C&J Clark

C&J Clark ('Clarks') is a long-established family company, based in the UK but well-known in the shoe industry around the world. By the late 1980s the company was in decline but has since been turned around with new strategic leadership. Both marketing and operational issues have been addressed. This case contains sufficient information for analysing and evaluating the relevant strategic issues, but readers are also encouraged to visit Clarks and rival shoe retailers to check out the latest designs and marketing strategies.

Introduction–the footwear market in the UK

At the end of the 1990s Clarks was UK market leader for shoes. Well-known as both a manufacturer and a retailer, the name Clarks is typically associated with children's shoes, especially among the older generations who 'grew up in Clark's sandals'. Now, of course, children are more keen to wear designer-name trainers. Over many years the company had become associated with sturdy and sensible shoes for adults as well as children, rather than high fashion shoes, although these are also included in the range. Sturdy, sensible shoes are still manufactured, but they have been relaunched with a different image and appeal. Clarks shoes are sold widely overseas, and increasingly they are made overseas. The company wants to be recognized as an 'international casual shoe company'.

The footwear market in the UK exceeded £5 billion annual sales for the first time in 1999. During the mid-late 1990s the growth rate had exceeded the prevailing rate of inflation. The highest growth was in children's shoes of all types, although these account for less than one-fifth of the market overall. Women's shoes account for 43% of sales revenue but 50% of the number of pairs bought. However, 75% of the shoes involved had been manufactured outside the UK, in both the Far East and other countries with relatively low labour costs.

In 2000 C&J Clark was 175 years old and still controlled by descendants of the founding family. A Clark has been strategic leader for most of the company's history, although this situation has changed in recent years. Eighty per cent of the shares are owned by 500 family members and descendants, some of whom have a direct involvement with the company. Staff own a further 10% and institutional shareholders the remainder.

Table 1 shows market shares by manufacturer in 1999 and Table 2 provides details of retail distribution. Small, sometimes independent, businesses play a major role, as evidenced by the fact that the leading seven retailers account for just one-third of the market. Specialist manufacturers vary from those making high-quality shoes for adults (such as Charles Church) to those making rugged, waterproof outdoor footwear (Timberland) and children's wear (Start-rite). Most towns have at least one local independent store, often with a loyal customer trade. During the 1990s the popularity of trainers and other sports shoes, backed by heavy brand advertising, has grown dramatically, as has the popularity of shoes associated with designer names.

Taste and fashion changes have meant that the relative fortunes of different shoe retailers have changed.

Table 1 Shoe sales by type of outlet, 1999

Outlet	%
Specialist stores (both chains and independents)	44
Sports shops	20
Home shopping	11
Clothing stores (e.g. Next)	8
General stores	7
Department stores (including concessions)	5

Table 2 Market shares, 1999 (Source: *Euromonitor*)

Manufacturer	%
C&J Clark	10.0
Nike	6.0
Reebok	5.0
Marks and Spencer	5.0
Stylo	4.5
British Shoe Corporation	2.0
Adidas	2.0

Some have improved, while others have declined markedly. However, at the same time, shoe manufacture in the UK has declined sharply. Some companies, like Clarks, have reduced their dependency on manufacture; others have simply closed down. One family company, based in Northamptonshire, home at one time to countless small and medium-sized manufacturers, has diversified imaginatively. When he inherited the family boot business, Steve Pateman realized that it was in long-term decline. Its fortunes have been changed dramatically as it has become one of the UK's leading manufacturers of boots and kinky leather products for the fetish-wear market.

The growth of C&J Clark

The business began in 1825 when the founder, Cyrus Clark, began trading in sheepskin rugs in Street, Somerset, which remains home to the business to this day. The Clarks are a Quaker family and the business has always been paternalistic and, in some ways, benevolent to its workforce.

In 1828 Cyrus' brother, James, became an apprentice in the business and it was he who later used cut-offs from the rugs to make sheepskin slippers, which they called 'Brown Peters'. James became a full partner in 1833, hence the name C&J Clark. By this time socks and welted boots had been added to the product range. Together with the slippers they generated 30% of the company's revenue – until 1920 they were sold as Torbrand products. Most of the trade had grown by word of mouth.

In 1849 the company was experiencing trading difficulties and it began to use posters for advertising its products. On the verge of bankruptcy, Clarks exhibited at Prince Albert's Great Exhibition at Crystal Palace, where two prizes temporarily restored prosperity to the business. By the 1860s the company was once more nearly insolvent. Cyrus and James retired and William Stephens Clark took over as chairman. His contribution was to transform the company from a cottage industry to a mass-market shoemaker.

