

# Managing risk by internalising product design in fashion retail: An exploratory case of Marks & Spencer

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## ABSTRACT

*With an increasing number of fashion retailers outsourcing products and extending their global supply base, risk management has gained significance in the fashion supply chain to increase flexibility, quick response and maintain effective relationships with suppliers. However, there is limited literature on risk management within the fashion retail industry and little emphasis is placed on the application of risk management to the procurement process in fashion retail. This is quite surprising considering the volatile nature of the market. Through the application of a case study, this paper explores how Marks and Spencer invests in design to manage risks and how this strategy impacts on relationships with suppliers. The empirical findings of the case demonstrate that risk and design are explicitly linked and that design is a positive risk invested by fashion retailers to achieve product differentiation and competitive advantage.*

**Keywords:** Risk management, fashion retail, supply-chain, relationships, design, procurement

## Introduction

The emergence of global markets has increased the hostility and competition in industries world wide. Specifically in fashion retailing, where unpredictable consumer demands, the importance of quick response to change in the market place and the increasing competition from low-labour cost country makes formidable conditions for conducting business. It is of paramount importance that fashion retail identifies and manages risks in the supply chain and understands the value of design in mitigating some of the risks associated to operation and supply management.

The UK clothing industry has become increasingly competitive, and cheap imports from low labour cost countries made it more difficult for fashion retailers such as Marks and Spencer (M&S) to maintain quality and profitability in clothing. Thus, forcing M&S to terminate agreements with some of its UK based suppliers and source suppliers overseas. However, several problems began to surface. It became increasingly difficult to operate the M&S system of just-in-time clothing manufacturing and the quality of products was not only poor but looked

incoherent in stores as too many suppliers were involved in the design and manufacturing of products. Profits spiraled and the problem had reached crisis point until 3 years ago.

In order to sustain competitive advantage M&S launched a new group strategy and structure to accelerate growth. M&S consolidated their suppliers to concentrate on a small but key number of suppliers with whom they developed a close personal relationship. They shifted 75% of their sourcing to their overseas suppliers with whom they now dealt with directly and invested in their core competence design to manage their operational and supply risks.

The aim of this paper is to discuss the empirical findings of a case study conducted with Marks and Spencer on their risk management strategy. The case is an exploratory study and could provide a generic picture of the problems faced by UK fashion retailers and the changes they have implemented to survive in a volatile and global market place.

First a brief discussion of literature in operations and supply is discussed to identify gaps in the literature and to put the research into context. The research methodology is described and this is followed by a discussion of the empirical key findings.

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## Literature review

There is an abundance of literature covering the subject of risk and risk management has been carried out successfully in many fields for decades. But there is limited literature on risk management within the fashion retail industry and little emphasis is placed on the application of risk management to the procurement process in fashion retail. Fashion retailers are exposed to a number of risks and these could occur anywhere in the fashion supply chain. It may be an adverse network in a relationship, for example a raw material supplier failing to deliver the right amount of fibre to the garment manufacturer, which can in turn delay the product development process and increase the risk of products failing to be delivered to the retailer, thus increasing costs and perhaps hostility in the relationship network.

Fashion is a dynamic and creative business. It employs a host of people from designers, merchandisers, technologists, product developers, buyers, marketers and supply chain managers. Fashion is a volatile market and fashion demands change constantly. Quick response, flexible approaches and the constant drive to offer innovative products to consumers have to be managed effectively (Hines & Bruce, 2001). The traditional seasons of Spring, Summer, Autumn and Winter are not as apparent as before and there are more in-season colour changes, texture and style changes, which can be short lived. This makes research, product planning and marketing extremely risky for the retailer. The risks for the supplier have also increased: manufacturing shorter product runs, being aware of the market and technological changes and investment in design and research.

Much of the supply and operations literature on risk focuses on outsourcing, relationship management and proactive purchasing, highlighting the importance of managing global relationships, as an increasing number of fashion retailers extend their supply base to reduce their production costs. Fashion retailing must appreciate the importance of managing supplier relationships to reduce the impact of risk to operation and supply management. A strong supply chain with

all the actors communicating mutually enables products to reach the market faster and meet consumer demands.

