

# Critical Success Factors for International Fashion Retailers Entering Foreign Markets

## Abstract

*Within Europe there are a variety of fashion-clothing retailers, ranging from local clothing and department stores to internationally active fashion retail chains. When initiating an internationalisation strategy, fashion retailers should reflect upon the congruence of their product ranges and brand images within the context of the prevalent cultural and trading conditions of foreign markets. This paper examines two recognized multinational fashion companies: the Swedish company H&M and the Spanish company Inditex. It compares them to the Slovenian retailing company Mercator - a fashion house, which is already entering the markets in South Eastern Europe. This analysis has established that there are some differences in the internationalisation process between fashion retailers and production companies.*

**Key words:** international fashion retailer, fashion, retailing, entry marketing strategy, fashion marketing, retail brand.

## Introduction

The emergence of global fashion has transformed the way fashion is perceived in the contemporary world [1]. Within Europe internationalisation of retailers is ever increasing. Not many years ago one could find stores like Gap, Gucci, Armani, and Benetton in only a few countries

Currently, walking through cities and villages across Europe one finds oneself gazing at similar retail outlets no matter where you are. One of the reasons for the fast internationalisation of retailers may be that European unification has facilitated the conduct of business in various countries in Europe. Nevertheless, it is surprising to observe these relatively quick developments in spite of the continued diversity of local culture [2, 3].

Many authors' used traditional business management literature to classify some critical success factors (CSFs) relating to international retail businesses [4]. This deficiency is addressed by identifying the CSFs applicable to international fashion retailers and considering how they are distinguishable from those pertinent to other international retailers. With these in mind, ways in which an international fashion retailer may manipulate its marketing mix in response to CSFs are suggested.

This is illustrated with a model highlighting the contrasting strategies employed by two such companies.

Akehurst and Alexander [5] reviewed retail internationalisation (RI) literature and identified six emergent themes:

- What is the internationalisation of retailing?
- Who are the international retailers?

- Where do retailers internationalise?
- Why do retailers internationalise?
- How do retailers internationalise?
- When does internationalisation occur?

From a commercial perspective, the last four questions are especially relevant. For the purposes of literature review, all six questions are considered in the context of fashion retailers, before the last four are used to construct a model for commercial application in the conclusion.

Diverse definitions of RI are often compromised of poorly explained terminologies and the inappropriate application of manufacturing terms to a service enterprise. Focusing on specific features of RI, international retailing is defined as having "visible" and "invisible" dimensions. The "invisible" aspects of RI are defined as being the international sourcing of products and services and the cross-border transfer of management expertise in the form of managerial policies or technical skills. In these terms, fashion retailers are largely "invisible" international retailers, manufacturing abroad and transferring management skills without necessarily operating stores. Marketing skill transfer in the development of internationally appealing brands is cited as critical in the fashion market [6 - 8].

Authors have attempted to classify international retailers according to their size, retail format and market strategy. However, research has shown that the defining features of international retailers are not in their tangible characteristics; rather they are in their philosophical attitudes and competencies, which determine physical dimensions. Case studies have shown that successful international retailers share common management attitudes, decision-making frameworks and

personnel skills irrespective of their size, retail format and product segment. Some have accommodated fashion companies into their categorisation of international retailer, but few have classified them as a unique entity. Moore et al. [9] classified international fashion retailers as product specialists (narrow product range, clearly defined customer base), designer retailers (internationally recognized brand, exclusive positioning), general merchandise retailers (mix of fashion and non-fashion goods, large format stores) or general fashion retailers (broad range of products, accessible pricing). These retailers are positioned in international markets by virtue of marketing effort and product offering, which contributes to their overall brand appeal [10].

Management attitudes can decide where retailers expand [11]. The concept of psychic distance, the degree of uncertainty a firm has about foreign markets, has been cited as critical in deciding the direction of a retailer's international expansion. However, research has shown that some retailers overcome psychological barriers thanks to their particularly desirable products and brands. These retailers, usually operating in luxury or specialist markets, could use product, lifestyle, image and niche differentials in their marketing to overcome psychic barriers [12]. Several authors have noted that this is the case for fashion retailers operating distinctive brands and offering desirable products [13, 14].

The desire to benefit from the exposure of exclusive brands to foreign markets was the primary motive for RI. They have compiled a list of push and pull factors suggesting that retailers with a distinctive retail offer or format would be more likely to pro-actively pursue for-

eign opportunities. Often these retailers may operate in specialised product areas or possess especially desirable brands.

Luxury retailers pro-actively expand abroad to derive benefit from exclusive brands or innovative products and specify "the brand" as being a key motivator for fashion internationalisation, which is attractive to retailers operating in niche markets such as high-end accessories or children's clothing [15].

