MARKS & SPENCER: A CASE STUDY IN INTERNATIONAL RETAILING

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INTRODUCTION

This case study describes the internationalization of Marks & Spencer (M&S), a giant British retailer. In recent years, the company has suffered a series of misfortunes, both at home (Britain) and abroad. Company sales have dropped, stock prices and market capitalization were substantially reduced, and overseas profits have declined. In January 1999, following a terrible earning announcement, the company announced that it had formed a marketing department, forcing the company to become more proactive and market driven. To head the department, M&S promoted James Benfield, a 17 year veteran of the retailing giant who worked as a former head of menswear, home furnishings, and direct mail.
For years, M&S' marketing philosophy was simple: produce high quality products under a recognized brand name at affordable (but not cheap) prices, and advertise through word-of-mouth. However, in recent years, this marketing philosophy has come under attack as the company started loosing its competitive stance. The move to develop a marketing department was a departure from a long tradition of production/manufacturing emphasis. The problem facing James Benfield: how can M&S emerge from the slump and reposition itself as a fierce global competitor in the international marketplace?

BRIEF BACKGROUND ON COMPANY

Marks and Spencer of Britain (often referred to as Marks & Sparks by locals) is a general retailer that sells clothes, gifts, home furnishings, and foods under the St. Michael trademark in the UK, Europe, the Americas and Far East. The company also operates financial services segment, which accounted for about 3% of the company's 1998 profits (Dow Jones Industrial 1999).
Marks & Spencer (M&S) started as a stall in 1884 by Michael Marks in the Leads market using a L5 loan from a wholesaler. The company stressed value and low prices as a hallmark for development. By 1901, the company acquired 35 outlets as well as a new partner, Tom Spencer. By 1949 all the company's stores carried mostly private label (St. Michael) products produced by British suppliers (De Nardi-Cole 1998).
For many years the company's mission has been to offer consumers quality, value, and service. The company relied on five operating principles to achieve its mission:
(1) Developing long-term relationships with suppliers,
(2) Providing value through a narrow merchandise selection at affordable prices,
(3) Supporting local (British) industry (De Nardi-Cole 1998),

(4) Promoting from within (The Economist 1998), and
(5) Using a single brand name St. Michael for most of its products (Financial Times 1999).

These operating tenets have gained M&S the support of British producers, consumers, and workers. The sixth largest employer in British manufacturing, the textile industry, with over 354,000 workers, owes a large part of its existence to M&S (The Economist 1999c). M&S has encouraged British textile manufacturers to keep factories at home, which led to a better check on quality and more flexibility in manufacturing and distribution (The Economist 1999c). The British have responded with affection. A British writer described M&S as "quintessential British institution, woven into the fabric of our national life, as firmly lodged in our psyches as furniture in the front room" (Financial Times 1999, p. 10).

CURRENT BUSINESS SITUATION

Using the business model described above, M&S had achieved impressive growth rates and market shares in many of its business segments. By 1994, the firm had 18% of the UK retail market, 33% of women's undergarment market, and 20% of men's suit market (De Nardi-Cole 1998). The company has 40% of the nation's underwear market and 14% of the clothing market - only retailer in Europe to have double-digit market share (Financial Times 1999). M&S food market share has been around 4.3% (M&S Press Releases 1999). The impressive market shares have gained M&S the reputation of a leading retailer in the United Kingdom.

The euphoria, however, did not last as M&S caught investors and business spectators off guard. In 1998, the company's stock fell 34% (Business Week 1998). Pretax profits fell by as much as 41% (to $1.09 billion) and market share declined, for the first time in years, by almost 1% (The Economist 1999a). In May 1999, the company reported full year profits of L630 million, a 50% fall from 1997-1998 (Financial Times 1999). Warburg Dillon Read, an investment bank, reduced its profit expectations for M&S by 10% for 1999-2000 (Dow Jones Industrial 1999).

Overseas profits have declined from their 1996-1997 high of L100 million (Financial Times 1999) to a loss of L15 million, before exceptional items, for fiscal year 1998. Sales measured in local currencies were down by 3% (M&S Press Releases 1999).

Table 1 shows the financial snapshot of the company. It also compares key financial measures of M&S (Britain's leading retailer) with those of Wal-Mart (US leading retailer).

