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MARKS AND SPENCER ENTERS CHINA

Jane Menzies, Ilan Alon and Jennifer Dugosh wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

In Marks and Spencer's (M&S's) 2011 annual report, the chief executive officer (CEO), Marc Bolland, stated: "Our business is in good shape and we have strong foundations on which to build."[1] Recently, M&S had started to reinvent its brand, moving away from its British roots to become a truly international organization.[2] M&S's success with internationalization had seen both the good and the bad; by 2012, M&S had 337 stores in 41 countries.[3] Marks and Spencer had first ventured into international markets 70 years ago. Although, M&S saw itself as a U.K. retailer that exported its products, the company had been attempting to reduce its dependency on the U.K. economic cycle — to transcend its origins. As such, the goal was to increase international sales from £800 million to £1.0 billion by 2013/14. By 2020, M&S wanted to be "an international, multi-channel retailer."[4]

M&S's vision was "to sell high quality, great value clothing and home products and outstanding quality food."[5] For years, M&S had used a simple marketing philosophy: produce good-quality products under a well-known brand name at affordable (but not low) prices, aimed at middle-class consumers.[6] This marketing approach had come under attack as M&S had internationalized to markets such as China. The company found that what had worked at home did not necessarily translate to emerging economies. The problems facing Jan Heere, director of International Operations, were multifaceted: how to establish the M&S brand in Chinese consumers' minds, how to increase sales in China, how to establish M&S's position as a strong competitor in the Chinese market and how to transfer M&S's impressive market shares in the United Kingdom to China. These problems remained a particular challenge because Chinese consumers had little understanding and knowledge of the M&S brand.

BRIEF COMPANY BACKGROUND

Marks and Spencer of Britain, which was commonly referred to by locals as "Marks & Sparks," was a broad retailer that sold women's and men's clothing, children's clothing, housewares, foods and gifts under various brands in the United Kingdom, Europe, the Middle East and Asia.[7] M&S employed more than 81,000 employees worldwide and operated 1,100 stores in the United Kingdom and in 43 other territories.[8] In the United Kingdom, clothing and housewares accounted for 49 per cent of M&S's business, and food products comprised the remaining 51 per cent.[9] Food products ranged from fresh food to partly prepared meals. M&S had originated from Michael Marks, who had sold goods from a market stall in Leeds in 1884. The company's initial philosophy was based on low prices and value. By 1901, M&S had grown to 35 outlets across Britain and had acquired a new partner, Tom Spencer. The company focused on carrying its private label (St. Michael), which was produced by British manufacturers on behalf of M&S.[10]

In 2010, M&S shared its plans over the next five years to move toward becoming an international multi-channel retailer, and it wished to grow its annual revenues significantly. To achieve this vision, the company relied on the following four operating principles:[11]

1. Focus on the United Kingdom (which included improving the brand, stores, clothing, housewares and food)
2. The development of multi-channel shopping (in-store, online and phone)
3. International (which included transforming the business into a true international business, increasing international sales and focusing on four priority territories — China, India, Russia and the Middle East).
4. Plan A (a five-pillar plan to focus on creating an environmentally sustainable business, while reducing costs)

These four operating principles brought significant changes to M&S, including the types of stores it operated in the United Kingdom, its international focus, the brands it carried and their sources.

BUSINESS SITUATION

Over the past few years, after having utilized the business model articulated above, M&S had achieved notable market share in many of its business lines in the United Kingdom. In 2010, M&S was the largest provider of women's wear and lingerie in the United Kingdom, where it had 11.7 per cent of the U.K. clothing and footwear market, 3.8 per cent of the food market, 10.4 per cent of the women's wear market, 12.1 per cent of the men's wear market, 6.8 per cent in the children's wear market and 27.4 per cent of the lingerie market.[12] As a result of these remarkable market shares in the United Kingdom, M&S had gained itself a reputation as a leading retailer.

Despite the euphoria, the effects of the global financial crisis (GFC) and economic turbulence in the eurozone, and consequently in the United Kingdom, in 2011/12, had created numerous challenges for M&S, including low consumer confidence and inflationary pressures compounded by rising fuel prices.[13] As a result, M&S experienced a decrease in market footfall of 1.6 per cent, and consumer spending was tight and often planned.[14] Performance statistics revealed a drop in net and after-tax profits in 2008/09, despite a general increase in turnover over the years (see Exhibits 1 and 2). In other words, consumers were less responsive to marketing promotions and less likely to make impulse purchases because of their limited disposable income. Because of these eurozone problems (i.e., the European debt crisis), M&S had experienced further difficulties in its international markets in Greece, the Czech Republic and the Republic of Ireland.

