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Steven Toms and Qi Zhang

Marks & Spencer and the Decline of the British Textile Industry, 1950-2000

From the end of the Second World War, British clothing retailers, most notably Marks & Spencer (M&S), exercised an increasing domination over the domestic textile industry, which to some extent arrested its decline. The paper uses financial and archival evidence to examine the distribution the costs and benefits in the M&S vertical network. It shows that these benefits became less tangible for textile firms from around 1985 in the face of lower cost overseas competition. The paper charts the visible and invisible evolution of network management, demonstrating that retailer/producer collaboration evolved from a bilateral vertical partnership model, to a hybrid version that retained partnerships with leading suppliers and the emphasis on domestic sourcing, but which also facilitated offshore production.

Since 1945, staple domestic industries in western economies have been replaced with global production networks. In the UK, the cotton textile industry, then the textile industry generally, declined in the face of increasing overseas competition. Survival strategies were based on restructuring and concentration. Post 1960 there was a period of rapid transformation in which cotton was absorbed into vertically structured textile conglomerates.¹ Notwithstanding these changes, decline continued, and, as protection was phased out, fabric and apparel manufacturing faced similar threats, although the rate of decline and strategic response depended on relative position in the vertical production chain. Such responses included an alternative survival strategy based on vertical partnerships led by retailers and in particular, a dominant clothing retailer, Marks & Spencer (M&S).

¹ John Singleton, *Lancashire on the Scrapheap: The Cotton Industry, 1945-1970* (Oxford, 1991).

The UK example of a declining industry being sheltered by a dominant retailer offers unique insights for several reasons. First, it presents a potential meso, or network level, source of competitive advantage within the macro context of decline and deindustrialization. Whilst acknowledging the opportunity created by restructuring, the literature attributes continued decline to the absence of stable demand conditions required for efficient vertically integrated production and a failure to integrate production and marketing.² Alternatively, where a downstream hub firm, such as a retailer, can organize constituent firms to achieve lower cost relative to purchasing outside the network, value transferred from supplier to buyer is non-zero sum, with risk shared between network partners.³ These advantages are achievable where local suppliers offer greater flexibility and shorter lead times.⁴

Second, and related, such competitive advantage depends on the success and sustainability of the lead firm's marketing strategy. M&S's close links with UK based suppliers allowed it use consumer ethnocentrism⁵ to enhance its "buy British" marketing and ethical stance.⁶ Where consumers believe domestic labor practices are superior and have greater regard for domestic over overseas labor, retailer support for local manufacturing capacity may underpin effective marketing, as in the case of US apparel industry. The "Crafted with Pride"

² William Lazonick, "The Cotton Industry", 39; in *The Decline of the British Economy*, eds. Bernard Elbaum, and William Lazonick (Oxford, 1986). Robert Millward, "Industrial and Commercial Performance since 1950," in *The Cambridge Economic History of Modern Britain, Volume 3: Structural Change, 1939-2000*, ed. Roderick Floud and Paul Johnson (Cambridge, 2004).

³ J.Carlos Jarillo, "On Strategic Networks," *Strategic Management Journal* 9 (1988): 31-41.

⁴ Jonathan Zeitlin, "The Clothing Industry in Transition: International Trends and British Response," *Textile History* 19 (1988): 218-220.

⁵ Marsha Dickson, "US Consumers' Knowledge of and Concern with Apparel Sweatshops," *Journal of Fashion Marketing and Management* 3 (1999): 44-55. Consumer ethnocentrism refers to "the beliefs held by American consumers about the appropriateness, indeed morality, of purchasing foreign-made products," Terence Shimp, and Subhash Sharma, "Consumer Ethnocentrism: Construction and Validation of the CETSCALE," *Journal of Marketing Research* 24 (1987): 280-289, 280. Sociological "ethnocentrism" (William G. Sumner, *Folkways: A study of the Sociological Importance of Usages, Manners, Customs, Mores, and Morals*, Boston, 1906), was expanded to "Consumer ethnocentrism" by Shimp, "Consumer Ethnocentrism: The Concept and a Preliminary Empirical Test," *Advances in Consumer Research* 11, (1984): 285-290, to "capture individual consumer cognitions and emotions as they relate to product offerings from other countries." (285).

⁶ Michiel Scheffer, *Trading Places: Fashion, Retailers and the Changing Geography of Clothing Production* (Utrecht, 2002), 226. For example, M&S instigated a "buy British" campaign in the 1980s.

textile alliance enlisted Walmart to support domestic manufacturers in the late 1980s and early 1990s, and enjoyed some temporary success.⁷ Where effective, as this article demonstrates, such strategies can create and share the rewards of competitive advantage in upstream supplier networks, suggesting a possible model of successful adaption of Chandler's "visible hand" model and limits to the spread of specialized modular production suggested by Langlois's "vanishing hand" hypothesis.⁸

Third, the literature suggests that textile firms supplying chain stores had higher sales growth and suffered lower contraction in employment⁹ and that the M&S relation allowed stable and more efficient longer production batches,¹⁰ at least up to the early 1980s. The strategy also meant however, that the textile industry remained larger than it might have been, either in the absence of M&S altogether, or without M&S's continued success, creating a 1990s parallel of the over-expansion of cotton textiles before 1914, and the consequent risk of precipitous decline.¹¹ As a leading textile industry analyst pointed out: "M&S was the very lifeblood of the UK textile industry and yet it was the cause of its death."¹²

The empirical contribution of the paper is to examine the long run evolution (c.1950-2000) of these trends and relationships, adding to literature dealing with M&S's strategy, including its response to the significant loss of market share in 1998,¹³ and evaluating the wider

⁷ Timothy J. Minchin, "Us is Spelled US": The Crafted with Pride Campaign and the Fight against Deindustrialization in the Textile and Apparel Industry," *Labor History* 53 (2012): 1-23.

⁸ Alfred Chandler, *The Visible Hand* (Harvard, 1977). Richard Langlois, "The Vanishing Hand," *Industrial and Corporate Change* 12 (2004): 351-385.

⁹ Stanley Chapman, *Hosiery and Knitwear* (Oxford, 2002).

¹⁰ Scheffer, *Trading Places*, 226.

¹¹ On over-expansion of cotton and other staple industries before 1914 and their subsequent decline, see Bernard Elbaum and William Lazonick, "The Decline of the British Economy: An Institutional Perspective," *Journal of Economic History*, 44 (1984): 567-583. Referring to the 1990s, Chapman, *Hosiery and Knitwear*, 260-262, suggests the industry was large and over-dependent on M&S.

¹² David Buck, *More Ups than Downs: An Autobiography* (Spennymoor, 2001), 109.

¹³ Judi Bevan, *The Rise and Fall of Marks & Spencer: And how it Rose Again* (London, 2007), 8. Kamel Mellahi, Paul Jackson, and Leigh Sparks, "An Exploratory Study into Failure in Successful Organizations: The Case of Marks & Spencer," *British Journal of Management*, 13 (2002): 15-29; Muriel Johnson, "Marks & Spencer Implements an Ethical Sourcing Program for its Global Supply Chain," *Journal of Organizational Excellence* 23 (2004): 3-16.

impact on the UK textile industry, emphasizing the relationship between production and marketing. To contextualize and explain these trends, the paper first reconsiders the literature on the decline and concentration of UK textiles and the origins of the M&S supplier strategy. Using contemporary and new archival evidence,¹⁴ it then explains the development of the M&S supplier relationship. To quantify the apparent benefits and costs of supplying M&S, the extent and persistence of risk and profit differentials for M&S suppliers are compared with the rest of the UK textile industry and with M&S itself.¹⁵ The methods exercised by M&S in its supplier relationships, including offshoring decisions, are also evaluated. These decisions were taken in the context of macro level relaxations of world trading rules, and consequent pressures on M&S. In response, M&S developed new ethical sourcing principles.¹⁶ These are examined with reference M&S's relationship with supplier firms Courtaulds and Claremont Garments, during the establishment of a new facility in Morocco, and associated processes of corporate restructuring culminating Courtaulds's takeover of Claremont in 1998. A final section concludes M&S's impact on the British textile industry and the challenges of global competition for retailer-supplier networks.

UK Textiles and Marks & Spencer

Once Britain's leading export sector, textiles, and particularly cotton textiles, declined continuously after 1920. Rising imports replaced declining exports as the main threat after 1955, coupled with the expansion of man-made fibers.¹⁷ Courtaulds's took over the remains of the cotton industry in 1964, whilst further mergers rapidly concentrated the fabric sector. In

¹⁴ Marks and Spencer Company Archive (MCSA) in Leeds, United Kingdom.

¹⁵ Sources: Company annual reports, the Cambridge University Companies Database (CUCD) and Datastream.

¹⁶ Johnson, "Marks & Spencer."

¹⁷ Millward, "Industrial and Commercial Performance", 126; John Singleton, "The Decline of the British Cotton Industry since 1940," in *The Lancashire Cotton Industry: A History Since 1700* ed. Mary Rose (Preston, 1996), 296-297.

