PGDM-RM (2013-15)
FRANCHISING & GLOBAL RETAILING
Subject Code: RM 402
Trimester IV End Term examination, September 2014

Total Marks = 50 **Time: 2 hours 30 minutes**

Roll No.

Section A

Attempt any three. **Word limit: 150 words** **M M = 5 * 3 = 15**

1. Explain the Simpson and Thorpe's PLIN Model (1995). Why is this model more relevant than Treadgold's typology?

2. In the past, international firms assumed that there were few profitable opportunities in developing economies. Today, however, that has changed. Give examples of how doing business in developing economies can be profitable.

3. Which economic indicators should retailers be particularly conscious of when assessing international markets?

4. Why are international fashion retailers more numerous than international food retailers?

5. Explain the following, with reference to FDI
   a. Round tripping
   b. Transshipment

Section B

Attempt any two. **Word limit: 300 words** **M M= 10* 2 =20**

1. There has been a marked acceleration in the scale of international investment during the 1990s and as the process of internationalization gathers pace it is vitally important to understand that divestment is not always a reactive measure or a sign of market failure, but rather it is quite often an emerging strategic action. Explain this statement.

2. Why are some international retailers having difficulties in succeeding in the Asian markets?

3. Describe how the entry of e-commerce has made a difference in the business models of retailing of certain products. Explain with examples.

Section C

Case Study is compulsory and is for 15 marks.

Marks & Spencer

Of all the cases of international retail divestment that have occurred in recent years, it is probably Marks & Spencer that has attracted the most media and academic attention. For a considerable period of time Marks & Spencer was known as the retailer that epitomised British international retailing (Alexander and Quinn, 2000, 2001, 2002). By 1998 the company operated 500 stores in over 30 countries (Burt et *st.,* 2002). However, its international divestment had already begun, and during the period 1992-2006 the firm was involved in the divestment of virtually its entire international owned store operation.

Having experience of international markets through exporting (Alexander and Quinn, 2002; Burt et *al.,* 2002), Marks & Spencer took the strategic move to purchase a 50 per cent share in three businesses in Canada in 1972: Peoples Department Stores, D'Allairds Clothing, and Walker's Clothing. M&S acquired full control of these businesses in 1978, but the three businesses were subsequently divested in 1992, 1996, and 1999 respectively. According to Burt eta*l.* (2002), significant investment was made into the Canadian operation throughout the 1970s and 1980s, but it was largely without effect. The firm's lack of adaptation of its retail format to the Canadian market and the assumption that Canadians were culturally similar to UK consumers ultimately led to divestment.

The year 1975 saw the move to Europe via France and subsequently to Ireland, Belgium, the Netherlands, and Germany. Then 1998 witnessed the retailer's expansion into the US, after it had acquired the menswear retailer Brooks Brothers and the up market grocery chain Kings Supermarkets. The Brooks Brothers acquisition also resulted in the acquisition of a chain of twenty-one stores in Japan. At the same time the firm had been building a strong international franchise business with stores in various countries throughout the Far East, the Middle East, and Eastern and Southern Europe as well as joint ventures in Spain and Turkey.

In 1999 M&S announced it wished to sell Kings Supermarkets; the retailer's clothing and international director, David Norgrove claimed that Kings 'is a high quality supermarket chain, but not a good fit with M&S core business or strategic priorities' (Batt, 2002). After many potential deals fell through, M&S finally sold King's in 2006 to two New York-based equity firms for US$61 million. By that stage its franchises and its owned stores in Ireland and Hong Kong were its only international operations. In March 2001 the firm had announced that it would be selling its owned store businesses in Europe and its Brooks Brothers operation in the US.

The company's share price and profits had been in freefall since 1998 following the announcement of a major expansion programme in the UK and internationally. The UK fashion market became very competitive at the end of the 1990s, with the entry, amongst others, of the Spanish chains of Zara and Mango, and the rise of 'fast fashion'. This changing market-place resulted in M&S losing sight of its core UK customers' tastes and demands, which further exacerbated its poorer competitive position. In a very competitive domestic market, M&S announced that it was to focus on core domestic business, and international divestment ensued. The announcement also coincided with a change in leadership, with Luc Vandevelde taking the divestment decision after only a few months in the job as Chairman and CEO.

With the exception of its owned store operation in the Republic of Ireland, Marks & Spencer proceeded to divest all its owned stores in Europe. Its Irish and Hong Kong stores became Marks & Spencer's only owned store businesses outside the domestic UK market. While much internecine warfare marred the years following the departure of Sir Richard Greenbury in 1999, M&S finally got the leader it needed with the appointment of Stuart Rose as Chief Executive in 2004. Along with Steve Sharp, whom Rose brought into the business as Director of E-commerce, Store Design and

Marketing, he set about refocusing Marks & Spencer's domestic operations and investing in its huge domestic store portfolio. This, along with a hugely successful advertising campaign, efficient supply chain management, and a return to the quality product that the customer expected from M&S, set the retailer on the road to achieving sustained positive financial returns.

During the long period of painful domestic recovery, the international franchise business continued to grow, with 270 international franchise stores operating in 36 countries by the end of 2007 (Braithwaite and Rigby, 2007). This includes the growing market in India, where M&S has eleven franchise stores. By the end of 2007 Marks & Spencer announced that it was, once again, looking to expand in international markets, viewing India and China as having the best medium-term potential for the business. Two to three stores are planned for China, beginning with Shanghai and then moving to Beijing (Braithwaite and Rigby, 2007). This development will be an owned store venture, but a much more conservative approach than the earlier forays into Canada and the US. This strategy is likely to be welcomed by the Stock Market.

Having learned many lessons about the difficulties of international retailing, Stuart Rose now believes that the time is right for M&S proactively to look again at the international marketplace:

'People have been critical about overseas, but it is a natural and logical expansion of what we have done in the business. We made some' mistakes before ... but just because you have a car crash once, it doesn't mean you will again. You have to get back in the car and drive again.' (Quoted in Braithwaite and Rigby, 2007)

Case Study Questions

1. Discuss the link between Marks & Spencer's entry mode choices and its international retail divestment activity.

2. How important was the company's domestic business to its decision to divest certain international operations?

3. Why did Marks & Spencer's international franchise business survive, and indeed grow, in such a climate of divestment and domestic turmoil?

4. What strategies can Marks & Spencer put in place to ensure it does not 'crash' again in the international marketplace?