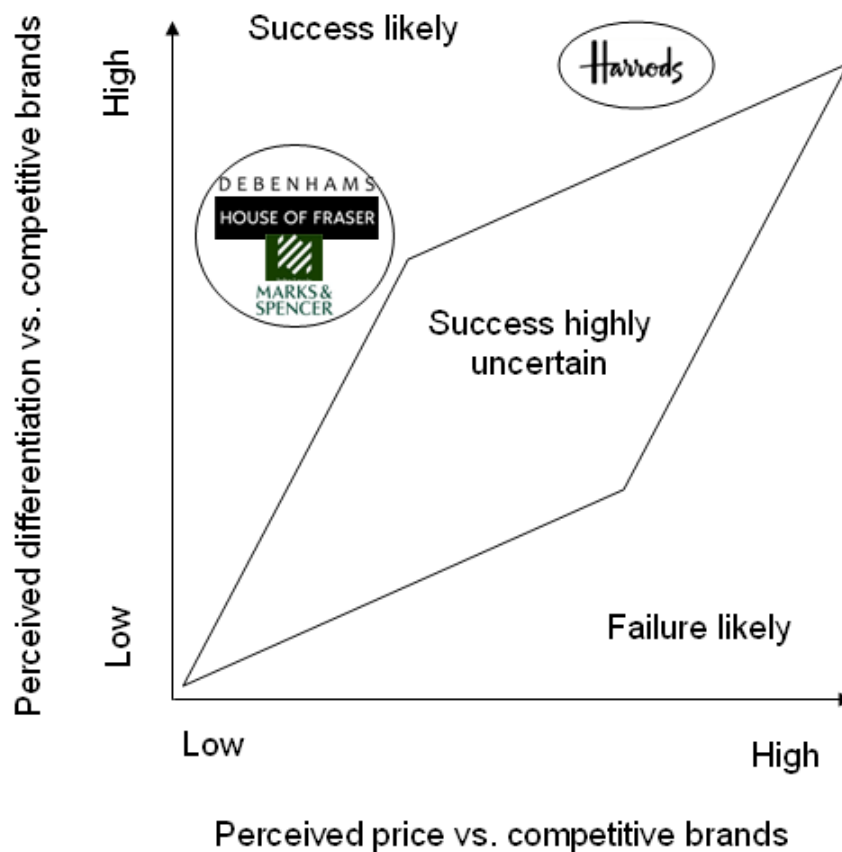


Strategic Management / International Strategic Management Stage 3**December 2009**Solutions**SECTION A (34 marks)****Question A1**

- (a) Figure 1: Perceived price/differentiation matrix for the United Kingdom's department store industry



It is difficult to make direct comparisons between the four department stores as their strengths lie in different product areas. Nevertheless, for simplicity House of Fraser, Debenhams, John Lewis and Marks and Spencer can be located in the same strategic group as they all employ a differentiation strategy aimed at the mass market. In particular, all of the aforementioned department stores charge affordable prices (John Lewis does charge slightly higher prices for its products, but this was disregarded as a significant differentiator to keep the analysis process simply) and utilise branding strategies (whether own label or well known luxury brands) to differentiate their products. Debenhams and House of Fraser are notable for their full range of fashionable clothing; Marks and Spencer and John Lewis' clothing offers may not

compare in scale to the previous companies, but what they do provide is generally well regarded. Marks and Spencer and John Lewis' strengths lie in food and homeware respectively, whereas House of Fraser and Debenhams are limited in these areas. House of Fraser was not secluded from this strategic group due to its repositioning exercise upwards, because the products it currently offers still cover a broad spectrum of mass market customers.

Harrods was placed in its own strategic group as the store uses a focused differentiation strategy aimed at a few narrow market segments, i.e. largely price insensitive or wealthy individuals. The store charges above average industry prices for high quality luxury brands and personalised products. Using the perceived price and differentiation matrix the strategic groups for clothing retailers can be identified.

