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INTERNATIONALISATION OF THE SPANISH FASHION BRAND ZARA

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Journal of Fashion Marketing and Management (2009), 13:2, 279-296

INTRODUCTION

Zara is one of the world's most successful fashion retailers operating in 59 countries. However, there is little research about the firm in English as the majority of publications have been written in Spanish. This paper seeks to address this gap in the literature by examining the internationalisation process of Zara. This study adopts an in-depth case approach based on extensive secondary research. Literature published in both English and Spanish has been reviewed, including company documents such as annual reports. The paper starts with a brief overview of the global textile and clothing industry, followed by the case study of Zara. The main part of the case examines the key aspects in the internationalisation of Zara namely: motives for internationalisation, market selection, entry strategies, and international marketing strategies. In the final section, comparisons are made between Zara and two of its main competitors, H&M and Gap.

The global textile and clothing industry

The removal of all import quotas in the textile and clothing industry from January 2005, involving the unrestricted access of all members of the World Trade Organization (WTO) to the European, American and Canadian markets is considered a key driving force in the development of the clothing sector (Keenan, *et al.*, 2004). This new scenario has created opportunities for large exporters like China and India

that are considerably increasing their market share whilst at the same time creating challenges for European Union member states in order to remain competitive internationally.

The major trends that are restructuring and characterising the textile and clothing sector are as follows:

- The European textile and clothing industry is characterised by fragmented production with a large number of small and medium-sized companies mainly located in Italy, Great Britain, France, Germany and Spain (Nordas, 2004), whilst distribution channels are highly concentrated (Stengg, 2001).
- Increasing internationalisation in the textile and apparel sector and the emergence of international competitors (Cerviño, 1998). Consolidation of the sector through mergers, acquisitions (Dunford, 2004) and strategic alliances (Samiee, 1995).
- Sub-contracting or delocalisation of textile and clothing production to countries with lower labour and transportation costs and reduced lead-time (Berkeley and Steuer, 2000).
- Re-evaluation of the business models to adapt to the customers´ changing taste (KPMG, 2005). Fashion companies are becoming more flexible and vertically organised, limited vertical integration being more frequent than complete integration (Samiee, 1995). Adoption of new technology to expand productivity and increase competitiveness (Berkeley and Steuer, 2000).
- Democratisation of the fashion sector over the last decades (Mazaira, *et al.*, 2003). Zara has contributed greatly to this shift by offering the latest design at attractive prices.

THE CASE OF ZARA

Established in 1975, Zara is the flagship of Inditex (Industria del Diseño Textil, S.A.), a holding company located in Galicia (north-west Spain). In a relatively short time frame Inditex has become the world's second largest clothing retailer with 2,692 stores spread across 62 countries worldwide by the end of January 2006. In addition to Zara which accounted for 66 percent of the group's turnover in 2005, Inditex owns seven other clothing chains: Kiddy's Class (children's fashion), Pull and Bear (youth casual clothes), Massimo Dutti (quality and conventional fashion), Bershka (avant-garde clothing), Stradivarius (trendy garments for young women), Oysho (undergarment chain) and Zara Home (household textiles).

The Zara Concept

Zara's aim, according to Amancio Ortega, founder of Inditex, is to democratise fashion by offering the latest fashion in medium quality at affordable prices. What differentiates Zara's business model from that of its competitors is the turnaround time, and the store as a source of information. Zara's vertical integration of design, just-in-time manufacturing, delivery and sales; flexible structure; low inventory rule; quick response policy and advanced information technology enable a quick response to customer's changing demands (Castellano, 1993; 2002). A completely new piece of clothing can be designed, manufactured and delivered in less than four weeks. Changes of an existing garment can be put on display within two weeks, much faster than the competition (The Economist, 2005). Zara internally manufactures its ´live collections´, the most receptive garments to fashion, which account for almost half of its production, and outsources those that are not subject to seasonal variation. About 11,000 new items are launched every year (Ghemawat and Nueno, 2003).

