



HERIOT-WATT MANAGEMENT PROGRAMME

STRATEGIC MANAGEMENT / INTERNATIONAL STRATEGIC MANAGEMENT – STAGE 3

June 2010

For Official Use Only

Surname:

First Name:

Registration/Matriculation No:

Seat No. (if applicable):

Course:

Date:

No	Mark
A	
B	
C1	
C2	

Declaration

I certify that I have read the Examination Regulations (see back cover) and understand that I am required to abide by them.

Student's Signature:.....

INSTRUCTIONS TO CANDIDATES

1. At the start of the exam ensure that you have written all the details required above.
2. Read the instructions on page 2.
3. Start each question on a new page.
4. Rough workings should be confined to the left hand pages.
5. This book must be handed in entire and unfolded.

PLEASE READ THE EXAMINATION REGULATIONS ON THE BACK COVER

PART I

EXAMINATION INSTRUCTIONS

The duration of the examination is **3 hours**. The marks value of each section is shown below. You may allocate your time as you see fit.

The paper is in three sections

SECTION A: 34 marks

SECTION B: 33 marks

SECTION C: 33 marks

Answer ALL sections.

SECTION A: Answer **ALL PARTS** of Question A1.

SECTION B: Answer **ALL PARTS** of Question B1.

SECTION C: Answer **EITHER** Question C1 **OR** Question C2.

This examination document is in two parts.

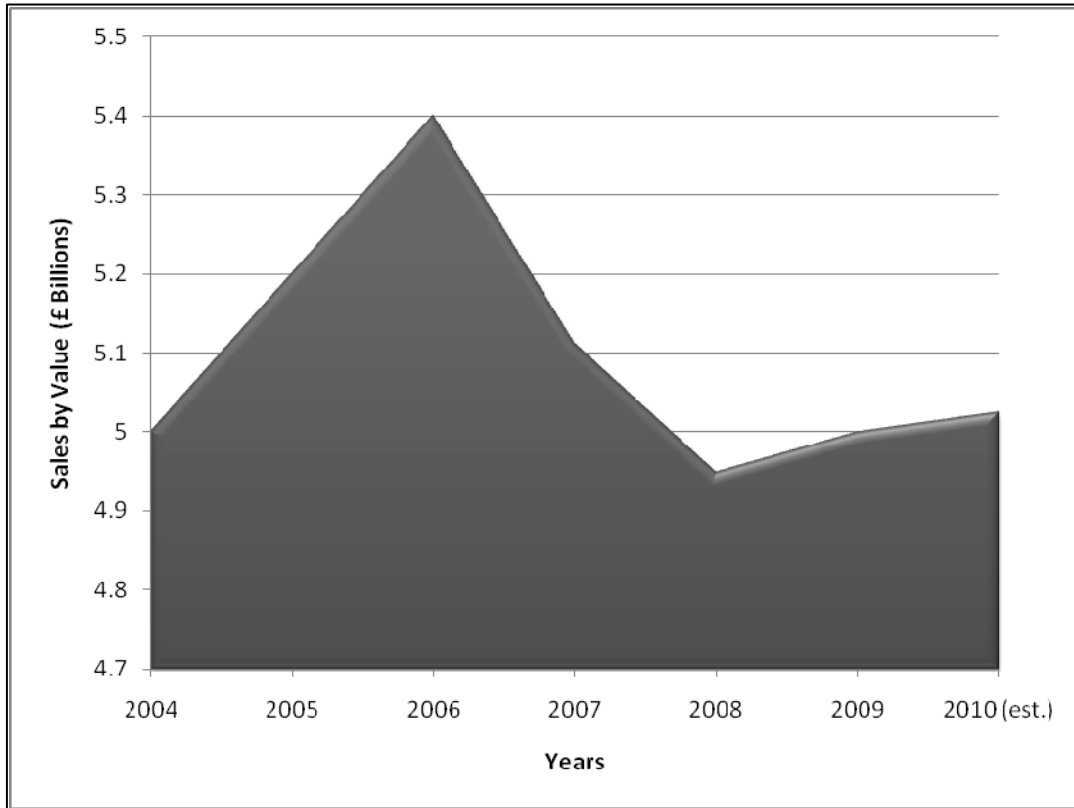
Part I is the question booklet.