A more detailed analysis employing several strategic group maps indicates that there are significant strategic differences between the five department stores operating in the United Kingdom. These strategic group maps reinforce the diverse differentiation strategies House of Fraser, Debenhams, John Lewis and Marks and Spencer are employing to attract the mass market consumer within the UK. In particular, the mix of products offered by each department store plays a crucial role, i.e. Marks & Spencer's food business is key method of attracting footfall in-store. Similarly, John Lewis' strength in homeware probably attracts in-store footfall as well.

Figure 2: Strategic group map of pricing policy and number of stores within the United Kingdom's department store industry



Figure 3: Strategic group map of pricing policy and main source of differentiation within the United Kingdom's department store industry

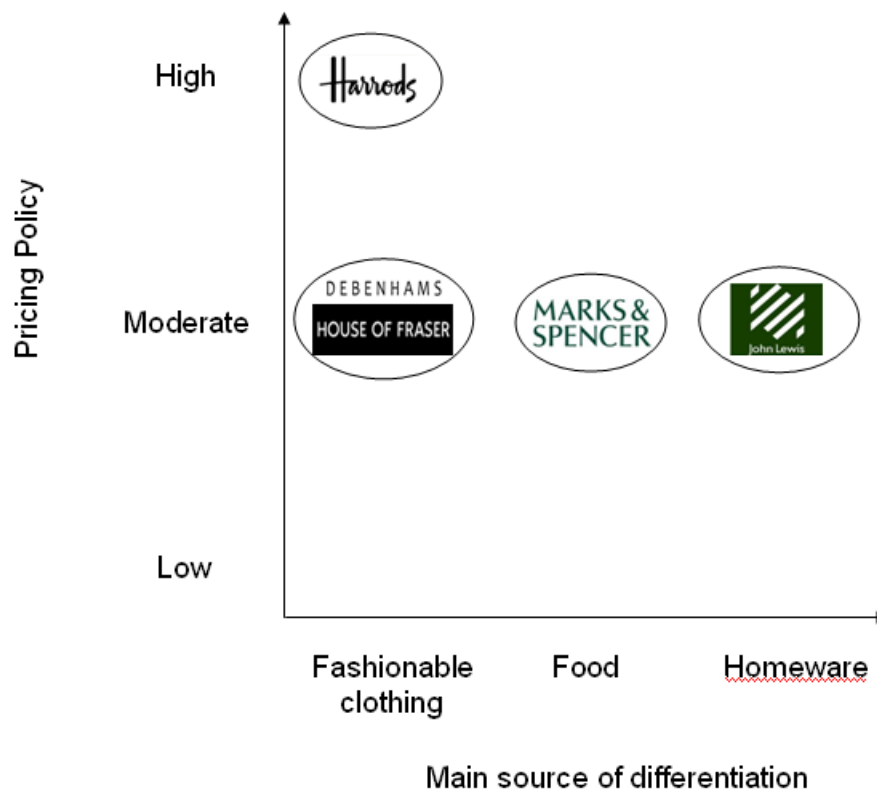
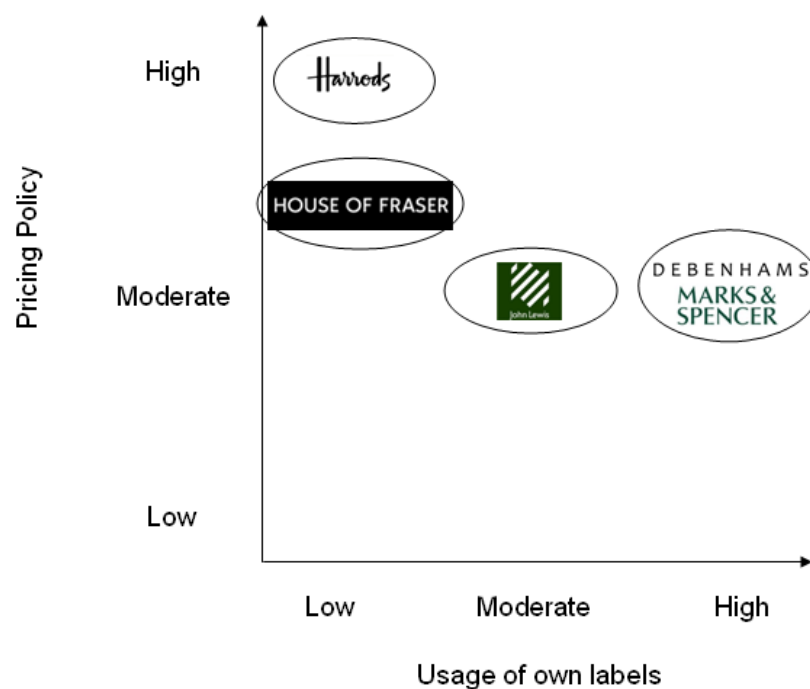