1973, the UK government entered the Multi-Fiber Arrangement (MFA), thereby offering Courtaulds protection, in addition to ongoing regional assistance, during the period of rationalization¹⁸ The consequence was an increase in productivity [1963-1973 (72.4%)] with an associated decline in employment (29.2%), driven by investment in automation (open-ended spinning and shuttle-less weaving) and synthetic fabrics.¹⁹ However, the gains were unsustainable, partly due to poor integration with marketing and distribution.²⁰

Manufacturing concentration was partly intended to increase bargaining power with large retailers like M&S.²¹ Integration and investment in technology by Courtaulds and other large firms including Viyella, Carrington and Dewhurst, had not guaranteed standardized orders for larger production runs, creating high, uncompetitive overheads.²² For a small group of firms at first, and an increasing proportion subsequently, M&S provided an alternative survival strategy.

For many years, M&S was regarded as one of Britain's most successful companies, due in part to the close relationship it cultivated with its suppliers.²³ As the remainder of the textile industry declined, surviving firms were increasingly dependent on supplying to retailers.²⁴ There were important reasons for the increased power of retail. Wholesalers declined and imports penetrated fabric and ready-made clothing markets.²⁵ Retailers undermined

¹⁸ US import restrictions led developing countries to target Europe, which in turn led Europe to adopt protectionist measures (Vinod Aggrawal and Stephen Haggard, 'The Politics of Protection in the US textile and Apparel Industries', in *American Industry in International Competition: Government Policies and Corporate Strategies*, eds. John Zysman and Laura Tyson (Cornell, 1984), 253-254, resulting in the MFA between US and EU in 1973 (265), based on quotas subject to annual increases of 6% (296). David Ricks, "An Overview of Government Influence" in *The Global Textile Industry*, ed. Brian Toyne (London, 1984).

¹⁹ Geoffrey Shepherd, "Textiles," in *Europe's Industries: Public and Private Strategies for Change*, eds. Geoffrey Shepherd, Francois Duchêne, & Christopher Saunders (London, 1983), 29-30.

²⁰ Lazonick, "The Cotton Industry"; Shepherd, "Textiles," 29-30.

²¹ Singleton, *Lancashire on the Scrapheap*, 219-222.

²² Singleton, "Decline," 317-321.

²³ Mellahi et al. "An Exploratory Study"; Ka Kui Tse, *Marks & Spencer: Anatomy of Britain's Most Efficiently Managed Company* (Oxford, 1985).

²⁴ Geoffrey Owen, *The Rise and Fall of Great Companies: Courtaulds and the Reshaping of the Man-made Fibres Industry* (Oxford, 2010).

²⁵ Stanley Chapman, "The Decline and Rise of Textile Merchanting, 1880-1990," *Business History* 32 (1990): 171-190.

manufacturers' bargaining power by applying British branding to goods sourced abroad. With some exceptions,²⁶ manufacturers lacked marketing and creative capacity, whilst they faced high risk from small changes in inventory adjustments by wholesalers and retailers.²⁷ A further reason was new legislation, including the prohibition of resale price maintenance, enacted in 1964.²⁸ As a consequence, retailers encouraged suppliers to specialize in standard garments and fabrics for the mass market.²⁹ Finally acquisitions of M&S suppliers by larger groups, in tandem with rationalizations, increased net dependency on M&S.³⁰

Almost from its inception, M&S fostered close partnerships with its suppliers. Dating from the 1920s, M&S sought direct links with suppliers to bypass the Wholesale Textile Association (WTA), a secretive organization of merchants that aimed to resist encroachments of manufacturers and retailers. Direct links allowed M&S to impose its own quality controls through co-operation with individual firms.³¹ Marcus Sieff initiated the policy, which was subsequently overseen by Simon Marks and led by Eric Kann and the Merchandise Development Department. It was successively directed by Chief Executives Derek Rayner and Richard Greenbury, with M&S directors going to "great lengths" to support suppliers.³² Their policies were intended as "support for British industry" and to "pursue mutually rewarding long term relationships with suppliers."³³ From the 1960s, M&S provided consulting services to suppliers (plant layout, equipment, staff training). For Corah, the Leicester based knitwear

²⁶ Mike Parsons and Mary Rose, "Communities of Knowledge: Entrepreneurship, Innovation and Networks in the British Outdoor Trade, 1960–90," *Business History* 46 (2004): 609-639.

²⁷ Frank Fishwick, and Robert Cornu, "A Study of the Evolution of Concentration in the United Kingdom Textile Industry," (Luxembourg, 1975), 39, 196.

²⁸ Helen Mercer, "Retailer–Supplier Relationships before and after the Resale Prices Act, 1964: A Turning point in British Economic History?" *Enterprise and Society* 15 (2014): 132-165.

²⁹ Basil Yamey, *Resale Price Maintenance* (London, 1966), 287; National Economic Development Office (NEDO), *Changing Needs and Relationships in the UK Apparel Market*, (London, 1982), 9..

³⁰ For example Vantona group, David Higgins, and Steven Toms, "Financial Institutions and Corporate Strategy: David Alliance and the Transformation of British Textiles, c.1950–c.1990," *Business History* 48 (2006): 453-478.

³¹ Chapman, "Decline and Rise", 178; Chapman, *Hosiery and Knitwear*, 238-240. The policy was implemented notwithstanding threats of blacklisting by the WTA.

³² Chapman, *Hosiery and Knitwear*, 240-248.

³³ Mellahi, et al. "An Exploratory Study."

firm, M&S offered bulk orders to undercut wholesale price, reinvesting the difference in improving quality. M&S employed Swedish consultants to advise Dewhirst on quality improvements.³⁴ To avoid financing expensive inspection systems, resulting in high proportions of rejects and “seconds” M&S insisted its suppliers, for example Dewhirst, invest in statistical process control methods.³⁵

So important was M&S that by the 1980s it could claim that without it, significant sectors of UK textile manufacture would not exist.³⁶ Partly as a consequence of increasing M&S dominance, there were further rationalizations in manufacturing in the 1970s and 1980s, although import penetration was also a factor.³⁷ M&S responded in 1984-1985 with new investment in a specialist co-ordination department, to accommodate supplier ranges with suggested modifications from M&S selectors. Shorter lead times allowed M&S to introduce three fashion seasons instead of two, which although undermining suppliers’ scale economies, was counterbalanced by reductions in inventory and forced mark downs. M&S invested in expensive Gerber cutters to feed a network of satellite sewing factories.³⁸ In specific sub-sectors, such as shirts, the M&S policy of supporting British manufacturers was the only reason for their viability.³⁹ By 1989 M&S controlled approximately 16% of the British clothing market.⁴⁰ M&S’s position helped ensure that retailers’ brands dominated over manufacturers’ brands in ratio of 85:15, in terms of total clothing sales. In continental Europe the ratio was

³⁴ Asa Briggs, *Marks & Spencer 1884-1984: A Centenary History* (London, 1984), 65-68.

³⁵ Lorraine Montford, “Quality Management and Supplier Development” (Doctoral dissertation, University of Durham, 1998), 41-42.

³⁶ John Stopford, and Charles Baden-Fuller, “Flexible Strategies: The Key to Success in Knitwear,” *Long Range Planning* 23 (1990): 56-62, 58. Under the MFA, competition was from low cost European countries like Portugal (Jonathan Zeitlin and Peter Totterdill, “Markets, Technology and Local Intervention: The Case of Clothing,” in *Reversing Industrial Decline? Industrial Structure and Policy in Britain and her Competitors*, eds. Jonathan Zeitlin and Paul Hirst (New York, 1989), 178.

³⁷ See, for example, Allan Ormerod, “The Decline of the UK Textile Industry: The Terminal Years, 1945-2003,” *Journal of Industrial History*, 6 (2003): 1-33.

³⁸ Zeitlin and Totterdill, “Markets, Technology,” 164-165, 173.

³⁹ Stopford & Baden-Fuller, “Flexible Strategies,” 58.

⁴⁰ Keynote, *Clothing Manufacturers- An Industry Sector Overview* (Teddington, 1989)

exactly the reverse.⁴¹ In 1995 M&S's share of the total contract market of £5.3bn was 78% supplied by UK factories and 22% by imports; its competitors' usage was 86% from imports and 14% from the UK. One leading textile analyst concluded that to survive in the 1990s, a firm had to be an M&S supplier.⁴²

The UK textile sector was thus closely aligned to the fortunes of M&S, and to decisions taken by M&S executives. Although never entirely visible, the hand of M&S decisively determined the fate of its suppliers. It took a proprietary interest in "its factories" and progressively shrank the number of suppliers.⁴³ Further relaxation of world trade rules, pressurized M&S to change strategy,⁴⁴ which in theory meant sacrificing co-ordination and trust-based advantages embedded in the long-term partnerships for production cost efficiency gains. Consequently, in the 1990s, an argument based on cheaper cost began to gain ground. Moreover, M&S's close relationship with apparel led to a neglect of fabric, which could be more easily located offshore. Even so, it risked losing control of the overall product quality, which in turn impacted on design.⁴⁵ From the 1980s, M&S increasingly pressurized its suppliers to source overseas, including Courtaulds and Dewhirst, which had begun to develop suitable expertise. Other major M&S suppliers, like Baird and Stirling, lacked the access to import facilities necessary to enter the offshore processing trade.⁴⁶

Chairman and chief executive Greenbury⁴⁷ believed that some shift overseas was inevitable, although there were sharp divisions of opinion within the company, reducing the firm's actual capacity to carry out the policy. Greenbury worried about response times of remote supply chains and the company's image with customers. He needed to reconcile cheaper

⁴¹ Chapman, *Hosiery and Knitwear*, pp.255-256; see also Zeitlin, "Clothing Industry in Transition," 212, t.1.

