

M&S case study

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Keywords

Marks and Spencer, China, International retail strategy, Adaptation, Consumer behaviour, Culture.

Abstract (2311)

Marks and Spencer is a 136-year-old British retailer. It is recognised as a general merchandise retailer, including a mix of fashion and non-fashion goods within its product offer (Moore and Burt, 2012). The retailer has eight decades of international experience, having started exporting in the 1940's. It opened its first overseas store in the 1970's in Canada but since has had a turbulent time of international expansion and retrenchment. M&S has become of increasing interest to academics such as its demise from one of the most successful British retailing companies to one facing rapid decline (Burt et al., 2002). The focus of this case is its specific decline and ultimate retrenchment from China.

International retailing research has increased significantly since the 1970's, facilitated by the emergence of retailer super-brands that generated international appeal (Moore & Burt, 2007). Fashion retailers are known to be the most international of all retailers (Doherty, 2000). A key debate has been the internationalisation strategy retailers adopt when entering new markets - either adaptation, to fully respond to the needs of local consumers, or standardisation, to benefit from economies of scale (Levitt, 1983; Salmon and Tordjman, 1989). Whilst Levitt argued for standardisation on the basis of worldwide convergence of consumer needs and wants i.e. a global strategy, alternative strategies were identified e.g. multinational – which seeks to preserve brand image across markets but also adapts to fit local market conditions and consumers (Salmon and Tordjman, 1989), to a fully localised strategy, where all facets of the firm is adapted.

Even though studies are numerous on this topic, a large proportion of internationalisation ventures result in failure, specifically fashion retailers (Burt et al., 2002). In particular, differences in consumer buying behaviour and national culture are recognised as impacting firm success or failure (Ricks, 1993; Steenkamp, 2001) and standardised global strategies have been criticised for failing to recognise these country nuances (Moore and Burt, 2007). This case study of Marks and Spencer's entry into China aims to highlight some of the specific factors and asks students to consider the pitfalls and challenges at play for M&S in their strategic approach to tackling China, and how they might have adapted their strategy to succeed.

Learning objectives

Upon completion of this case, students should be able to:

- Understand international strategy and the issues of adaptation to local markets
- Explore strategies for improving success in China
- Assess how differences in local culture and consumer behaviour influences international strategy
- Evaluate specific adaptation requirements across the marketing mix when expanding overseas

Introduction

Retail internationalisation has received significant scholarly attention because of retailer's rapidly increasing internationalisation activities and success (Burt et al., 2002; Bai et al., 2017).

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Many avenues of research have ensued covering characteristics of retail internationalisation, typologies of international retailers, motivations to internationalise, internationalisation strategies adopted (Liu et al., 2014), entry methods (Lu, 2012) and foreign market divestment (e.g. Alexander and Doherty, 2009; Bai et al., 2017; Evans et al., 2008; Liu et al., 2014; Lu, 2012; Moore and Burt, 2007). The complexity of international decision-making and onward success is influenced by the retailer's expertise, market position, trading format, existing strategies, resource commitment, perceived risks, external trading conditions in foreign markets and their 'psychic distance' (i.e. the extent to which they differ in language, education, business practices, culture etc.) (Forslund, 2015; Johanson and Vahlne, 1977). A country's culture is acknowledged as an environmental characteristic underlying systematic differences in behaviour (Steenkamp, 2001). Cross-cultural studies have sought to offer frameworks to identify variations between cultures in attitudes and behaviours. Hofstede's seminal research on culture distinguished between organisational and national culture (1994). He defines culture as the "category of people", which can be a nation, region, ethnic group, gender, age, social class, occupation or a family (Ibid, p.1) and devised six dimensions to help delineate cultural differences: 1) power distance 2) individualism 3) masculinity 4) uncertainty avoidance 5) long term orientation, and 6) indulgence. An application of these dimensions to China is explained as follows:

- *Individualism*: describes the degree of interdependence a society maintains amongst its members. In individualistic societies people tend to be self-centred and seek personal goal fulfilment. Conversely, in collectivist societies people have a group mentality and strive to maintain group harmony. At a score of 20, China is a highly collectivist culture where people act in the interests of the group.
- *Uncertainty avoidance*: concerns the extent to which the members of a culture feel threatened by ambiguous or unknown situations and try to avoid these by creating beliefs and institutions. At 30 China has a low score on Uncertainty Avoidance.
- *Power distance*: is the extent to which the less powerful members of a society accept and expect that power is distributed unequally. At 80 China sits in the higher ranking of PDI – believing that inequalities amongst people are acceptable. Relationships between members tend to be more autocratic and paternalistic.
- *Masculinity*: relates to the distribution of emotional roles between genders. Masculine cultural values (high score) are centred on competitiveness, achievement and success, whereas feminine cultures (low score) place greater value on relationships, quality of life and more equalled gender roles. At 66 China is a Masculine society – success oriented and driven.
- *Long term orientation*: describes how societies have to maintain some links with its own past while dealing with the challenges of the present and future, and societies prioritise these two goals differently. Low scoring societies prefer to maintain traditions and norms, whilst viewing societal change with suspicion. Conversely, those with a high score are more pragmatic. China scores 87 on this dimension, which means it is a very pragmatic culture, with an ability to adapt traditions easily to change conditions, with a strong propensity to save and invest for the future.
- *Indulgence*: defined as the extent to which people try to control their desires and impulses, based on how they were raised. Weak control is called indulgence and strong control is called restraint. China is considered a restrained society with a score of 24. Such low scoring societies tend to be cynical and pessimistic and are restrained by social norms (Hofstede, 2020).

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When comparing China with UK (M&S home market) on these cultural dimensions similarities and differences are exposed, as shown in Figure 1. The implications of cultural difference for retailer's, like M&S, entering China is important to consider. As Hofstede says, "*National culture cannot be changed, but you should understand and respect it*" (Hofstede, 2020).

Figure 1: Hofstede cultural dimension differences, China (blue), UK (purple)



China's attraction

Since the inception of the open-door policy, in 1978, China has been a target for international firms wishing to expand there to gain access to its billion plus consumers. However, the rush to establish a presence in the country has led firms to make a number of hasty decisions, to revise their plans, and in some cases, to retract from the market (McHardy and Walsh 2003). Today China is the largest apparel and footwear market globally, with sales over USD 370,104 million (Euromonitor, 2020), 32% of which is generated online. Whilst sales growth in volume and value terms has slowed over the past few years, the rising purchasing power of middle-class consumer's continues to contribute to sustaining China's attractiveness. However, competition is intensifying as the fashion industry becomes more consolidated, with domestic brands winning back Chinese consumers through rebranding and a focus on national identity. Concurrently, consumers are making more rational purchase decisions and giving more credence to value for money. Innovation across product, price levels, marketing activities and channels is becoming a differentiation signifier (Euromonitor, 2018).

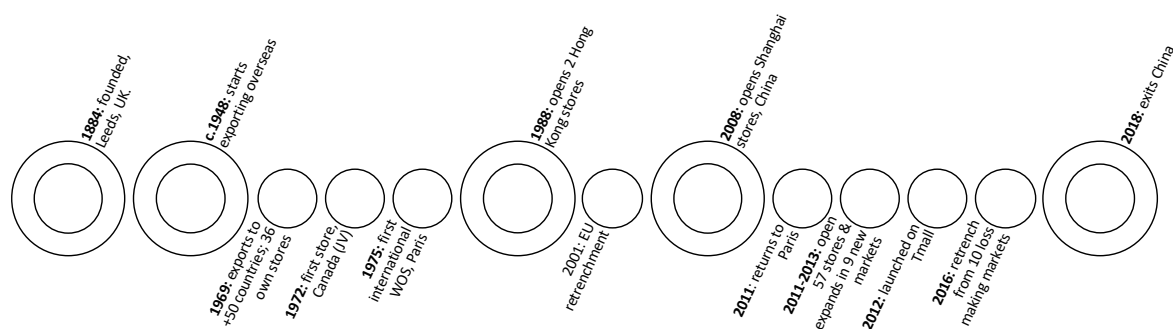
M&S and internationalisation into China

Marks and Spencer (M&S) started as a market stall in 1884 by Michael Marks in Leeds, UK. From the beginning, the company's hallmarks were based on quality, value and service. By 1901 the company acquired a new partner, Tom Spencer and by 1949 all the company's stores carried the St. Michael private label products, produced by British supplier. By the late 1990's it accounted for 14% of the UK clothing market (Alon, 2014). Such growth propelled M&S to become a British institution with a reputation as a leading retailer with international reach (see Figure 2).