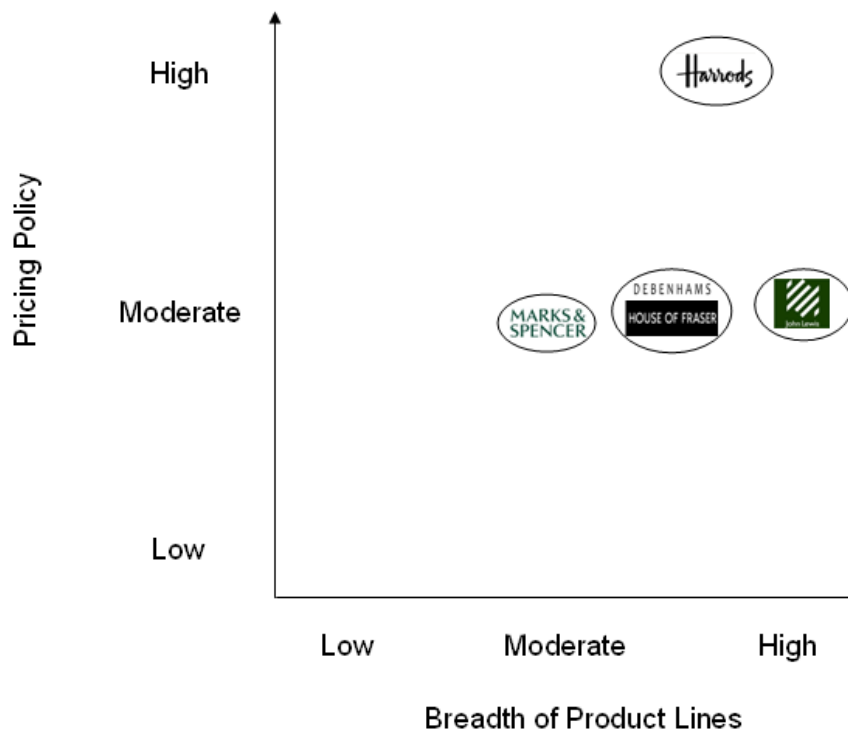
Figure 4: Strategic group map of pricing policy and usage of own labels within the United Kingdom's department store industry



Figure

5:

Strategic group map of pricing policy and breadth of Product Lines within the United Kingdom's department store industry



(b) House of Fraser's nearest rival appears to be Debenhams as they are both strong in fashion clothing using a mix of own label and branded products. Moreover, both appeal to fashion conscious mass market customers via their affordable prices. However, Marks and Spencer and John Lewis' strengths in food and homeware respectively means they attract the same mass market consumers to their smaller, but highly regarded fashion clothing ranges. With these issues in mind the following analysis using Porter's five forces was constructed for House of Fraser.