RI is a planned and incremental process controlled by a retailer's corporate ambition and experience. However, the diversity of the industry has allowed retailers to deviate from the incremental path depending on the strength of their retail offer, marketing resources and product range. Dawson [16] indicated the five market entry methods available to foreign retailers: internal expansion, merger or takeover, franchise agreement, joint venture or non-controlling interest. Each of these has advantages and disadvantages, is chosen by a retailer on the basis of its corporate confidence, product portfolio and brand image and has consequent set up cost and operational control implications.

Some retailers pursue high-risk strategies despite little internationalisation experience, suggesting the use of factors such as a strong brand influence market entry method [17]. Fashion retailers may internationalise in a number of ways, as indicated by the differences between the strategies followed by two successful international fashion retailers. Some authors have identified a global standardisation approach to internationalisation as being critical to the success of fashion retailers. Success has been attributed to the presentation of alluring brand image through standardised advertising imagery, retail format and similar products using international advertising campaigns.

International retailers require adequate resources and competitive advantages and must possess some "differential firm advantages", including a dedication to developing an attractive brand, in order to be internationally successful. These advantages could include product, lifestyle, image and niche differentials, illustrated by internationally appealing brands and products or innovative retail formats facilitating international success. A strong brand has been identified as a factor assisting the international expansion of fashion retailers offering

distinctive products in unique retail environments. There has been little investigation into the effect of corporate structure, company culture and management leadership with regard to fashion internationalisation [18].

The issue of foreign market withdrawal and divestment has not been adequately covered. Foreign markets are often tolerated by international retailers while domestic markets are buoyant, but tend to withdraw from foreign markets when facing difficult domestic circumstances. International fashion retailer divestment is often prompted by a breakdown in franchise relationships or domestic difficulties, implying that domestic success sometimes obscures foreign market difficulties [19].

### Comparative analysis of international fashion retailers

There exists a great connection between trade, economic growth and economic development. In the terms of trade, there are ongoing, large and intensive changes in developed market conditions. The most important ones are globalization and transnationalisation of trade. Big multinational companies have already determined that doing business only in domestic markets means the loss of certain advantages and that they must spread their activities to other new markets.

In the retail trade of fashion distributors, we are now facing strong competition from western multinationals, which have already pushed their way into the Slovenian market and are now trying to win the markets of southeast Europe. From this perspective, the reasons for the internationalisation of retail trade amongst fashion distributors is obvious.

Table 1 presents a comparative analysis of three international fashion retailers, the Inditex Group, H&M, and Mercator Fashion House.

#### ■ Inditex Group

Inditex is a fashion distribution group that owns Zara, Kiddy's Class, Pull and Bear, Massimo Dutti, Bershka, Stradivarius, Oysho and Zara Home. Its consolidated turnover for 2005 was €6,741 million, 21% more than in 2004. Its net profit was €803 million, a 26% increase, which established it as one of the world's largest companies in its sector. As of

January 31, 2006, the group owned 2,692 stores in 62 countries including Europe, America, the Asia-Pacific region, the Middle East and North Africa [20].

This increased activity resulted in a 5% sale increase in comparable stores (stores that have been open for more than two years) and a 22% selling area increase. Thus its gross returns rose by 56.2% as compared with the previous year's 55.4%. With an overall selling area increase of more than 250,000 m in 2005 and a total of 448 new stores (the highest figure in the company's history), each of Inditex's eight formats have increased their sales by over 15%, with a particularly high increase in the group's youngest formats. Thus, Stradivarius and Oysho saw sales increases of over 40%, and Zara Home — which has been in the market for less than three years — went up by over 90%. In spite of having increased its selling area by 82% in 2005, Zara Home managed to raise its return on capital employed to 3%. The global average return for other formats was 41%. At the end of a year of serious expansion focused on the main European markets, its net margin rose by 40 basis points, at 11.9% of sales, continuing the previous year's rising trend.

Of the 448 stores opened during the year, 308 are in international markets. These represent 69% of all openings for the year and are mostly in 44 countries. Of these, Inditex stores were opened for the first time in Monaco, Costa Rica, Indonesia, the Philippines and Thailand. As a result of this expansion, sales in international stores rose to 56.9% of the total, as compared to the previous year's 54.5%. All chains increased their sales percentage outside Spain, led by Zara's 68.9%.

Most of the new stores were in European markets, which accounted for up to 82% of net openings (366 new stores). As a result, the group passed the 2,000-store mark in Europe, with 2,309 European stores as of January 31, 2006.

The European countries (apart from Spain) with the largest number of openings were Portugal (54), Italy (37, doubling the number of stores), Greece (27), France (21), the UK (15), Ireland (11), Germany (10) and Russia (10).

