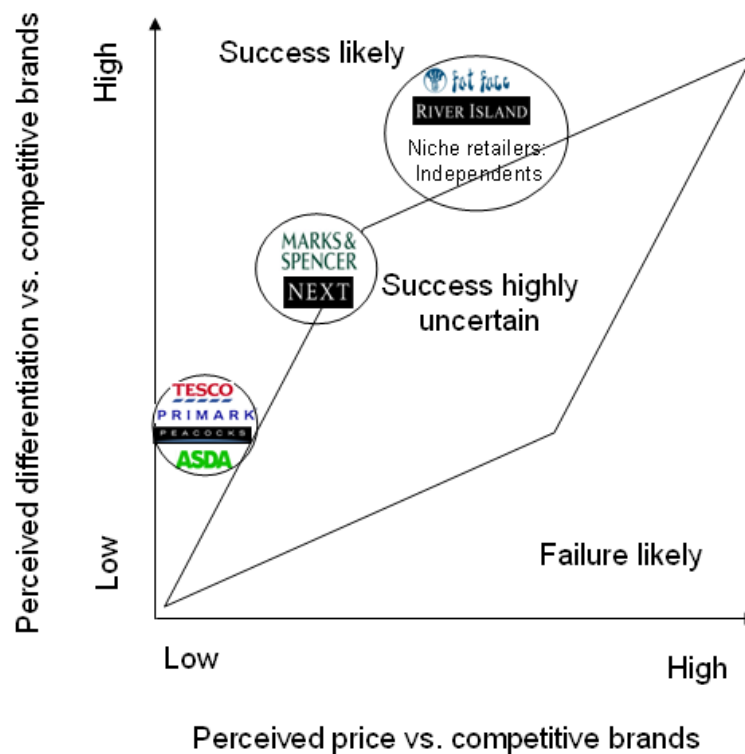


**Strategic Management Stage 3****December 2008**Solutions**SECTION A (34 marks)****Question A1**

(a)

Figure 1: Perceived price/differentiation matrix for the United Kingdom's retail clothing market



Marks and Spencer and Next plc can be located in the same strategic group (see Figure 1) as they both employ a differentiation strategy aimed at the mass market based on strong branding, moderate pricing and good quality clothing. The niche retailers, which include independents and the likes of Fat Face and River Island, are placed in their own strategic group as they use a focused differentiation strategy aimed at a few narrow market segments and charge high above average industry prices. Finally, the low cost retailers such as Tesco, ASDA, Primark and Peacocks are grouped together due to their focus on gaining a cost advantage. Using the perceived price and differentiation matrix the strategic groups for clothing retailers can be identified.

A more detailed analysis employing strategic group maps indicates that the scale and strategies of the above sectors indicate some key characteristics. Various strategic group maps illustrate that product diversification is a key ploy for those companies aiming at the mass market of the United Kingdom retail clothing industry. In addition,

mass market retailers combine product diversification with high store numbers across the United Kingdom.

Figure 2: Strategic group map of pricing policy and number of stores within the United Kingdom's retail clothing market

