

**PGDM-RM (2017-19)**  
**GLOBAL RETAILING**  
**Subject Code: RM 401**  
**Trimester IV End Term examination, September 2018**

Time allowed: 2 hrs 30 min

Max Marks: 50

Roll No: \_\_\_\_\_

**Instruction:** Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. In case of rough work please use answer sheet.

**Section A**

**Attempt any three.**

**Word limit: 300 words**

**M M = 5 \* 3 = 15**

1. "A multitude of factors are responsible for retail internationalization". List out and explain ten factors which act as barriers in retail internationalization.
2. "Sensitivity to culture is crucial to success in retail internationalization". Pick any two international retail companies and discuss how true is this statement.
3. Mauritius and Luxembourg are some of the countries leading in outward investment despite the fact that their domestic economies are quite small in size. How do you explain this dichotomy?
4. According to the GRDI and Deloitte reports, which are the five major economic trends in international retail? Enumerate and explain.
5. With reference to Alexander's matrix, pick any major Indian retail company and describe where this company sits within the matrix. How will this influence the company's prospects for success in the international environment?

**Section B**

**Attempt any two.**

**Word limit: 500 words**

**M M = 10 \* 2 = 20**

1. According to the Deloitte report, 'Global Powers of Retailing 2018, leading edge technology is being deployed inside stores, like Amazon Go and Auchan, to enhance the shopping experience. What do you think is the future of AR/VR etc. in emerging markets like India and China?
2. Outline some protectionist policies being utilized by the Indian government which could disrupt current or future expansion of retail activity. Are these policies justified to protect the smaller indigenous retailers? Give your views on the same.
3. Which measurements of social change, especially the change in population strata, are relevant to retailers considering new international retail markets?

**Section C**

**Case Study is compulsory and is for 15 marks.**

## COMPANY FOCUS I.1

### MARKS & SPENCER

Sarah Marie De Nardi-Cole

Marks & Spencer plc—or *Marks & Sparks*, as natives of the United Kingdom so lovingly refer to it—celebrated its centennial in 1984. From the beginning, it has been attracting the attention of customers and retailers alike. The purpose of this case study is to explore one specific area in which the company has been extremely successful and has proved itself a pioneer in the rubric of British retailing: internationalization.

#### Description of the Company

##### Target Market

Marks & Spencer's ideal customer is someone who is looking for good quality, classic-style clothing. If you are in the market for corduroy flares, Marks & Spencer is not the store for you. Marks & Spencer has said that its core customer is a 25- to 55-year-old average British person, male or female, the epitome of middle England.<sup>1</sup> The typical Marks & Spencer customer is middle to upper class, as well as a little older.

##### Product

All of the merchandise offered at Marks & Spencer is sold under the store's private label, *St. Michael*. Most of the products are manufactured in the United Kingdom with one known exception: hosiery. An agreement between Marks & Spencer and Sara Lee Corp., better known in the United States as Hanes and L'Eggs, stipulates that hosiery items manufactured by Sara Lee and labeled *Sara Lee for St. Michael* are sold through the various Marks & Spencer outlets.<sup>2</sup>

Marks & Spencer's products fall into two categories: food and general merchandise. General merchandise includes men's, women's, and children's fashions, and encompasses all areas of clothing such as slacks, suits for both sexes, handbags, footwear, sweaters, dresses, socks, ties, lingerie (for both sexes), as well as goods for the home (towels, soaps, etc.), toys for children, books, and a newer line of cosmetics.

In the area of food, there is also a wide product range. All of the products in the food areas are also sold under the *St. Michael* name. Marks & Spencer offers

more prepared products than its competitors and averages 15 to 20 varieties of product categories.<sup>3</sup> The company's stores carry a variety of perishables by way of fruits and vegetables. In fact, Marks & Spencer claims to have at least a dozen different ways to purchase broccoli,<sup>4</sup> and about 120 ways to buy chicken breasts.<sup>5</sup>

All tastes can be found at Marks & Spencer, including (but not limited to) Indian, American, Thai, Chinese, Italian, French, and of course English, Scottish, and Irish.<sup>6</sup> Marks & Spencer's groceries also offer an interesting range of beverages: bottled waters, beer, wines, and, of course, a wide selection of teas and biscuits.