⁴² Buck, *More Ups*, 112.

⁴³ Buck, *More Ups*, 111; Scheffer, *Trading Places*, 226.

⁴⁴ Johnson, "Marks & Spencer."

⁴⁵ Buck, *More Ups*, 112.

⁴⁶ Buck, *More Ups*: 111, Scheffer, *Trading Places*, 227.

⁴⁷ Greenbury led M&S 1988-1999, Bevan, *Rise and Fall*, 100-104.

overseas sources of upstream fabric and textile commodity production with the flexibility and proximity offered by UK garment manufacturers.⁴⁸ To evaluate these alternatives, and the hybrid strategy that M&S subsequently attempted, the next section presents new evidence on relative profit and risk in the M&S network.

Risk and Profit in the Vertical Network

As the network hub firm, M&S's policy involved balancing reward and risk for suppliers. Thus it transferred significant risk to the subcontractors, whilst suppliers obtained the benefits of the network arrangement through managerial liaison. Rather than offer a particular margin on production cost, it offered price points based on market conditions, which suppliers would then have to match.⁴⁹ Main suppliers, for example Baird, sub-contracted work to smaller suppliers, with M&S providing financial guarantees in the event of liquidation of the contractee.⁵⁰ In effect, these were fixed price contracts, implying that all risks arising from market variance were transferred to the upstream supplier.⁵¹

M&S also provided temporary loans, calling off stocks or varying credit terms and discounts where suppliers had potential difficulties.⁵² To cement relationships, M&S invested in the equity of its suppliers. For example it owned shares in many of its suppliers, including Corah and Nottingham Manufacturing Company (NMC).⁵³ When Dewhirst launched a market

⁴⁸ Bevan, *Rise and Fall*, 114-115.

⁴⁹ *Guardian*, 12 Nov. 1988.

⁵⁰ M&SCA HO/5/1/205; Bennett to Samuel, 20 Mar. 1980.

⁵¹ Jarillo, "On Strategic Networks," 38.

⁵² For example Courtaulds group companies; see Goldberg to Samuel, 12 Oct. 1967; Atkinson to Samuel, 8 Oct. 1970, Samuel to Morris, 30 Nov. 1973; M&SCA, E5/1/140, Northgate Group Ltd; Dewhirst M&SCA, E5/1/55, A. Dewhirst to M. Epstein, 1 Jul. 1974.

⁵³ M&S built up shareholdings in Corah throughout the 1960s and 1970s and had 3 per cent of the ordinary shares of NMC in 1975; M&SCA A04/1125, Statistical abstract; Fishwick and Cornu, *A Study of the Evolution*, 182.

listing in 1972 to fund new investment, it was directly assisted by M&S.⁵⁴ Dewhirst informed M&S of preliminary financial results and changes to senior management.⁵⁵

These arrangements involved genuine efforts by M&S to share risk with suppliers. For example it provided finance for experimental machinery purchases at Dewhirst aimed at productivity improvements that would benefit both parties.⁵⁶ Where factories were closed to rationalize production, M&S provided assistance towards closure costs on a case-by-case basis.⁵⁷ In August 1985, Baird agreed to a restructuring plan at M&S's instigation. The plan was a response to capacity constraints on the M&S autumn program involving the reorganization into product groups, led by executives known and trusted by M&S. The revised structure allowed M&S flexibility in determining shifts in production between different clothing types. Detailed management accounting data, by product group, was provided to M&S for review.⁵⁸

Table 1 about here

The consequences of risk sharing for firms within the M&S network are shown in table 1. The table shows risk profiles of five M&S clothing suppliers and twenty-five non-M&S suppliers whose shares were traded for at least six years in the period 1988-1999.⁵⁹ Using monthly observations, stock market risk measures were calculated for each sample sub-group. Comparative figures for average beta and R square show that changes in M&S supplier's returns corresponded closely with, and were to some extent explained by, general stock market movements. Non-M&S suppliers meanwhile, had lower betas and R square averages,

⁵⁴ Including a major new factory at Driffield; M&SCA, E5/1/55, J. Samuel speech at Dewhirst annual general meeting, 15 Jun. 1973.

⁵⁵ M&SCA, E5/1/55, A. Dewhirst to J. Samuel, 20 Apr. 1976; 10 Nov. 1975.

⁵⁶ M&SCA, E5/1/55, A. Dewhirst to M. Epstein, 23 Sept. 1974.

⁵⁷ For example the closure of Carrington Viyella's plant at Winsford in 1983; M&SCA, E/1/38, W. Wood to R. Greenbury,

⁵⁸ M&SCA HO/5/1/235, Supplier file, William Baird; Memorandum, 15 Aug. 1985.

⁵⁹ Firms selected from textile and apparel sector in Datastream. M&S suppliers selected from the core group that M&S increasingly relied upon during the 1990s.

suggesting that their return variance was attributable to more firm specific effects. At the same time, total variance of return was much higher, suggesting that these firms were more vulnerable to trading conditions in specialized markets that were difficult to diversify.

Figure 1 about here

Comparing accounting rates of return, there were also large differentials for M&S suppliers, shown in figure 1. M&S suppliers earned significantly higher rates of return compared to non M&S textile firms consistently in the period 1949-1984. During this time the average return from M&S suppliers was 22.1% compared to 11.9% for non M&S firms, a premium of 10.2%. M&S suppliers also had lower return volatility, confirming the results in table 1.⁶⁰ After 1984 the differences became less discernible. M&S continued to provide its suppliers with similar levels of return, but non M&S suppliers also improved their relative performance. Following the restructuring of the early 1980s, surviving companies were able to use new investment to capitalize on a rapid expansion of the domestic market.⁶¹ Even so, between 1985 and 2000, the M&S umbrella offered a net benefit. Although return volatility increased for all firms, as table 1 illustrates, total risk was still lower for M&S suppliers.⁶²

For a substantial period, including, as figure 1 suggests, a short window during the early 1990s, dependence on M&S was created competitive advantage for UK manufacturers, which made M&S suppliers attractive takeover targets. Through this process, the M&S supplier base was steadily consolidated. In part this was due to activity by Coats Viyella, which through a series of takeover transactions, became larger, but also progressively increased its dependence

⁶⁰ Variance of return was 24.01% and 37.21% for M&S and non M&S suppliers respectively.

⁶¹ Textile Outlook International, Sept. 1996, 31.

⁶² M&S suppliers averaged accounting returns of 13.3% and non M&S 12.2%; variances of return were 163.84% and 139.24% respectively, suggesting that accounting returns were more volatile than stock market returns for both groups, and that association with M&S mitigated investor risk perception.

on M&S. Acquisitions included Carrington Viyella (1982), F Miller, (1984), NMC (1985), Coats Paton (1986), Tootals (1991) and Corah (1994).⁶³ As a consequence, Vantona, supplying 20% of its output to M&S in 1984 became Coats Viyella, supplying 50% by 1991.⁶⁴ Supplier concentration in the early 1980s suggests that figure 1 trends should be interpreted cautiously, as these larger firms did not immediately develop high dependency bi-lateral relationships with M&S and retained significant capacity outside the M&S umbrella.⁶⁵ For this reason, the pattern of profitability of the M&S supplier network more closely followed the rest of the industry after 1985.

M&S supplier performance before 1984 is all the more outstanding when international trading conditions are factored. UK unit labor costs in textiles were comparable to European competitors such as Italy, but substantially higher than the US and much higher than North African countries such as Morocco and Egypt.⁶⁶ These differences did not necessarily imply that UK textiles should have contracted in the absence of MFA protections. The higher quality of the European workforce was widely acknowledged.⁶⁷ Further, in the early 1980s, UK firms benefited from a shift to shorter supply and lead times from retailers, including M&S and but also new competitors such as Next. Similarly in Italy, Benetton matched supply to short run changes in demand using Electronic Point of Sale technology and warehouse automation, which tended to benefit European producers rather than the developing world.⁶⁸

⁶³ Observer, 17 Oct. 1982; Times, 16 Oct. 1982. Financial Times, 24 Feb. 1984. Times, 18 May, 1985; Sunday Times, 23 Jun. 1985; Observer, 23 Jun. 1985; Daily Mail, 29 Sept. 1986; Times, 18 May, 1991; Times, 6th Oct. 1994.

⁶⁴ Glasgow Herald, 4 Jul. 1984; Times, 18 May, 1991.

⁶⁵ For example Coats Viyella's bid for Tootal was referred to the Monopolies and Mergers Commission (MMC), which noted that although both firms were significant M&S suppliers, they also supplied Burtons, House of Fraser, and uniforms to public sector organizations (House of Commons Parliamentary Papers (HCPP), MMC, Cm.833, Coats Viyella Plc and Tootal Group Plc, 14).

⁶⁶ Jeffrey Arpen and Brian Toyne, "The Textile Mill Complex and the Textile Mill Products Industry," table 2.5, 26-27; Andy Barnett, "Economics of the Global Textile Industry," table 5.21, 100, in Toyne, *The Global Textile Industry*.

⁶⁷ Werner Stengg, "The Textile and Clothing Industry in the EU," *Enterprise Papers* 2 (2001): 4.