Figure 2: M&S International timeline

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In response to a saturated domestic market in the 1940's and growth opportunities overseas, M&S first entered overseas markets through exporting its St. Michael's brands, soon leading to international franchising agreements in key territories. As confidence and capabilities grew, M&S used more direct modes of entry, such as acquisitions and joint ventures. By 1996 M&S had grown 42% of its business outside of its home market. It's entry into the Far East occurred in 1988 with the acquisition of Brooks Brothers, which has an existing foothold in Japan, and with the opening of two franchise stores in Hong Kong. These stores were supplied direct from the domestic base, with M&S believing that local customer desire for Western brands would enable them to be successful with such a standardisation strategy. Hong Kong acted as a strategic gateway into entering China, which M&S did in 2008, by opening a store in Shanghai, 3,800 square metres in size over four floors. By 2015 it operated over 10 wholly owned stores in mainland China and opened its first flagship store in Beijing, taking its total global store count to 1300 (852 within the UK) (Gallagher, 2015). However, only one year later, the UK retailer decided to exit the Chinese market, closing its 10 standalone stores, followed by a complete withdrawal with its online Tmall store closure in 2018 (Zhao, 2018). M&S follows a well-trodden path of international retail failure, especially in culturally different countries (Burt et al., 2002). Understanding the reasons for this is important to inform future international strategy.

Business problem

Whilst M&S pointed to "low brand awareness" as a key factor for complete withdrawal from China, it is posited that the problems encountered were multiple and more far reaching (The Telegraph, 2017), ranging from a consolidating fashion market with an resurgence of domestic brands, poor store locations often in Tier 2 cities, weak online presence to a lack of understanding of local culture, and consumer tastes and needs (Retailasia, 2016). The British brand was seen as "stodgy" especially for younger Chinese who favour more fashionable brands. It had low brand awareness and its brand positioning did not translate well in the Chinese market. Fundamentally, a lack of localisation is cited as its major downfall, across its marketing mix, together with a lack of understanding of the Chinese consumer. As one Chinese retail expert inferred, "*The problem is not just that they know little about China, but that they never bothered to learn*" (The Telegraph, 2017). M&S was largely present in China with its clothing category and it is criticised for lagging behind many fast fashion brands including Uniqlo, Zara and H&M (Wang, 2018). Not just in terms of style, but also inappropriate sizing and naming of products that poorly translated into Chinese with no attempt to translate into Chinese. Its clothing lines were perceived as dowdy yet expensive (kwintessential, 2020). Moreover, M&S was criticised for its store location strategy, with seven of its stores found in second tier cities such as Wuhan, where consumers had no brand recognition and shopped for local cheaper alternatives (Ibid).

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From a buying behaviour perspective, Chinese shoppers are different, preferring to buy branded products rather than non-branded alternatives compared to global counterparts (60% vs 42% respectively). This reflects rising disposable incomes of Chinese consumer's and increasing demand for better living standards and good quality products. This shift towards premiumisation is expected to continue (Euromonitor, 2018). However, loyalty to local brands is increasing, due to better quality and consumer's improving perceptions of locally produced goods, which is causing competition to intensify. Social media plays a large role in determining Chinese consumer's purchasing decisions. 56% are said to be highly influenced by online influencers, much higher than the 41% global average. Similarly, 52% are influenced by celebrities compared to 35% globally (Euromonitor, July 2019b).

In terms of touchpoint relevancy, Chinese consumers are said to spend three hours per day on digital media, and rapid and cheap delivery of goods has created a booming online fashion business (Euromonitor, 2018). They epitomise the 'connected consumer', with a mobile first mindset, with 34% preferring online communication to phone or face to face (Ibid). Super apps like WeChat, offering full integration, enabling Chinese consumers to call a cab, get food delivered, book a doctor's appointment, pay utility bills or shop, dominate. In 2015, Chinese consumers made more purchases via mobile phones than any other channel, and marketplaces like Alibaba, which has 44% market share, propelled this m-commerce shift (Euromonitor, 2018). In contrast, M&S's channels and touchpoints strategy in China was lacking connectivity with the Chinese consumer smartphone driven lifestyle.

A study by Bain & Co highlighted that international retailers have been losing market share to their local Chinese rivals in recent years, largely because they quickly lose sight of fast-changing consumer demands in China (The Telegraph, 2017). Therefore, a critical understanding of cultural and consumer nuances is imperative to succeed in a highly competitive and complex fashion marketplace.

Business Questions

Marks and Spencer is an example of many international fashion retailers who have failed when entering or expanding into the Chinese market. Critique the pitfalls, challenges and opportunities arising from internationalisation and make informed recommendations to improve success in China.