Finally, in addition to the edible and potable goods offered at Marks and Spencer, the company also offers financial services. One of the financial products offered to its customers is the Marks & Spencer credit card, which provides credit to shoppers. It is, however, the only credit source used at the company. If customers do not pay with a Marks & Spencer card, they must pay with cash. With the credit card, customers can receive a credit limit of 20 times what they deposit. Customers then earn interest on the balance when their deposits are greater than their purchases.<sup>7</sup> Other financial products include personal loans, personal equity plans, unit trusts, and life insurance.

##### Price

Typically, Marks & Spencer's pricing strategy was to fix a price limit for all the merchandise sold in its stores so that working-class customers could afford it. The company then searched for products that could result in profit while selling at the price fixed for its working-class patrons.<sup>8</sup>

Today, Marks & Spencer still believes in a sort of one-price range strategy internationally. It accomplishes this by maintaining close relationships with its suppliers. This relationship helps Marks & Spencer get good prices on merchandise through economies of scale. Marks & Spencer stipulates all manufacturing details to its suppliers, from the number of stitches in a buttonhole to

encouraging suppliers to maintain high quality standards in production and working environment, offering customers a selective range of high quality merchandise, simplified operating procedures, and supporting British industry and buying abroad only when new ideas, technology, quality and value were not available in the U.K.<sup>18</sup> (page 38).

These principles are what helped the company to expand. In fact, Marks & Spencer had its first taste of international expansion as early as 1940.

### Marks & Spencer Today

Today, few people in the world have not heard of Marks & Spencer, especially in the retailing realm, where the company is considered Britain's leading retailer. Marks & Spencer has had such an impact in the United Kingdom that it has been said that the nation's evolution is shown through the changes and progress at Marks & Spencer.<sup>19</sup> As for success, evidence of this would be that by 1994 the company had captured 18% of the U.K. market. At that time, 33% of British women were wearing Marks & Spencer undergarments. Market share in some areas was up to 40%. Men's suits had captured 20% market share.<sup>20</sup> Profits in 1994 grossed £851 million (\$1.39 billion) on sales of £6.5 billion (\$10.6 billion). This made Marks & Spencer Britain's most profitable retailer. Marks & Spencer stores today are present throughout England and Ireland, with 55 stores in London alone.<sup>21</sup> The United Kingdom is not the only site, however, for successful Marks & Spencer outlets, which are now located around the globe. These outlets come in various forms. To comply with foreign government restrictions, Marks & Spencer now has franchises, subsidiaries, and wholly owned stores under names other than Marks & Spencer, such as Brooks Brothers and Kings Supermarkets.

As of 1996, there were 645 locations of Marks & Spencer worldwide, with 373 stores in the United Kingdom, Europe, Hong Kong, and Canada. The countries in which Marks & Spencer owns outlets (with the number of outlets and their locations) are as follows:<sup>22</sup>

- *Belgium*: 3 stores in Brussels, Antwerp, Liege.
- *Canada*: 48 stores in Barrie, Ontario; Bramlea, Ontario; Burlington, Ontario; Calgary, Alberta; Coquitlan, British Columbia; Dieppe, New Brunswick; Edmonton, Alberta; Etobicoke, Ontario; Halifax, Nova Scotia; Hamilton, Ontario (2);

Kelowna, British Columbia; Kingston, Ontario; Kitchener, Ontario; London, Ontario; Mississauga, Ontario; Montreal, Quebec.

- *France*: 17 stores in Belle Epine, Boulevard Haussmann, La Defence Quatre Temps, Lille, Lyon, Marseille, Nantes, Nice, Parly (2), Reims, Rosny (2), Rouen, Rue de Rivoli, Strasbourg, Toulouse, Velizy (2), Villiers en Biere.
- *Germany*: 1 store in Cologne.
- *Hong Kong*: 7 stores in Causeway Bay, Central, Harbour City, Queen's Road, Central Queensway, Shatin, Taikoo Shing.
- *Ireland*: 2 stores in Cork, Dublin.
- *Spain*: 5 stores in Barcelona, Madrid, Serrano, Seville, Valencia.
- *The Netherlands*: 2 stores in Amsterdam, The Hague.

