for the Apple Watch while the device was still in development in order for the tech giant to test how applications could be used.

“Would you have thought four years ago, that M&S would be the retailer Apple would want to work with?” he says. “That’s a good sign of confidence that the 200 people are looking very much ahead.”

International issues

The retailer also reported a turbulent year for its international business, where sales were down 2.1% on a constant currency basis.

Bolland cites factors outside the retailer’s control. He points to political uncertainty in countries including Russia, Ukraine and Turkey that have hit performance. Currency fluctuations also added complexity.

Despite that, Bolland says M&S’s partner in Istanbul, for example, is a long-term associate, and that M&S is not going to shy away of staying in countries experiencing difficulties. “We share the support of this partner and we are absolutely going to stay in this country.”

On the plus-side, M&S reported an impressive performance in markets including India (sales up 23% and like-for-likes up 11%). China and Hong Kong also delivered growth, and there are plans to continue opening more stores later this year.

But it is still too early to understand whether this is a turning point for Marks & Spencer.

It will take until July, when first-quarter results are reported, to find out whether improvements online and in general merchandise have managed to continue momentum.

There are grounds at last for optimism about M&S, but improvement needs to be sustained. For the present, the retailer remains on its ‘step-by-step’ journey. ■



“Every two to three weeks you’ll find new product in-store” Marc Bolland