



HERIOT-WATT MANAGEMENT PROGRAMME

STRATEGIC MANAGEMENT – STAGE 3

For Official Use Only

December 2008

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 Marks & Spencer and the United Kingdom's retail clothing industry

Background

In 2007, the United Kingdom's clothing retailers' generated sales revenue estimated to be worth around £42 billion. Women's, girls' and children's clothing account for around 70 per cent of this sales revenue. The United Kingdom's (UK) clothing retail sector is



relatively fragmented with a large number of small players and independents, i.e. there are approximately between 3,000 and 3,500 independent and specialised clothing retailers. Generally, UK retailers attempt to serve two major parts of the clothing market – the mass market and specialised niches. The UK retail clothing market has grown strongly in the last ten to fifteen years.

However, during the latter part of 2007 and throughout 2008 clothing retailers were hit by a general slowdown in the UK economy due to high food and fuel prices and the global credit crunch. Consumer confidence was severely shaken by the twin impact of higher prices and volatile financial markets. The latest economic forecast by the European Union Commission predicts that the UK economy will fall into recession in 2008, so the outlook is downbeat for UK clothing retailers.

Niche retailers

Prior to the economic slowdown, retailers occupying specialised niches had generally outperformed mass-market retailers in the clothing sector. Niche retailers were much more adept at anticipating and leading clothing trends via innovative designs, clever merchandising, and creating stylish, attractive store environments like River Island and Fat Face. Successful niche retailers specialise in selling their own private brands or 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 clothing market e.g., young teenagers, twenty something adults, 30+ adults etc. 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 are relatively expensive compared with mass-

market clothing retailers. In contrast, to the single outlets, many specialised retail chains exist like River Island and Fat Face, which have 140 and 229 stores respectively.

Being a niche retailer does not guarantee success. Some niche retailers attempt to serve too many segments in the market and therefore struggle to create a clear identity. Some suppliers can also be quite dictatorial in their demands on niche retailers and often insist that they take a certain amount of stock from them. Due to these demands from suppliers', niche retailers often run the danger of being over stocked with goods. This can mean that niche retailers need to offer substantial discounts at the end of the season to clear old stock with a consequent drop in profitability. In addition, even prior to the economic slowdown niche retailers had seen a decline in their share of the clothing market. Surprisingly market share was being lost to low cost retailers. The low prices being offered by low cost retailers encouraged consumers to treat clothing as a disposable commodity, i.e. articles of clothing were being worn on a single or limited number of occasions and then thrown away; it is much easier to possess a throw away mentality if the clothes being bought are both fashionable, good quality and cheap.

Low cost retailers

Price dominates the UK's retail clothing market and has been driven down by UK retailers sourcing much of their raw materials and finished articles of clothing from locations like Eastern European, Morocco, Turkey and the Far East. In the mass-market for clothing, the importance of price has led to the rapid growth of low cost clothing retailers such as Primark and Peacocks. Together, these two businesses account for just less than five percent of the UK's total clothing market sales. Primark and Peacock respectively own 125 and 500 stores in the UK. Apart from these low cost clothing retailers, the UK's three largest supermarkets have continued to develop and expand their clothing range as well. These three supermarkets (Tesco, ASDA and Sainsbury's) had combined clothing sales of £2.5 billion in 2007, which accounted for 6% of total consumer spending on clothing in the UK. In particular, ASDA and Tesco have significantly improved market share, through a combination of good styling of their clothes and low prices. Tesco is the UK's biggest supermarket chain and Europe's second largest retailer, while US retailer Wal-Mart, the largest retailer in the world, owns ASDA. These operations have comparable or greater purchasing power than all other incumbents in the industry as whole. Another advantage for these firms is that they are already well known to millions of UK consumers for their service and product quality. In addition, these stores possess advantages such as their ability to attract large customer numbers due to their grocery operations and convenient free car parking. Tesco has over 2,000 shops of various configurations within the UK, from small convenience stores to immense hypermarkets, while ASDA has 340 supermarkets of various sizes. Experts predict that low cost retailers like Primark and supermarkets are set to benefit from the economic slowdown, as most consumers look to buy the same amount of clothing items but at a lower price.

