

Rationales behind Marks & Spencer's failure in the Chinese market, an important lesson to foreign firms

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Abstract. China has a complex institutional environment, with its rapidly expanding economy and a rising number of middle class, businesses like Marks & Spencer (M&S) opted to enter this foreign market in 2010 with the expectation of increasing their revenue and brand recognition. The 4Ps marketing model is used in this essay to explain why M&S has failed in their market entry and operations in China. Dissecting and describing the problems associated with their promotion, product, choice of shop location, and pricing. Based on the problems identified, this article also proposes potential solutions on what M&S could do in the pre-entry phase, and the post-entry phase to prevent such failure from occurring.

Keywords: Marks & Spencer; market-entry; entry mode; post-entry; Chinese market; consumer behavior.

1. Introduction

In M&S's 2010 annual report, they reported an increase of 5.7% in international sales [1], and their main goal of the year is to further expand their business into emerging markets like China. The Chinese market during 2010 was a fast-growing one with a GDP growth rate of 8.7% [1], and there was an emergence of a burgeoning middle-class [2]. Because of the promising look of the economy, it has attracted M&S, one of the top retailers in the United Kingdom to enter the Chinese market.

Despite the opportunity and potential that the Chinese market demonstrated, M&S has failed to adapt to the market and local consumer preferences. For instance, as evidenced by their failure to adjust the clothing sizes to fit the smaller body sizes that most Asians have [3,4], their shop layout and choice of locations led some Chinese to believe the establishment is haunted [5]. As a result, M&S's expansion into China has continued to result in losses for the company. They eventually declared their withdrawal from the Chinese market in 2017 and shut down all the stores they have in China [3].

By analysing the case and finding the rationale behind M&S's failure of its business expansion into the Chinese market, this paper aims to give readers a better understanding of the Chinese markets and consumer behaviours. This paper also tries to lay out a list of prospective solutions in a chronological manner (short-term, medium-term, long-term), which could provide important insights or new thoughts to multinational corporations who also wish to enter the Chinese market in the future.

2. Company Background and Business Situations

M&S is a leading British retailer that offered products such as food, housewares, and apparel for men, women, and children [1]. In total, M&S operates 1,487 shops worldwide, with 69.6% of them being in the UK, and 30.4% of the shops operating in foreign markets [6]. Domestic sales account for 91.6% (9,948 million GBP) of the company's revenue, while international sales only account for 8.4% (937 million GBP) [7]. Therefore, these figures indicate that M&S's expansion into the foreign market is not as successful as its operations in the domestic market. M&S's vision and marketing philosophy were to provide customers with high-quality, good-value items with a reputable brand name on them. They primarily target middle-class consumers [8]. This marketing approach then promoted them to enter into some of the emerging economies, such as China, where there is a noticeable trend of more and more people shifting to the middle class as the economy improves

[2]. As a result, M&S unveiled their 5-year international expansion plan in 2010 [9]. With this plan they hoped to grow its annual revenues by improving the following areas:

1. Further focus on the domestic market (UK)
2. The development of multichannel shopping (eg. In-store, online)
3. Improving the environmental sustainability of the business (less packaging, biodegradable shopping bags)
4. Increase international sales by primarily paying attention to 4 regions, China, India, Russia and the Middle East.

Before M&S released their 5-year plan in 2010, they also established their first flagship store in Shanghai in 2008. However, entering the Chinese market was not a success for M&S, and they decided to leave the Chinese market in 2017 [3].

3. Problems and Challenges Encountered by M&S

3.1 M&S pre-entry

Emerging markets like China usually have a higher degree of institutional complexity than developed markets [10]. There is also a notable degree of political-institutions deficiencies, and informal institutions (eg. Social relations, and business networks) are often served as a substitute to help to compensate [11]. What this means to M&S is that having a local strategic alliance could help them to develop those business networks, and further penetrate and understand the Chinese market. One of the primary reasons they wanted to expand into the Chinese market is because 1. M&S's core value is about offering high-quality and affordable products [3], and this might be attractive to the Chinese since there is a growing number of middle classes [2]. 2. M&S thought their well-known brand name with prestigious western-style clothing will give them an advantage in sales [1]. M&S didn't choose a uniform type of mode of entry into the Chinese market. For instance, in Hong Kong it is a wholly owned subsidiary, which refers to establishing a subsidiary in a foreign country starting from the ground up [12], it has advantages like having full control of the firm [13]. On the other hand, they choose joint ventures and franchises in mainland China [8]. Choosing a joint venture and franchise allows M&S to develop a strategic alliance with local businesses, and gain access to more local market knowledge, which then reduces the liability of foreignness for M&S [12]. In this case, since Hong Kong is more westernized in terms of culture, language and customs when compared to China, therefore the liability of foreignness in Hong Kong is lower than in China, thus choosing a wholly owned subsidiary makes sense. In contrast, China often relies heavily on informal institutions like "guanxi" (interpersonal tie) [11], therefore having a strategic alliance from a joint venture or franchise can help M&S blend into the Chinese market easier and establish "guanxi" with local customers, or suppliers.

