

Marketplace

Overview

It is crucial that we listen to our customers to understand what they expect from us and how the economy is affecting their shopping behaviour. Our Customer Insight Unit (CIU) listens to and analyses responses from 18,000 customers a week and combines market research with customer feedback to monitor the national mood.

Market overview

The UK economy is improving. Gross Domestic Product is predicted to grow by 2.7% in 2014, while house prices have increased by 8.5% in a year. Inflation is falling and employment is rising. Just 14 months ago, consumers were concerned about a triple-dip recession. Now, a genuine recovery feels like a more realistic possibility.

As a result, there has been a steady increase in consumer confidence over the last year and people have started to feel that the worst is over. But the increase in confidence is not yet translating into a complete turnaround in consumer behaviour. Spending remains measured. Despite glimpses of happier times ahead, people remain level-headed. Indeed, although confidence is higher than it has been for years, it is still in negative territory. There are two main reasons why.

First, people realise that we are not out of the woods yet. Consumer debt is still high, the government's austerity programme could run for another six years and wage growth has only just caught up with inflation. People recognise that the current low interest rates will not last for ever.

Second, the downturn has made consumers warier and more alert than they were. They are telling themselves that they won't be led into trouble again. They blame the banking crisis on reckless extravagance and the notion of consequence has taken root in the national psyche. As a result, shoppers are being more considered and consumers are being more cautious with their money.

They are prepared to spend, but they seek real value and real quality. When they do splash out, it is on targeted treats and celebrations.

How this has affected M&S

Subdued spending continued to affect the retail sector this year, and saw deep levels of promotion, particularly in the lead-up to Christmas. M&S responded to this promotional landscape by offering more promotions than in previous years. However, the emphasis on treats played to our strengths. Whether they were after a new pink coat, a special meal or cushions to refresh the home, customers were constantly recognising the quality of M&S products.

When it came to clothing, people were spending more money on our 'better' and 'best' ranges. This fitted in with our strategy of emphasising the quality, style and heritage of our clothes. The customer and fashion press feedback on our new ranges was extremely positive.

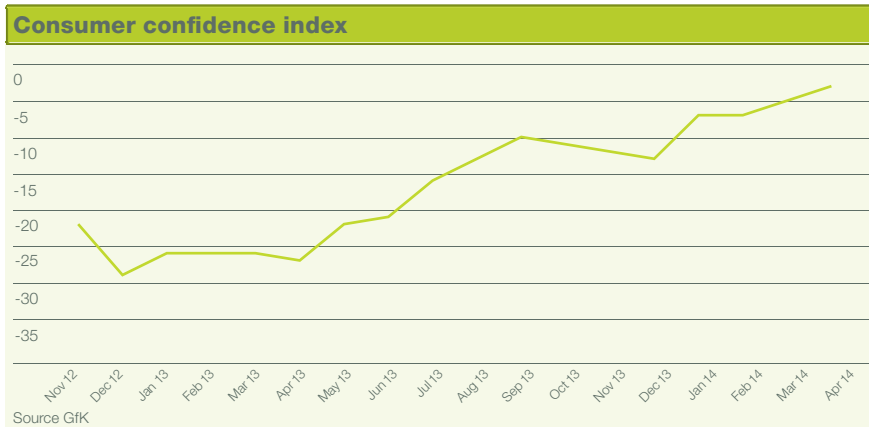
Consumers are taking greater pleasure in food and cooking. They have become more curious about different foods and are looking to experiment and for that little extra indulgence. This did not translate into extravagant spending, but contributed to the trend of consumers demanding more – if they were going to spend their money, they wanted something special in return. Customers are also willing to spend a little more on special events. We responded with newness and innovation, and more special occasion foods than ever before.