After the later death of Cyrus Clark the sheepskin business was moved to a separate company in nearby Glastonbury. New ranges and types of shoe followed, including (in 1893) a special range of hygienic boots and shoes, which followed the natural lines and shape of people's feet. Clarks was, by this time, the dominant employer in Street and the town was dependent upon its success. Interestingly, a coffee house, established earlier to dissuade workers from drinking, was turned into an inn which served beer. In 1903 Clarks opened a London showroom in Shaftesbury Avenue; the shoes were still made to order at this time. Five years later the family business was turned into a limited liability company.

Between 1900 and 1940 new materials and technologies were embraced and the manufacturing activities were able to benefit from economies of mass production. In 1920 a new production and distribution system allowed Clarks to despatch from stock upon receipt of an order. In 1920 the company used the brand name Clarks for the first time on its shoes, and soon afterwards began to produce women's fashion shoes which did not cover the whole ankle. Success throughout this period led to press advertising (1934) and to a number of small retail outlets, named Peter Lord (1937).

During World War II the factory switched over to the manufacture of aircraft components and torpedo parts. In 1942 Bancroft Clark succeeded his father, Roger, as chairman and, as soon as the war was over, declared that expansion would follow. One notable contribution from Bancroft, who remained in charge for 25 years, was the renowned foot gauge which measured both the width and length of the foot. This gave the company pre-eminence in children's shoes.

In the 1950s Clarks introduced their casual but smart Desert Boot, made out of soft suede leather, and then, in the 1960s, the Wallabee moccasin shoe, again in suede. Both of these designs are still popular today. In 1952 the name Clarks was used on retail outlets for the first time.

During the 1970s Clarks pioneered their cushioned polyurethane soles and spawned a range of shoes which again remains popular today – lightweight but strong, casual and semiformal shoes with springy soles which are both comfortable and shock absorbent. In 1967 Clarks bought Ravel, which made and sold fashionable shoes; and in 1980 also acquired K Shoes, based in Kendal, Cumbria, which remains as an independent label famous today for formal men's and women's shoes and lightweight casual shoes for women, known as Springers.

The situation in 1990

C&J Clark prospered through the early 1980s and earned a record £35.7 million in pre-tax profits from sales of £604 million in 1986. The company was now established in Europe, America and Australia, where its products were popular. Some 60% of the shoes were manufactured in the UK; 40% were produced in Portugal, Italy and Brazil. The main brands were Clarks (mostly associated with children's and comfortable semiformal shoes), K (targeted at mature adults) and Ravel (high fashion shoes). But its fortunes then changed very quickly and both sales and profits fell towards the end of the decade.

As shown in Figure 1, the market leader at this time was British Shoe Corporation (BSC, owned by Sears) with a range of distinctive (but sometimes competing) retail outlets, including Curtess, Manfield, Saxone, Freeman Hardy Willis, Dolcis (good-quality, medium-priced stylish shoes for fashion-conscious youngsters) and Shoe City (a new warehouse-type operation in out-of-town shopping centres). BSC overall had a dominant position for low- and medium-price shoes for people up to middle age. High-price shoes for all ages were supplied by a host of independents including Ravel (owned by Clarks) and Cable and Co. (a new brand name invented by BSC in 1988 to gain introduction to this sector). Marks and Spencer was dominant with low-priced shoes for older people, leaving Clarks in a strong position with medium-priced shoes for a number of age groups.

However, the retail environment had been changing during the latter years of the 1980s:

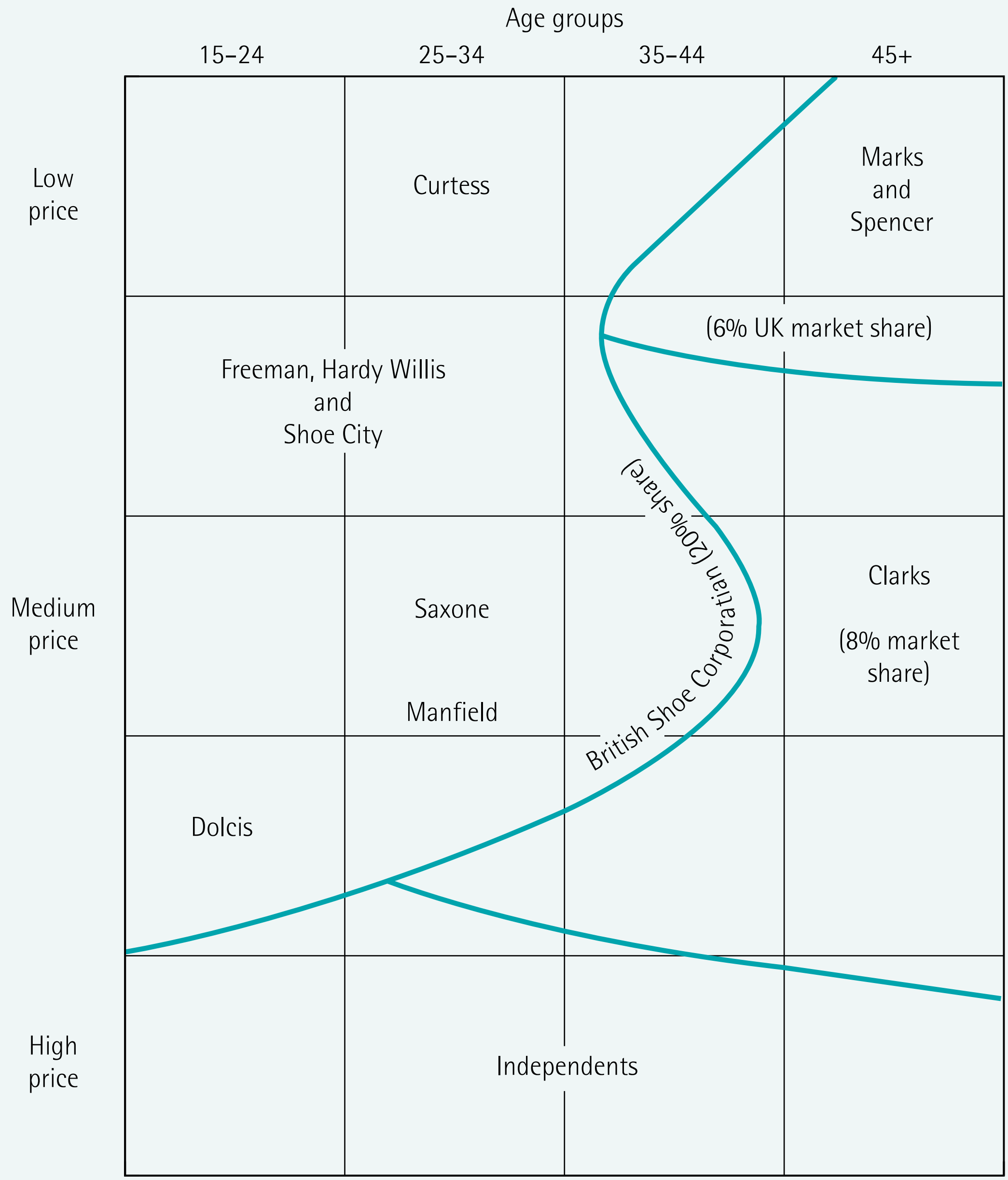
- Sales had fallen as an economic recession took hold, but high-street property rents remained high.
- The market was much more competitive as an increasing number of imported brands was introduced and gained popularity.
- Customer tastes were changing, with casual shoes and trainers becoming increasingly popular.
- Market demographics were also changing, with fewer people in the younger age groups.

A concerned BSC introduced a number of strategic changes, designed in part to strengthen their position in the sector dominated by Clarks. Among other changes, the Manfield brand was consciously repositioned in the medium-priced older age groups. This required new store layouts and fittings, different ranges of shoes and a higher level of customer service. Thirty new outlets were opened in 1990 to complement the existing 850 concessions in department and fashion stores.

Family squabbles broke out inside Clarks as the company struggled to clarify a new strategic response. The company appeared to have 'boxed itself into a corner'. Its manufacturing costs were relatively expensive, making it relatively vulnerable to cheaper imports. As sales declined the company had to reduce its costs. Still with its Quaker traditions and still the dominant employer in Street, the company was reluctant to go down the redundancy route. Instead, the company sought to reduce its costs by using cheaper leathers and introducing simpler (easier-to-make) styles. The company, already with a 'traditional' image, was now seen as both dull and relatively expensive by many customers. The Danish company Ecco, which manufactured strong, comfortable, semiformal shoes in countries such as Portugal, was one new competitor which would take sales from Clarks during the 1990s.

In 1990 a new, external chairman, the first non-Clark, was recruited. Walter Dickson had been a

Figure 1 Shoe retailing in the UK, late 1980s-segment domination. (Developed with the co-operation of British Shoe Corporation.)



former chairman of Mars Europe and was recognized as a marketing expert. Two years later some of the Clark family board members attempted to oust Dickson, but he survived and the company put itself up for sale.