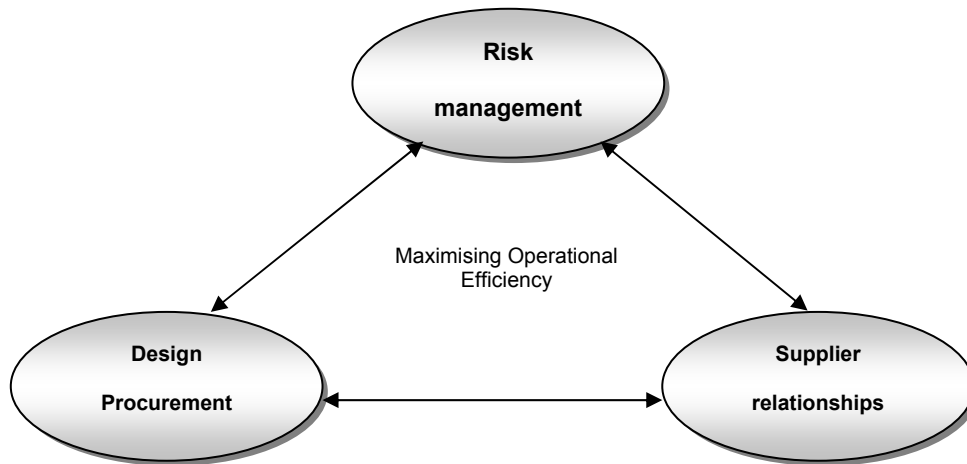
Whilst the benefits of outsourcing have provided companies with a competitive advantage in the market place there have been increases in the level of corporate exposure to uncertain events with suppliers (Zsidisin et al, 2000). This has accentuated the significance of risk management in the supply chain and risk has therefore become an issue of growing concern. Evidence of this can be found in recent work by Zsidisin (2003) who conducted a case study on supply risk focusing on the importance of supply relationships and by Slack and Lewis (2002) who describes operational risk as key element of operation strategy.

Risk reducing strategies have focused on supplier selection, highlighting that relationships with suppliers is an antecedent to reducing risk in the supply chain. Smeltzer and Sifered (1998) suggested forming strategic alliances with suppliers and Krause (1999) described how developing suppliers can increase the communication between the retailer and its suppliers. From the literature, it can be summarised that risk, supplier relationships and design procurement are inter-related and have a significant impact in maximising operational efficiency. Thus, it is possible to hypothesise that the risk of design procurement could be managed or reduced by developing relationships with suppliers.

Figure 1 illustrates the relationship between risk, design and supplier relationships in maximising operational efficiency.

However, there appears to be a tendency to perceive risk negatively, although Slack and Lewis (2002) mentions speculative risks as those risks which could bring possible benefits, there appears to be no literature that perceives risk as a positive outcome in the context of design and using design to manage operational risks in the supply chain and improve network relationships. The author aims to address this apparent gap in literature and explore how design is used as a strategic tool for managing risks in fashion retail.

**Figure 1: The Relationships between Risk, Design and Supplier Relationships**



## Research methodology

The case study approach was adopted for the empirical investigation of the research because it is useful when exploring areas where theory is still developing (Yin, 1994). Other techniques such as examining company documentation also provided an insight into ways in which M&S identifies and manages risks and create contingency plans. Information was gathered through a series of unstructured and semi-structured interviews at the company's location until the researcher reached a point of saturation and themes began to emerge. Each interview was tape recorded, transcribed and interview reports were produced to prepare for data analysis of key themes.

The key themes emerged are design procurement, risk management and relationship management, however the supply base was also a re-occurring and significant theme, but this could be due to the fact that the company under investigation was implementing strategic changes in their supply base at the time and a methodical analysis of the data reveals these changes were implemented to control and manage risk and operate contingency plans. The problems encountered in the research were gaining access to companies for information, time taken to arrange interviews with participants and controlling bias.

The case study proved to be a suitable method of exploring phenomena and gaining an in-depth insight

to 'how' and 'why' type questions (Yin, 1994), such as 'how are risks managed in the supply chain?' and 'why has risk management gained significance in the developing products?' This allowed the researcher to delve into information in more detail and gather data, which may have not been as apparent when using other forms of data.

## Synopsis of research findings

The key findings of the research are in their preliminary stage; however the key theme that emerged from the case studies is that design is recognised as a useful strategy in managing risk in fashion retail and it is debatable if risk should only be perceived as a negative consequence. Design is a risk inherent in fashion industries, which, when managed strategically can produce positive outcomes and successful products. Furthermore, design could also be used as a means of improving relationships in the supply chain, by managing supply risks. The key findings from the case study are discussed below and explore how Marks and Spencer manages risk through design.

## Discussion of research findings

M&S has undergone a change in business strategy over the last three years and this has brought changes in relationships with suppliers as the company reduced its suppliers in the UK and

engaged in relationships overseas. This increased the risks of buying design and managing risks became integral to producing innovative and successful products and maintaining close relationships with suppliers. In order to manage their risks M&S identified design as their core competence and invested seriously into managing the design and product development process *'in the last three years there has been significant investment in design, research and technology'* (Interview Report, 13/8/02).