Overall, M&S had managed to weather the financial storm with strong revenue and profitability, unlike some competitors that were forced to close stores or face administration.[15] For example, M&S managed to increase total sales by 2 per cent, while its international sales had increased 5.8 per cent in 2011/12; however, profits dropped 1.8 per cent,[16] and group profits before tax slid by 15.7 per cent in 2011/12 (see Exhibit 1). To reduce its dependence on the U.K. market, M&S had more recently entered markets with strong gross domestic product (GDP) growth, such as Russia, India, China and the Middle East. Domestic and international competition had intensified both from other retailers such as Zara, H&M, Debenhams, Next and mega-merchandisers such as Wal-Mart.

INTERNATIONALIZATION OF MARKS AND SPENCER

In recent years, M&S had attempted to grow its business internationally in an effort to become less reliant on a single market.[17] To grow the business in the United Kingdom and internationally, M&S developed two management teams: one focused on the United Kingdom and the other on international markets. To support growth overseas, M&S developed a new organizational structure, which had assisted in developing its supply chain and capabilities in international design, marketing and customer insight (see Exhibit 3). Previously, success with internationalization for M&S had been mixed. For example, although company's entry into Hong Kong and the Middle East had been largely successful, it had not been so fortuitous with its entries into Canada, France and the United States.[18]

The Early Years

M&S had first experimented with internationalization in the 1940s. To test the waters, M&S exported the St. Michael brands overseas. At that point, M&S did not manufacture products, instead choosing to brand itself under St. Michael.

The initial internationalization of M&S was mainly due to domestic factors. Firstly, the company, believing that the domestic market was saturated, decided that expansion overseas was necessary to grow the business. Secondly, some Labour Party members had suggested nationalizing the leading domestic retailers;[19] therefore, internationalization was seen as a way to diversify and thereby reduce the risk of nationalization. Nationalization was a risk to organizations, including M&S, because organizations could lose the ownership of their organization to state control. Internationalizing the organization meant that the state could not nationalize those parts of the business that were international, thereby reducing the risk.

M&S had developed franchising arrangements with its partners as a result of its previous exporting activities. For example, in some countries, importers of M&S-branded products who were already familiar with the strength and success of the brand decided to develop their businesses further by buying the business format from M&S, which included the store layout and operating procedures.[20] By the early 1990s, St. Michael franchises operated in 14 countries, including nations with ties to the Commonwealth.[21] Franchising permitted M&S to expand internationally and develop a presence, without the financial outlay that would have been required had the company itself invested in foreign stores.[22] Using a franchising model also reduced political risk. As M&S continued to internationalize, it also began to use other entry modes, such as joint ventures and acquisitions. In 1996, M&S had 645 stores throughout the world and the majority of these (58 per cent) were located in the United Kingdom, Canada and Europe.[23]

Failures and Flops

In 1973, M&S entered Canada, where it grew to have a total of 47 outlets.[24] M&S failed to make its Canadian operations a success and, in 1999, it pulled out of Canada altogether. Critics labelled the Canadian M&S shops as stodgy stores that were directed to senior citizens and British expats.[25] M&S entered France in 1975. Like Canada, the company was not popular amongst French consumers. These operations proved popular and profitable in Paris; however, the stores were not as well received in other areas of France. By 1999, M&S had sold 18 shops to Galeries Lafayette.[26] Finally, in the United States, M&S purchased Brooks Brothers and Kings Super Markets, a U.S. supermarket chain. Due to past failures in the U.S. market, these U.S. businesses were sold in 2001 and 2006, respectively.

The Crisis and Then Success

M&S was the first British retailer to make a pre-tax profit of £1 billion in 1998.[27] However, as a result of the Asian economic crisis, M&S plunged into economic crisis, and its profits before tax dropped to an all-time annual low of £145.5 million in 2001 (see Exhibit 1). In the early 2000s, M&S dropped the St. Michael brand and rebranded itself using the M&S brand to mitigate brand confusion.[28] In addition, the St. Michael brand was considered dowdy and unfashionable by its main target market. M&S original policy was to sell only British-made goods, a commitment that the British public adored. In 2002, however, M&S decided to discontinue this policy, due to competitive pressures brought on by globalization: it was much cheaper to source many products from India, Pakistan, China and Vietnam. This decision was especially important because M&S's competitors also outsourced to these countries.

In 2007, M&S opened its largest store outside of the United Kingdom at the Dubai Festival City.[29] Since then, M&S had reinvented itself numerous times, and, in 2010, it created four new operating principles, one of which focused on internationalization. Marc Bolland, CEO of M&S, cited previous failures in international markets as being a result of a "shot-gun approach" and "flag planting," rather than a cohesive and well-planned approach to internationalization. In addition, he believed M&S needed to have enough scale and leadership in each international market. He also wanted to ensure that customers knew what M&S represented, for which a customized approach was best.[30] As one example, "He also aimed to tailor the product to a country's needs, for example shorter shirts in Greece and longer ones in Turkey."[31] "For new markets, the strategy would broadly be a flagship location, supported by additional stores and the internet."[32]