TABLE 1: SNAPSHOT OF MARKS & SPENCER COMPARED TO WAL-MART

	Marks & Spencer	Wal-Mart
Market Capitalization	$18 billion	$204 billion
Sales	$13.3 billion	$150.7 billion
% of Sales Overseas	16%	17%
No. of Countries	34	10
Revenue	$14 billion	$144 billion
Return on Assets	13%	10%
Return on Equity	18%	23%
Current Ratio	0.98	1.30

Price-Earning Ratio	31	44
52 Week Price Trend	-31%	63%

- Compiled by the author from Dow Jones Industrial (1999), Market Guide (1999), Economist (1999d). Retrieved June 1999.

The company blamed consumer confidence and a strong pound for the decline in sales and company's value. M&S Press Release (1999) stated that the deterioration in 1998-1999 profits has been the result of (1) a shortfall in expected sales, (2) a slowdown in overseas markets, and (3) the purchase of Littlewoods stores for L90 million. Recessionary business environment in Europe and the Asian crisis have put a great strain on global profitability. At the same time, domestic and international competition has intensified both from specialty retailers and mega merchandisers, such as Wal-Mart.
Stockholders and business analysts were not convinced that the company's problems were merely external. M&S stock has underperformed other British retailers by more than 25%. They blamed M&S management for dull merchandising, poor inventory control, and lagged response time to competitive environmental conditions (Business Week 1998. Industry commentators have criticized the color, size and shape of their clothes, the lousy retailing climate, the unglamorous stores, the overpriced products, and the personal service (Financial Times 1999).

COMPETITION

The core values of M&S: quality, affordability and service came under the greatest attack, not from critics, but from competitors. Retailers such as Top Shop, Kookai, Miss Selfridge, Jigsaw, Oasis, Warehouse and the Gap offer more fashionable designs and trendier labels. Other retailers, such as Next, Debenhams and BhS, offer better values. Food chains, such as Tesco, Waitrose, and Sainsbury's have moved into prepared foods (Financial Times 1999). M&S is being challenged in every single business segment it competes. By its own admission, M&S has not changed quickly enough to react to accelerating competition, which resulted in unacceptable fall in profitability and market share (M&S Press Releases 1999).

MARKETING AT MARKS & SPENCER

Product

M&S products can be divided into three lines of business: (1) general merchandise, (2) foods, and (3) financial services. General merchandise include clothing, undergarments, handbags, footwear, goods for the home, children toys, books and cosmetics.
The food business carries a wide range of prepared foods, perishables, ethnic foods, meats, alcoholic and nonalcoholic beverages. Among the eclectic selection of foods are chocolate-covered ginger biscuits, salmon *en croute*, chicken tikka sandwiches, and mushroom risotto (Financial Times 1999). The company is currently changing its food offerings with new bistro style meals and introducing juice and coffee bars in some stores (Marketing 1999).

Finally, the company also sells financial services including a store credit card, personal loans, personal equity plans, unit trusts, and life insurance. M&S credit cards are the only ones accepted by the company in its British stores, where M&S does not accept major credit cards such as Mastercard, Visa, Discover or American Express. Customers deposit money into their M&S credit cards and can get up to 20 times the purchasing power. For example, with a deposit of $100, the customer gets a line of credit of $2000 (De Nardi-Cole 1998). The company has also diversified into life assurances and group pension contracts (M&S Press Releases 1999). While the financial segment is relatively small (about 3% of profits), it is the fastest growing segment of M&S operations. Profits over 1998 increased by 24% to L111 million, while the number of card accounts increased to 5.2 million (M&S Press Release 1999).

The St. Michael brand name has been used on most of the products sold through M&S. The brand, therefore, is used on a wide range of products targeting everyone from middle aged patrons to kids. M&S expertise has been delivering consistently high quality products under the St. Michael brand name. A commentator in Financial Times (1999), however, suggested that the company follow the example of Debenhams (a competing retailer) and use sub-brands to target specific segments of its market.