In order to refocus on its brand image, M&S decided to design more in-house as opposed to outsourcing design to suppliers or consultants. *'There is a lot more in-house design and we are not that supplier driven'* (Interview Report, 19.8.02). The launch of brand names such as; Autograph and Blue Harbour have clearly proved the benefits of designing in house. Recent profits have revealed that sales have increased and that the brands remain popular with core customers.

M&S recognized their competitive advantage in producing successful products for the high street was attributed to the effective control of design and innovation processes and identified this as a strategic tool to managing risks in their supply chain. The following strategic changes were initiated by the company to manage risks:

- Implementation of a central in-house design team
- Implementation of a procurement team
- In house design studios, designers, colourists and design forecasters
- Consolidation of the supply base
- Maintaining strategic partnerships
- Fostering close relationships with suppliers
- Direct sourcing

The company has invested in large design studios and CAD systems to improve range building and make communication quicker and sharper for design presentations. Fabrics and technologies are always being developed and fabric technicians are constantly on the forefront of looking for new ways of developing fabrics and new processes like machine washable suits and Fresh Feet socks.

M&S have implemented a central design and technology that forecasts lifestyle trends up to five years ahead for business as a whole. There are

teams of designers, colourists and developers across clothing divisions. The company has a strong commitment to creativity and this coupled with close linkages to technology and consumers, enables the company to spot new trends and capitalise on market needs quickly.

Designing in-house has reduced the risk of outsourcing design to consultants who returned with designs that were incoherent with other ranges *'there was no one handwriting it was a mixture of everyone's influences bundled together. In the end we had nothing that was appealing'* (Interview Report, 19.8.02) and *'the strategy now is to make ranges that complement each other, by using similar yarn palettes across ranges, this allows the customer freedom to mix and match garments from different brands and ranges'* (Interview Report, 13.8.02).

By investing in design, M&S feels it has more control over design related risks that affected operational and supply related risks such as the logistics of merchandise into stores on time. M&S invests considerable resources into research and development and has a good reputation of challenging the conventional and developing revolutionary products to make customer's lives easier. M&S have developed a policy of co-operating with suppliers on design and technology. This means sending in designers and technologists to advise their suppliers on fabrics, dyes and finishing. Some examples of revolutionary products are:

- 'Bodysensor' Opaque Tights: keeps the body warm when it is cold and cool when it is warm. This is awarded Millennium Product Awards by the Design Council
- Machine-washable woolen knitwear
- Non-iron shirts
- Secret Support Range: discreet support allows women to go bra-less in strap tops and halter-necks, provide support in swimwear and lingerie. This is awarded Queen's Award for Enterprise Innovation in 2001

## Managing risk in the supply chain

As a business M&S felt disadvantaged in having so much manufacturing in UK as most of their competitors shifted sourcing abroad. The company

was more production led than design led and had built many close relationships with their 1<sup>st</sup> and 2<sup>nd</sup> tier suppliers but with increase competition from low-cost suppliers abroad meant that M&S were disadvantaged compared with their competitors with the values that their chain gave them.

The supply base has now changed significantly from having a huge number of suppliers in the UK and few in the Far East to suppliers in UK Turkey, Mauritius, Sri Lanka, China, Bangladesh and M&S uses the attributes of each them to suit them the best way possible.

M&S now have more flexibility as most of their suppliers have their own spinning base and Mauritius is quota and duty-free. There was some risk in changing their supply base and sourcing from new suppliers, so M&S had some products manufactured in UK to mitigate the risk.

Investment in design has meant changes in relationships with suppliers. For M&S, taking control over the design process from their suppliers was in order to manage supply risks and improve supplier relations, a designer at M&S states why this was important: *'if they're leading things lie design, quality and fabric sourcing than that doesn't help when you're trying to create the most high quality for the lowest price to make it commercial. So if they're cutting corners before they show it to you then its just not on!'* (Interview Report, 19.8.02). The business changes have affected relationships with suppliers suggesting that design, risk and relationships are inter-related factors in maximising operational efficiency, as Figure 1 illustrates.

M&S has introduced a new supply chain strategy by implementing direct sourcing, so that they buy and deal directly with their suppliers. This eliminates the 'middle man' the agent and hence allows M&S to be more involved with their suppliers and develop close relationships with them reducing risk of miss-communication between the two parties.