- **Supplier bargaining power: high**
House of Fraser is likely to confront high switching costs, particularly for clothing, because designer houses will negotiate strict terms and conditions. Numerous retail outlets or other distribution channels exist within the United Kingdom, so designer houses with strong reputations are likely to be able to put in force onerous conditions and terms upon House of Fraser.
- **Threat of substitutes: high**
House of Fraser is confronted by many substitutes such as specialist clothing and electrical retailers, supermarkets (fast growing non-food offers) and internet retailers. Certainly all department stores have found it increasingly difficult to compete on price and/or range with these specialist retailers. Moreover, during an economic recession the low cost discounters provide a substantial threat to House of Fraser. The existence of substitutes means customers will switch to substitutes in response to price increases i.e., demand is elastic with respect to price. Finally, in the present economic climate it is unlikely that the Harrods' strategic group will

be a threat to House of Fraser due to high switching costs for mass market customers.

- **Industry rivalry: high**
House of Fraser is confronted with several strong and differentiated competitors within its strategic group (see figure1). Debenhams, John Lewis and Marks and Spencer all have strong own label brands which have wide customer appeal. Switching costs appear to be minimal between the various mass market retailers, but a degree of brand loyalty will exist and is likely to be reinforced by a loyalty scheme and/or cards. Additionally, the high fixed costs associated with possessing a retail outlets means House of Fraser needs to retain market share so margins can be maintained – this intensifies competitive pressure on the company. House of Fraser's profitability is competed away through promotions and advertising to maintain its status as a differentiated clothing retailer.
 - **Threat of new entrants: low**
Industry knowledge offers an absolute advantage, existing network of known distribution outlets, strong product differentiation and branding by House of Fraser's means entry into the mass market would be difficult for new participants but not impossible, especially for cash rich multinational companies such as ASDA and Tesco who originally came from an unrelated industry - groceries.
 - **Buyer bargaining power of customer: high**
Low switching costs for customers but moderated by perceived product differences and brand loyalty. Nevertheless, over the years, aggressive pricing by the low cost sector has encouraged a quantity of customers to switch loyalty. However, strong branding and product differentiation means some customers are likely to be brand loyal if appeals are aligned to their expectations.
- (c) The evaluation of the competitive conditions confronting House of Fraser illustrate that it is operating in a highly competitive industry. Four of the five forces were judged to be highly unfavourable to the House of Fraser's operations. The only force that was favourable was the threat of new entrances, which was perceived to be low. The largely unfavourable analysis means the likelihood of improving the profitability of the House of Fraser would be difficult. The maintenance or improvement of the company's market share will require substantial investments in marketing and infrastructure improvements to reinforce its differentiation strategy as a means of defence against substitutes and competitors. Consequently, House of Fraser would be an unattractive prospect for investors at the moment. However, the case study indicates that the House of Fraser's new differentiation strategy towards a more up-market position is reaping sales and profit improvements. The five force analysis informs us that the House of Fraser will need to compete much of its profitability away in establishing a strong differentiation strategy to defend or gain market share.

SECTION B**Question B1****(a) Chapter 1 of Business Policy 2**

Buyers who make their first time purchase of goods and services in the late growth and maturity stages of the industry life cycle model are categorised as late majority customers. It is very unlikely that late majority customers will adopt new innovations and this is largely due to their lower than average incomes. This group of consumers waits until the price has dropped significantly so that they are able to afford the technology. Unlike early majority consumers they do not rely on interpersonal communications and contacts to obtain purchase information about a product; instead mass-media communication such as advertising is relied upon.

(b) Chapter 7 of Business Policy 2

Information provided by the industry life cycle is helpful to confirm the role that an individual business or SBU contributes to the profitability of a firm. A firm will be better off by having a reasonably well-balanced portfolio of businesses. If all businesses in a firm are beginning to age, the firm might enjoy high current profitability, but its future prospects may be low as a result of declining industry sales. In contrast, if a portfolio is biased towards young embryonic businesses, a firm could have great potential, but might be unable to achieve it, because it does not possess sufficient cash for re-investment.

(c) Chapter 1 of Business Policy 2

The pioneer company establishes the credibility of the product and attempts to build awareness among consumers of its benefits and attributes. In some situations there may be several pioneer companies which target the same market but offer alternative designs of the product technology to customers.