⁶⁸ Paul Hirst, and Jonathan Zeitlin, "Flexible Specialisation and the Competitive Failure of UK manufacturing," *The Political Quarterly*, 60: 164-178; Zeitlin and Totterdill, "Markets, Technology."

Before 1994, international trade rules boosted the advantages of local sourcing strategies for retailers, including M&S. The MFA protected developed country markets from cheaper labor sources through quotas, Bangladesh being an exception. Successive British governments continued these EU-led protection policies through four renegotiations of the MFA up to 1991.⁶⁹ However, some manufacturers, for example Bodycote, regarded the removal of the MFA as an ‘outward processing’ opportunity for offshoring low value production such as garment stitching from pre-supplied fabric.⁷⁰ In the 1990s Mediterranean North African countries benefitted increasingly from tariff free EU market access under preferential trade agreements.⁷¹ The 1988-1994 Uruguay Round led to textiles falling under the jurisdiction of the World Trade Organization. An important part of the wider process, the Munich summit of July 1992, signaled the end of MFA quota protection for UK firms.⁷² The resulting Agreement on Textiles and Clothing (ATC) specified a ten-year phase out of the MFA beginning in 1995.⁷³ For all firms, the 1992 announcement and the MFA phase out after 1995 can be clearly discerned in figure 1. These changes represented a major threat to M&S’s differentiation strategy based on UK supplier partnerships.

Figure 2 shows the profitability of M&S compared to its suppliers. For almost all years M&S profits were greater, but the difference between M&S suppliers and non M&S suppliers in figure 1 suggests M&S was prepared to share a significant proportion of its excess profits within the supplier network, thereby creating long run stability.⁷⁴ The removal of resale price maintenance in 1964, which may have further shifted the balance of power in favor of multiple retailers,⁷⁵ did not apparently affect the distribution of profit and risk within the M&S vertical

⁶⁹ Tony Heron, "European Trade Diplomacy and the Politics of Global Development: Reflections on the EU–China ‘Bra Wars’ dispute." *Government and Opposition* 42 (2007): 190-214.

⁷⁰ "Why a UK Clothing Manufacturer seeks Liberalization of the MFA," *Textile Outlook International*, Mar. 1986, 53.

⁷¹ Stengg, "Textile and Clothing," 21.

⁷² *Guardian*, 9 Jul. 1992.

⁷³ Dean Spinager, "Textiles beyond the MFA phase out," *CSGR* 13/98, (Warwick 1998), 3.

⁷⁴ The average return on capital for M&S 1949-2000 was 26.6%.

⁷⁵ Mercer, "Retailer-Supplier."

network. Again, the effects of the MFA phase out can be discerned, partly in a widening gap between M&S and supplier profitability. The fall in M&S profits, in 1998, was delayed compared to the more immediate effects for its suppliers. The trends suggest that M&S began to protect its position by undermining some features of supplier collaboration such that supplier profits suffered before an equally serious and corresponding collapse for M&S some years later.

The reason for the poor results for M&S after 1998 was the rapid rise of competitors such as Next, Gap and Zara.⁷⁶ They could potentially to compete on design and price, by sourcing cheaper overseas suppliers. Zara's business model was based on rapid customer focused adaption of style within season, through a vertically integrated supply chain based on a network of small Spanish co-operative firms, with lower end bulk and longer shelf-life products outsourced internationally.⁷⁷ Zara thus provided a template business model which M&S could potentially adapt.

Parallel trends in the supplier network increased the feasibility of such a model for M&S. In the period leading up to the ATC, UK textile firms had also begun to source more of their production overseas, and from 1996, this became much more pronounced.⁷⁸ According to press commentators, the threatened introduction of a UK minimum wage provided further incentive.⁷⁹ Some suppliers, such as Baird, had already been using offshore suppliers for many years, for example basic Portuguese sourced Twill.⁸⁰

Figure 2 about here

⁷⁶ Zara, a subsidiary of Inditex, Spain, first entered UK market in 1998 with a branch in London's Regent Street. Independent 12 Nov., 1998

⁷⁷ Stephanie Crofton, and Luis Dopico, "Zara-Inditex and the Growth of Fast Fashion," *Essays in Economic & Business History*, 25(2006): 41-53. Zara has increasingly sourced from low cost labor countries; Nebahat Tokatli, "Single-firm Case Studies in Economic Geography: Some Methodological Reflections on the Case of Zara," *Journal of Economic Geography*, 15 (2015): 631-647.

⁷⁸ Guardian, 3 Nov. 1996.

⁷⁹ The Times, 11 Sept. 1996.

⁸⁰ M&SCA HO/5/1/235, Memorandum, 15 Aug. 1985.

Also, as noted earlier, there were many examples of M&S procedures underpinning trust in the supplier network. Taken together, however, the trends in figures 1 and 2 suggest that distributional justice was an important reason for the build-up of such trust.⁸¹ Before 1984, M&S redistributed the benefits of its high street dominance to its supplier network. After then, as M&S supplier relative profitability dwindled,⁸² M&S increasingly relied on procedural mechanisms. By September 1998 it had adopted its Global Sourcing Principles (GSP),⁸³ designed to replicate the procedural superintendence previously applied to UK suppliers to a radically relocated supply chain.

The mid 1990s were a crucial transition stage in M&S supplier relations. M&S now began to encourage its suppliers to set up their own production overseas.⁸⁴ As the MFA was phased out in the early 1990s, M&S could not easily guarantee profits in its network, nor could procedural templates developed over decades with UK suppliers be easily refashioned in countries like Morocco. By 1992 M&S already had experience of working with UK suppliers to source goods from the Far East.⁸⁵ In 1996, the stated intention of all M&S suppliers, with the encouragement of M&S was to shift production overseas.⁸⁶ The policy absolved M&S from investing directly in overseas purchasing networks where it lagged its competitors.

Meanwhile, M&S passed the responsibility for overseas sourcing to its suppliers in the event of negative publicity, whilst benefitting from access to cheaper supplies.⁸⁷ A typical

⁸¹ The evidence complements Nirmalya Kumar, "The power of trust in manufacturer-retailer relationships." *Harvard Business Review* 74 (1996): 101-103, who provides specific examples of distributional justice (the perceived fairness of the outcomes received) distinguishing from procedural justice (the perceived fairness of the powerful party's process for managing the relationship) in the M&S-supplier relationship.

⁸² Coats and Charnos complained of inadequate returns on investment through supplying M&S in the 1990s; M&S imposed cuts in suppliers' margins in 1984, 1991 and 2000 (Chapman, *Hosiery and Knitwear*, 261, 331).

⁸³ M&SCA A04/76, Global Sourcing Principles, "Holding Statement," Sept. 1998.

⁸⁴ Johnson, "Marks & Spencer," 3-4.

⁸⁵ HCPP, 231, Trade and Industry Committee, Memorandum by Marks & Spencer plc (HK3) (London, 1992). The countries used were Hong Kong, China, South Korea, Malaysia, Thailand and the Philippines.

⁸⁶ *Guardian*, 3rd Nov. 1996.

⁸⁷ Press releases stressed that M&S was a retailer, with no responsibility for the actions of its suppliers. For example, M&SCA A04/76, Jane Lowe Memorandum, 13 Mar. 1999.

exchange was initiated by union leader Des Farrell, who accused M&S of encouraging suppliers to use overseas labor, stating: “Marks & Spencer is a national institution and in the eyes of the consumer its image is one of a retailer of quality clothing made in Britain. We urge it to think again and to look at ways or encouraging manufacturing in the UK.” A spokeswoman for M&S responded: “We have set out our targets and it is up to our suppliers, who are independent businesses, to decide how they will achieve theirs. That may mean that they decide to source more from overseas.”⁸⁸ As the evidence below suggests, these businesses were far from independent, but nonetheless the quotation reveals the potential public relations benefit for M&S of using UK suppliers to source overseas.

Throughout the 1990s M&S tended to reduce the emphasis on its support for UK manufacturers in public disclosures. As early as 1989, the company referred to its expanding international base, whilst commenting on its continued support for investment by British firms. Before 1995, the chairman’s statement paid tribute to suppliers and usually quantified the amount of UK manufactured merchandise it sold. For example the 1992 report referred to the “unique” relationship and that M&S “continued to support British industry” and bought £4,533m of British goods, four fifths of total purchases.⁸⁹ The 1995 statement was the last to quantify M&S’s contribution along these lines, but also referred to an “expanding international supply base.”⁹⁰ From 1996 there were only generalized references to international networks of suppliers. Phrases such as close partnership were still used. An example of the more generalized form of reporting was in the 1998 chairman’s statement. Greenbury stated: “I would like to pay tribute to all suppliers of goods and services who have worked closely with us in partnership to develop the business. Once again they have done an excellent job and their

⁸⁸ Scotsman, 10 Sept. 1998.

⁸⁹ M&SA CR/D/64&67, Annual Report and Accounts, Chairman’s Statement, 1989, 6, 1992, 4.