Price

Marks and Spencer followed a value price strategy from its inception, starting with Michael Marks who put all his products for a penny in one side of the store with a sign saying "Don't ask the price, it's a penny." Since M&S has concentrated on middle class customers, it has continued value pricing strategy. Although most of its suppliers have been from Britain, which has higher textile manufacturing costs than some developing nations, M&S was able to maintain its value by developing strong economic bonds with suppliers. Through its economies of scale in buying, M&S has been able to require manufacturers to adhere to strict quality standards and to bargain lower prices for its customers (De Nardi-Cole 1998).
Due to the recent strength of the sterling and the large British manufactured content in the stores, profit margins has substantially declined in recent years. Yet, M&S has managed to remain moderately priced. For example, a pair of casual pants in one major European city cost about $50.
In anticipation for the Euro conversion, the company features prices both in local currency and Euros in its European stores. It also has limited conversion tables by the cashiers.

Place

M&S stores come in two basic formats. The first format is a general merchandise store, with its basement dedicated to foods, while the second offers foods only. The average size of the store ranges from 35,000 to 40,000 square feet (3,252 to 3,716 square meters), with a minimum of 100,000 square feet (9,290 square meters) for remote locations. In recent years the firm has been aggressively increasing square-footage of their stores (M&S Annual Report 1998).

M&S tries to locate its stores on the Main streets of major cities, claiming that it seeks "to build critical mass around capital cities or across important conurbation, such as the Rhine-Ruhr area in Germany" (M&S Annual Report 1998, p. 1). Paris, the most significant market in Europe, for example, hosts 20% of the country's population and 10 out of the 20 M&S stores in the country (M&S Annual Report 1998). The company owns a very valuable global portfolio of property, with footholds in prime cities and districts across the world (Financial Times 1999). Competition for prime space, however, has made it necessary to locate in more remote locations.
In 1994, M&S started to aggressively focus on building distribution networks to supply its growing global operations (De Nardi-Cole 1998). The focal point of this network, however, has remained in the United Kingdom.

Promotion

M&S has mostly tried to avoid advertising and has relied on word-of-mouth. Word of mouth advertising was very powerful, not to mention cost-effective. The trade name of St. Michael has become synonymous with quality in a broad segment of products. While the St. Michael brand has been very successful over the years, by focusing on St. Michael products, the company does not get the marketing backing of popular brand names.
In the past the company used advertising only in rare cases, such as when M&S was introducing a new product or retail format or when brand name recognition was low, as in the case of its store introduction in Paris (De Nardi-Cole 1998). M&S' media spending was about L4.7 million, compared to L18.8 million of 10 other leading retailers (Jardin 1999b). After recent years of bad financial statements, the company has significantly increased the advertising budget to about L20 million (Jardin 1999a). The company has already invited advertising agencies to pitch and is planning its second-ever television campaign focusing on M&S products (Marketing 1999).

INTERNATIONALIZATION OF MARKS & SPENCER

M&S experimental involvement with internationalization began in the 1940s. Unlike most service firms, however, the company began exporting its St. Michael brands overseas as a way to test the waters (recall that the company did not own manufacturers, merely branded their merchandise using the St. Michael private label). Briggs (1992) estimated that in 1955 the company was exporting about $1,146,000 worth of merchandise.
Early internationalization of the company was mostly due to domestic factors. Internally, the company started to feel that it has saturated to domestic market and that expansion will have to come from overseas. Externally, some Labor Party members were suggesting nationalizing the leading domestic retailers (De Nardi-Cole 1998). Internationalization was, therefore, seen as a tool of diversification.
Out of the export business, some international franchising relationships were formed. Importers of the St. Michael brand, who were familiar with the success of the brand in their countries, also bought the business format (including store layout and operating style) from M&S. By the early 1990s, St. Michael franchises were operating in 14 economies including some emerging countries such as

Gibraltar, Bermuda, Israel and Philippines (Whitehead 1991). Franchising allowed the company to achieve global presence with minimal economic and political risks. As M&S' familiarity with internationalization grew, more direct modes of entry, such as acquisitions and joint ventures, were being used. By 1996, the company had 645 outlets worldwide, most of which (58%) were in the UK, Europe and Canada (De Nardi-Cole 1998).

