No pain, no gain: M&S boss to chart rocky road to recovery

New CEO Steve Rowe to give strategy update on May 25

LONDON: The new boss of British retailer Marks & Spencer will deliver some uncomfortable truths to investors next week: turning around its clothing business will require yet more costly change and could squeeze short-term profits. Chief Executive Steve Rowe will set out his strategy to shareholders on May 25, almost two months after he replaced Marc Bolland at the top of the 132-year-old firm, a UK institution that has fallen out of fashion over the last decade.

For generations, M&S dressed British shoppers of all ages. But the advent of fast, cheap fashion at one end of the market and affordable luxury at the other - combined with fierce online competition - has left it struggling to return to its glory days. Company veteran Rowe, 48, must convince investors he can lure shoppers back to its clothes - part of its flagship general merchandise division - and make progress in matching the success enjoyed by its upmarket food business.

"The general merchandise business has struggled for years to gain any momentum so we'll be looking to see the extent to which Rowe can turn that around and how credible the strategy is," said Simon Gergel, chief investment officer for UK equities at Allianz Global Investors, one of M&S's top-40 shareholders.

"We've had lots of false dawns from this company." Rowe's plan is likely to involve more price cuts and improving the quality of clothes, according to analysts, while he could reduce the number of the retailer's fashion brands, which include Autograph, Limited, Per Una and Indigo.

With an increasing number of goods sold online, the CEO could also kick off a review of M&S's use of store space, including how much space should be devoted to food and to clothing, and its nearly 900 locations and office requirements.

M&S declined to comment for this story. Londoner Rowe has promised a straight-talking approach to arguably the most prestigious and high-profile job in UK retail. His message will be that he can fix general merchandise - clothing, shoes, accessories and homeware - but it won't come cheap and investors will have to be patient, particularly as UK consumer confidence appears to be waning.

The division accounts for around two-thirds of group profit, so its success or failure will determine his own fortune as CEO of a company where he has worked for over half his life.

"This business needs to go through quite significant change and there will be some pain attached to that," a person with knowledge of the situation told Reuters on condition of anonymity. "Because of the type of pain we've got to put ourselves through there will be costs associated with that. That will affect profitability for a short term."

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Dutchman Bolland addressed decades of under-investment by spending billions of pounds on supply-chain logistics and a new website during his six years in charge. But while the food business outperformed the market, he failed to deliver a sustained rise in clothing sales to accompany the profit margin gains he did achieve. Shares in M&S have fallen by about a quarter over the past year.

Though his investment means M&S is through the really big capital expenditure projects, more surgery is required and that would involve additional costs. If those are not offset by savings elsewhere, profit will be dented. A survey by analysts at RBC Capital Markets of 18 British mass-market clothing retailers found M&S' lowest - or entry - prices were around 20 percent above the average.

Rowe has already cut the prices of 315 spring clothing lines by 10-15 percent and seen sales volumes rise as a result, but he recognizes M&S has further to go. Continuing improvements to the way the firm sources products, which have helped to lift the gross margin, should soften the blow from any further price cuts. "There's a balance between gross margin, pricing, promotions and making sure we've got absolutely competitive values in the high street," Rowe told reporters last month.

While fourth-quarter clothing sales fell year-on-year, they showed an improvement from the previous quarter. Rowe also needs to push through more improvements to product availability, so M&S doesn't run out of popular ranges and sizes, while its customer service - once acclaimed - now lags that of rivals, analysts say. But all these changes come with a cost. — Reuters

Oil drops below $48 on Fed hike speculation

LONDON: Oil fell below $48 a barrel yesterday, pressured by a stronger dollar and as a surprise increase in US crude inventories served as a reminder that supply remains ample despite output problems. Supply losses in Canada and Nigeria have lent support, but cooler weather was expected to help firefighters battling Canadian wildfires. Traders said Exxon Mobil is boosting output at Nigeria's largest crude stream.

Brent crude was down $1.04 at $47.89 at 1137 GMT. It reached a 2016 high of $49.85 on Wednesday, only to close lower. US crude was down 83 cents at $47.36.

"The main factor weighing on prices is the much appreciated US dollar," said Carsten Fritsch, analyst at Commerzbank. "What is more, rain forecast in the Canadian oil province of Alberta is giving rise to hopes that the devastating wildfires there could be brought under control."