Part II is the answer booklet.

Please ensure that **BOTH PARTS** are returned at the end of this examination.

SECTION A (34 marks)**Answer ALL PARTS of Question A1.****Question A1****Case study of Next and the children's retail clothing industry in the United Kingdom****Introduction**

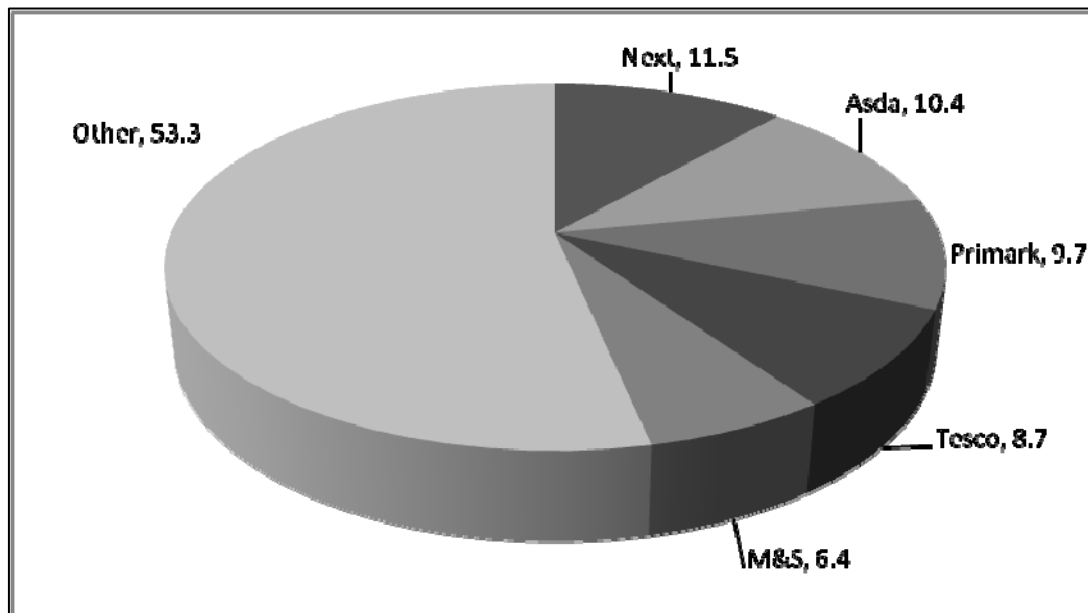
The UK market for children's clothing is extremely demanding because it is highly segmented and consumers' exhibit complex purchase behaviours. For babies, parents make the purchase decision, but once children begin to enter the age group where they can start to take decisions for themselves things change. Children become much more involved in the decision making process about what they will wear and which brands they want. Moreover, they are unwilling to buy in a shop which sells clothes for babies and toddlers. Anecdotal evidence suggests that children as young as 5 or 6 are dictating the brands and styles that they want to wear. Young teenagers have a completely different outlook again. Generally, they are much more fashion conscious consumers, seeking out the right styles, brands and designs to build their self-image. In 2009, sales of children's clothing (aged 0-15 years) improved slightly after two years of decline (see Figure 1). The decline experienced in 2007 and 2008, was attributed to the global credit crunch and subsequent recession. In general, customers have become less retailer loyal as a result of the recession, they are far more likely to shop around for cheaper good quality clothing. Apart from the recession, the children's retail clothing industry in the United Kingdom (UK) experienced other major changes in the last ten years. The most significant of these changes are, first; UK retailers increased importation of low-cost raw materials and finished articles of clothing from locations like Eastern Europe, Morocco, Turkey and the Far East, and, second; where UK parents purchase their children's clothing.

Figure 1: United Kingdom children's clothing sales between 2004 and 2010

The first of these changes resulted in the price of children's clothing steadily falling. The steady fall in clothing prices meant for much of the 2000s sale volumes increased significantly as it encouraged customers to replace clothes more regularly. Certainly many items of children's clothing were set at such low prices that they became highly disposable even after limited use. Supermarkets and discounters in particular benefited from this surge in the volume of clothing being purchased. The improving sales performance of supermarkets and discounters marked the other major structural change to have occurred in the industry. Traditionally high street stores like Marks and Spencer and Next had dominated industry sales, but now in the main it is supermarkets and discounters leading the way.