By developing relationships with first and second tier suppliers, M&S have achieved better collaboration and integration across the supply chain, hence reducing significant risks to the product development process. Some of the risks identified in the supply chain that could impact the product development process are:

- Lack of communication between raw material suppliers and garment manufacturers
- Lack of communication between M&S and suppliers
- Lack of competence in supply base
- Lack of resources in supply base
- Political instability of supply base
- Poor transportation and logistics of goods
- Lack of design skill and technology at supply base

However these risks are mitigated by fostering close relationships in the supply chain and by visiting suppliers and the supply base regularly to ensure performance and standards are at the highest level. M&S recognise that relationships in the supply chain are significant to reducing risk in their procurement decisions, as effective communication and understanding each others requirements ensures that products will be manufactured with the highest quality materials and to the best standards.

Collaborative partnerships allow M&S to effectively communicate with their suppliers so that there is joint focus on design development at the early stages of fabric procurement. This type of collaboration allows a more flexible supply chain. The integration between M&S and their supplier's means that high quality can be achieved in their 'core' 'classic' and 'perfect' range.

However, these changes have meant a shift of power in favour of the retailer (M&S) who can demand small trial runs and halt production runs midway to the demise of suppliers. However, development of close partnership type relationships means that relationships are entwined in a contract based on trust, commitment and loyalty, where both retailer and supplier work together for mutual benefit, hence controlling risk, *'our relationship with suppliers has been compared with a marriage because it's a very mutually beneficial relationship, by helping them they can help us'* (Interview Report, 17.5.02).

M&S has maintained close relationships with suppliers who have been supplying specific products for years and are developing relationships with new suppliers that can offer them: value for money, quality, new technology, flexibility or sourcing from a part of the world that can offer them something new. Sourcing from different parts of the world enables

M&S to significantly reduce the risk of becoming over dependent on certain suppliers. There is also political risk of war or natural disasters that can have a devastating effect on production, being able to switch production to a different supplier acts as a contingency and mitigates the impact of the risk to the company.

## Risk awareness and mitigation in fashion retail

In recognizing design as a core competence, some of the strategic risks faced by M&S that affected their decision making and relationships with suppliers are discussed below. The risks could impact both retailer and supplier, suggesting that collaborative partnerships could reduce the impact of risk if risks are shared.

- **Customer Awareness** – As part of their market research, M&S have built customer profiles on a regular basis, to identify the characteristics of their customer and to track if their customers change overtime and why. Customer profiles enable M&S to design and produce ranges that suit the lifestyles of their customer base, tailoring their products to the requirements of their customers in order to maintain a strong customer base. It is crucial for M&S to be aware of customers who shop at competitor stores and why, so that customer profiles can enable them to develop products to attract new customers. To manage the risk of customers buying from other stores it has been important for M&S to identify their shopping patterns and lifestyle changes. In order to cater for their ever-changing demands, it is vital to give customers the products that reflect current fashions and are coherent with fashion products produced by competitor stores.
- **Quick Response** – With fashion changing so rapidly, it is essential for products to reach the customers before the fashion changes again. This is a risky proposition for retailers and suppliers, because if the products reach the market too late and the fashion has changed then this can result in high inventories and stock has to be sold at a sale price in order to sell it.

In order to respond quickly to the changing demands of retailers, initiated by their customers, suppliers are expected to produce shorter product runs, follow design briefs and produce trial runs in limited time. They must also ensure that they have the capacity and resources to manufacture products within a short period of time, ensure delivery and quality of products. With most retailers manufacturing off-shore, retailers and suppliers must calculate the lead times of their products and calculate the time it will take to develop products from design briefs to store. Good communication between M&S and their supplier's ensures the success of products manufactured within the time frame. Quick response in the textile supply chain can reduce the risk of products reaching the market too late.

- **Design Awareness** – Design is perhaps the most useful source of differentiating products. Investment in design and design resources, designers, colourist and design studios is essential to M&S because it enables the company to add value to their products and compete with other companies in terms of innovation rather than price. Attending trade fairs and design shows for inspiration and trend research is an essential part of design research. Investment in R&D enables M&S to forecast future trends up to 5 years ahead. This gives M&S a strategic advantage over companies competing solely on price. Design is used to differentiate products from one brand to another. Therefore it is vital to research design trends, forecast future trends, market trends, and consumer lifestyle trends constantly to keep up to date with consumer and market demands and reduce the risk of product failure.
- **Direct Sourcing** – This method of procurement is risky for the business as it is cultural change for M&S, but in the long term, M&S hope to achieve several benefits of dealing directly with the supplier. Buying directly from suppliers has many obvious benefits such as quick response, increased flexibility, shorter lead times but it also enables M&S to develop close personal relationships. Direct sourcing allows the

procurement process to be quicker and mitigates the risks of miss-communication in the textile supply chain, merchandise not arriving on time and suppliers not being briefed properly.