The internet has changed the way consumers shop. An increasing number of customers are using online as a source of inspiration and research before they purchase in stores or online. They are looking for editorial fashion and lifestyle guidance, and want a seamless brand experience wherever they choose to browse and buy. Customers also like

shopping in store and expect the flexibility offered by click and collect services – they want to purchase what they want, when and where they want it. We responded with our new website, which focuses on delivering a better browsing experience, as well as an improved buying process, as explained on page 26.

Our priority markets of India, China, the Middle East and Russia have all seen GDP growth. The rise of the middle class in these markets has firmly established shopping malls as the key vehicle for international trade, with the landscape dominated by large shopping mall operators who have specialist insight and expertise of the markets in which they operate. This has driven our international strategy of working with partners to open flagship stores in prime malls and key shopping locations. Another emerging trend is the growth of the lingerie market in the Middle East and India, which is expected to grow by 30% and 54% respectively by 2017. We responded with our first standalone Lingerie & Beauty store.

The Eurozone is also on the turn. The growth opportunity in our other priority market, Western Europe, lies in the rapidly expanding online clothing market. We responded with a bricks and clicks strategy, which focuses on flagship stores that deliver brand presence supported by a strong online offer. Our food is as unique internationally as it is in the UK, and the growing demand in Western Europe for convenience food shops opens up new opportunities for Food store growth.



How we have responded

Business area	Impact	Response
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<p>Clothing The overall clothing market grew in value terms but slowed in volume terms as shoppers were more measured in their spending. Whilst confidence levels were up on last year, this did not translate to strong sales on the high street, although signs of improvement in the clothing market started to come through.</p>	<p>Consumers targeted their purchases carefully. They wanted to be sure they were getting a good balance of value and quality, and looked to purchase 'better and best' items.</p>	<p>We listened to our customers and focused the relaunch of our Womenswear on style, quality and design. We upgraded 70% of our fabrics, added more luxurious finishes and improved our 'better and best' offer with more leather, silk and cashmere. We brought more clarity and distinction to our sub-brands to make them more compelling and easier to shop, which had a good response from our target audiences. The well-received relaunch was also accompanied by a new, more inspirational store concept.</p>
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<p>Food Inflation fell to below the Bank of England's target of 2% for the first time in over four years, giving households a welcome reprieve from the squeeze on their finances. Food price growth was among those to fall.</p>	<p>Consumers still wanted value from their day-to-day shop but were also treating themselves more, with millions splitting their weekly shop between low-cost discounters and high-quality convenience operators such as M&S. The mainstream supermarkets in the middle continued to cut prices. At the same time, people started eating out more.</p>	<p>Our Food business had another very strong year as customers were drawn by our top quality, competitively priced food and offers that continue to deliver restaurant-quality food at home. Our more indulgent festive range resulted in our biggest Christmas ever. The excitement and newness of our ranges continued to delight customers.</p>
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<p>M&S.com The UK online retail market grew by 16% in 2013 and is forecast to grow by a further 17% this year. 2013 was the 'year of the mobile', with twice as much spent via mobile devices in December 2013 than the year before.</p>	<p>Consumers across the UK now expect to be able to browse, shop and collect their goods anytime, any place, anywhere. The distinction between 'store' shopping and 'online' shopping is becoming increasingly blurred.</p>	<p>Our new flagship, M&S.com, launched in the spring and was built around the customer, with over two years of extensive testing with hundreds of existing and potential customers. The industry-leading site is designed to deliver a joined-up experience, whether viewed on a desktop, tablet or mobile phone.</p>
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<p>Brand Despite the improving economy, consumers wanted to buy brands on which they knew they could rely. Social media became an increasingly integrated part of many people's lives.</p>	<p>Brands had to be bolder in their messaging. After years of austerity, consumers wanted a touch of glamour in their lives.</p>	<p>Our bold 'Leading Ladies' campaign reasserted our quality credentials while also bringing some excitement back to our fashion campaigns. Our Christmas TV ad rekindled customers' love of Magic and Sparkle. We increased the use of social media in our marketing mix.</p>
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