Market analysts had questioned whether Bolland could be more successful than his predecessors. To develop his international team, and specifically to search for a director of International Operations, Bolland started to look to his competitors. At M&S, a director had been appointed to each regional area, supported by a business development manager. M&S had also created an international team, which was led by both new talent and practised international retailers who had significant M&S experience.[33] M&S had also developed an international visual merchandising team that ensured a consistent brand and experience for customers across the world. An integrated international marketing team had also been developed whereby the core teams included buyers and addressed local sourcing. M&S had sourcing offices in Hong Kong, Thailand, India, Bangladesh, Turkey, Shanghai, Italy, Indonesia and Sri Lanka.[34]

Modes of Entry

M&S did not use a specific entry mode strategy when internationalizing. Instead, it adapted its strategy to each market. M&S did emphasize developing franchise operations and establishing strong partnerships in local countries. Therefore, in some markets, M&S used joint ventures, franchising and wholly owned enterprises. In general, retailers tended to use low-risk entry modes, such as franchising and exporting in countries where they had limited market knowledge. In countries, where sole ownership of retail outlets by foreign entities was prohibited or restricted, retailers used joint ventures. For example, in India, M&S was forced to have a joint venture with Reliance because government regulations capped the amount of equity foreign retail organizations were allowed.[35] For markets characterized by large populations, per capita purchasing power and developed infrastructures, such as the European Union, retailers such as M&S were more likely to enter using wholly owned enterprises or acquisitions, which allowed for a higher level of control, but entailed higher risks.[36]

Regional Analysis of M&S Internationalization

Since 1975, M&S had further developed its international presence in the following regional areas: Europe (157 stores), the Middle East (122 stores) and Asia (108 stores). M&S strategy had been to expand in a measured way, meaning it wanted to learn about a market before it ramped up expansion.[37] For example, in 2008/09, after one year of trading, M&S closed its store in Taiwan because the trial did not warrant further investment.[38]

M&S had 157 stores in Europe, a market it had entered in 1975, less than two years after its disastrous Canadian acquisitions. France was the first country chosen for M&S entry into Europe[39] because it was seen as a gateway country to the rest of Europe.[40] Unlike its entry into Canada, M&S understood that a great deal of market research would be necessary for M&S to thrive in the contentious Gallic market. M&S adapted its store and products to French conditions by offering snugger fitting clothes, French wines and fewer British imports. Going against its word-of-mouth advertising principle, M&S developed advertising campaigns to spark interest in the French market.[41] From there, M&S expanded to Belgium (in 1975), Spain (in 1990), Germany (in 1996) and, more recently, to smaller economies, such as Greece, Hungary, Portugal and the Czech Republic.[42]

As a part of its expansion into Eastern Europe, in 2008, M&S entered a joint venture with the Marinopoulos Group, which franchised 38 stores in Greece, Romania, Bulgaria and Switzerland.[43] M&S also acquired 51 per cent of COMS, which operated 13 stores under franchise agreements in the Eastern European region. As of 2008, M&S planned to open 30 stores in the Czech Republic, Slovakia and Lithuania.[44] Therefore, as of 2012, M&S was represented in Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, France, Gibraltar, Greece, Guernsey, Hungary, Jersey, Latvia, Lithuania, Malta, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Spain.[45] In 2011, M&S announced its return to France, with its "bricks and clicks" strategy, which featured retail space in the heart of Paris, the Champs-Élysées, and a French-language online store, which would trade in euros.[46]

M&S had 122 stores in the Middle East: in Bahrain, Egypt, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Turkey and the United Arab Emirates. In the Middle East, the M&S brand had been franchised to the Al-Futtain group, which opened its first M&S store in 1998. Since then, the group had opened 18 stores in the Middle East. M&S and the Al-Futtaim group had engaged in some local customization of product and promotion. For example, it had recently organized a clothing campaign called the Ramadan collection, which ran throughout the month of Ramadan.[47] This promotion also encouraged customers to donate their unwanted clothes to the M&S "shwopping" campaign — an initiative with the Red Cross to aid people in need. Generally, the Middle Eastern stores had performed well, especially its new operation in Kuwait. After the GFC, Middle Eastern stores had performed moderately; however, M&S's plans to open four stores in 2010/11 were seen as growth opportunities for the firm.[48]

As of 2012, M&S had a total of 108 stores in Asia. M&S's entry into Asia had been twofold. Its first exposure to Asia occurred indirectly through the 1988 purchase of Brooks Brothers, an American supermarket chain, which co-owned stores in Japan.[49] Building upon Brooks Brothers (which it subsequently divested) and on 19 years of exposure and experience with Japan, M&S opened its first store in Hong Kong in 1988,[50] and then in 1998 developed two new franchises in the Hong Kong market.