#### ■ Hennes & Mauritz

Hennes & Mauritz (operating as H&M), is a Swedish clothing company, known

for its inexpensive and fashionable clothing [21].

H&M's business concept is to offer fashion and quality at the best price. H&M's growth target is to increase the number of stores by 10–15% per year but also to increase sales at existing stores. The availability of attractive business locations is the major deciding factor in its rate of expansion. The goal is to grow at a controlled pace and maintain profitability. In 2005, 145 stores were opened and 20 were closed, increasing the net store count by almost 12%.

H&M is an expansive and financially strong company. The strategy is to grow whilst maintaining good profitability and control. In the past five years H&M has increased turnover by 100% while the number of stores has increased by 75% and earnings per share by 262%. This expansion has been entirely self-financed.

In order to offer the latest fashions, H&M has its own design and buying department that creates collections. The products are of good quality - checks are carried out frequently.

They achieve the best price by:

1. Few middlemen.

2. Buying in large volumes.
3. Having a broad, in-depth knowledge of design, fashion and textiles.
4. Buying the right products from the right market.
5. Being cost-conscious at every stage.
6. Having efficient distribution.

It has been a very eventful year during which H&M attracted a great deal of attention from media around the world.

The highlight of the spring was H&M's big fashion show in New York, where the world's fashion elite gathered in Central Park to get a glimpse of H&M's autumn collections.

H&M is continuing to grow. Over the past five years, it has increased the number of stores by almost 75%, increased turnover by 100% and increased net profit after tax by 262%. At the end of the financial year, it had almost 1,200 stores in 22 countries in Europe and North America and more than 50,000 co-workers around the world. Its primary expansion markets are Germany, the United States, the U.K., Poland, Spain, France, Italy and Canada. In Germany, H&M's biggest market, 23 new stores had opened to make a total of 288 at the end of the financial year. Germany's portion of the Group's

turnover has decreased gradually, while the other markets have been growing and new countries have been added.

H&M does not own any stores. It leases store premises. In this way it does not tie up capital and can freely pursue its business concept.

Before establishing stores in a new market, H&M conducts a thorough analysis of such factors as demographics, employment, purchasing power and purchasing behaviour.

## ■ Mercator – Fashion House

Mercator is one of the largest and most successful retail chains in South Eastern Europe. It is the leading retail chain in Slovenia and is gaining both reputation and market share in Croatia, Bosnia and Herzegovina, Serbia and Montenegro. In 2005, Mercator also entered the Macedonian market by establishing a company and purchasing landed property. As markets of South Eastern Europe are characterized by fast growth, the company is focused on constructing larger shopping centres in capitals and regional centres with the most potential with regard to population and purchasing

**Table 1.** Comparative analysis of three international fashion retailers.

Success factors of international fashion retailers	Mercator - Fashion House	H&M	Inditex - Zara
Target foreign market selection	South Eastern Europe markets	Emphasis on EU markets and North America	Global markets
Enter marketing strategy	Direct entry by opening own stores	Direct entry by opening store with franchise agreement	Direct entry by opening company managed stores and franchised stores
Timing entry into the new market	Entering a new market depended on the results of market research	Timing of entry depends on the political and economical stability of selected countries	Start with a small number of stores to explore the possibilities of a specific country
Recognition of the company and brands	The main goals are recognition of the name of the company and its retail brands	Collaboration with prominent fashion designers (Karl Lagerfeld, Stella McCartney)	By opening new international stores with Inditex sales format
Analyze local markets and competitor	Monitor and analyse local retailer competitors	Monitoring the actions of their local competitors	Monitoring the actions of their local competitors
Marketing support in a global market	From the Mercator group	From neighbouring countries using the current H&M wholly-owned subsidiary model	Each format is carried out through chains of stores managed directly by? companies
The location selection	In large shopping centers	An H&M store is on most prominent shopping streets	In the centres of cities
Diversity of selling assortment	Depending on the customer's purchasing power	Assortment depending on factors such as location, size of store and customer flow in the area. A broad and varied range of fashions for the whole family.	Close attention paid to continuous data on customer needs and wants, and these are answered with clear market segmentation and product differentiation.
Employee	Local sales staff	Local sales staff	Local sales staff
Price policy	Product prices are the same in the Slovenian market	H&M has attempted to differentiate its brand from competitors through a discounting position.	Zara uses a market-oriented target pricing system in all markets
Sales promotion	Various sales promotion tools (coupons, free products, in-store demos, etc.)	Mostly shopping discounts	Mostly shopping discounts
Organization and control business activity	Corporate management is based at Mercator Group's head office in Ljubljana	Corporate management is based at H&M's head office in Stockholm. Fifteen regional country offices are responsible for the various departments in each sales country.	Corporate management is based at Inditex head office in A Coruña.

power. Ultimately, Mercator wishes to gain a significant market share in every market as soon as possible, thus becoming one of the five leading retailers in the market program [22].