The bid from Berisford

Analysts were divided over the proposal. Some believed that Clarks was a strong company at heart, while others felt that it had lost its way and was unsure whether it was really a manufacturer or a retailer. There were, in the end, three serious bidders in spring 1993: rival shoe manufacturer FII, a venture capital bid put together by Electra, and Berisford, the successful commodities business which had earlier bought and turned around RHP Bearings. Berisford, offering £184 million, became the preferred bidder – but the family was divided. While seven out of the 11 board members were in favour, four were vehemently opposed. They argued that Berisford had no experience in shoes. Analysts generally seemed to believe that had Clarks been a publicly owned company the bid would have succeeded easily, as the institutions which owned most of the shares that were outside the family's control were certainly all supportive of the sale. One commented wryly that experience in shoes was an irrelevant issue, Clarks was far too introspective and 'Troubleshooter' Sir John Harvey Jones (so-named because of the successful BBC television series) should have been called in some years ago.

Bersiford stated that should its bid succeed it would make a number of key changes:

- The lead-time between new shoe designs and their availability in stores would be shortened dramatically.
- In part to achieve this, production in the UK would be increased, against the current trend.
- New designs would exploit Clarks' technical and manufacturing competencies more effectively, especially its expertise with cushioned soles.
- The brand would be invigorated to widen its appeal – there was a real need to persuade teenagers that Clarks was not just for young children, for example.

In the end the bid failed and the board opted to remain independent. Dickson resigned shortly after this and was replaced by Roger Pedder. Pedder, then in his early 50s, had worked for Clarks in the past. He had joined the company in 1963, where he soon became personal assistant to the chairman, who at that time was still Bancroft Clark. In 1968 Pedder married Bancroft's daughter and then left the company. He stayed in retailing and worked for BHS, Burton, Halford's and Harris Queensway before becoming a joint founder of Pet City. He had rejoined as a non-executive director in 1988.

Pedder quickly established a Shareholder Council, a body which would look after the interests of the family shareholders in the future. Three years later Pedder head-hunted Tim Parker as chief executive. Parker had no connections with the family or the business. A graduate of the London Business School, he had been credited with turning around Kenwood, manufacturer of kitchen appliances. Pedder had read an article about his success here and felt that he might be the person who could restore prosperity to Clarks.

Turnaround

Parker has introduced a number of strategic changes since his arrival in 1996. Table 3 shows how pre-tax profits had collapsed just before the Berisford bid and how, after a three-year revival, they had collapsed again in 1996. In year ended 31 January

Table 3 C&J Clark

Year ending 31 January	No. of employees	Turnover £'000	Pre-tax profits £'000
1990	20,835	599,927	30,317
1991	19,538	605,793	30,117
1992	19,550	594,223	20,389
1993	18,416	624,572	1687
1994	17,913	655,314	20,761
1995	18,631	684,318	19,623
1996	18,251	721,630	24,806
1997	17,405	727,345	(3200)
1998	16,620	743,141	35,003
1999	16,426	792,210	6261
2000	15,561	831,614	39,235

2001 both sales and profits were at record highs. In this year 38 million pairs of shoes were sold; the company was growing in a static market. However, the number of employees had declined as the proportion manufactured overseas had been increased.

Specifically:

- Parker reduced, arguably culled, the existing team of managers. As well as taking out a complete layer, newcomers have been recruited to replace some of the others who left. There have also been internal promotions.
- He reduced the workforce worldwide. This included 25% of the workforce at the Street factory in Somerset. Parker dedicated some considerable time to visiting the factories and explaining what was happening.
- Some factories were shut completely and sold to the company which manufactures Doc Martens shoes and boots.
- The number of retail outlets was increased from 550 to 650 and every one was restyled with Clarks' new logo and new colours. The stores now have a different ambience – they no longer feel like an 'older person's store'. Worldwide there are almost 800 shops.
- Manufacturing in the UK has been reduced to just 25% of the total sold. Clarks was becoming more of a designer, wholesaler and retailer at the expense of manufacturing its own shoes. Clarks now owns eight factories, three in southwest England, three in northwest England and two in Portugal. Working conditions have been improved by Parker. Imported shoes are manufactured in Brazil, India, China, Romania and Vietnam.
- New designs have been introduced while older designs have been revamped and relaunched.
- New advertisements take a more 'tongue-in-cheek' approach. A typical magazine advertisement for ladies' boots features a large picture of the boots lying flat in their box. The main headline says: 'New boots and why you just have to have them'. Smaller illustrations are accompanied by the following copy: 'They'll keep your ankles warm', 'A box that big has to come in handy' and 'You won't have to shave your legs.'
- There is a website and on-line sales of selected products are planned for 2001. Clarks believes that there is a market for trainers but not shoes. People are less concerned about exact fit with trainers and are willing to adjust the thickness of the socks worn with them; in the case of shoes the issue of fit is much more critical.
- A shopping village outlet opened in the 1980s was sold to raise cash.