Using the M&S brand name allowed the firm its second market penetration. Customers who preferred European styles were keen to access brand-name goods, which they perceived as indicative of higher quality Western styles, thereby creating a potential future base for internationalization at the store level.[51] This strategy had led to M&S opening stores in Hong Kong with goods provided by British suppliers. As of 2012, M&S operated stores in Hong Kong, China, Indonesia, Russia, India, Kazakhstan, Malaysia, the Philippines, Singapore, South Korea and Thailand. Moving forward, India and China were the targets for M&S expansion efforts.

M&S Entry into China

global financial crisis

M&S planned its entry into China with the 2008 launch of a flagship store on West Nanjing Road, in the heart of Shanghai's shopping district. Despite the store's prime location, M&S's entry into China was not without problems. This first store was opened in the middle of the GFC.[52] On the day of the opening, 10,000 customers waited eagerly outside to take a look at the new store — and that's exactly what they did. They came, they looked and they left. Media commentators stated, "in true British fashion, the store wasn't really ready — the paint job was poor, the walls scuffed and the goods on offer were disappointing."[53]

M&S's food shipments had been blocked at Shanghai customs, which meant the food section of the store was empty for the first three months. When customers came to buy food, they found nothing to buy.[54] Even by the end of 2008, during the holidays and leading up to the New Year's Eve sale, M&S was still deserted; no stock, no customers. One media analyst commented, "Welcome to the vast but deserted new Marks and Spencer store in Shanghai, where you can feel less like a customer and more like a survivor in an apocalypse movie."[55] This comment had led Sir Stuart Rose, former M&S chairman, to conclude that these failures occurred due to "several 'basic shopkeeping' mistakes when launching its troubled first store on the Chinese mainland."[56]

The next major shock was that an Indian customer, Harship Shah, had fallen from the top floor of the store to his death. Shah had fallen between a gap in the escalators on the fourth floor. Some local Chinese people believed that the M&S store had bad spirits, which had resulted from bad Feng Shui in the store layout. M&S's tumultuous entry into China did not end there; commentators suggested that M&S had not done its homework. The Chinese body frame tends to be smaller compared with its Western and European counterparts. But M&S had seemingly not understood the needs of its Chinese consumers.[57] The result was an oversupply of large fitting clothing and an undersupply of small fitting clothing. In regard to this issue, Sir Stuart Rose, the former M&S chairman, had stated "we had a screw up."[58] In 2010, one media analyst reported that M&S had "fundamental problems," with the sizing been "wrong, running from 6 to 18, but weighted in many lines towards the larger sizes." If one goes into an M&S store in 2012, one will still find oversized clothing hanging on the racks that have not been purchased. As the media analyst had pointed out, M&S had still not solved the problem of stocking "the size 2s and 4s that petite Shanghainese prefer."[59] The weighting of clothing in favour of larger sizes was just one major difference between the two markets. Other obvious differences included the physical distances (there were roughly 9,196 kilometers between London and Shanghai[60]) and the language barrier between the two countries. Culturally, the countries were much different, too (see Exhibit 4).

M&S had failed to appropriately adapt its products to suit the needs of local markets, despite having stated in its annual report that it had done so. For example, M&S had introduced size 6 and size 4 across women's wear to cater to smaller size requirements,[61] but it appears they had not gone far enough to cater to the Chinese build. Also, M&S was in the process of developing "Asian fit" bras for the Chinese market. As the 2010 annual report stated, "We will continue to improve our product tailoring, through increased local sourcing."[62]

M&S clothing was also geared to middle-aged women and men, and therefore much of the product had been critiqued as outmoded and unfashionable. Some had blamed M&S management for dull merchandising, poor inventory control and slow responses to competitive conditions.[63] Industry commentators had criticized the size, colour and shape of the clothes; the unglamorous stores and the lack of personal service.[64] One deeper issue remained for M&S; it had failed to capture the attention "of the city's young, female shoppers — a group with potent spending power and the disposable income to back it."[65]

Furthermore, the notion of affordability of M&S products came into question by Chinese consumers. For example, in Shanghai, the average wage in 2010 was RMB3,896 a month, and the minimum wage was RMB1,280.[66] Given these low incomes, it would be especially difficult for a Shanghainese consumer to pull out RMB1,299 to purchase a man's jacket, when it was 33 per cent of the average monthly wage, or more than 100 per cent of the monthly minimum wage. In fact, it was reported that a security guard of the Shanghai store, who only earned RMB1000 a month, stated, "With my month's salary I couldn't even afford to buy a jacket in there."[67] Deterred by these prices, many consumers looked elsewhere to purchase their clothing.[68] Education about M&S products was also a problem: some Chinese consumers thought that Christmas crackers were Chinese crackers.[69]

As a result of these issues, the country manager for M&S China was fired in 2009[70] and replaced by Stephen Rayfield. Commentators suggested that at least three years was needed to become successful in the Chinese market and that termination of the original country manager had been premature. However, since 2009, M&S had experienced double-digit growth rates with its Shanghai business. This success had resulted in the addition of seven clothing and food stores in Shanghai, and one each in Ningbo, Changzhou and Wuhan.[71]