Industry's key players

UK retailers attempt to serve two major parts of the children's clothing market – the mass market and specialised niches. The industry's key players and their market shares in 2009 are shown in Figure 2. In the mass-market for children's clothing, retailers pursuing a low cost strategy include the likes of Asda, Primark and Tesco.

Figure 2: Market share of children's clothing sales by retailer in 2009


ASDA Asda is supermarket chain which retails food, clothing, toys and general merchandise. Its clothing division uses the brand name “George,” which was established in 1990. US retailer Wal-Mart, the largest retailer in the world, owns Asda. The financial investment necessary to enter the industry was low for such a large operation. As a subsidiary of Wal-Mart, Asda has higher purchasing power than most of the other incumbents in the industry. Asda's stores attract large customer numbers due to its grocery operations and convenient free car parking. During the 2000s, Asda significantly improved its market share by offering clothes that were good quality at below average industry prices. Asda has 340 supermarkets of various sizes. For the first eight months of 2009, the company spent £2 million on advertising its children's clothing range. However, the size and scope of Asda's range of children's clothing is limited compared to industry leader Next.

TESCO Another key contender in this industry is the UK's biggest supermarket chain and Europe's second largest retailer, Tesco. Tesco retails groceries, clothing, consumer goods, financial services and mobile phone services, which are offered through its stores and website. The company has the largest customer base in the UK, strong brand loyalty and recognition, convenient free car parking, and like Asda high purchasing power due to its size. In terms of children's clothing, Tesco's offer spans the 0-14 age group under the following brands: Baby Boutique, Cherokee, Diadora, Gola, Elspeth Gibson and Henry J Finn. As of May 2009, the company operated 2,306 stores in the UK. For the eight months ended August 2009, the company had spent £1.5 million on advertising its children's clothing range. Similar to Asda, Tesco's offers cheap good quality children's clothing. The size and scope of its children's range is limited compared to Next. In the future, both Asda and Tesco hope to expand their ranges to rival those offered by Next. This includes offering premium priced clothing.

PRIMARK® A further contender in this industry is Primark, an Irish clothing retailer operating a total of 138 stores in the UK. Primark sells good quality clothes at the budget end of the market like Asda and Tesco. The company's success is based on its ability to source clothes with simple designs and fabrics cheaply from overseas, only making them in the most popular sizes, buying stock in huge bulk and varieties and not advertising. Primark children's clothes are branded under the name Rebel.

MARKS & SPENCER The above low cost retailers have put considerable pressure on mass-market retailers following a broad differentiation strategy such as Marks & Spencer (M&S). M&S is a major retailer selling clothing, food and a limited range of home-wares and furniture. The company operates 668 stores of various sizes across the UK. M&S's broad differentiation strategy is based on good quality clothes, strong branding, and prices its goods around the industry average. M&S has a broad appeal, but this does leave it vulnerable to attack by niche competitors at the top of the market and the low-priced retailers at the bottom of the market. According to research a key advantage that Marks & Spencer possesses is that more than three quarters of all of its customers who buy food from its stores, also buy its clothing. Therefore, just like the supermarkets, M&S's food business is key method of attracting footfall in-store.

The company dominates the market for both women and men's clothing in the UK; however, it has never achieved the same degree of ascendancy in the children's clothing market. Critics argue that M&S's range of clothing for children has been too limited, conservative, and generally not offering value for money. Despite these failings, M&S has always been a key player within the industry due to the success of its school uniform range. Going forward, the company is planning to increase the appeal of its non-school range of children's clothing by upgrading the quality of the garments offered, placing more emphasis on contemporary styles, but still maintaining prices around the industry average. Supporting this new strategic approach is M&S's recent partnership with Vodafone McLaren Mercedes to produce an exclusive range of boys clothing called "Living the Dream". This clothing is aimed at boys aged 5-16 who aspire to replicate the championship winning exploits of Lewis Hamilton, Formula One motor racing driver. For the first eight months of 2009, the company spent £1.5 million on advertising its children's clothing range.