Modes of Entry

The internationalization of M&S resembles the theoretical explanations of service firm internationalization (Alon 1999; McIntyre and Huszagh 1995). These theories suggest that service firm become increasingly international as they gain experience, willing to commit more company resource and take additional risks. Retailers will use relatively less risky modes of entry, such as exporting and franchising, in markets where market and political risk are high. Retailers will share ownership where sole ownership is prohibited or restricted. In markets, such as the US and the EU, with significant purchasing power, large population and developed infrastructure, retailers enter through high-control high-risk modes of entry, such as sole-ownership and acquisition.

M&S utilizes various types of modes of entry around the world. The company believes in opening its own stores and expanding through acquisitions in major economies. On the other hand, M&S expands through franchise agreements into countries where a partner's local expertise is viewed as beneficial (M&S Annual Report 1998). The company owns stores in Belgium, Canada, France, Germany, Hong-Kong, Ireland, Spain and Netherlands; and franchises in the rest of the countries including The Bahamas, Bermuda, Canary Islands, Cyprus, The Czech Republic, Gibraltar, and Israel (De Nardi-Cole 1998). Whitehead (1991) proposed that the company used franchising in countries that have relatively small population size or low per capita incomes, but sufficiently large to support a small number of stores.

When forming international alliances, M&S often preferred an experienced retailer with significant market share. In 1990, M&S went into its first joint venture with Cortefiel, one of Spain's leading retailers. A joint venture was initially used in Spain because it was felt that the market knowledge and power of an existing retailer will help mitigate the cultural distance, and the sometimes adverse political climate(De Nardi-Cole 1998). In Australia, M&S chose a partner who is an experienced local clothing retailer. In China, the company is looking for a likely candidate as the industrial structure of the economy develops (M&S Annual Report 1998).

Maureen Whitehead (1991) was one of the first researchers which examined international franchising at M&S. Whitehead research revealed that M&S used a franchise format that was a hybrid between first trademark franchising and business-format franchising. Trade-name franchising is based on supply of merchandise and trade marks, such as gas service stations and automobile dealerships, while business format franchising relies on a transfer of formalized operating style. M&S' franchisees need to show short and medium horizon business plans and demonstrate minimum level of turnover. The franchisee pays through merchandise purchases and a percentage of inventory turnover. Franchisees can selectively pick only part of the merchandise, instead of full range of products available through the British owned stores.

Regional Analysis of M&S Internationalization

A truly global firm should have operations in all three regional economic blocks. Since 1975, M&S has increasingly become a global retailer, with presence in each of the major trading block: (1) the Americas, (2) Europe, and (3) Far East. Table 2 shows current operating results and comparisons of the three regions.

TABLE 2: OPERATING RESULTS AND REGIONAL COMPARISONS

	The Americas	Europe*	Far East
Turnover	606	538	128
Operating Profits	17	33	18
Number of Stores (Franchised)	43 (5)**	53 (15)	10 (33)

Source: M&S Annual Report 1998
* includes some Middle-Eastern states
** not including Brooks Brothers 119, and Kings Supermarkets 22.

The Americas

The first major round of acquisitions M&S made was in 1973 of Canadian People's Department Stores (budget retailer), DiAllaird's (older women's store), and Walker's store (modeled after British M&S format). The executives in M&S saw Canada as a good country to invest in because of its high incomes, solid infrastructure, large middle class, low political risk, and use of English language. Since they perceived little cultural distance, they transferred their business formula almost unchanged from the United Kingdom to Canada. They quickly found that even Canada requires some modifications.
The Canadian stores required customization to local needs including the use of Canadian merchandise, enlargement of food departments, restructuring of inner city store, and opening of suburban stores, much of which the company had little experience with. The changes were made to slow and, by 1988, the stores lost about $7 million. Thereafter, the D'Allaird's stores were closed to cut costs and concentrate efforts on more profitable operations (De Nardi-Cole 1998). In May 1999, M&S announced that it will be closing all 38 M&S stores in Canada by September 1999 (Dow Jones Industrial 1999). The company has decided that Canada no longer fits the strategic future, after several attempts to return it to profit have failed. The cost of withdrawal is estimated around L25 million (M&S Press Releases 1999).
M&S entered the US in 1988 using a similar strategy it used in Canada, trough acquisitions. It bought Brooks Brothers (department store, also nicknamed Brooks Bros) to market its clothes and Kings Supermarket to sell its food line. Unlike M&S, which bought its supplies, these companies owned manufacturing facilities. Brooks Brothers and Kings Supermarkets are similar in format to M&S two store formats.
After the acquisition, Brooks Brothers (M&S largest operation in The Americas) expanded its sports selection, widened its product base, and enlarged its customer base. It opened a few locations in malls targeting a younger market.