⁹⁰ M&SA CR/D/70, Annual Report and Accounts, 1995, Chairman’s Statement, 3.

continued investment and increased commitment to supplying us augers well for our combined futures.”⁹¹

The consequence of this policy was to reduce UK sourced goods from 80% to 70% in the period 1991-1998.⁹² Meanwhile, M&S’s long term relationship with suppliers depended on stable business conditions and M&S’s continuing dominance of the high street. After a significant fall in profits in 1998, M&S pressurized suppliers to shift more production abroad, whilst overstocking in M&S led to falls in supplier share prices.⁹³ After M&S adopted its new GSP, there was a strategic review of supplier contracts in summer of 1999.⁹⁴ McKinsey conducted the review and advised M&S to narrow and globalize their supply chain, using only suppliers who could manufacture garments from start to finish.⁹⁵ Although based on outside advice, according to M&S, rationalization could not have been achieved without supplier co-operation.⁹⁶ M&S completed the program by 2002, transferring £1.5bn of production overseas, leaving 70% UK sourced.⁹⁷

Notwithstanding the shift overseas, M&S still closely controlled its suppliers. As noted earlier, Courtaulds and Dewhirst were prepared for increased pressure from M&S to source overseas once the M&S Hong Kong initiative had failed. As early as 1979, M&S and Courtaulds corresponded on the potential advantages of offshoring production. Courtaulds CEO, Sir Arthur Knight suggested that integrating low wage sources of supply should be part of the longer-term dialogue between the firms.⁹⁸ In 1981, Courtaulds constructed Chelco as a

⁹¹ M&SA CR/D/71-73, Annual Report and Accounts, 1996, 1997, 1998, Chairman’s Statement, 5.

⁹² Scotsman, 10 Sept. 1998.

⁹³ Economist, 2 Jan. 1999, p.63.

⁹⁴ Keith Blois, “‘B2B Relationships’- A Social Construction of Reality? A Study of Marks and Spencer and one of its Major Suppliers,” *Marketing Theory* 3 (2003): 79-95, 87,89. Johnson, “Marks & Spencer,” 4.

⁹⁵ Debbie Harrison, “Network Effects Following Multiple Relationship Dissolution,” 15th IMP Conference (Oslo, 2001), 10. Use of McKinsey reflected M&S’s continued lack of expertise in overseas sourcing. On the use of consultants to achieve such “knowledge economies”, see Chris McKenna, *The World’s Newest Profession* (Cambridge, 2006)

⁹⁶ M&SCA HO/5/7/21/149; Preliminary Results Announcement, 31 Mar. 2000.

⁹⁷ *ibid.*

⁹⁸ M&SCA E5/1/140, Northgate Group Ltd; Knight to Sieff, 17 Dec. 1979;

joint venture with Morocco's Office for Industrial Development and Moroccan private investors. The Moroccan model imported raw fibers taking advantage of tax breaks and then re-exported based on specifications laid down by Courtaulds's European partner, in this case Mothercare and British Home Stores (not M&S). Benetton used a similar strategy.⁹⁹ In 1996 Coats Viyella's relocated its Rainhill shirt factory to Mauritius, in close consultation with M&S. Greenbury was "incensed" when M&S was "dragged into the dispute" over the closure.¹⁰⁰ Even so, M&S insisted on being consulted on strategic changes carried out by supplier firms. When Noel Jervis was ousted as Courtaulds Textiles CEO in 1996, Greenbury rebuked Eccles, the Chairman, for not informing him in advance.¹⁰¹

In summary, such interference was the price of the financial advantages that accrued to suppliers in the M&S network. Sharing profit and risk allowed the UK textile sector to invest and modernize, and to receive financial and managerial assistance to operate profitable contracts within the network. Nonetheless, M&S ensured that the supplier bore the ultimate risk. In the difficult conditions of the 1990s, M&S became more active in the governance, management, and restructuring of its supply network. As the case of Courtaulds Textiles and Claremont Garments illustrates, M&S orchestrated takeover transactions affecting its supplier network, resulting in further concentration and decisions to offshore production.

Claremont Garments, Courtaulds Textiles and M&S

As M&S concentrated orders on a smaller group of suppliers, some, including Courtaulds Textiles, Claremont Garments and William Baird, became sole suppliers of certain products. Others, including SR Gent, Dewhirst and Coats Viyella supplied multiple products in

⁹⁹ Economic Intelligence Unit, *Mediterranean Textiles and Clothing*, (London, 1989), 92.

¹⁰⁰ The Times, 6 May, 1996, speculated that losses at the Coats factory were "probably known to M&S." Mauritius had preferential access to European and US textile markets, "Keys to Export Success: Mauritius," *International Trade Forum* 4 (1999), 28.

¹⁰¹ Owen, *Rise and Fall*, 189.

competition with other suppliers.¹⁰² From 1990 to 1998 the annual value of clothing supplied to M&S by four suppliers, Baird, Courtaulds, Coats-Viyella and Dewhirst, rose from £867.2m to £1,235m.¹⁰³

An important part of the concentration strategy was to exploit scale and scope economies in the supplier cost base. Once manufacturers had covered their fixed costs, small increases in volume led to large profit increases, notwithstanding price freezes or even reductions. For example in the 1992-1993 “outstanding value” campaign, M&S was able to improve its own profits by 25% and those of its suppliers.¹⁰⁴

The history of Claremont Garments exemplifies important characteristics of the M&S supply chain. Claremont was formed by a demerger of the manufacturing side of Alexon Group in 1991.¹⁰⁵ Although Claremont had its own stock exchange listing, it sold 97% of its output to M&S.¹⁰⁶ Claremont’s strong financial performance following the demerger mirrored the benefits of the M&S link, whilst Alexon, whose portfolio was based on the 1988 acquisition of Ellis and Goldstein, one of Britain’s best performing companies, suffered poor sales and declining profits by direct retailing of brands in high rental locations.¹⁰⁷

Claremont’s strategy was to acquire more firms and thereby increase the range of goods sold to M&S. In June 1992, Claremont took over J&J Fashions, another M&S supplier, with the agreement of M&S, paying £26.75m partly funded by a rights issue. Two months later in August 1992 it paid a further £2m for another M&S supplier, Alexander Milnes, allowing some diversification into corporate clothing.¹⁰⁸ In March 1994 Claremont acquired Magellan

¹⁰² Times, 12 Sept. 1991. By 1993 Dewhirst was selling 85% of its output to M&S (Independent, 14 Sept. 1993).

¹⁰³ Baird Textile Holdings Ltd v Marks & Spencer plc [2001] EWCA, civ 274.

¹⁰⁴ Investors Chronicle, 22 Oct. 1992.

¹⁰⁵ Times, 1 Apr. 1991.

¹⁰⁶ Independent, 27 Jun. 1991.

¹⁰⁷ David Higgins and Steven Toms, “Explaining Corporate Success: The Structure and Performance of British Firms, 1950–84,” *Business History*, 53 (2011): 85-118..

¹⁰⁸ Independent, 20 Jun. 1992; Daily Mail, 20 Jun. 1992; Independent, 21 Aug. 1992. Investors Chronicle, 28 Aug. 1992.

Industries for £43m in a share for share deal, extending its M&S range to include lingerie and swimwear. The company invested heavily in manufacturing efficiency and computer aided design (CAD), allowing rapid creation and review of on screen samples, which combined with the latest printing technology, promoted the adaptability required by M&S.¹⁰⁹ Claremont enhanced design capability by hiring top fashion talent,¹¹⁰ and funded its investments from M&S contracts, which offered increased volumes that more than compensated for cuts in margins.¹¹¹

In the early 1990s, Claremont established manufacturing sites in Morocco and Romania,¹¹² and set up an international sourcing department. In 1995 M&S began sourcing coats and jackets in Lithuania and Slovakia. Following a 10% fall in sales, Claremont announced a restructuring program, concentrated on fewer sites and a joint venture in Morocco. In 1996 it closed a UK factory at Pollockshaw near Glasgow and disposed of Spennymoor sports kit manufacturer, Avec, followed in 1997 by its Stockton-based supplier to Next, Bellrise. Overseas sourcing increased to 15% by 1997 and was set to increase to 20% in the following year. Notwithstanding the opening of overseas capacity, the Glasgow closure was part of a rationalization program costing £7m, with jobs transferred to other UK factories.¹¹³

Claremont's establishment of Moroccan subsidiary operations was a particularly important development that impacted on M&S's relationship with its supplier network. One

¹⁰⁹ Simon Domberger, *The Contracting Organization: A Strategic Guide to Outsourcing* (Oxford, 1998), 6-7; Claremont's investments led to a two week production cycle compared to six at Corah, Buck, More Ups. 156.

¹¹⁰ Leading fashion designer Caroline Charles was hired in Aug. 1993. Coats Viyella had already hired Ally Capelino in a similar move; *Times*, 31 Aug. 1993.

¹¹¹ Press Association, "Sales boom at M&S supplier Claremont," 6 Sept. 1993.

¹¹² Montford, "Quality Management," 39. Likewise Dewhirst had subcontractors in Romania. In Morocco, outward processing and sub-contracting for European firms led to a rapid expansion between 1987-1991; "Profile of Morocco's Textile and Clothing Export Industry," *Textile Outlook International*, Jul. 1994, 111.