To counter act risk, M&S have developed a way of selecting the best suppliers for a product, using criteria to assess the supplier's efficiency

and capability. This enables M&S to assess whether it would be too risky to source from suppliers in terms of capacity or flexibility. An example of supplier selection criteria at M&S is shown in Figure 2 and demonstrates the criteria used to assess the capability of suppliers.

**Figure 2: Example of supplier selection criteria at M&S**

- Bring something unique to the company i.e. skills or expertise
- Produce better quality products than existing suppliers
- Set their laboratories as the same quality standard demanded by the company
- Financial stability
- Follow code of practice for Global Sourcing Principles and according to the Ethical Trading Code of Practice

### **Managing risk for large volume runs of commodity products v's high fashion**

The risk for manufacturing large runs of commodity products is significantly less than the risk of manufacturing an innovative product due to the technology, time and financial investment made into developing the product. High fashion products are less predictable so a retailer is unaware of the consumer's reaction to the product whereas the basic ranges would usually continue to sell at the same margin. Hence, the importance of consumer research should not be underestimated as knowing what the customer wants is key to producing successful products and minimizing risk.

Risks for the supplier are higher when manufacturing innovative products too as opposed to large volume runs, simply because short product runs are often demanded by the M&S, resulting in high inventory at the supply base if a range is discontinued. The financial risk lies more with the supplier. The supplier is also under pressure by the M&S to invest in the technological resources required and adapt to changes in technology and fashion accordingly.

### **Risk parameters – acceptable and non-acceptable risks**

Parameters for risk vary from product to product. Acceptable risks at M&S are categorized to have no critical impact to the business in terms of financial loss or personal loss; such as the reputation of the company. Acceptable risks are easily controlled and managed by the company so that the likelihood of its occurrence is remote as possible. Non-acceptable risks at M&S are categorized to have a critical impact to the company financially and have devastating consequences if it occurs.

Contingency plans are created to mitigate the risk or reduce the impact or likelihood of the risk. However, if the risk continues to pose a threat to the company, it is perceived critical and alternatives are put in place to mitigate the risk to the company such as: sourcing from a new supplier or investing in new technology.

Figure 3 illustrates an example of risks at M&S on two ends of a spectrum: acceptable and non-acceptable risks.

**Figure 3 Risk Parameters – Acceptable and Non-Acceptable Risks**

<b>ACCEPTABLE RISK</b>	<b>NON-ACCEPTABLE RISK</b>
Development of innovative products or new technologies	Failure to develop a robust and a achievable strategy
Lack of skills internally	Poor management of the supply base
Changing consumer demands	Financial stability of the supply base
Popularity of specific fibres/materials	Political risk
Fashion changes	Retention of key people

## Summary

This case study illustrates the importance of risk management in fashion retail. An increase of outsourcing, global relationships and consolidation of supply bases are all contributing factors to the likelihood of risks. There are risks associated to procuring from new suppliers and developing new products, however, by identifying the scale and possible alternatives, the severity of such risks can be reduced. The empirical evidence from this case suggests strategic management of core competence to manage risk. Marks and Spencer's investment in design has mitigated operational and supply related risks and transformed its relationships with suppliers. Design is perceived as a positive risk by the company and is used as a strategic tool to manage risk in the supply chain

Managing risks in fashion retail could maximise operational efficiency and enable fashion retailers to achieve competitive advantage. By harnessing a process of identifying changing consumer and design trends, fashion retailers could gain valuable insights into the feasibility of potential products.

Establishing relationships with suppliers is identified, as a risk reducing strategy and maintaining effective communication is vital between retailers and suppliers in order to facilitate quick response and shorter lead times. It is of paramount importance that fashion retailers adopt risk management into their business strategy and develop tools or frameworks for analysing and responding to risk.

## Impact of research

Although at a preliminary stage, the empirical findings of this research have a significant impact to knowledge and in practice. Firstly, it introduces a new insight to the current debate on risk in supply and operation literature and secondly, it enables companies to understand the benefits of design to implement it as a strategic tool for managing risk in the textile supply chain. The research offers an insight into how design investment could empower fashion retailers to manage supply and operational related risks, and argues design investment is a strategic risk management tool in enabling companies to achieve competitive advantage. It is aimed that further case studies will strengthen and support the current findings.

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