1. Why did M&S fail in China? Identify the problems and then make suggestions of what they should have done differently.
2. What are the cultural differences between China and the UK? And how knowing these, should M&S have adapted their expansion strategy towards China?
3. Standardisation and adaptation strategy is a key discussion within internationalisation literature. Critically consider M&S's marketing mix: product, price, place, promotion. How should they have adapted this mix to improve business performance in China?
4. Hypothetically, if M&S were to re-enter China? What international marketing strategy should they adopt, and why?
5. As an international retail consultant, what advice would you offer to fashion retail clients with an ambition to enter the Chinese market?

Teaching notes

This case should be used as a discussion format in a seminar to understand the topic of fashion retailer internationalisation, cultural and consumer buying behaviour differences, lasting approximately 60 minutes. Not all the questions need to be addressed, instructors may

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select based on question relevancy and time available. Teaching this case starts by asking students in a seminar (max 30 students) to individually prepare and consider the case prior to class. Before beginning the discussion questions, students can summarize and introduce the case. This exercise would take approximately 15 minutes.

YouTube links provide some useful background on M&S and perspectives on its international activity. You may wish to use some of these to support the case teaching.

- M&S background: https://www.youtube.com/watch?v=TydQHyU_Bug
- M&S decline: <https://www.youtube.com/watch?v=XuO07KgIaok>
- M&S struggling to stay in fashion: <https://www.youtube.com/watch?v=7KYVvyluejs>
- Why did M&S fail in China:
<https://www.youtube.com/watch?v=Kdg7rgxUQ7M&t=344s>

1. Why did M&S fail in China? Identify the problems and then make suggestions of what they should have done differently?

Students can draw from information provided in the case study, watch the YouTube videos and link these with theoretical perspectives more generally about retail internationalisation and international failure. Once problems have been identified, they should move onto brainstorming ideas of what M&S should have done differently. At this stage, suggestions can be broad and multiple to encourage students to consider all options.

2. What are the cultural differences between China and the UK? And how knowing these, should M&S have adapted their expansion strategy towards China?

Students are encouraged to focus on cultural differences, using Hofstede's cultural dimensions from the case and others (e.g. Trompenaar, Schwartz etc.), to explore the key differences between the UK and China. Once identified, students should consider how M&S should have adapted their Chinese strategy to better meet cultural and consumer needs. Direct students to Hofstede's website: <https://hi.hofstede-insights.com/national-culture> and get them to experiment with the 6-D cultural dimensions using the Country Comparison Tool to compare and contrast different countries across the dimensions. (For further reading see e.g. Trompenaar, F., Hampden-Turner, C. (1997). *Riding the waves of culture: Understanding cultural diversity in business* (2nd ed.) London: Nicholas Brealey and Schwartz, S.H. (1997). *Values and culture*", in Munro, D., Carr, S. and Schumaker, J. (Eds), *Motivation and Culture*, Routledge, New York, NY, 69-84).

3. Standardisation and adaptation strategy is a key discussion within internationalisation literature. Critically consider M&S's marketing mix: product, price, place, promotion. How should they have adapted this mix to improve business performance in China? Students are expected to draw on their knowledge of the marketing mix 4P's – product, price, place and promotion, and extend the problems offered in the case to tackle the question. Students are encouraged to visualise the mix and populate each quadrant with their adaptation suggestions e.g. for product consider style, sizing, labelling, fabrication etc.

4. Hypothetically, if M&S were to re-enter China? What international marketing strategy should they adopt and why? This is an open-ended question to encourage students to critically think and apply the learnings from the case hypothetically. Students are expected to draw on the case and supplement with their knowledge of

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international marketing strategy, to make a strategic decision for M&S e.g. global, multinational, 'glocal', local strategies. They then need to defend their decision using robust references from theory and business practices.

5. **As an international retail consultant, what advice would you offer to fashion retail clients with an ambition to enter the Chinese market?** This question encourages role-play. Students could work in groups with one group being the consultancy and the other a fashion retailer, from the international department. Students can enact such a scenario for whole class observation and onward discussion. What advice was offered? Was the quality of advice offered robust, if so why / why not? Whole class debate and difference of opinion is encouraged to generate deep learning of the issues at play.

Endnotes

The authors wrote this case solely to provide material for class discussion and independent learning. The authors do not intend to illustrate either effective or ineffective handling of a situation. The comments and interpretation presented are not necessarily those of the company or its employees.

The case study was written before the Coronavirus (COVID 19) outbreak. The case does not include analysis related to the COVID-1 and its potential impact is not factored in.

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Image Captions

- Figure 1: Figure 1: Hofstede cultural dimension differences between China and UK
- Figure 2: M&S International timeline