¹¹³ *The Times*, 13 Sept. 1995; *Independent*, 20 Mar. 1996, 17. Claremont's closure of Pollockshaw resulted in the loss of 720 jobs with others transferred to Peterlee; *Investors Chronicle*, 31 Jul. 1998; *Times*, 18 Oct. 1996; 21 Dec., 1996; *Independent*, 1 Jun. 1997; *The Journal*, 16 Dec. 1997. Overseas sourcing was used for commodity items such as school shirts; *Times*, 27 Jun. 1998. Countries like Romania, Lithuania and Slovakia offered an advantageous combination of lower cost skilled labor suitable for labor intensive processes in apparel manufacture (Giovanni Graziani, "Globalization of Production in the Textile and Clothing Industries: The Case of Italian Foreign Direct Investment and Outward Processing in Eastern Europe," *Berkeley Roundtable on the International Economy*, 1998).

such investment was “DEV1” in Casablanca. Although a Claremont factory, DEV1 was inspected by M&S staff in 1994. M&S’s resulting profile of DEV1 had revealed that the factory conformed to M&S safety and Claremont operational standards and that Claremont would now invest in the factory. The factory was regarded in the inspection memorandum as inefficient, but nonetheless suitable to supply garments destined for M&S. The factory employed 1135 workers on a basic wage of 1,600 Dirhams (dh) per month; equivalent to £119, which for a weekly shift of 45 hours was the equivalent of a 61p per hour average, and therefore close to the official Moroccan minimum wage.¹¹⁴ M&S rated the factory, which had a minimum age requirement of 18, as “Grade A”. Notwithstanding low wages, the memorandum noted that in China and Eastern Europe, labor costs would be 25% lower.¹¹⁵

The DEV1 factory subsequently became Claremont MAROC and then, following the Courtaulds takeover of Claremont in 1998, Courtaulds MAROC and was the subject of the Sunday Mirror ‘Made in Morocco for Marks and Spencer’ investigation in March 1999, that detailed the relocation of production from north eastern England to Morocco, where Claremont had raised the number of factories to ten and alleged the hand of M&S behind the resulting labor exploitation.¹¹⁶ On 12th March 1999, the M&S corporate press office issued a holding statement advising store managers how to respond to the report.¹¹⁷

¹¹⁴ M&SCA H/5/7/21/149, Company Profile, 7 Nov. 1994. Comparable minimum wage rates were 1321dh per month or 50p per hour, and 72p per hour for qualified women workers (Calculated using equivalent exchange rates from wage data in “Profile of Morocco’s Textile and Clothing Export Industry”, 126).

¹¹⁵ M&SCA H/5/7/21/149, Company Profile, 7 Nov. 1994. In the UK the proposed minimum wage of £4.05 per hour would have benefitted around one sixth of manual workers and 3 million part time workers earning less than £3.70 and £4.15 per hour respectively; Guardian, 28 Dec. 1994. For 70% of firms labor cost was the most important factor in delocalization decisions. In the Moroccan case the government also offered generous tax reliefs to foreign investing companies. “Profile of Morocco’s Textile and Clothing Export Industry”, 124,126)

¹¹⁶ M&SCA A04/76, Memorandum, “Piece for Sunday Mirror,” Jane Lowe, 12 Mar. 1999. Sunday Mirror, 14 Mar. 1999.

¹¹⁷ M&SCA A04/76, N-Q Press Office, “Holding Statement to Store Managers re Sunday Mirror,” 12 Mar. 1999; M&SCA A04/76, Press Cuttings. “Made in Morocco for Marks and Spencer,” Sunday Mirror, 14 Mar. 1999, 6.

Although the Sunday Mirror piece attracted negative publicity for M&S, and indeed for Courtaulds, there is clear evidence that, when sourcing overseas, M&S endeavored to retain some features of supplier partnership, including close liaison and inspection, characteristic of its traditional UK supplier relationships.¹¹⁸ According to the Sunday Mirror, Moroccan textile wages were about £1.20 an hour and higher in the Courtaulds MAROC factory, indicating that although well below UK standards, wages had increased since the original purchase in 1994. An internal memorandum indicated that M&S staff visited the factory in c.1994/1995, and a technologist visited in June 1998, and reported that the building was basic, but health and safety standards were high.¹¹⁹ Even so, the audit checklist lacked any detail, merely stating that for quality systems and procedures: “Claremont operations manual followed.” There were no suggestions for improvement and the four year between visits would not have complied with the annual visits insisted upon by the M&S GSPs adopted after 1999, and which had been under development several years previously.¹²⁰

M&S’s indirect involvement in the Moroccan investments had a further dimension, revealed by the mechanics of the merger between its two suppliers. Continued rationalization costs at Claremont led to further falls in profit and on 18th March 1998, the share price fell by 40% following the announcement of an audit investigation into underpayment of duties on imports from Morocco and the Far East. Claremont also missed orders due to capacity problems following the earlier closures and rationalizations.¹²¹ M&S meanwhile was

¹¹⁸ M&SCA A04/76, “Holding Statement,” 12 Mar. 1999, stated that: “We employ over 60 qualified food scientists and technologists, who regularly visit suppliers all over the world” to ensure they “implement our codes of practice.”

¹¹⁹ M&SCA A04/76, Memorandum, “Piece for Sunday Mirror.”

¹²⁰ Johnson, “Marks & Spencer,” 8, and c/f: M&SCA A04/76, Global Sourcing Principles, Holding Statement, Sept. 1998. The statement noted M&S had been working on codes of conduct ‘for some time’ (a reference to “Granada litigation” suggests since at least before 1996), and included long-term relationships, continuous improvement and regular visits.

¹²¹ Times, 18 Mar. 1998; Investors Chronicle, 31 Jul. 1998; Owen, Rise and Fall, 191. A profits warning followed and the shares were suspended after further falls in Jun. 1998; Times, 21 Mar. 1998; Times, 20 Jun. 1998. The underpayment arose because clothes imported from the Netherlands originally produced in non-EU countries were incorrectly declared, resulting in a £2.5m additional tax liability; Times, 27 Jun. 1998.

concerned by poor sales of Claremont stock and high levels of returns, leading to investment in computerized monitoring software at its 30 factories.¹²² Even so, speculation in the City was that Claremont would be the target of potential takeover bids from other M&S suppliers, including Dewhirst, William Baird, or possibly Courtaulds Textiles, with M&S being influential in the outcome.¹²³

Courtaulds had been a leading M&S supplier for many years. In common with other suppliers, it received financial assistance for trade finance from M&S.¹²⁴ Since 1990, following a demerger from the Courtaulds Group as Courtaulds Textiles, its strategy was concentration on differentiated products in terms of response, fabric quality, design or branding, increased efficiency through automation and CAD, and reduced dependency on commodity production.¹²⁵ Rather than broaden its international base through acquisitions, it relocated its production overseas whilst increasing reliance on own label products for M&S, such that by 1994 M&S sales accounted for 25% of Courtaulds' turnover.¹²⁶ Accordingly, it began to rationalize its activities closing spinning and weaving activities and investing in more specialist areas like lace.¹²⁷ Courtaulds supplied M&S with mostly lingerie, and faced exposure to M&S policy on margins, for example in 1991 when M&S announced that it would not pass on Value Added Tax (VAT) increases to customers.¹²⁸ Rationalizations enabled the firm to reduce debt

¹²² Independent, 20 Jun. 1998. Times, 27 Jun. 1998.

¹²³ Times, 11 Aug. 1998. On 1 Sept. 1998 the takeover panel of the London Stock Exchange was notified of discussions or a possible offer; London Stock Exchange, Aggregated Regulatory News Service, 1 Sept. 1998.

¹²⁴ For example acceptance of bills of exchange drawn by Courtaulds; M&SCA HO/5/1/50, Security National Pacific Bank, 7th Oct. 1982.

¹²⁵ In Jan. 1995 Courtaulds appointed a design director and invested £7m in a design facility dedicated to M&S supply. "Profile of Courtaulds Textiles," Textile Outlook International, Sept. 1995, 69.

¹²⁶ "Profile of Courtaulds Textiles," 54. Courtaulds achieved a return on capital 38.2% on its offshore and Asian activities compared to 14.6% on all activities in 1994 (ibid, 68 and table 7).

¹²⁷ Independent, 3 Jan. 1993; Independent, 6 Sept. 1991. For example the disposal of its French spinning business to Mossley Group, International Business News, Nov. 1991 and the sale of woolen weaving manufacturer Courtaulds Woollens to Drummond Group, Times, 3 Jan. 1992.

¹²⁸ Independent, 31st Mar. 1991. Whilst lingerie was buoyant, the firm further rationalized its spinning capacity, closing four mills. Independent 1 Mar. 1991; Independent, 6 Sept. 1991. M&S argued that it by holding its retail prices and not passing the VAT rise on it was protecting British suppliers by guaranteeing volume. M&SCA CR/D/67, Annual Report and Accounts, Chairman's Statement, 4.

and invest in automation, thereby strengthening the share price and paving the way for equity funded acquisitions of branded clothing manufacturers and design.¹²⁹ The company and its share price performed well, notwithstanding adverse international trading conditions caused by high UK interest rates and the falling value of the dollar against European currencies.¹³⁰

Towards the end of 1992, Courtaulds accelerated its overseas sourcing program. It established production in North Africa and Turkey and entered a joint venture to build capacity in Sri Lanka for Victoria Secret lingerie.¹³¹ In 1993 operations were set up in the Philippines and Thailand, and in 1994, the development of a fabrics plant at Nanjing. Courtaulds disposed of underperforming units, which was insufficient to head off a second profit warning in May 1996, following an earlier warning in December 1995.¹³² The larger firms supplying M&S, including Courtaulds, under-performed, whilst others, including Claremont and Dewhirst, that had been quicker to shift production overseas.¹³³ In June 1996, the new CEO, Colin Dyer replaced announced a rationalization program, further UK factory closures and more production to be moved abroad to countries where Courtaulds already had presence, including Morocco, Tunisia and Sri Lanka.¹³⁴ In the recovery that followed, sales to M&S increased, accounting for 35% of the total by 1997, increasing to 44% following the takeover of Claremont in 1998.¹³⁵

On 14th September 1998, Courtaulds announced it was in discussion with Claremont about a possible takeover. A day later it received acceptances from Claremont directors and

¹²⁹ Independent, 28 Feb. 1992; Investors Chronicle, 10 Apr. 1992. In Jan. 1992, Courtaulds acquired the design company Arabella Pollen; Independent, 28 Jul. 1992. The strategy was underpinned in part by the development of Tencel in the late 1980s, a specialist upmarket denim product, Owen, Rise and Fall, 156-157.