This previous success had given the company more confidence in the Chinese market, although Beijing, which was a different retail environment, was not yet on M&S's agenda. As Sir Stuart Rose, former chairman of M&S, stated, "M&S would not rush to conquer the market, because we want to conquer the basics of operating in the Chinese market, before we moved on to bigger and better things."[72] He said "M&S would sit it out" in Shanghai until the store turned a profit."[73] After four years of learning, M&S was ready for further internationalization into China. In 2012, M&S announced it would double the number of stores in China over the next year, and its ultimate goal was to have 50 stores in China.[74] Despite M&S's strategy to "take it slow" and use an evolutionary step-by-step approach, it was ready to dive right into the Chinese market. But did M&S have the right strategy, especially for other locations in China? Shanghai was very different from Chongqing or Dalian. CEO Marc Bolland even stated that M&S would focus on Shanghai, because "China is not one country, it's a couple of countries, and it should take a 'step by step' approach there."[75] Shanghai tended to be a good focus because of the new urban rich who liked branded products such as Prada, Gucci, French wine, or biscuits and beer.[76] This brand preference suggested to M&S the importance of educating Chinese consumers about M&S's brands.[77] Chinese consumers had often been described as being conceptual. For example, they associate wine with the Bordeaux region of France, chocolate with Belgium and whisky with Scotland. Western food, which was stocked at M&S, was often bought as a gift for others or as a special treat for themselves.[78]

Reports also indicated a lack of brand awareness for M&S.[79] For example, young female shoppers had never heard of the brand Ma Sha Bai Huo (the M&S Chinese brand).[80]

Overall, M&S was seeking to win the hearts of the Chinese. As Pascal Martin, the regional director for Asia at M&S stated, "When you enter a new market you are bound to make a mistake, so we learn, correct and improve. We need to look at the Chinese market from a long-term perspective."[81] Despite the bumpy road, M&S had a long-term strategy for China. M&S's 2012 annual report had stated that the Chinese stores were performing strongly and that they would continue to build brand awareness in coming years.

COMPETITION

It was difficult for M&S to operate in a market characterized by such a large divide between the rich and the poor. Middle-class consumers in China did not want M&S clothing; they wanted designer labels, which made it difficult for M&S to compete. On the other end of the spectrum, low-income consumers could not afford M&S products. M&S had traditionally sold products based on the core values of quality, affordability and service.[82] While the products were not Gucci, Hermes or Armani Exchange, they were also not at the bottom level of the spectrum. The core values of M&S — quality, affordability and service — had come under attack from competitor retailers such as Zara of Spain, H&M of Sweden and Uniqlo of Japan. These retailers offered more fashionable clothes and trendier labels. In addition, Tesco had 100 stores in China and Sainsbury was considering market entry.[83] According to media reports, other department store retailers, such as Galeries Lafayette and Macy's, were entering the Chinese market through online stores.[84] They would create additional competitive pressure for M&S.

Marketing Strategy

At the start, M&S had failed to attract customers in China due to branding problems, poor market analysis and inventory issues. These issues could have been avoided if M&S had done some upfront brand and market research and had gained insights from Chinese customers.[85] Accordingly, M&S needed to be very sensitive when addressing consumers' needs. In general, M&S had promoted itself as an English retailer with Western products in China. This strategy had generally worked for the Shanghai market; however, the applicability of this marketing strategy to other locations in China could be questionable.

Target Market

Statistics from the National Commercial Information Centre from Shanghai demonstrated that sales from large department stores in China had grown by 8.15 per cent in the first quarter of 2012,[86] suggesting growth in the market. Originally, the target market for M&S in China was British expatriates[87]; however, the focus of M&S had moved to middle-class Chinese consumers, as they either had developed or were developing a taste for Western products. M&S hoped that the Chinese consumers understood the brand: it was targeted for consumers age 35 and older. M&S said that it was not a flashy fashion store like H&M. It offered good quality products "that mums quite like."[88] China had many affluent consumers who were ready to buy the best of the best.[89] The focus on the mature shopper was despite the fact that China's largest consumer group were those in the 18- to 34-year-old age bracket. For example, more than 200 million Chinese people were born in the 1980s and they want to buy fashionable products.

In 2012, M&S reported that Chinese consumers liked to purchase Western food products such as "baked beans and cream of mushroom soup."[90] In the M&S café at the Huaihai Road outlet, local Chinese consumers could often be spotted sipping a cappuccino or enjoying a piece of carrot cake. China had recently become the world's largest market for grocery shopping, bolstered by a large and expanding population, a shift to the purchasing of expensive foods and strong economic growth. The grocery shopping market in China, was predicted to grow double that of the United States and to be valued at £950 billion by 2015 — from £609 billion at the end of 2011.[91] For food products, M&S saw itself at the top end of the market because M&S was not an everyday supermarket, like Carrefour or Tesco.