Other competitors may join the pioneer or pioneers during the introduction stage and help in the market's development i.e., build customer awareness of the product technology through their sales and marketing activities. Ease of entry into the market will depend on how difficult the product or service is to produce. A pioneer company may attempt to restrict entry through the use of patent protection. Also the number of competitors attracted to the market will depend on how profitable they perceive the market to be and whether the new product threatens their existing business.

In addition, a characteristic of the introduction stage is a high degree of uncertainty. Amongst customers uncertainty may exist in the introduction stage due to product unfamiliarity and concern over performance. Uncertainties also exist for the producing firm(s), which may be unsure of the most effective marketing strategies to employ. For example, producers will find considerable resistance from retailers to stock products without a history or reputation. A retailer's success relies on effective product selection to maximise the profit potential of limited shelf space. New innovative products that may still have reliability problems are a high-risk choice for retailers. As a result, a producer negotiating retail space for an unproved product will

face determined resistance and will need to provide the retailer with promotional pledges and cash discounts to attract an agreement for shelf space.

During introduction stage, marketing activities are typically focused on advertising to build awareness and educate customers about the product. Due to the need for product education producers tend to place a lesser emphasis on promoting their individual brand or company name. Industrial marketers need to reduce the perceived risk for customers and retailers through personal selling that highlights the use and value of the product.

The financial returns for a pioneer company may involve a loss. A company will be prepared to charge a price that does not fully cover total production costs in anticipation that volume will build and all costs, both direct and indirect, will be recovered in the future.

In many cases the pioneering company's finished product will not be completely perfect but will be introduced as early as possible to obtain an advantage over its competitors. The ability to introduce a product early relies on a pioneering company having close co-ordination and co-operation between its production, engineering and marketing functions. A further important requirement for a pioneer company is their willingness to continue to fund the ongoing development of a product so it can be upgraded once it is in the marketplace.

(d) Chapter 6 of Business Policy 2

A reasonable strategy to be employed in a declining industry is the identification of a niche segment or segments that are likely to provide higher possible returns and steady demand, or are declining gradually. The firm which creates or develops profitable segments will then invest in building a strong position. It may be advantageous to use some of the same tactical ploys under the leadership strategy to establish dominance within the segment. The most desirable niches are those that offer the prospect of stability and where customers are relatively price insensitive. Within the United Kingdom the surviving ship builders have created niche markets or centres of excellence in the construction of super yachts, naval destroyers and submarines, aircraft carriers, general ship maintenance, and oil rigs and other offshore equipment.

SECTION C

Question C1

Drawing upon Chapter 5 of the core material provided, answers should refer to the themes of local-economy national defence and independence needs, the impact of FDI upon host-country industry entry barriers, the need to protect local 'infant' and other vulnerable industries, the needs for national governments to maintain their employment policies, the requirements for industry restructuring within the host economy, and a range of host-country political objectives.

For the second part of the question, answers should note that in addition to host-country tax-payers funding any trade subsidies, local consumers may experience a lower level of market efficiency in terms of competition (and therefore prices) and resource use. This may be seen in terms of the range and quality of goods and services available. Protectionist policies in one economy may also give rise to retaliatory action by others.

A contrast may be drawn between the UK car market where there are only limited local controls relating to vehicle safety etc, and India where strict import controls have an impact upon local prices and product quality.

Question C2

Drawing upon Chapter 1 and parts of other chapters in the core reading material, candidates should emphasise the importance of this area of decision making in implementing an international business strategy. They should recognise the range of options available in addition to direct investment, such as joint ventures, alliances etc. and also distinguish between the establishment of an entirely new site and the acquisition of an existing business operation. The advantages of the former lie in free choice of plant location, size etc., whereas the acquisition of an existing business confers the advantages of speed and established business operations, including customers. Candidates should also recognise the various restrictions/advantages – such as host-country government involvement, particular legislation - that may be involved in either of these options.

Regarding the latter part of the question, candidates should discuss aspects of organisational design, structure, control and motivation involved in the establishment or addition of further international operations. Candidates should be able to refer to available patterns of organisation structure, including the transnational structure, and also bear in mind cultural factors involved in the management of international operations.