¹³⁰ Independent, 4 Sept. 1992.

¹³¹ Owen, Rise and Fall, 185-186. The partners in the joint venture were the US firm, The Limited and the Sri Lankan firm MAS Holdings. Courtaulds also added to its majority holding in Chelco following its privatization in 1993; "Profile of Morocco's Textile and Clothing Export Industry," 126.

¹³² The Times, 2nd May, 1996.

¹³³ In 1997 Dewhirst acquired an established factory in Casablanca, Morocco "Profile of Dewhirst Group and Martin International," Textile Outlook International, Mar. 1999, 59.

¹³⁴ The Times, 6 Jun. 1996; Times, 11 Sept. 1996.

¹³⁵ Independent, 11 Sept. 1997. Owen, Rise and Fall, 191.

Invesco Asset Management, giving Courtaulds 17% of share capital. Warburg Dillon Read published the offer document on 16th September, acting on behalf of Courtaulds. The offer was based on the closing Claremont price on 11th September of 16.5p. The offer was 18p per share, valuing Claremont at £10.1m. The deal was finalized, becoming unconditional on 14th October.¹³⁶ The takeover had been encouraged by Greenbury,¹³⁷ but M&S involvement went beyond that. On 16th September 1998, at the early stages of the negotiations, the M&S corporate communications department issued a holding statement expressing wholehearted support for the deal between its two long-standing suppliers.¹³⁸ A few weeks after the takeover, Courtaulds announced the closure of 8 Claremont factories, after M&S disclosed that it was encouraging its suppliers to shift production overseas. In September 1998, M&S had met its top 15 suppliers to discuss cost reductions through overseas sourcing.¹³⁹ Despite these changes, the Courtaulds share price remained weak, as investors deserted textiles in favor of dot.com firms, leading Dyer, the Courtaulds chairman, to dispose of the household furnishing division in March 1999.¹⁴⁰

The reason for this shakeout was declining M&S high street sales. Between 1997 and 2000 M&S's share of the UK retail clothing market fell from 13.9% to 10.9% and the share price fell from 660p to 170p, representing a significant and public crisis for the firm.¹⁴¹ As the squeeze on M&S sales and margins continued, the pressure on suppliers intensified. The McKinsey review was conducted between June and October, 1999. As evidence of M&S's

¹³⁶ M&SCA A04/76, Warburg Dillon Read, Press Release, 16 Sept. 1998; Courtaulds Textiles, Corporate communications, "Successful Offer for Claremont," 14 Oct. 1998.

¹³⁷ Owen, Rise and Fall, 191.

¹³⁸ M&SCA A04/76, Corporate Communications, "Holding Statement," 16 Sept. 1998.

¹³⁹ The Herald, 2 Dec. 1998, p.10; M&SCA A04/76, Press Cuttings; Guardian, 19 Nov. 1998; Dewhirst relocated most of its production to Morocco, Malaysia and Indonesia, "Profile of Dewhirst and Martin International," 53, 57, 62.

¹⁴⁰ Owen, Rise and Fall, 192.

¹⁴¹ M&SCA A04/76, Press Cuttings, Financial Times, 24 Nov. 1999, 28. See figure 2; also, Bevan, Rise and Fall; Mellahi, et al. "An Exploratory Study."

dominance of the network, suppliers were required “to provide detailed and confidential information about all aspects of their business.”¹⁴²

The review resulted in the strategic decision to concentrate on a select group of with “international expertise,” meaning three suppliers: Courtaulds, Coats Viyella and Dewhirst. Courtaulds benefited from £60m of extra business per year, based on 40 factories in North East England, heavily dependent on M&S,¹⁴³ meaning the two firms could collaborate on further offshoring decisions. Even as this deal was announced Courtaulds set about a further round of closures of former Claremont factories acquired in the takeover. On 24th November, 1999, the same day that the £60m deal was announced, Courtaulds announced a cost cutting program that involved shifting production overseas, with analysts expecting further shifts from the current level of overseas sourcing of 50% for Courtaulds to over 70% for all the major M&S suppliers, including Dewhirst and Coats Viyella.¹⁴⁴

Notwithstanding its steady shift overseas, the retention of part of the UK supplier base and UK suppliers with overseas subsidiaries allowed M&S to claim that UK sourced goods remained large relative to retail competitors and that “the vast majority of our imports are secured through established UK manufacturers.”¹⁴⁵ An internal statement summarized the strategy as follows: “When sourcing overseas, it is our practice to use existing UK suppliers to manage the process. Their long standing relationships with Marks & Spencer mean that they are well aware of the code of conduct we require relating to factory standards...”¹⁴⁶

The decision to support Courtaulds as a vehicle for offshoring supply also damaged the suppliers that were dropped, including William Baird, Richard Roberts and Daks Simpson. For

¹⁴² Blois, “B2B Relationships,” 85.

¹⁴³ M&SCA A04/76, Press Cuttings, Independent, 24 Nov. 1999, 21; Financial Times, 24 Nov. 1999, 28; Courtaulds relied on M&S for 40% of its sales, Northern Echo, 24 Nov. 1999.

¹⁴⁴ M&SCA A04/76, Press Cuttings, Financial Times, 24 Nov. 1999: 28.

¹⁴⁵ M&SCA A04/76, “Holding Statement,” 12 Mar. 1999.

¹⁴⁶ M&SCA A04/76, Sourcing Statement, Jun. 1998; see also Global Sourcing Principles, Sept. 1998; Standby Statement, Christian Aid, 27 Oct. 1997.

Baird, although M&S contracts were less profitable than other business, the firm divested its contract sales to other retailers, preferring the guaranteed volumes offered by M&S, which provided the basis for important investment decisions. In addition to the 19 factories and 7,260 staff already dedicated to M&S production,¹⁴⁷ only three years earlier, M&S had encouraged Baird to invest £4.2m in a new factory in Bridgwater. In September 1997 M&S induced Baird to enter into a lease until September 2002, incurring rents and redundancy costs following premature closure, and required Baird to invest in information technology systems required under the General Merchandise Terms of Business and made bespoke to M&S requirements, in particular a £246,000 computer system.¹⁴⁸ The Baird case, in conjunction with the evidence in figure 2 illustrates that , M&S now shared less surplus with its suppliers and instead of distributive justice, trust was underpinned by co-operation on procedures.

Like Courtaulds and Claremont, Baird had begun the process of offshoring some capacity. The closure of 16 of its factories effectively ended the M&S claim of primarily sourcing from the UK.¹⁴⁹ As with Claremont, there was a strong press reaction, and from the management and workforces of the suppliers. The reaction indicated a sense of betrayal and the assertion of an implicit contract arising from long-term agreements formed the basis of legal action against M&S. M&S successfully defended its actions through the courts and press releases, although some damage was clearly done to the perception of trust that had hitherto defined the business philosophy of the firm.

The 1999 shakeout left only three textile suppliers, Dewhirst, Courtaulds Textiles and Coats Viyella. In 2000, Coats divested contract sales, including M&S business, through a management buy-out. Coats's management argued that the required investment to remain

¹⁴⁷ Although accounting for 40% of turnover, M&S contracts accounted for only 22% of Baird's profits, "Profile of William Baird," *Textile Outlook International*, Jul. (2001), 83, 91 and 80.

¹⁴⁸ *Baird Textile Holdings Ltd v Marks and Spencer plc* - [2000] All ER (D) 895, 9.17.

¹⁴⁹ Three of the 19 factories and 2,900 of the 7260 staff dedicated to M&S production were overseas, "Profile of William Baird," 83.

linked to M&S no longer made financial sense.¹⁵⁰ The Coats decision also indicated that the trust upon which long-term relationships had been built was less valuable to suppliers and potential suppliers, either in terms of co-operation on procedures or distribution of surplus.

Conclusion

The evidence has demonstrated that M&S operated a supplier network, which promoted higher profits for UK textile firms at a time of intensifying international competition. Based around responsive and technology driven production techniques, these relationships delivered advantages to both producer and retailer, and contributed to the modernization and survival of a significant section of UK textile manufacture. The vertical network that emerged and indeed strengthened in the second half of the twentieth century provides a possible alternative to decline in face of low cost international competition. It also represents an alternative to the formal and scale oriented vertical integration advocated in the literature as a response.