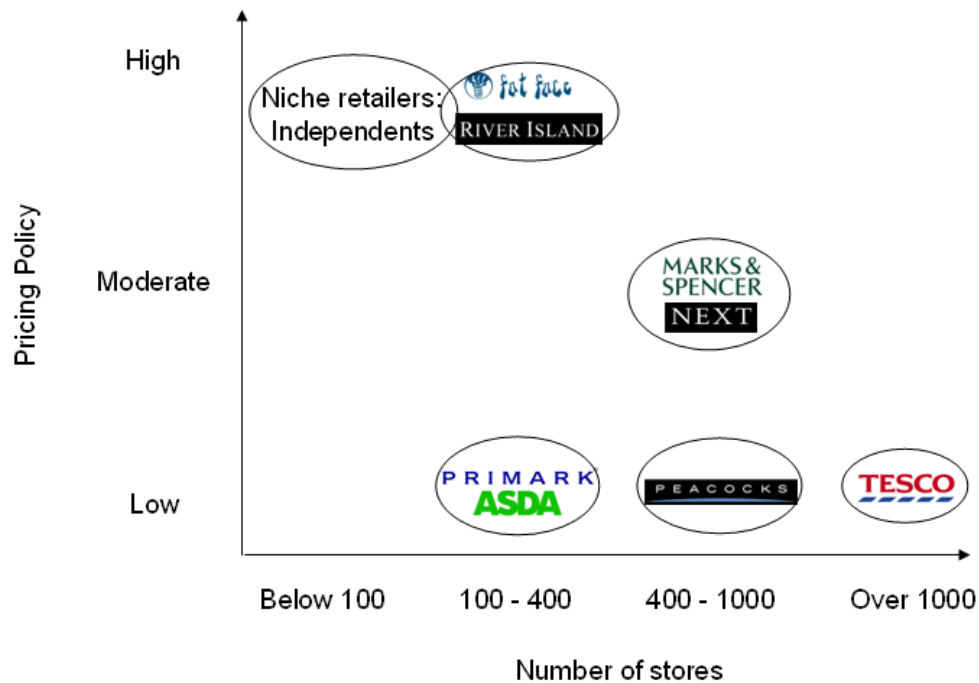
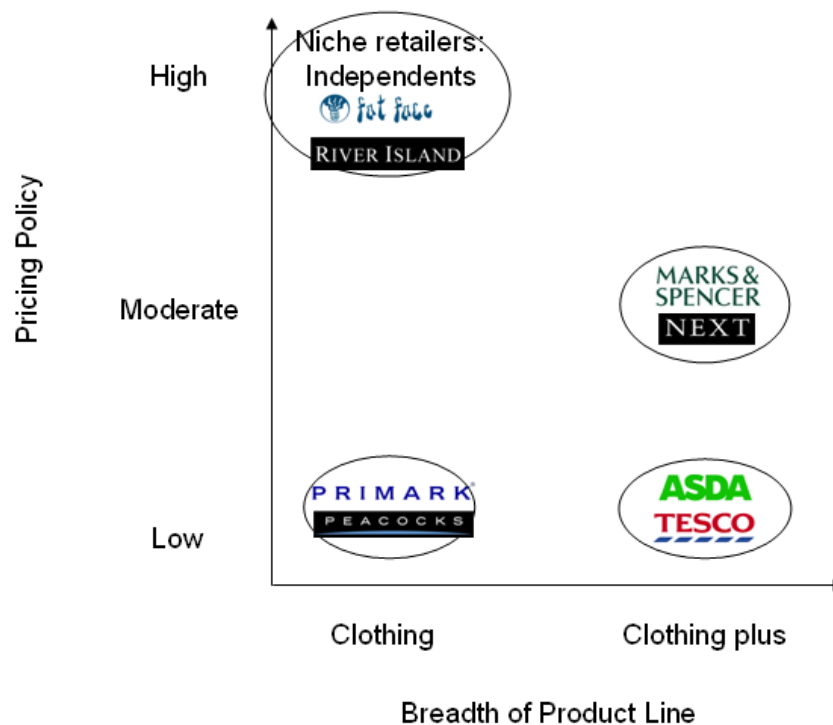


Figure 3: Strategic group map of pricing policy and breadth of product line within the United Kingdom's retail clothing market



(b)

The case study highlights that low prices combined with high quality are testing the loyalty of Marks and Spencer customers. Supermarkets and low cost retailers are gaining sales from both Marks and Spencer and niche retailers. While Marks and Spencer and the low cost sector occupy different competitive spaces in the perceived price and differentiation matrix, aggressive pricing and a growing design and style reputation is building awareness that the differences between the groups are superficial rather than substantive. With these issues in mind the following analysis using Porter's five forces was constructed for Marks and Spencer.

- **Supplier bargaining power: moderate**  
Low switching costs because there are numerous clothing manufacturers located around the world, which gives Marks and Spencer's many choices and influence. However, despite Marks and Spencer's market leading position within the United Kingdom, the company's low cost rivals such as Tesco and ASDA have substantial buying power and are likely to possess even greater purchasing economies.
- **Threat of substitutes: high**  
In spite of possible fashion changes, clothing in general is a staple product and will always have a strong base of demand. However, like all products tied to fashion there are liable to be fluctuations in demand according to fickle changes in taste. Clothing from low cost and specialised niche retailers provides a substantial threat as a substitute for Marks and Spencer's products. The existence of substitutes means customers will switch to substitutes in response to price increases i.e., demand is elastic with respect to price.
- **Industry rivalry: high**  
Marks and Spencer is confronted with a strong and differentiated competitor in the form of Next plc. Next has a strong brand which has wide customer appeal. Switching costs appear to be minimal between the two 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 Marks and Spencer needs to retain market share so margins can be maintained – this intensifies competitive pressure on the company. Marks and Spencer'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 Marks and Spencer'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)

Low priced and specialised retailer substitutes and intense rivalry from Next plc will reduce Marks and Spencer's profitability. To maintain or increase its market share Marks and Spencer's has become involved in major advertising and branding campaigns. All of these activities will be reducing its profitability. To a certain extent Marks and Spencer's has protected itself via its differentiation strategy, but as the Porter's five forces analysis demonstrates it is not immune from substitutes. Within the clothing retail industry only a single force provides an attractive or moderate source of influence, and that is supplier power. However, the moderate source of influence Marks and Spencer has over suppliers does not offer any substantive advantage, because it is widely available to other retailers. Moreover, the volume purchases by commercial giants, such as Tesco and ASDA, are likely to generate considerable discounts and scale economies, which Marks and Spencer cannot match. Consequently, Marks and Spencer's would be an unattractive prospect for investors at the moment.