The company used some products from Brooks Brothers clothing line to sell in the UK and European stores. M&S did not change the names of the US chains, probably because of their loyal customer base, nor did it significantly change the product offerings.
The purchase of Brooks Brothers contributed to continuing innovation in the merchandise mix, offered M&S an opportunity to compete in the largest economy in the world, and gave M&S a foothold in the Far East. While some believed that the purchase of Brooks Brothers was overpriced (30 times 1987 profits), it provided M&S with 21 joint venture stores with Daido Worsted Mills in Japan, three US based factories, a charge card business, and a direct marketing operation (De Nardi-Cole 1998).
For year ending 1998, Brooks Brothers increased its number of stores by 7 (to 119), increased market share of US men's clothing market, improved direct marketing, and invested in a new warehouse management system to increase service efficiency. The chain expects to become more contemporary, broaden its market appeal (particularly to working women), and modernize its brand image (M&S Annual Report 1998).
Kings Supermarkets have also shown satisfactory results, two new stores were added in New Jersey, and new stores are being pioneered in Florham Park. Five new Kings Super Markets are expected to open in 1999(M&S Annual Report 1998).

Europe

M&S entered the European market in 1975. This was two years after the less than successful Canadian acquisition. France was chosen as the gateway country, and Paris the gateway city, to the rest of Europe (M&S Annual Report 1998). After much market research, the company decided to adapt the store to French life styles. The French stores offered snugger fit clothing, a wide selection of French wines, and less British imports. Due to a lack of brand name recognition, the company also relied on advertising to spark interest in the stores (De Nardi Cole 1998). From there, M&S expanded to Belgium (1975), Spain (1990), Germany (1996), and recently to smaller economies, such as Greece, Hungary, Portugal, and the Czech Republic.
The Europe report of M&S includes Eastern and Western Europe including some states in the Middle-East. In Europe the company owns 37 stores (in France, Belgium, Holland, Spain, Germany and Ireland) and franchises 53 stores across the rest of Europe and the Middle-East. M&S plans to open new stores in Spain, Belgium, Holland and Ireland, develop new franchises in Turkey, Dubai and Poland, and increase square footage in Czech Republic, Greece and Cyprus. The company hopes to have 60 stores in Continental Europe by year 2000 (Business Week 1998). It is seeking to increase customization to local national tastes by establishing additional brand names to the already successful St. Michael brand (M&S Annual Report 1998). Still, about 80% of the stock sold in continental Europe is the same as the UK home market, while the other 20% reflects differences in culture, size, climate and local preferences (Glew 1994).
In Europe sales from core stores and recently expanded stores were below expectations for 1998-1999, particularly in the major economies of France, Germany and Spain. Profit margins have deteriorated as the company attempted to maintain good value (M&S Press Releases 1999). Sales in the Middle-East, on the other hand, were particularly strong, including the new operation in Kuwait (M&S Press Releases 1999). To increase profitability of European operations, the company (1) closed unprofitable stores (in Zaragosa and Parinor), (2)

acquired full control of the Spanish business, (3) gave more control to local managers, and (4) developed a European buying department to meet local demand (M&S Press Releases 1999).