3.2 Post-entry, Problems faced by M&S

M&S established the first flagship in West Nanjing Road, which is in the centre of the Shanghai shopping district. Despite the fact that the shop is at an ideal location, the store design was not up to standards, and the wall paint is poorly done with scuffs [14]. Furthermore, M&S ignore the importance of Fengshui in the store layout, some local Chinese believe that the M&S store has bad energy [14]. Other problems like the Chinese tend to have smaller body sizes when compared to the westerners, and M&S didn't do enough research about this which resulted in an oversupply in large fitting clothing [3]. A 4p framework will be used to further explain the problem encountered by M&S.

3.2.1. Promotion

M&S's brand name is one of the key competitive advantages which the firm has, but the Chinese translation of M&S is not some exceptional term, it was translated into Ma Sha Bai Huo (in literal terms, it means Horse Grass Department Store) [5]. Despite being one of the top clothing retailers in

the UK, Chinese customers may find this name difficult to recall and it does not sound like a store that sells high-quality apparel. In addition, western male and female models were featured in the promotional materials at the Chinese M&S stores [3], and mannequins also have a western body type. Therefore, Chinese consumers may not see M&S as a store that sells clothes that fit well to the Chinese body type, and a very small percentage of Chinese people are aware of M&S as a result of inadequate brand promotion [8].

3.2.2. Product

M&S's product is separated into 2 major categories, 1. Clothing, including male, female & children's clothing, 2. food and wine. There is numerous apparel collection, including the Autograph Collection in female clothing that gives a luxurious feel, the male's Italian Collezione collection and the casual Indigo Collection [1]. However, the size of these Clothing collections was not adapted to the local Chinese's body size, which creates an excess of large size of clothes [3,4]. In terms of food M&S offers, they sell a variety of food, including chocolates, hot meals and drinks that are ethically sourced. M&S did find it challenging to change its food according to the Chinese taste and preferences [8]. Regarding the target demographics, both of these two product categories targeted middle-class families aged 30-50 who are looking for fashionable western outfits, and some collections like the Indigo collection also targeted teenagers from age 18-35 [8].

3.2.3. Place

M&S typically chooses locations that are convenient for the customers, such as malls, stores with adjacent metro stations, and so on. In the instance of China, M&S's first flagship store on Shanghai's Nanjing Road was successful in attracting customers and attention by utilizing its feature of being the prime position. Other popular shopping areas with success include Yu Garden [8], a well-known tourist destination, and the Golden Bell Plaza on Huaihai Road. However, some of the locations where M&S opens its stores are questionable. For instance, M&S established a location at Skymall in Xinzhuang, a suburb that is 20 kilometers from the CBD [3]. Additionally, M&S built stores in second-tier Chinese cities like Ningbo, Wuhan, and Changzhou. A key trait of these second-tier cities is that they are experiencing rapid growth, so there is an emerging number of middle classes [4]. M&S mainly develop their store in the major shopping malls of those tier 2 cities, including the Ningbo Century Oriental Plaza which has other international retailers like such as Zara, Sephora and H&M [3]. But opening stores in second-tier cities is questionable in terms of its profitability, as residents there earn less on average compared to those in the first-tier city, which could make M&S's products appear pricy to consumers.

3.2.4. Price

M&S has consistently prioritized middle-class consumers and used a value-pricing strategy [4], and they didn't re-evaluate its strategy while entering the Chinese market. In the upper stream of the supply chain, M&S sources products from vendors in countries that have low labour costs, like Thailand, India, Bangladesh, China and so on [8]. Therefore, thanks to this pricing strategy in the upper stream, M&S's supply chain gave them a low-cost advantage. But in the downstream, M&S didn't alter their pricing in accordance with the Chinese consumer's income. As a result, M&S clothing is sold at a price ranging from 500 Yuan to 3000 Yuan, which is exceedingly expensive to most Chinese, but affordable to British consumers if sold in the UK [3]. In terms of the food that M&S offers, it is also very expensive to Chinese consumers in comparison to other competitors like Tesco.

3.3 M&S's market fit, and industry rivalry in the Chinese market

M&S product does not fit well with the clothing demands of the Chinese middle class. Contrary to Westerners, the Chinese middle-class tends to favour luxury clothing [8], making it difficult for M&S to compete with those luxury or designer brands like Gucci, and Dior. Moreover, low-income consumers will not be able to afford M&S clothes, meaning that M&S products are in an awkward

position with a poor market fit. M&S products, in general, have focused on mature shoppers aged 35 and older, however, China's largest consumer group are between the age of 18-24 [4]. In addition, new competitors like Zara, H&M, and Uniqlo also offer similar or slightly worse quality clothes, but at a cheaper price compared to M&S [8]. Implying that M&S's core value of high-quality clothing at an affordable price had come under attack, and in the Chinese consumer's eyes, M&S may not seem as favourable as its competitors.