## **SECTION B**

### **Question B1**

(a)

#### **Chapter 1 of Business Policy 2**

Within the case study there is no explicit mention of the industry's stage of development. A good starting point for a student to begin his or her response is to argue that high commodity prices and volatile financial markets are a cyclical phenomenon and represent a temporary macro economic change in the UK economy, which may not necessarily mean a permanent change in the industry's developmental stage. There are several issues highlighted in the case study that indicate its possible stage of development and these are outlined next. First, owing to the boom in sourcing clothing from low cost locations such as Eastern European, Morocco, Turkey and the Far East, it could be argued that the industry is within the late growth stage, i.e. reduced clothing prices meant a surge in total sales as United Kingdom consumers brought more clothing items. Second, the case study mentions the importance of niche retailers, and according to the industry life cycle model this usually occurs during the late growth and maturity stages of development. Third, price becomes an important source of competitive advantage in most mature industries, and certainly the case study comments that price has dominated the UK's retail clothing industry. Finally, new competitors such as Primark and UK supermarkets have entered the clothing retail industry causing profits to fall for niche and middle market retailers such as Marks and Spencer, which is consistent with the late growth stage experience. Based on the aforementioned discussion the retail clothing industry can be classified as either being in the late growth or maturity stages of development. Therefore, either answer would be acceptable as long as the student demonstrates a sensible rationale that is consistent with either stage of development.

(b)

**Chapter 4 of Business Policy 2**

The challenges of managing a rapidly growing enterprise can be particularly demanding because the essential nature and role of a manager's position changes with growth. With growth the number of employees increases as does the volume and complexity of work required, along with these changes the management of an enterprise must make fundamental changes in their approach. Some of the fundamental impacts of growth on an organisation include:

- (i) an increase in the scope and volume of the enterprises operating activities. For a company to grow it must serve new customers in new markets with new products. To provide this increased level of activity new production facilities and distribution channels are required.
- (ii) the tasks undertaken by the company increasing in their range and complexity. With the expansion of a firm's operating activities, this creates a rapid increase in the number of tasks that need to be defined, organised and managed. With the advent of new products and new geographical markets, issues of production and supply lines need to be organised. In addition, growth will also mean that more customers and competitors will need to be analysed, more prices set, and more products advertised and promoted.
- (iii) increases in the number and variety of people required to work in the organisation. To ensure new people fit within an organisation quickly, procedures for staff selection and training need to be organised and managed. With a greater volume of production, enterprises will attempt to standardise the work they undertake as much as possible so that lower skilled employees can be utilised. Establishing standards of behaviour in the application of company policies is important particularly when employees are spread widely to serve different geographic markets.

The changes that growth brings to companies are usually difficult because they involve more than mere changes in organisational systems and structures. They also demand new attitudes and behaviour from management within an organisation. As an organisation becomes larger the complexity of the organisation becomes beyond any one individual to control. Therefore, the general manager must delegate responsibility to a hierarchy of managers. This pattern of delegation will be determined by the firm's structure.

With the delegation of decision-making responsibility a need is created for formal control systems. Since the general manager is required to delegate more responsibility for the firm's decision-making to more individuals, systems are needed to guide and evaluate the performance of those subordinates who do make decisions. These systems will include methods that establish objectives for all employees, procedures for judging performance against those objectives, and rewards for obtaining desired performance levels. Also senior managers must develop policies and standard procedures to help guide the actions of employees.

(c)

**Chapter 5 of Business Policy 2**

When an industry is mature there is less opportunity for companies to differentiate their products and services because of standardisation. The competitive rivalry that occurs between companies in the embryonic and early growth stages leads to the development of many unique activities as competitors attempt to differentiate themselves. However, with the passage of time, the unique activities that produce the best sales results will be rapidly imitated by competitors and become standard practice across the whole industry. As a result, the products and services offered by an industry tend to be very similar in a mature environment because of previous competitive manoeuvring. For example, the network carriers discussed in the transatlantic airline industry all offer numerous flights and have a wide network of connections from their hubs, as well as frequent-flyer programmes and sophisticated discounted fare programmes for corporate customers.