An important question, which is informed by the more recent history of M&S, is how sustainable are such models in the future? The MFA phase out presented new opportunities for competitors with greater expertise in offshore processing than M&S's domestic supplier network had hitherto allowed. In response, M&S adopted a hybrid model of network organization based on a two-level hierarchy. At the first level, by directly encouraging takeovers within its supplier base, it created a small core of UK firms, based on bi-lateral vertical partnerships. M&S orders provided the volumes needed to support modernizing investment, as the Baird, Claremont, and Dewhirst cases indicate. At the same time, it encouraged these main suppliers to develop arms-length outsourcing contracts with subsidiary suppliers, relocated in low cost countries. M&S used its direct influence in the governance and management of the core firms, evidenced by the takeover of Claremont by Courtaulds to

¹⁵⁰ Harrison, "Network Effects," 19.

rationalize the supply chain. It then used these suppliers to operate the second level of the hybrid network and subsequently reorder production offshore, organized around open contracting and cost based efficiencies. As the DEV1 case illustrates, savings in labor cost were significant whilst the transaction cost of inspection and audit were minimal.

The potential advantages of such a strategy were first that M&S could continue marketing on the basis of consumer ethnocentrism whilst simultaneously accessing low cost overseas suppliers for upstream fabric production and generic apparel. It could also absolve itself of the criticism faced by competing retailers of encouraging labor exploitation in developing countries, whilst issuing public denials of such encouragement, combined with reiterations of its commitment to UK manufacturing. The hybrid model potentially offered M&S the chance to remain price competitive whilst maintaining elements of consumer ethnocentrism in its marketing strategy, modified by a slow to evolve but much needed code of GSPs in response to a wave of critical comment. Achieving the correct balance between design led flexibility and low cost mass production poses challenges for even the most successful firms, as the Zara case also demonstrates.

M&S has yet to evolve a new long-term strategy, although there are some signs for the future. Since the crisis of 1998 M&S has enjoyed mixed fortunes and it is too early to say how a strategy based on balancing ethnocentric market and cost will be resolved. The launch of a new “Best of British” range by Head of Design Tony O’Connor in 2013 reverted to traditional style, using British fabrics, albeit to establish market niches rather than the traditional policy of locally sourcing the wider product range.¹⁵¹

Summarizing the period since 1950 as a whole in terms of Chandler and Langlois, the hand of co-ordination was ever present within the M&S network, but its visibility varied according to circumstances, from public declarations of support at supplier company meetings

¹⁵¹ Drapers, 22 Nov. 2013.

to cursory and secretive audits of factories in Morocco. As demonstrated, the hand of coordination can be visible and real, but as a result of the power distribution in vertical networks, can accordingly choose to vanish when convenient.

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Table 1: Risk profiles of UK textile firms, 1988-1998

	N	Beta		R square		Total variance	
		Mean	Median	Mean	Median	Mean	Median
Non M&S suppliers	25	0.57	0.53	0.06	0.05	141.42	99.62
M&S suppliers	5	1.04	1.08	0.22	0.22	87.63	84.92
Difference		-0.47***	-0.55**	-0.16***	-0.17***	53.79**	14.7

Notes:

Beta (β) calculated solving the ordinary least squares regression model:

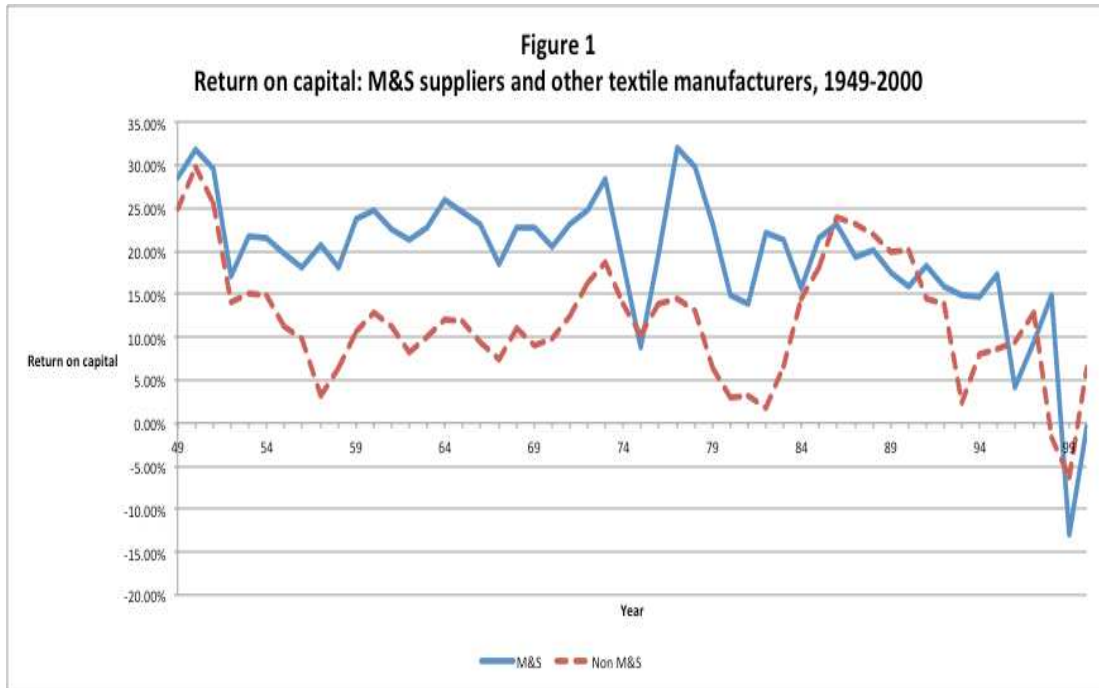
$R_i - R_f = \alpha_i + \beta_i (R_m - R_f) + \varepsilon_i$ (1); where R_i is the monthly return on stock i calculated using the Datastream return index (RI) at time t , $RI_t/RI_{t-1}-1$; R_f is the interest rate on UK treasury bills taken from Datastream; α and β are intercept and slope estimators; R_m is the return on the Financial Times All Share Index (FTALLSH) calculated using the Datastream return index $RI_{FTALLSH_t}/RI_{FTALLSH_{t-1}}-1$; ε is the error term.

R Square is the R^2 statistic in model (1).

Total variance is the square of the standard deviation of $R_i - R_f$ where returns are expressed in percentage equivalents.

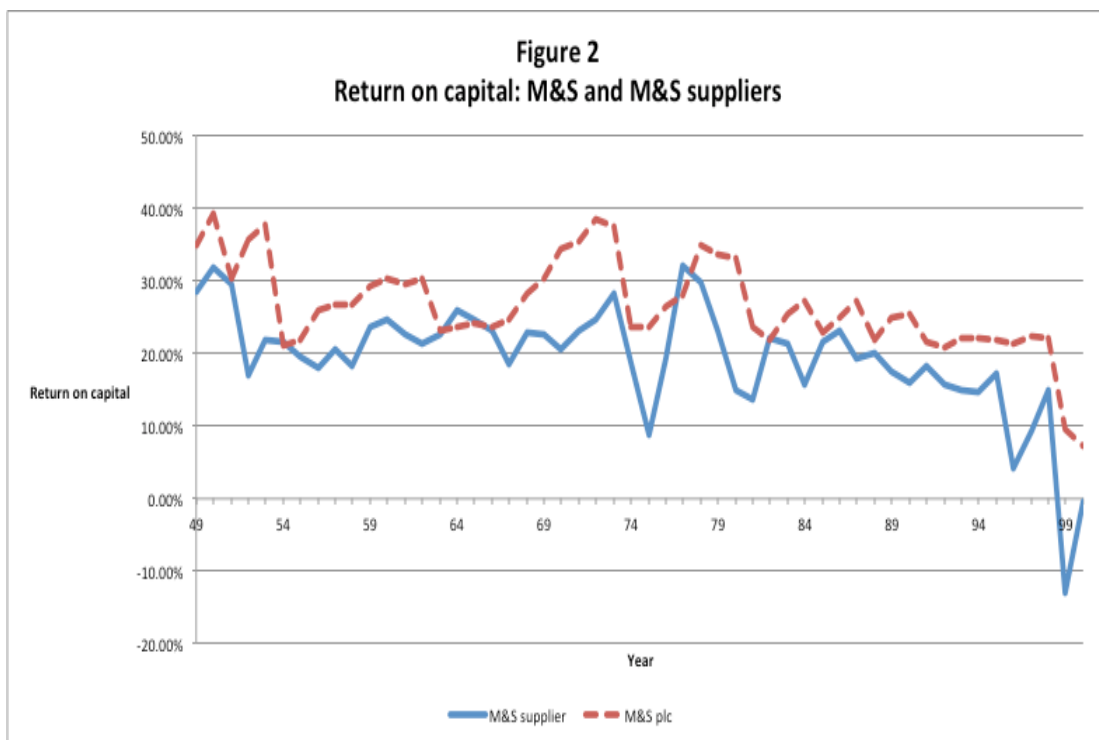
*** indicates significance at the 0.01 confidence interval, ** indicates significance at the 0.05 confidence interval using a t-test for mean differences and a signed rank test for median differences.

Sources: Datastream; MSCA supplier files.



Note: Return on capital defined as profit before interest and tax divided by owners' equity plus long term loan capital.

Sources: Return on capital calculated from data in CUCD (1949-1984) or obtained from Datastream (1985-2000). M&S supplier sample consists of 27 firms and 485 firm/years of data. Non M&S is the average of all firms in the UK textile sector up to 1984 and of all publicly quoted textile companies listed on Datastream thereafter.



Sources: As figure 1.