Oil and other commodities came under pressure from the dollar, which firmed as the minutes of the Federal Reserve's latest policy meeting rekindled expectations for an interest rate increase. A stronger dollar makes commodities denominated in the US currency more expensive for holders of other currencies and tends to weigh on oil prices.

Brent's 2016 high hit on Wednesday was supported by the supply outages, but the rally ran out of steam after weekly data showed an unexpected 1.31-million-barrel rise in US crude inventories.

"We feel that markets have moved too high, too far, too soon," said BNP Paribas in a report. "We still face a large inventory overhang and for the most part, the outstanding supply outages - Canada and Nigeria - are reversible." Despite the outages and falling US output as the near-halving of oil prices since mid-2014 curbs investment by shale drillers, OPEC production is at its highest in years thanks in part to higher Iranian exports. OPEC and non-members including Russia failed at an April 17 meeting to agree on an initiative to freeze output. OPEC meets on June 2 to set output policy and is not expected to decide on any measures to limit supplies. — Reuters

News in brief

IMF deal to extend Iraq $5.4bn loan at 1.5%

AMMAN: Iraq has reached a $5.4 billion standby agreement (SBA) with the International Monetary Fund that could unlock $15 billion more in international assistance over the next three years, Finance Minister Hoshiyar Zebari said yesterday. The loan will have an annual interest rate of 1.5 percent, Iraq's central bank governor Ali al-Alak said at a press conference following a week of talks with the IMF in neighboring Jordan. He did not state the loan's tenure. The IMF deal will allow Iraq to secure additional financial aid of around $15 billion over the next three years, including in the form of international bonds, according to Zebari.

Egypt imposes 900 Egyptian pound/ton sugar export tax

DUBAI: Egypt has imposed a 900 Egyptian pound ($101.35) per ton tax on exported sugar effective until the end of the year. The decision was published in Egypt's legal journal and came into effect on Wednesday. Egypt cancelled a temporary tariff levied on sugar imports in February after completing an investigation into possible dumping of the commodity. It had imposed the 20 percent tariff in 2015 for 200 days following a filing to the World Trade Organization to safeguard domestic producers from a damaging surge in imports. Egypt consumes around 3.2 million tons of sugar annually but produces just over 2 million tons.

Saudi's PetroRabigh to restart some units

DUBAI: Saudi Arabia's Rabigh Refining And Petrochemical Co (PetroRabigh) said yesterday it was working to gradually restart some of its units after a brief power and steam disruption. "At 9.24pm on Wednesday night ... a sudden disruption for the electric power and steam occurred, which has led to halting some of the installations at the company's compound without any damages," PetroRabigh said in a bourse statement. The financial impact of the disruption is being evaluated and will be announced later, the company said.

OPEC basket price stand at $44.88 pb

VIENNA: The OPEC daily basket price stood at $44.88 a barrel Wednesday, compared with $44.82 the previous day, the OPEC said. The annual average of the OPEC basket price hit USD 49.64 pb, it said in a press release. The new OPEC Reference Basket of Crudes (ORB) is made up of the following: Saharan Blend (Algeria), Girassol (Angola), Oriente (Ecuador), Iran Heavy (Islamic Republic of Iran), Basra Light (Iraq), Kuwait Export (Kuwait), Es Sider (Libya), Bonny Light (Nigeria), Qatar Marine (Qatar), Arab Light (Saudi Arabia), Murban (UAE) and Merey (Venezuela). During their recent meeting in Vienna in late 2015, OPEC member countries had decided to maintain their production at 30 million barrels per day (bpd) despite a surplus in the market estimated at over a million barrels.

Mauritius 2015 jobless rate rises slightly

PORT LOUIS: Mauritius' unemployment rate rose slightly to 7.9 percent in 2015 from 7.8 percent the previous year after, official data showed yesterday. According to a statement from Statistics Mauritius (SM), the government's statistics office, the number of unemployed people in the Indian Ocean island nation increased to 46,300 last year, an extra 1,500 people from the 2014 level. SM did not give an explanation for the small rise in unemployment. The statement said joblessness among women increased from 11.4 percent to 11.6 percent while the male unemployment rate remained at the same level of 5.5 percent. Mauritius' economy is projected to expand by 3.9 percent this year after growing 3.1 percent in 2015, SM said in March, boosted by a recovery in the construction sector and higher growth from the tourism and manufacturing sectors.