In order to remain successful in the maturity stage, companies need to look for strategies to differentiate themselves from other firms, either through price, product, marketing, distribution or service. Fundamental to the search for differentiation is the identification of attractive and profitable segments. Significant differences in profit and growth rates can occur between different segments within an industry. Apart from different growth rates between segments, the structure of segments can also vary considerably i.e., buyer power, supplier power, concentration of competitors and the ability to differentiate products. Therefore, an important strategic decision for firms in mature industries is the creation, entry or development of industry segments that offer the potential for growth and profitability.

(d)

**Chapter 3 of Business Policy 2****Complementary resources and lead time advantage**

Critical to the financial return a company obtains from an innovation are the characteristics and availability of complementary resources. If other firms own the required complementary resources, the pioneer company or owner will then need to share the returns from the innovation.

A pioneer firm may lack complementary resources to bring a product or service to market. As a result, a pioneer firm at the introductory stage may seek to be acquired by a larger more established company because of their diverse set of complementary resources and capabilities. For example, a company requires not only the research and development skills, it also needs finance, the ability to produce, and the capability to market and sell it. It is more likely that these additional skills and capabilities or complementary resources will be possessed by a company in a mature industry.

In addition, the availability of complementary resources offered by a larger company may allow a pioneer company an opportunity for building a much stronger initial advantage over competitors. Even if an innovation is based on tacit knowledge or is extremely complex, with the passage of time the barriers to imitation will reduce. As a result, the competitive advantage derived from an innovation should be regarded as being temporary only. What it provides for a pioneer company or an innovator is a window of opportunity for building an initial advantage over competitors. The time advantage it allows a pioneer company is known as lead-time. During this period of

time, competitors are still untangling the knowledge that underlies the innovation, while the pioneer company can invest in further technological developments, production facilities, and market position - competitors can only do this in the future. Acquisition by a larger company allows the innovator to make the most of this time before the opportunity passes.

## **SECTION C**

### **Question C1**

#### **Chapter 1 of International Strategic Management**

(a)

Students may include the following points and will be expected to expand on and discuss the points in more detail.

This can involve setting up a new plant or taking over an existing one. Setting up a green site allows management to develop organisational culture in their own way e.g. Japanese firms recruit young school leavers who are receptive to management practices. It also allows for broader choice of location so that a firm can benefit from localised financial concessions (development zones) and high unemployment rates.

A brown field site (existing location) can ensure a market and customer base, good infrastructure and local knowledge of business practices. Taking over an existing company can be difficult when mutual understanding of old and new management teams is not achieved. e.g. of Rainbow - labour union problems, management style, production approach.

(b)

Students should discuss aspects such as organisational design, structure, control strategies and motivation policies - they are culturally sensitive and therefore the firm must modify them to suit the local practices of the host-country where the subsidiary is in operation.. The firm may wish to conduct some form of attitude survey for example. HRM and personnel practices will also need to be adapted to suit local cultural values and customs e.g. recruitment. To ensure success it is advisable for the firm to establish a multicultural management team and to ensure home and third country employees have had some cultural awareness training. Managers may benefit from training and expatriation to ensure cultural sensitivity and development of language skills

The firm should also seek to enthruse a combination of local cultural values and corporate cultural values in the subsidiary site - to achieve a harmonious balance which doesn't challenge or replace national culture is essential for success - cultural synergy e.g. commitment, honesty and hard work. Training courses may be useful to create cultural synergy.

**Question C2****Chapter 7 of International Strategic Management**

(a)

Bribes, secret commissions, engaging in trade using child labour, selling certain products in a host country, workers rights, environmental exploitation.

Companies may argue that they will not secure contracts unless they pay out commissions to host country officials to secure contracts, for example. However, if a company does engage in e.g. running sweatshops with child labour, they are likely to receive bad press. Nowadays many firms devise their own ethical codes to guide practices abroad and reduce bad publicity. Different nations also have rules and regulations to guide foreign firms operating in their country which aim to guide ethical business conduct. Companies are advised to follow these regulations.

(b)

Language skills: they create better communications, enhanced overseas image and commitment, better interpersonal relationships and a competitive edge in negotiations. Informal engagements outside of the office are key to relationship building in some countries so speaking the language rather than hiring an interpreter strengthens business ties. Knowing the language is not enough though, one should be sensitive to the messages of one's own body language and expressions and should be able to read those of others.

One should also have a knowledge of the foreign country's culture. This will heighten bonds and understandings and allow for an understanding of how other cultures think and prioritise – which is useful in negotiation situations. An understanding of aspects of culture is useful for positioning one's negotiation style (informal vs formal/building up relationships first etc).

Building trusting relationships is also important in some countries as it pays off because long term contracts can be secured as a consequence.

Student should use illustrations in the text or from their own experiences to elaborate on points made.