3.4 Rationale behind the problems encountered by M&S:

The key takeaway from M&S's entry into China is that relevant research must be done extensively in the pre-entry phase, and the importance of local culture must be emphasised. Without a thorough analysis of the Chinese market, M&S should never use the same pricing, shop design, and promotion strategy that they receive success in the past. Promotional-related problems that M&S encountered like an ordinary Chinese name (Ma Sha Bai Huo) [5] may indicate that M&S did not put enough effort into coming up with a name that will allow their Chinese customers to remember the brand. Furthermore, using all western models in advertisements is questionable in the improvement of sales [8], since they are selling those clothes in the Chinese market, it may give the Chinese consumers the perception of M&S clothing fit the westerners better. Product problems are mostly centred on clothes sizing. Failure in considering the Chinese body size difference compared with westerners is another indication that a lack of research is done by M&S in the pre-entry phase. M&S is quite successful in its choice of shop location, they have chosen some of the most popular shopping malls or centres in China. But they ignored the importance of Fengshui, and perhaps they are a bit too fast in establishing shops in the second-tier cities, since the income level of customers from the second-tier cities is a lot lower, and most of them may refuse to purchase from M&S. Operating multiple shops also increase the expense of M&S, and reduced their net profit. M&S's pricing is not very favourable to the Chinese [8]. When M&S set the price of the product they sell, they should first consider the purchasing power of local consumers, and not use the same pricing strategy that they used in the UK.

4. Recommendations

Based on the findings and pain points that M&S has faced in its entry into the Chinese market and its operations, some potential strategies that M&S could have adopted to prevent failure in the Chinese market are shown below in chronological order.

4.1 In the pre-entry phase

In the pre-entry phase, M&S should conduct a thorough analysis of the business environment in China. Including some of the local traditions like Fengshui, target consumers' spending habits, income level, political constraints and the economic outlook of China in the next few years. Then, M&S should examine whether the factors in the analysis affect their business strategies, and they may need to modify the pre-existed strategies that they have. For instance, the low-income level may indicate that M&S need to bring down the price or offer a higher percentage of discount in the Chinese region in order to make more revenue and profit. Lastly, M&S could establish a relationship with local partners before entering the market. Including determining what form of the alliance they will form (is it a franchise or a joint venture). Negotiating the specific terms and conditions in the contract (such as what percentage of ownership).

4.2 In the post-entry phase (short term, 1-3 years)

After entering the market, in the short term, M&S should first focus on increasing its brand awareness, since M&S is famous in Europe, but not well-known in China. They could achieve this by using methods like employing Key Opinion Leaders (KOL) to help them advertise the products, and co-branding with companies that are already famous, for example, they could collaborate with Nike and introduce something like Nike and Marks & Spencer sporting collections. M&S should also

come up with an impressive Chinese name that is easy for consumers to remember. Since the largest consumer group in China are between 18 and 35, a collection that offers a fashionable look style like the indigo collection can be launched more frequently to attract more young customers. Shifting the major focus from middle-class consumers to teenagers.

4.3 In the post-entry phase (medium term, 3-5 years)

In the medium term, M&S should have collected around 3-year worth of financial performance results. M&S could analyse it and see which cities sold the most clothes and are the most profitable, and which product has the highest revenue. Then M&S could consider putting more focus on the shops and products with the highest profit margin, reduce attention on shops that don't, or even consider closing them to save on cost. M&S could also change its pricing strategies according to its observations of the industry in the past 3 years. Since M&S's market positioning is between luxury clothing and fast fashion, If this market in China is too small and M&S couldn't earn enough revenue to sustain their operations, they can establish a new sub-company with a product line that offers clothes that sells at a cheaper price to compete with the fast fashion companies like Zara or Uniqlo. Alternatively, introduce a sub-company with a luxury product line that sells clothes made with prestigious materials that sell at a premium.

4.4 In the post-entry phase (long term, 5-10 years)

In 5-10 years, M&S should have a clear view of its own competitive advantage in the Chinese market, as well as its competitor's strengths. If M&S does encounter the scenario that the industry is too competitive, it can consider strategies like merging and acquiring (m&a) with its competitor. This might be a long-term strategy since m&a needs to spend time negotiating with their competitor in order to reach an agreement. Another potential direction of using the m&a strategy is with its suppliers, as m&a with suppliers provides a more stable upstream, giving M&S a greater level of control over their raw materials, and potentially bringing down the cost. This could further enhance M&S's cost advantage in the upstream. Furthermore, in the long term if M&S wants to establish stores in 1st-tier or 2nd-tier cities they should also consider establishing wholly owned subsidiary over joint ventures, since they already have a decent knowledge of the market, and may no longer require a strategic partner to help them in establishing business connections.

5. Conclusion

M&S's failure in China is largely due to its lack of understanding of the Chinese markets and consumer behaviours. Including problems like only using western models in their marketing promotion, the Chinese name of M&S is very mediocre, clothing size did not adapt to the Asian body size, opening stores in tier 2 cities where people have a lower level of purchasing power, product pricing is also too high for most of the consumers. Furthermore, from a clothing industry competition standpoint, M&S has a poor market fit since the Chinese middle-class prefers luxury clothing, and low-income consumers prefer cheaper brands like Zara and Uniqlo. Implying that there isn't a huge market for brands like M&S, which are in between fast fashion and luxury clothing.

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