 Next is the UK's leading children's clothing retailer and like M&S follows a broad differentiation strategy. The company also sells footwear, clothing accessories and home products. Next is regarded by many consumers as a trustworthy and reliable retail company. Despite higher than average industry prices Next appeals to a wide customer base; both better off and price sensitive customers. Experts state that Next's success is due to its strong reputation, and its wide and varied range of good quality, stylish clothing. The company has managed to segment its children's clothing so older children are given significantly different styles and designs from the baby and toddler ranges. Next has also built strong relationships with suppliers and looks to replenish merchandise rapidly and efficiently. Within the UK market Next operates

515 stores. For the first eight months of 2009, the company spent £5.4 million on advertising its children's clothing range. In October 2008, Next acquired Women's fashion retailer, Lipsy, for £17.4 million. This purchase was undertaken to help increase its presence in the teen fashion business.



Niche

At the premium end of the children's clothing market niche retailers dominate. The more successful niche retailers specialise in selling the most desirable brand labels such as DKNY, Diesel, Burberry and Dior. They tend to exclusively focus on providing designer clothes for only one or two segments of the children's clothing market e.g., babies, toddlers, pre-teens and young teenagers. The vast majority of niche retailers only operate one outlet, they are usually owner operated, and focus on surpassing other retailers through personal service. Most are not necessarily right at the top end of the design scale but their prices are usually much higher than the equivalent clothes sold by Next. There are approximately between 3,000 and 3,500 niche children clothing retailers in the United Kingdom. Advertising is limited and mostly generated via word of mouth or store location.

Required:

- (a) Construct a strategic group map or perceived price/differentiation matrix locating Next's competitive position within the children's clothing retail industry in the United Kingdom. Ensure that you provide a rationale for the position of your strategic groups.
(10 marks)
- (b) Use Porter's Five Forces model to analyse the competitive conditions for Next within the children's clothing retail industry in the United Kingdom.
(16 marks)
- (c) Evaluate the attractiveness of Next's competitive position based on the five forces analysis undertaken for part (b).
(8 marks)

Total 34 marks

SECTION B (33 marks)

Answer ALL PARTS of Question B1.

Question B1

- (a) Discuss the competitive situation facing a pioneer company within the introduction state of the industry life cycle.
(12 marks)
- (b) Discuss how rapid growth may affect a company's ability to manage their activities.
(11 marks)
- (c) Consider why a merger between two companies within a declining industry might be a valuable strategic choice for them to make.
(6 marks)
- (d) Assess whether the concept of the industry life cycle can assist a company's decision-making processes regarding its product portfolio.
(4 marks)

Total 33 marks

SECTION C (33 marks)

Answer EITHER Question C1 OR Question C2.

Question C1

- (a) Business organisations are becoming increasingly international in their trading activities and strategies. What are the major business, environmental, and other variables that explain this trend?

(18 marks)

- (b) As part of their international strategies businesses have choices as to the corporate form in which they can go about their activities. Assess the respective merits of wholly-owned subsidiaries, international strategic alliances and international joint ventures as means of achieving global objectives.

(15 marks)

Total 33 marks

Question C2

- (a) Discuss, with examples, why and how certain aspects of international business are likely to be affected by cultural factors.

(18 marks)

- (b) Indicate how parent companies can seek to mitigate any possible problems that may arise in respect of the cultural dimension of their international activities.

(15 marks)

Total 33 marks

END OF PAPER

EXAMINATION REGULATIONS

Candidates are subject to the regulations governing examinations which are published by the University. The main points are summarised below.

- 1.** A candidate shall not bring written, printed or any other material into the examination room except such as may be authorised by the examiners. Briefcases and other similar containers, the main purpose of which is to carry papers, shall not be brought into the examination room.
- 2.** A candidate shall not communicate with, receive assistance from or copy from the paper of another candidate during an examination.
- 3.** A candidate shall not leave the examination room less than half an hour after the start of an examination, except with the permission of the invigilator and shall not leave the examination room during the last fifteen minutes of an examination.
- 4.** At the end of the examination a candidate must return the answer book or books to the invigilator together with any other material on which he/she has written or drawn during the examination. Under no circumstances should a candidate remove an answer book, used or unused, from the examination room.