Far East

The entry into the Far East was twofold. M&S first exposure to business in the Far East occurred indirectly through the purchase of Brooks Brothers (1988), which co-owned affiliates in Japan. Brooks Brothers has 19 years of brand exposure trading experience with Japan. Two Brooks Brothers franchises started in Hong-Kong over 1998. M&S believes that Asia will be a major market for Brooks Brothers because of the region's receptiveness to US culture and brand's aspirational values (M&S Annual Report 1998). In recent years, Brooks Brothers Japan was adversely affected by recessionary conditions in the economy (M&S Press Releases 1999).
The second penetration to the Far East was through the brand name of M&S. M&S clothes are marketed as high quality western style items. M&S opened stores in Hong-Kong, which were supplied through the British home base. All of the wholly owned stores in the Far East are in Hong-Kong, the 33 other outlets are franchised across six other nations in the region. In recent years, the company has expanded to suburban areas of Hong-Kong, a move it believes will help it penetrate the Chinese market (M&S Annual Report 1998). The company already has a resident office in Shanghai with a purpose to evaluate the market and to spark interest in a joint venture there (De Nardi-Cole 1998). During the last couple of years, the company expanded its presence in Thailand, Philippines, Indonesia, Korea and Australia. (M&S Annual Report 1998).
The 1997 Asian crisis has seriously stalled retail sales in the region, and M&S stores were not an exception. Both franchised and non-franchised outlets have been adversely affected by the crisis. Despite the slowdown, the company was able to increase the number of owned and franchised stores by 9 to 43. The company's expansion coupled with the adverse conditions created by the Asian crisis have hampered sales and profitability in Asia (M&S Annual Report 1998). Therefore, no new development is planned in the near future (M&S Press Releases 1999). The company plans to source locally and buy temporarily depressed properties. Hong-Kong will remain a strategic base, despite sales being L20 million below expectations for 1998-1999 (M&S Press Releases 1999).

JOURNALISTIC IMPRESSIONS OF THE COMPANY

Based on the popular business magazine, M&S' international marketing challenges fall into three broad categories: (1) over-reliance on British market, (2) top management's internal orientation, and (3) corporate culture.
Over-Reliance on British Market
M&S relied too much on the British market both for its customers and its suppliers. This over-reliance on the domestic market exposed the company to unsystematic risk. The British market constitutes 85% of sales and 94% of profits. The reduction in profits of 23% in 289 stores in Britain is largely what led to the depressed stock prices (Business Week 1998).
M&S for years has insisted on buying its clothes from domestic manufacturers, a policy that gained it support from its citizenry, but not necessarily its customers.

Around 65% of all products sold in M&S stores were manufactured in the UK (M&S Press Releases 1999). The dependence on British suppliers has limited the scope of M&S product offering and innovation, deteriorated its competitive position vis-à-vis retailers which import cheaper garment from abroad, and made its exports products expensive in relation to world markets (The Economist 1998).

The insistence on buying British produced goods has also been unhealthy to M&S suppliers. In response to the M&S' slowdown, suppliers had to cut almost 2,300 jobs. The company broke tradition and has started to encourage suppliers to manufacture overseas (The Economist 1999c). How to lower global production and distribution costs is a key problem the company needs to deal with.

M&S needs to internationalize to further diversify the risk of a downturn in any one economy. Business Week (1998) recently suggested that M&S reduce its dependence on local British market and maintaining international expansion.

Additional international expansion require a great resource commitment, a difficult task during hard economic times. Furthermore, as developed countries become saturated and highly competitive, retailers need to expand to emerging countries, where cultural, economic and political differences exist. Two key problems in seeking international expansion are (1) how to choose a host country, and (2) what should be the mode of entry.

Top Management's Internal Orientation

The top management and board of governors has been inward looking for too long (The Economist 1998). The board is made up of no less than 16 executives, most of whom have spent most of their careers at M&S, and 6 non-executives, one of which is from the co-founding families. A recent article in the *Economist* (1998, p. 68) argued "With M&S now selling financial services and going overseas, the narrowness of experience of M&S' senior managers and board directors is a weakness."

The narrowness of top management is also reflected by the choice between recent bid for the chief executive job to replace Richard Greenbury. Keith Oates, who joined M&S in 1984 as finance director, having built a career with blue-chip companies, has lost the top job to Salsbury, who joined the company in 1970 fresh out of London School of Economics (Gwyther 1999).

The new marketing director, James Benfield, 28 year M&S veteran, has joined M&S as a graduate trainee (Jardin 1999a). Despite his stated desire for new marketing input, his four newly appointed managers for each store type are also M&S employees (Buxton 1999). M&S resembles Sears in that it has been inward looking for too long. Both companies have suffered series of deteriorations to their stock prices (Pitcher 1999).

Top management's international orientation, which is a function of cultural distance, level of education, proficiency in foreign languages, and international experiences, was shown to be an important internal factor of internationalization (Eroglu 1992). M&S top management personnel and board of directors are mostly British born, British educated, male, and have spent most of their careers there.