Products

M&S's area of expertise had traditionally been its ability to consistently deliver high-quality products. In 2011, M&S introduced more than 1,900 new innovative product lines.[92] In China, M&S product lines were divided into five groups: (1) women's clothing, including shoes and accessories, (2) men's clothing, (3) kids, (4) lingerie and (5) food and wine. Women's clothes included a range of different collections. The stylish Limited Collection was sexy, edgy and confident. The Autograph Collection was luxurious, chic and sophisticated. On the other hand, the Indigo Collection tended to be more casual, soft and friendly, aimed at women aged 18 to 35. The Per Una Collection tended to be feminine, vibrant and passionate, targeted at the older woman, due its conservative nature.

Similarly, the men's collections ranged from the casual North Coast and Blue Harbour collections, which were everyday wear, to the Autograph Collection, which, similar to the women's collection, was luxurious, chic and sophisticated. The Autograph Collection predominantly included professional attire. The men's collection also had more stylish ranges, with the Italian Collezione and the Limited Collection. The upper-end collection was the Saville Row Inspired Collection, which took a progressive approach to traditional British tailoring.

The children's range included girls' wear, boys' wear and babywear. The lingerie range included the Limited, Autograph and the Per Una collections. M&S's final business line was the food line, which included a range of products, from chocolate selections to international hot meals. The food promotion line was "sourced with care, produced with passion," emphasizing responsible sourcing, as was the case for fair-trade coffee and tea, while also good-quality food products.[93] Despite the wide range of food products, M&S had difficulties adapting its food products to Chinese tastes and preferences. For instance, M&S offered chocolate that was too sweet for most Chinese consumers.

The range of M&S's collections allowed the company to target core sectors of its demographic market: middle-class housewives and their daughters, men looking for a stylish work outfit or those British or Western expatriates wanting to buy a lounge jacket. Potentially, some M&S collections (i.e., Indigo, Limited and Autograph) were targeted to younger females in the 18- to 35-year-old demographic, while Per Una was targeted to those over 35 years of age. Reports indicated that most young Chinese consumers thought that M&S clothing were directed toward 40- to 50-year-old middle-aged men and women.[94] This misperception was a problem, as older people were often less reluctant to spend money on these types of items.

Price

From its inception, M&S had followed a value-price strategy, which had started 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'."[95] Since M&S had historically focused on middle-class consumers, it had never re-evaluated its value-pricing strategy.[96] From 2002, M&S had sourced internationally, including from Hong Kong, Thailand, India, Bangladesh, Turkey, China, Italy, Indonesia and Sri Lanka.[97] This strategy had kept costs down. However, an observation of prices in M&S Shanghai stores revealed that men's jackets could range anywhere from RMB500 to 3,000, a price range that was unaffordable to most Chinese consumers. While M&S products were middle-of-the-road to British consumers, they were perceived as being of extremely high quality to the Chinese. Food prices were expensive in comparison with such competitors as Carrefour and Tesco. Another issue was the price imbalance. For example, a bag of rice might cost RMB42,[98] whereas a bottle of wine could be reasonably cheap, with some French and Spanish varieties retailing at RMB100 per bottle.

Place

M&S aimed to be convenient for consumers. For example, 93 per cent of the British population were within a 30-minute drive of an M&S store.[99] In the United Kingdom, M&S stores came in six different formats: premier, major, high street, outlet, simply food (owned) and simply food (franchised). In the United Kingdom, the average size of a store ranged from 35,000 to 40,000 square feet, with a minimum of 100,000 square feet for remote locations.[100] M&S had not followed this variety in store formats in China, as all stores had been a combination of clothing and food (see Exhibit 5).

M&S located its first China flagship store on West Nanjing Road, which was equivalent to locating a store on London's Oxford Street. It was conveniently located on the metro line and in line with other fashion stores such as The Gap, H&M and Uniqlo. Zara was not too far down the road either. M&S had also chosen some other successful locations, including the famous shopping strip in Huaihai Road at the Golden Bell Plaza and Yu Garden, a famous tourist area. Other locations in Shanghai were more questionable. For example, M&S had opened a store at Skymall, in Xinzhuang, a faraway suburb, located 20 km from the Central Business District (CBD), on the outskirts of Shanghai. This location was in stark contrast to the stores on West Nanjing or Huaihai Road. Commentators had suggested it would be difficult for M&S to build its brand there, especially because the location was populated by senior citizens, China's internal migrants and young office workers.[101] M&S hoped that one day this group would turn into middle-class shoppers.[102]