The aim of Mercator's textile chain **Fashion House** is also to introduce the format of Fashion Avenue onto the Slovenian market. Its offer includes renowned trademark clothing at medium and high price ranges. These formats will be developed in larger towns in all markets and larger Mercator Centres. Fashion House also wishes to present a new sales format to the market – a shop for men with a full range of men's clothing, footwear and fashion accessories. It has been established that this area actually represents a market niche. In the more price-sensitive environment of market segments with lower purchasing power in general, Modiana outlet shops will be developed. At these outlets, the clothing of past seasons will be sold at favourable prices. Mercator - Fashion House's vision is to remain the leading trading company of textile products in Slovenia and to become an important textile merchant in the markets where Mercator has been widening its retail network. Mercator also hopes to become a recognized trader in a segment of drugstores and perfumeries; therefore it plans to take over the chain 'Beautique' and bring it under Fashion House's umbrella in 2006.

The selection of foreign markets, in the case of Mercator- Fashion House, is closely related to the future development of Mercator. The main goal of Mercator is to remain the biggest and the best retailer in Slovenia and to become the leading player in Croatia, Bosnia and Herzegovina, Serbia and Montenegro. The company will achieve this goal through both strategic alliances and through direct investment in the development of its own retail network. The long-term objectives of the company are also to enter the other markets of South Eastern Europe - for example, Romania, Albania, Macedonia and Bulgaria. But in the forthcoming medium-term plan for the period 2006 to 2010, the focus of the company' activities will be on the markets of Slovenia, Croatia, Serbia, Montenegro and Bosnia and Herzegovina.

The Mercator - Fashion House entrance into the markets of South Eastern Europe is dependent on the globalization of trade. The retail trade of fashion distributors is dominated by big multinational companies (i.e. H&M, Inditex (Zara),

Gap), which have successfully entered the Slovenian market. The main objectives of the multinationals are to achieve economy of scale, globalisation of trade, presence in the most important world markets, increased brand recognition and to satisfy the consumer with lowest possible costs (regarding articles whose production is located in the less-developed countries).

The fact that Slovenia is a very small market is suggestive of one of the objectives of the Mercator- Fashion House company - to internationalise its activities in the new markets. This objective of the company follows the vision and strategy of its owner, Mercator, which has already selected new markets to enter and has also already entered into them. So the key problem of Mercator-Fashion House is to shape distribution for the most optimal entry mode into selected markets of South Eastern Europe.

## ■ Conclusion

The most significant factor when planning to enter into international markets is the selection of an appropriate entry mode. This reduces the level of risk and affects the company's presence in international trade. This analysis has established that fashion retailers most frequently choose between direct investments or franchising. The latter means establishing a relationship with an acknowledged local partner in order to reduce the degree of risk when entering into a new market. It can also provide faster extension in the market and strengthening of brand in the eyes of the consumer. The internationalisation of business activities also entails finding the right answer to the question: to where do we spread future business activities? Or, where do we look for future business opportunities?

In the research we have established that most of the global and multinational companies have spread their activities throughout the markets where there are advantageous possibilities for growth and further development. Significant factors for entering foreign markets include acquaintance with the political, economic and cultural nuances of each market as well as knowledge and understanding of the purchasing habits, desires and expectations of those markets' consumers.

This analysis has established that there are some differences between the internationalisation process of retail and production companies. In the first case,

fashion retailers have to take into careful consideration the assortment, brand range and the customer's needs and expectations. The fashion industry is quite specific in terms of image and fashion, the customer will only follow the brand if it will satisfy his or her needs and wishes. This can be turned into a competitive advantage for the fashion retailer and increase its chances of strengthen its position in a foreign market.

The most important advantage of a retailing company over a production company is the capability for quick response to changing market conditions. A retailing company must be capable of adapting its assortment in the shortest time possible. This is shown in the case of Zara, with its approach of complementing the assortments in its stores twice a week.

Based on analysis of two models of internationalisation - H&M and Zara - this research concludes that the Slovene retail fashion distributing company Mercator-Fashion House will have to utilize its advantages in the markets of South Eastern Europe before the entrance of other competitors. It must also develop a clear and well-known image in those markets. The company should also consider cultivating connections with acknowledged local retailers in order to establish its presence in these markets (as also displayed in the case of Zara). Doing so will enable the company to extend more quickly into these markets and encourage its future extension to neighbouring countries.

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