Marks & Spencer

Despite the growth of low cost retailers, the mass-market for clothing is dominated by Marks & Spencer, with a 10.5% share of the overall clothing market. It is not only a clothing retailer, but is a food retailer as well. Most of its domestic stores sell clothing, food and a limited range of home-wares and furniture. Marks & Spencer owns 843 stores in more than 30 countries around the world, 600 domestic and 240 international. The pricing, quality and variety of clothing products offered by low cost clothing retailers have put considerable pressure on retailers such as Marks & Spencer, which attempt to serve the middle of the market. Marks & Spencer employ a



broad differentiation strategy based on good quality clothes, strong branding, and prices its goods around the industry average. Marks & Spencer has a broad appeal, but this does leave it vulnerable to attack by niche competitors at the top of the market and rapidly growing low-price, good quality retailers at the bottom. It is companies such as Marks & Spencer, competing in the middle market, which have found business difficult over the last few years, since the market has generally favoured either low cost or premium brands. In an attempt to keep their costs down they continually look around for the best and cheapest sources of supply. There are relatively few UK manufacturers of clothing so like the low cost retailers much of their clothing arrives from overseas. 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, Marks & Spencer's food business is a key method of attracting footfall in-store. Marks & Spencer pursues an aggressive marketing strategy, which involves sizeable spending on press and television advertising; the largest advertising expenditure in the clothing retail industry.

Another popular mass-market retailer serving the UK's middle-market is Next plc. The stores sell clothes, shoes and accessories for women, men and children as well as a range of home furnishings. Next clothes are styled by its own in-house design team to offer consistency of style, quality and value for money. Next is regarded by many consumers as a trustworthy and reliable retail company. Despite higher than average industry prices in the mass-market, Next appeals to a wide customer audience, both better off and price sensitive customers, due to its strong reputation and the quality and styling of its clothing.

Next has also built strong relationships with suppliers and looks to replenish merchandise rapidly and efficiently. Within the UK market Next owns over 400 stores. Like Marks & Spencer, Next spends a substantial amount on press and television advertising.

- (a) Construct a strategic group map or perceived price/differentiation matrix locating Marks & Spencer's competitive position within the United Kingdom's retail clothing 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 Marks & Spencer's within the United Kingdom's retail clothing industry.
(15 marks)
- (c) Evaluate the attractiveness of Marks & Spencer's competitive position based on the five forces analysis undertaken for part (b).
(9 marks)

Total 34 marks

SECTION B (33 marks)

Answer ALL PARTS of Question B1.

Question B1

- (a) Use your knowledge of the industry life cycle model to evaluate which stage of development the clothing retail industry (see Section A) has reached in the United Kingdom (i.e. either the introduction, growth, late growth, maturity or decline) and provide a rationale for your choice.
(5 marks)
- (b) Discuss how rapid growth may affect an organisation's ability to manage its operations.
(8 marks)
- (c) Explain why industry segmentation is likely to occur during the maturity stage of the Industry Life Cycle.
(8 marks)
- (d) Why might a company in the introduction stage of the industry life cycle allow themselves to be acquired by a larger company?
(12 marks)

Total 33 marks

SECTION C (33 marks)

Answer EITHER Question C1 OR Question C2.

Question C1

- (a) Discuss limitations and advantages of establishing a wholly owned subsidiary site.
(13 marks)
- (b) How would you go about configuring the internal activities of your wholly owned subsidiary to ensure it is successful?
(20 marks)

Total 33 marks

Question C2

- (a) Explain how managers of a multinational country can prevent ethical issues adversely affecting the performance of their operations.
(18 marks)
- (b) Discuss the attributes a business manager must possess to be an effective negotiator overseas.
(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.