M&S had also developed shops in China's second-tier cities, including Ningbo, Wuhan and Changzhou. These second-tier cities were also experiencing high growth rates and rising incomes, but did not have the same level of competition as Shanghai. In these second-tier cities, M&S had located in newly developed shopping centres: in the Ningbo Century Oriental Plaza or the Changzhou Xinbei Wanda Plaza, alongside other international retailers such as Zara, Sephora and H&M. The store in Wuhan was located on Han Street, on the Chu River, which was the second biggest development by the Wanda group. This street was for the ambitious Chinese.[103] For example, a local 24-year-old woman, who earned "the equivalent of US$320 a month" said, "I like Marks and Spencer, but I rarely buy things from the store. For me, it's expensive."[104] Wuhan was chosen because of Wuhan's infrastructure development and its population of "10 million people."[105]

Promotion

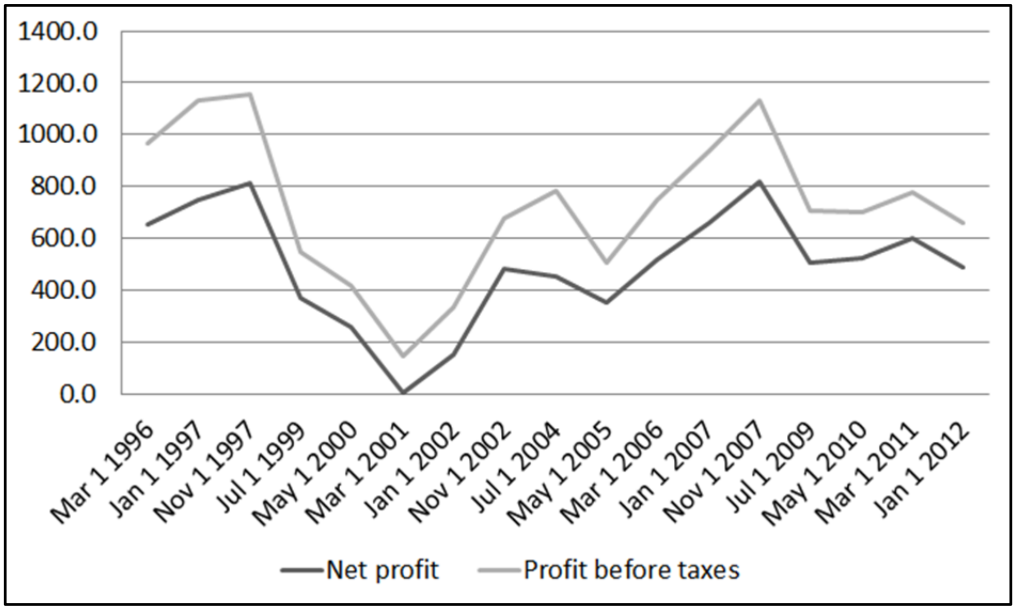
The executive director of Marketing, Stephen Sharp stated, "The M&S brand is one of our strongest assets: our campaigns continue to inspire customers to shop with us."[106] Most promotional material at the Chinese M&S stores, including in-store and on the Internet, featured Western models, male and female, wearing M&S outfits. The impression was that they exemplified smart, stylish and chic products. Surprisingly, no promotional material was adapted to the Chinese market. For example, all models, photos and mannequins were also Western, including the children's mannequins. This strategy might have served as aspirational marketing for Chinese consumers. Signage had been translated and contained both English and Chinese text. The M&S brand had been translated loosely to Ma Sha Bai Huo. The ubiquity of the various collections had allowed M&S to connect to its customer base over a broad segment of products. The implied quality of the brand had served the firm well, promoting consumption while spurring cycles of word-of-mouth and copycat purchasing. M&S also began to reinvigorate the brand by redesigning the store layout. Director of Store Marketing and Design, Nayna McIntosh, stated, "We've taken a fresh look at everything and given our stores an exciting new lease of life."[107]

PROBLEMS IDENTIFIED

Given the issues that the Ma Sha Bai Huo brand faced as a result of its entry into China, the company needed to evaluate its strategy for the Chinese market before further expansion. Did M&S get it right? Was the retailer adhering to Chinese customers' tastes, or was it persistently failing to do so? How should M&S grow the business in China, and how can it improve its marketing and brand awareness in this unique and brand-hypersensitive market?

