



HERIOT-WATT MANAGEMENT PROGRAMME

STRATEGIC MANAGEMENT / INTERNATIONAL STRATEGIC MANAGEMENT – STAGE 3

December 2009

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.

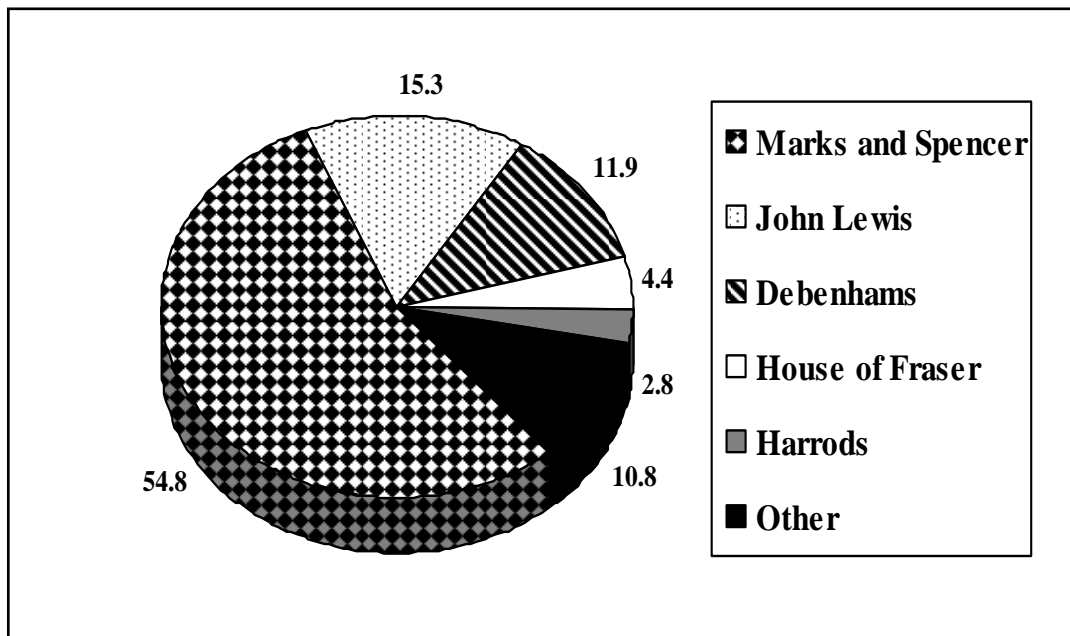
Part II is the answer booklet.

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 the United Kingdom's department store industry****Background**

Department stores typically operate from large retail premises and provide an array of goods or services via many different specialised departments. For instance, a single department store typically sells such diverse products as clothing, furniture, home appliances, electronics, toiletries, cosmetics, photographic equipment, jewellery, toys, and sporting goods etc. Although this makes the business more complex than specialist retail stores, it also offers a measure of protection. In 2007 the United Kingdom's department store industry generated sales of around £15.1 billion. For 2007, figure 1 details the market shares of the major department stores in the UK.

Figure 1: Market share of department store sales in 2007



From 2002 to 2007, customer demand for mainstream department store products like clothing, electronics and personal care products was strong and growing. However, from the latter part of 2007, and throughout 2008, department stores were hit by a general decline in consumer spending due to the global credit crunch and subsequent recession.

Since 2000 department stores also confronted a developing threat from specialist companies like clothing and electrical retailers, supermarkets (fast growing non-food offers) and internet retailers. Department stores have found it increasingly difficult to compete on price and/or range with these specialist retailers. At the same time, consumers

have become less loyal and now shop around more often than they did in the past. This means department stores have to continuously compete for and earn the purchases of their customers. Discussed below are the five major department stores competing in the UK market, and how they have fared in the first six months of 2009.

MARKS & SPENCER

Marks and Spencer (M&S) dominates the department store industry in the United Kingdom via its 685 department stores. Food, clothing and a limited range of homewares and electricals are the main assortment of products offered by M&S. However, very few M&S stores carry the full offer, with most of them focusing on clothing and/or food. The target customers of M&S' clothing ranges are the middle mass market. Within the food sector, M&S offers a premier product range (including a strong ready meals offer), which generates more than half of its UK sales. This food offer caters mainly to the upper half of the mass 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, Marks & Spencer's food business is a key method of attracting footfall in-store. M&S largely sells its own label branded food products. Within M&S' clothing range it has developed a portfolio of exclusive own label brands as well.

Previous to the economic recession, M&S had performed well under the management of Stuart Rose. However, in May 2009, Marks and Spencer announced that it had suffered a 3.4% drop in annual sales. Since January 2009, the company had closed 30 under-performing stores, cut capital expenditure by £400m, slashed its marketing budget by £20m, made some tough choices on final salary pensions and cut 1,200 jobs. Despite M&S's decline in sales, retail experts



remain confident about its outlook. Amongst consumers M&S still enjoys high levels of customer loyalty. Furthermore, the company has a high degree of visibility amongst consumers due to its comprehensive network of stores in the UK.



John Lewis department stores are part of the John Lewis Partnership (JLP). As the name suggests JLP operates as a partnership – all its permanent employees (“Partners”) co-own JLP and share in the company's profits. The 26 department stores stock a full-range offer pitched at the mid-to-upper end of the mass market. JLP charges a slight price premium on their products compared to their competitors. Most John Lewis products come with extended warranties and this justifies the premium. The stores are typically larger than the sector average and this enables them to carry a vast range of products. Compared to rivals like Debenhams and House of Fraser, JLP focuses more on homeware rather than clothing. As a result,

Debenhams and House of Fraser are generally perceived to be stronger in fashion clothing.