CORPORATE CULTURE

M&S corporate culture has been one of top-down. Decision making was centralized and the company ruled from the top through command and control. Prices, products, colors, and even designs, had to be approved at the top. "Those who were close to the customer weren't listened to or encouraged to be bold

and take risks" (Financial Times 1999, p. 8). While the company used famous designers, such as Paul Smith, Betty Jackson and Ghost, it never used their names in promoting the stores nor did it give them much latitude in designing new fashions (Financial Times 1999).
Perhaps the biggest pitfall of M&S has been its attitude "we know best" (Financial Times 1999). This attitude has prevailed in many of its business practices. For example, the company has accepted only M&S credit cards in its British stores, used very limited advertising, and insisted on buying British textiles. M&S' old business model does not fit the new world realities. Competitors struggle for market share by offering increasingly better quality, nicer service, lower prices, and more pleasant shopping experiences. The result is increasing customer expectations that are more difficult to satisfy. Companies that cannot keep up with the pace of change will eventually perish. M&S famous quality and service have not kept pace with modern notions of these terms (Financial Times 1999).

AN EPILOGUE: COMPANY'S RESPONSE TO SLOWDOWN

The company's response to the slowdown and the depressed stock prices has been to reduce number of workers, decrease prices, and rethink the organization of the firm.
Job Cuts
To offset the loss in profitability the company announced cutting 15% of its 1,900 managers in hopes of saving $16.2 million (The Economist 1999b). The company plans to cut additional 350-400 head office jobs and 290 store management positions. Senior management numbers were cut by 25% (M&S Press Releases 1999). The board has been reduced from 22 to 7 (Financial Times 1999). In addition, the company announced that it canceled its 1999 graduate trainee program, which hired about 250 graduate trainees per year, and withdrew offers made recently (Dow Jones Industrial 1999).
Price Cuts
In an effort to become more competitive and trim down excess inventory, M&S cut prices across the board. Many clothing items, including a third of children wear, have been discounted by as much as 15%. The prices of a third of all merchandise has been cut by 2%-3% (Financial Times 1999).
Reorganization
M&S was reorganized into three profit centers: (1) UK retailing, (2) overseas retailing, and (3) financial services. Stores were reclassified from geographic division to four store types: (1) department stores, (2) regional centers, (3) high (main) street, and (4) small stores. This the firm hopes will help it (1) develop specific management skill associated with different store types, (2) tailor merchandise more accurately, (3) reduce administration, and (4) improve staffing and training. The total cost of restructuring is estimated at about L40 million, leading to a L40 million cost savings associated with redundancies starting fiscal year 2000-2001 (M&S Press Releases 1999).
A new marketing department was set up to help create improved (1) competitive analysis, (2) information gathering, (3) proactive communication, (4) advertising clarity, and (4) customer targeting (M&S Press Releases 1999). The department will increase marketing research, develop a coherent brand strategy, and increase the level of advertising. Its marketing thrust will be to cut prices, put more staff on the shop floor and improve visual merchandising (Jardin 1999a). The company will attempt to develop a more balanced sourcing policy to its domestic and

international outlets and will review global logistics to streamline distribution and lower costs (M&S Press Releases 1999).
The company will continue to develop their e-commerce web site. A property division has been set up to assess use of real estate. Market cost of assets will be charged to individual stores to better assess performance. Accountability has increased as each profit center is judged individually against its cost of capital, and resources will be allocated to increase shareholders equity value (M&S Press Releases 1999).

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QUESTIONS

1. **What are the factors which led M&S to internationalize?**
2. **What is the sequence of country entry and why was that sequence selected?**
3. **What are the modes of entry used in the various countries and why?**
4. **Which host country factors M&S seems to value and which do they don't?**
5. **Describe and explain the adaptations to M&S business model in different countries.**
6. **Is M&S multinational or global retailer? Explain and defend your answer.**
7. **Where is M&S on the internationalization life cycle? Explain how you formed your answer.**
8. **Should the company standardize more of their international operations? Compare Europe and Asia.**
9. **What should be the future strategy of the firm?**
10. **Evaluate top management's response to the crisis?**
11. **(11) Evaluate M&S' cross-cultural skills?**