Exhibit 1

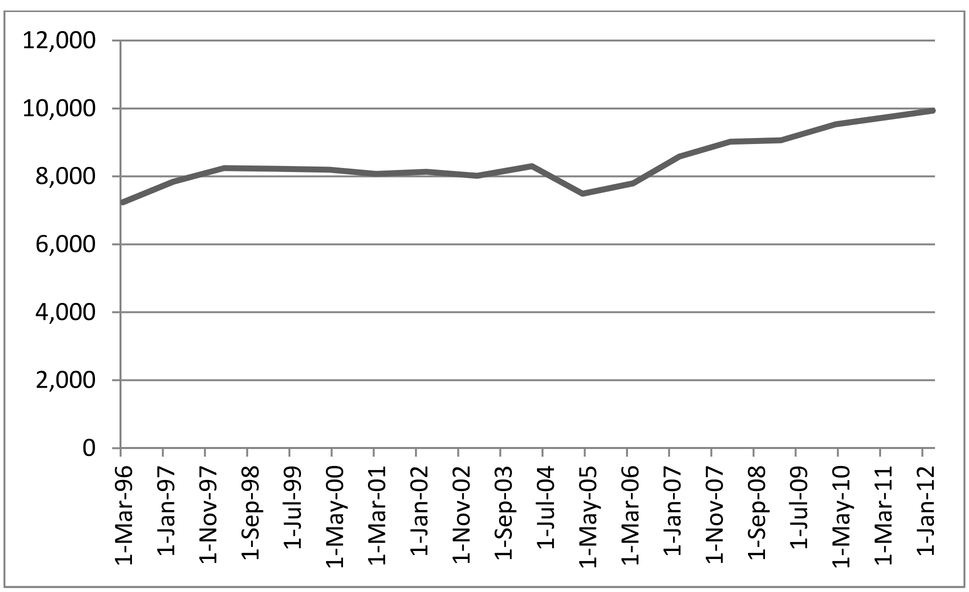
PROFIT, 1996 TO 2012 (IN MILLIONS OF BRITISH POUNDS)



Source: Marks and Spencer annual reports.

Exhibit 2

TURNOVER, 1996 TO 2012 (IN MILLIONS OF BRITISH POUNDS)



Source: Marks and Spencer annual reports.

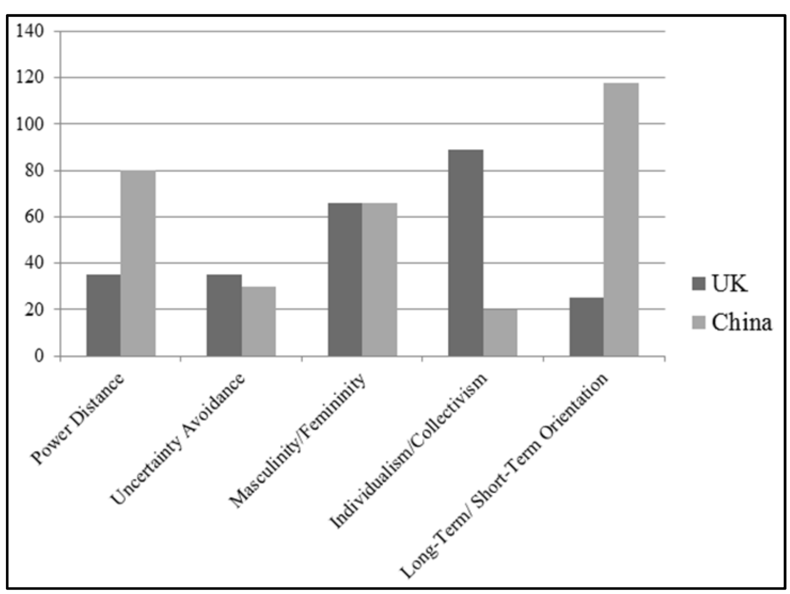
Exhibit 3

MARKS AND SPENCER'S INTERNATIONAL STRUCTURE

Source: Developed by the authors based on the Marks and Spencer's, "Annual Report and Financial Statements 2012," retrieved from http://annualreport.marksandspencer.com/_assets/downloads/Marks-and-Spencer-Annual-report-and-financial-statements-2012.pdf on August 25, 2012.

Exhibit 4

HOFSTEDE'S CULTURAL DIMENSIONS: UNITED KINGDOM VERSUS CHINA



Source: Figure created by the authors from, Geert Hofstede, "China in Comparison with the United Kingdom," http://geert-hofstede.com/china.html, accessed September 19, 2012.

Exhibit 5

LOCATIONS OF MARKS AND SPENCER STORES IN CHINA

Store Location	Remarks	Opened	Size (square metres)
Shanghai Wings, West Nanjing Road	First flagship store, popular shopping strip, metro access	Aug 2008	5,000
Yu Gardens	Tourist attraction and commercial hub, but not really a shopping destination for locals. Difficult to get to.	July 2010	1,400
Skymall Xinzhuang	End of metro line 1. 20 km, Deserted not typical Marks and Spencer shoppers	Dec 2010	1,600
Ningbo Century Oriental Plaza	New development	Jan 2011	1,400
Jiangqiao Plaza Wanda Mall	Outskirts of Shanghai	May 2011	-*
Changzhou Xinbei Wanda Plaza	New development	Dec 2011	-*
Wuhan, Han Street	New development, popular shopping strip.	April 2012	-*
Baoshan Wanda Plaza	Outskirts of Shanghai	June 2012	1,300
Wujiaochang Wanda Plaza	Outskirts of Shanghai	June 2012	1,500
Golden Bell Plaza, HuaiHai Road	Second flagship store, popular shopping strip, close to Xintiandi, a popular shopping district	June 2012	4,500

*Note: *Information on store size could not be found for these stores.*

Source: Collated by the authors through the following Internet sources.
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