The situation in 2000

Clarks is world leader for 'brown shoes' and shoe-care products and a major player in children's shoes. Table 2 showed that Clarks is overall market leader in the UK with 10% of sales – up 2% from 1990. The term 'brown shoes' represents casual shoes and loafers in the shoe industry; formal shoes are known as 'black' and trainers are 'white shoes'. The industry remains very fragmented and globally static. Sales are strong in the USA where the Clarks and Bostonian (men's fashion shoes) brands turn over £200 million a year and contribute 25% of the total profits – some 95% of the shoes sold in America are imported. The company is also particularly successful in Japan where its range of men's originals is very popular.

Clarks has a very wide range of practical (work) shoes, casuals, sandals and children's wear. They are not the highest price, but they are certainly not the cheapest. Of generally high quality, they represent value for money. The new image is focused on shoes that are fashionable and casual. The company claims that it offers individual designs, exceptional comfort, premium quality and expert service. Clarks' shoes are focused mainly on the 35–45 age group and the K brand on the over 50s.

There are five distinct ranges of women's shoes: formal, smart (with thicker soles), casual, boots, and Springers – semiformal casual shoes with soft soles sold under the K brand.

There are also five men's ranges: formal, smart, casual, originals, and waterproof (walking boots). The originals range includes designs from years ago which have been successfully relaunched. The Desert Boot (a lightweight lace-up boot made with thin, rugged suede leather and with crêpe soles) has become a fashion product, sported by media figures such as Oasis' Gallagher brothers. The Wallabee (a luxury soft suede lace-up moccasin shoe, again with a crêpe sole) was first introduced in the 1960s, a decade after the Desert Boot. The third main original is the Millcreek, another suede shoe with a crêpe sole, but this time a slip-on. The range competes effectively with designer fashion brands but sells at much lower prices – the first time that Clarks has been able to compete successfully in this particular sector.

There are separate children's ranges for boys and girls. These ranges comprise four age groups: first shoes, 2–4, 5–7, and 8 years and over, as well as a range of trainers with their own brand identity, Cica.

Excluding Nike and Reebok – manufacturers of trainers and sports shoes and which together with Adidas account for 13% of the UK market – *Marks and Spencer* follows Clarks with a 5% share, 1% less than its share in 1990. In 1999 the M&S profit margin on shoes was reported to be 6.6%, whereas a year earlier it had been 14.1%. The company had lost some of its international sales as a result of the high pound. It still retained a value-for-money image but it was introducing new designs for more fashion-conscious customers. *Stylo*, with 4.5% of the UK market, sells mainly through its chain of 250 Barratt stores and 350 ladies' shoe concessions in department stores.

The once-dominant British Shoe Corporation has seen its share tumble from 20% to 2% as Sears has divested brand after brand. Freeman Hardy Willis was sold in 1995, followed a year later by Saxone and Curtess and in 1997 by Shoe City and Dolcis. BSC had been overdependent upon that part of the market most affected by the growth and popularity of sportswear chains and clothing retailers such as Next and River Island, which have systematically added shoes to their range of products. BSC is now primarily the repositioned Manfield and its newer self-service format, Shoe Express, designed to provide convenience at low prices.

New retail names such as *Shoe* (targeted at young people) and *Dune* (high-fashion shoes at premium prices) have made an impact recently. Top (clothes) designer names are being attached to ranges of shoes, which are available in selected outlets and department store concessions. These include Pierce Fionda, DKNY, Patrick Cox and LK Bennett.

The future

After the failed bid by Berisford and the formation of the Shareholder Council it was thought that the company might seek a flotation, but the family shareholders appear to have no inclination to relinquish their control at the moment. There is no longer any need to raise capital to fund expansion plans. There is, however, a rumour that Clarks might seek to acquire Shoe City from the Belgian retail group, Brantano, which bought it from BSC.

C&J Clark: http://www.clarks.co.uk

Questions

1. Using Porter's five-forces model, how attractive do you think the shoe industry is? Apply the model to both manufacturing and retailing.

2. How does Clarks add value? How would you summarize the company's strategic (competitive) position in 1990? In 2000? Do you believe that Clarks is now in a much stronger position than it was ten years ago?

3. Evaluate the changes introduced by Parker in the last five years. To what extent do you think the current results can be attributed to these changes, and to what extent might they be the result of external circumstances?

4. If you were Tim Parker, what future strategies would you be considering? Is the family ownership a relative strength or a relative drawback?