As for franchises, in 1996 Marks & Spencer had operations (followed by the number and their locations) in the following countries:<sup>23</sup>

- *Austria*: 3 stores in Vienna.
- *The Bahamas*: 5 stores in Nassau, Freeport, Cayman Islands.
- *Bermuda*: 1 store in Hamilton.
- *Canary Islands*: 4 stores in Gran Canaria, Tenerife.
- *Cyprus*: 8 stores in Limassol, Larnaca, Paphos, Paralimni, Nicosia.
- *The Czech Republic*: 1 store in Prague.
- *Finland*: 5 stores in Helsinki.
- *Gibraltar*: 1 store in Gibraltar.
- *Greece*: 9 stores in Athens, Crete, Kavala, Thessaloniki, Larissa.
- *Hungary*: 2 stores in Budapest.
- *Indonesia*: 6 stores in Jakarta.
- *Israel*: 7 stores in Tel Aviv, Jerusalem, Haifa, Kfar Saba, Ashdod, Rechorot.
- *Jersey*: 2 stores in St. Helier, St. Brelades.
- *Malaysia*: 2 stores in Kuala Lumpur.
- *Malta*: 2 stores in Valletta, Sliena.
- *The Philippines*: 2 stores in Valletta, Manila.
- *Portugal*: 6 stores in Lisbon, Oporto.
- *Singapore*: 7 stores in Singapore.
- *Thailand*: 6 stores in Bangkok.
- *Turkey*: 1 store in Istanbul.

Finally, stores owned by Marks & Spencer, but not under the name of Marks & Spencer, include Brooks

inner city outlets and opened others in suburban areas.<sup>32</sup> However, the company was slow to change its habits, and this resulted in an operating loss of 9.7 million Canadian dollars (US \$7 million) for 1988.<sup>33</sup> The Canadian venture was difficult for Marks & Spencer. The company lost money for the first decade of its existence.<sup>34</sup> The stores operating under the D'Allaird's name have since been closed in order to help management concentrate on improving performance in other Canadian operations.<sup>35</sup>

Although its first overseas experience was not a pleasant one, Marks & Spencer was not deterred. The company next decided to enter a European market. Perhaps this was because this market was physically closer to Great Britain. In addition, even though the languages are different, European cultures are similar in many aspects. Marks & Spencer decided to venture into France, opening its first outlet in Paris in 1975. The location was prime, on the Boulevard Haussman, which is in an area of Paris renowned for its boutiques. French consumer habits were studied and a marketing mix was planned. The products offered would differ from those sold in the United Kingdom in an attempt to shape the offering to the market. Clothes were made to have a somewhat snugger fit, and French wines were added to the grocery area.<sup>36</sup> The company soon noticed, however, that the French items were staying on the shelves and the British imports were quickly disappearing. This convinced Marks & Spencer executives to change their marketing mix, and the store has known great success since. This positive experience abroad served as a catalyst not only for the company to open stores in different provinces in France (by 1990, there were eight stores in France), but also for it to expand to Belgium. Belgians also got to know Marks & Spencer in 1975. The first store opened in Brussels, and it was followed seven years later by another store in Antwerp.<sup>37</sup>

Realizing that its operations in Europe were well underway, and that business in Canada was slowly improving, resulting in profit, Marks & Spencer decided to enter the U.S. market. Incidentally, Marks & Spencer found it appropriate to go into its second North American market the same way it entered the first: by acquisition. In April of 1988, Marks & Spencer purchased Brooks Brothers, and in August of the same year, Kings Supermarkets. Brooks Brothers and Marks & Spencer actually had quite a lot in common. Both sold only private label goods, both worked closely with

their manufacturers, and both had been around since the latter 1800s and early 1900s. Both also had a very well-developed, loyal customer base.

Although the pair had much in common, this acquisition received a great deal of bad press. This is principally because Marks & Spencer paid \$750 million—an enormous sum—to acquire Brooks Brothers. In fact, this figure amounted to 30 times the chain's estimated net profits for 1987 (the year before the acquisition).<sup>38</sup>

Management at Marks & Spencer did not let the bad press discourage them and went ahead with the deal. The agreement had its sweet side. Not only did Marks & Spencer get the U.S. chain consisting of 47 stores, but it also got a 21-store joint venture with Daido Worsted Mills in Japan. In addition, a special agreement stipulated that the previous owners of Brooks Brothers, the Canadian Campeau organization, could not compete against Brooks Brothers in the United States or in Japan for five years. At the time of the acquisition, Brooks Brothers also had three factories in Long Island City and North Carolina, its own charge card, and a direct marketing catalogue.<sup>39</sup>