Employees' length of service at JLP is much higher than the industry average for retailing. This enables JLP employees to acquire an in-depth knowledge of their product area, making them better able to advise customers. Thirty percent of JLP sales are from its own-label brands, particularly in homeware and fashion. For the first six months of 2009, JLP reported that its profits had fallen by twenty percent compared with the same period last year.

DEBENHAMS Debenhams department store chain emphasises fashion rather than homeware. It has one hundred and forty-four stores located in the UK and targets the middle mass market with fashionable items offered at affordable prices. The stores have wide appeal and the company differentiates itself via its large portfolio of own label clothing brands, including the popular "Designers at Debenhams" ranges. Designers at Debenhams ranges utilise well known designers who produce uniquely styled clothing for Debenhams at affordable prices. These ranges attract a lot of publicity and the number of designers and their collections has grown. Some of the designers who contribute are Ted Baker, Jasper Conran, Pip Hackett, John Rocha and Matthew Williamson. The level of own label development at Debenhams sets it apart from its rivals. Own label products account for roughly seventy percent of Debenhams sales. Compared to the same period last year, Debenhams' sales have increased by 0.2% for the first six months of 2009. The company stated that part of the reason sales had been modest during this period was due to disruptions caused by store refurbishments.

HOUSE OF FRASER House of Fraser (HoF) is one of the oldest department store chains in the UK and offers a full product range such as clothing, homeware, electricals, cosmetics and perfumes and toys. However, like Debenhams its sixty-two stores mainly emphasises fashion clothing. In recent years HoF management have repositioned its stores as premier retail outlets as they attempt to target the upper half of the mass customer market in the UK. The company's repositioning exercise has involved the introduction of numerous high-profile brands to reinforce HoF's new image. In particular, branded concessions have become increasingly prominent in-store (shops within shops) offering a variety of luxury brands such as Aquascutum, Armani, Anya Hindmarch, Hugo Boss and Lauren (by Ralph Lauren) and Mulberry. House of Fraser continues to see itself as a "house of brands," and these have played an important part in its repositioning exercise. The brand mix also includes various brands with limited availability or presence in



the UK, such as Vero Moda (Denmark) and Kenneth Cole (US). Such uniqueness provides an important point of difference for the department store, especially if consumers want to buy “one-of-a-kind” products. However, the price spectrum of its products is still surprisingly wide given its new upmarket position. For instance, HoF sells jeans ranging from £30 to £170 and women’s knitted sweaters from £20 to £250. In contrast, to the reduced sales reported by other department store chains, HoF announced improving sales growth. In the first six months of 2009, HoF improved its sales performance by sixteen percent compared to the same period last year.

Harrods Harrods department store positions itself as a premier retail outlet; as the branded products and services offered arguably set an example for other retailers. Harrods’ operating margin is one of the highest in the sector, at around 10%. It has one main department store located in Knightsbridge, London, which offers a full-range of products and services. Customisation and personalisation of products is available across various product areas (e.g. commissioned jewellery, customised luggage, bed-linen or bicycles). The Harrods store is the largest in the UK as it possesses over 300 different departments occupying nearly 75,000m². Harrods is a popular tourist destination in London as well.

In recent times the management of Harrods have improved the luxury experience by refurbishing departments and increasing the number and variety of branded goods sold. These improvements have won over some consumers from competing specialist fashion



chains and department stores. The store has a loyal following of affluent customers, who are less likely to scale back their purchases during the recession. For the first half of 2009, Harrods reported that sales had increased by nine percent compared to the same period last year.

Suppliers

The previous descriptions of each major department store indicate that their use of branded and own label products varies considerably. Own label products are generally introduced by department stores to obtain higher margins. Generally, department stores can obtain higher margins from own label products, because they can exercise greater control over the price and quality of the products supplied by the manufacturer. In contrast, the terms and conditions negotiated with major design houses and manufacturers

to sell their products can be much more onerous depending on the desirability and reputation of their brand.

Required:

- (a) Construct a strategic group map or perceived price/differentiation matrix locating House of Fraser's competitive position within the United Kingdom's department store industry. 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 House of Fraser within the United Kingdom's department store industry.

(16 marks)

- (c) Evaluate the attractiveness of House of Fraser's competitive position based on the five forces analysis undertaken for Question (b).

(8 marks)

Total 34 marks

SECTION B (33 marks)

Answer ALL PARTS of Question B1.

Question B1

- (a) Discuss the type of customer who is more likely to purchase goods or services for the first time in the late growth and maturity stages of the industry life cycle model.
(6 marks)
- (b) Discuss how companies might use the industry life cycle to help determine the future composition of their product portfolio.
(6 marks)
- (c) Evaluate the sorts of issues a pioneer company will need to think about to ensure their long-term survival beyond the introduction stage of the industry life-cycle.
(12 marks)
- (d) Discuss the type of strategy companies might employ to survive a decline in industry sales.
(9 marks)

Total 33 marks

SECTION C (33 marks)

Answer EITHER Question C1 OR Question C2.

Question C1

- (a) Why do governments intervene in international trade?
(15 marks)
- (b) What are the consequences for consumers of protectionist trade policies? Give examples to clarify your answer.
(18 marks)

Total 33 marks

Question C2

- (a) Imagine that you are a member of a team of senior managers visiting a foreign country with a view to establishing a wholly-owned subsidiary business. Explain the advantages and disadvantages of this form of market entry in contrast to other available strategies.
(20 marks)
- (b) How would you go about adjusting the internal organisation structure of your firm in order to ensure the successful performance of such a subsidiary?
(13 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.