After the takeover, the Brooks Brothers' product line changed slightly. The first change was an expansion of the sportswear selection and additions to the women's line.<sup>40</sup> In addition to widening the product base, and in an effort to attract a younger clientele, Marks & Spencer cut prices and opened stores in outlet shopping centers.<sup>41</sup> Besides acquiring a new customer base, Marks & Spencer also acquired new products for its European stores. The company has been known to take a Brooks Brothers classic like the \$259 blazer, examine it, and duplicate it to sell through its outlets in Europe.<sup>42</sup>

The Kings Supermarkets have also witnessed a few changes. This chain, which had been family owned and profitable since 1936, was well-known for quality and innovation. Because of the strong national brand loyalty in the United States, Marks & Spencer decided that having a mixture of national brands in addition to its own St. Michael brand would provide a better merchandise mix in stores.

After entering the American market, further expansion in Europe seemed like the best bet. Building on its past successes in France and Belgium, Marks & Spencer opened its doors in Madrid, Spain, in 1990. As in Paris, the location chosen was in an ideal area, situated in the well-known shopping district of Calle Serrano. Before opening this store, however, Marks & Spencer had tested the market by venturing into a franchise agreement with Galerías Preciados (Marks &

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## DISCUSSION QUESTIONS

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1. Marks & Spencer has a close relationship with its suppliers. Describe the advantages and disadvantages of such a relationship for both sides.
2. Marks & Spencer's private label, St. Michael, has been in existence for over 50 years, yet in the United States, a strategy of mixing national brands and private labels was used. What is the attraction to the development of a private label for retailers?
3. Examine the list of areas in which franchises and wholly owned stores were pursued. What conclusions can be drawn?
4. What is meant by economy of scale? Give examples of how Marks & Spencer takes advantage of this. Are there any examples of economy of scale to be found in the study?
5. Marks & Spencer has been called a manufacturer without factories because of the tight relationship it has with manufacturers. Upon acquiring Brooks Brothers, Marks & Spencer also acquired factories that were producing merchandise for Brooks Brothers. The company sold these factories and has stated that it is not ready to get into production for itself. Discuss why large retailers such as Marks & Spencer may be hesitant to expand vertically.
6. Certain changes had to be made to Marks & Spencer's merchandise mix in Canada. More items produced in Canada were included. In France, the French items were left on the shelves and the British imports flew out of the store. Discuss the cultural differences that may explain the predicaments.
7. Marks & Spencer offers financial services as well as general merchandise to its customers. Its credit card program varies greatly from those used by department stores in the United States in that customers make a deposit (e.g., \$5) and receive credit for four times their deposit (\$20). When customers' deposits exceed their expenses, interest is earned on the difference (e.g., deposit \$5, credit equals \$20 [four times deposit equals credit]). If purchases equal \$15, the remaining balance of \$5 can collect interest. Could this be the next step for U.S. retailers? Why or why not?
8. Acquisition was used in both Canada and the United States, two countries that are perceived as culturally similar but geographically much larger than the United Kingdom and at quite a distance from the company's headquarters. Wholly owned subsidiaries were used in France and Belgium with a joint venture in Spain. Marks & Spencer's sights are now set on China. Studying past strategies used, what predictions could be made, if any, regarding the company's entrance into China's market?
9. Marks & Spencer uses a single brand, and has similar outlet requirements for all of its stores, but it does shape its merchandise somewhat to local markets. Would Marks & Spencer be considered a global or a multinational retailer and why?
10. Discuss Marks & Spencer's steps to international growth as discussed by Luca Pellegrini. What would a logical Step 10 be?

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## ENDNOTES

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1. "British Institutions: Marks & Spencer Store of Value." (1993). *The Economist*, Vol. 327, June 26, p. 63.
2. Wahl, M. (1993). "Pushing Yankee Products in Lord Rayner's Court." *Brandweek*, Vol. 24, July 12, p. 26.
3. Schurer, M. (1995). "Marks & Spencer." *Supermarket Business*, Vol. 50, February, p. 108.
4. Schurer (1995).
5. Marcom, J. Jr. (1991). "Blue Blazers and Guacamole." *Forbes*, Vol. 148, November 25, pp. 64-68.
6. Salmans, S. (1980). "Mixed Fortunes at M&S." *Management Today*, November, pp. 66-73.
7. Tse, K. K. (1985). *Marks & Spencer: Anatomy of Britain's Most Efficiently Managed Company*. Great Britain: Pergamon Press.