The store acts not only as a point of sale but also influences the design and speed of production. It is the end and starting point of the business system. Zara's production cycle starts with customers´ judgements on the new designs of clothes and the information collected by staff members who travel to fashion cities, observing people on the streets, browsing publications and visiting the venues that are frequented by their potential customers (Fabrega, 2004). What distinguishes Zara from its competitors is the feedback that Zara's managers get from the customers at the point of sale about new garments or new products that they are interested in. Store managers report the demands of customers and the sales trends to the headquarters on a daily basis. The design group will use the feedback to create new articles or modifications to the existing goods and then deliver the items to the stores (Martinez, 1997). Every store receives small batches of products twice a week, avoiding large inventories and creating a "climate of scarcity and opportunity" (Crawford, 2000). Around 60 percent of its products are permanent and the remaining 40 percent vary continually. The company estimates that customers visit a Zara store 17 times a year on average, compared to merely four visits for other fashion firms (Castro, 2003). The outlets are situated in main commercial areas and the interiors are designed to create a unique atmosphere with attractive window displays. The firm spends only 0.3 percent of its annual turnover on advertising (Ghemawat and Nueno, 2003), normally at the beginning of the sales season or the occasion of a new store opening. The store is considered its most effective communication tool.

The two key factors in Zara's business model – the time factor and the store as a source of information – demonstrate the company's customer-orientation. Zara continuously adapts to market demands, aiming to deliver a unique service to the

customer. The quality of customer service and other variables like the music, temperature and layout are evaluated by using a mystery shopper (Monllor, 2001). Zara follows a market-based pricing strategy which sets the target prices that the buyer is willing to pay. The budget for the cost of the material, production and suppliers is fixed according to the target price and the profit margin that the management department wants to achieve with that item (Bonache and Cerviño, 1996; Mazaira, *et al.*, 2003).

Over the past 30 years, Inditex has built a brand portfolio (see Table 1 for details) through brand acquisition -`Massimo Dutti´ in 1991 and `Stradivarius´ in the year 1999-; and brand development by using a multi-brand strategy and an extension strategy. In line with the multi-brand strategy, `Zara´ was created in 1975, `Pull & Bear´ in 1991, `Kiddy's Class´ in 1993, `Bershka´ in 1998 and `Oysho´ in the year 2001. The extension strategy was applied to `Zara Home´. Inditex used the name of the existing brand `Zara´ to take advantage of the transfer of associations between the flagship product and the extended one, `Zara Home´.

Table 1 Inditex's **brand portfolio, January 2006**

	Zara	Pull & Bear	Massimo Dutti	Kiddy´s Class	Bershka	Stradivarius	Oysho	Zara Home
No of stores	852	427	369	149	368	263	154	110
% of Inditex	65,9	6,6	7,9	2,3	9,5	5,1	1,6	1,2
Year of foundation/ acquisition	1975	1991	1991	1993	1998	1999	2001	2003
Target	Women, men and children, ages 0-45	Women and men, ages 14-28	Women and men, ages 25-45	Children, ages 0-16	Women and men, ages 13-23	Women, ages 15-25	Youths	N.A.
Product	Fast-fashion clothing	Casual clothes	Quality and conventional fashion	Children´s fashion	Avant-garde clothing	Trendy clothing	Lingerie	Hosehold clothing
Price	Medium-low	Medium-low	Medium-high	Medium-low	Medium-low	Medium-low	Medium-low	Medium-low
Quality	Medium	Medium	Medium-high	Medium	Medium	Medium	Medium	Medium

Source: Compiled from annual reports; press dossiers; Blanco and Salgado (2004); Fabrega (2004); Ghemawat and Nueno (2003); Monllor (2001).

All these brands were built within the domestic market and then launched for international markets. This multi-brand portfolio has allowed Inditex to target different segments more effectively. However, the cost of maintaining several brands

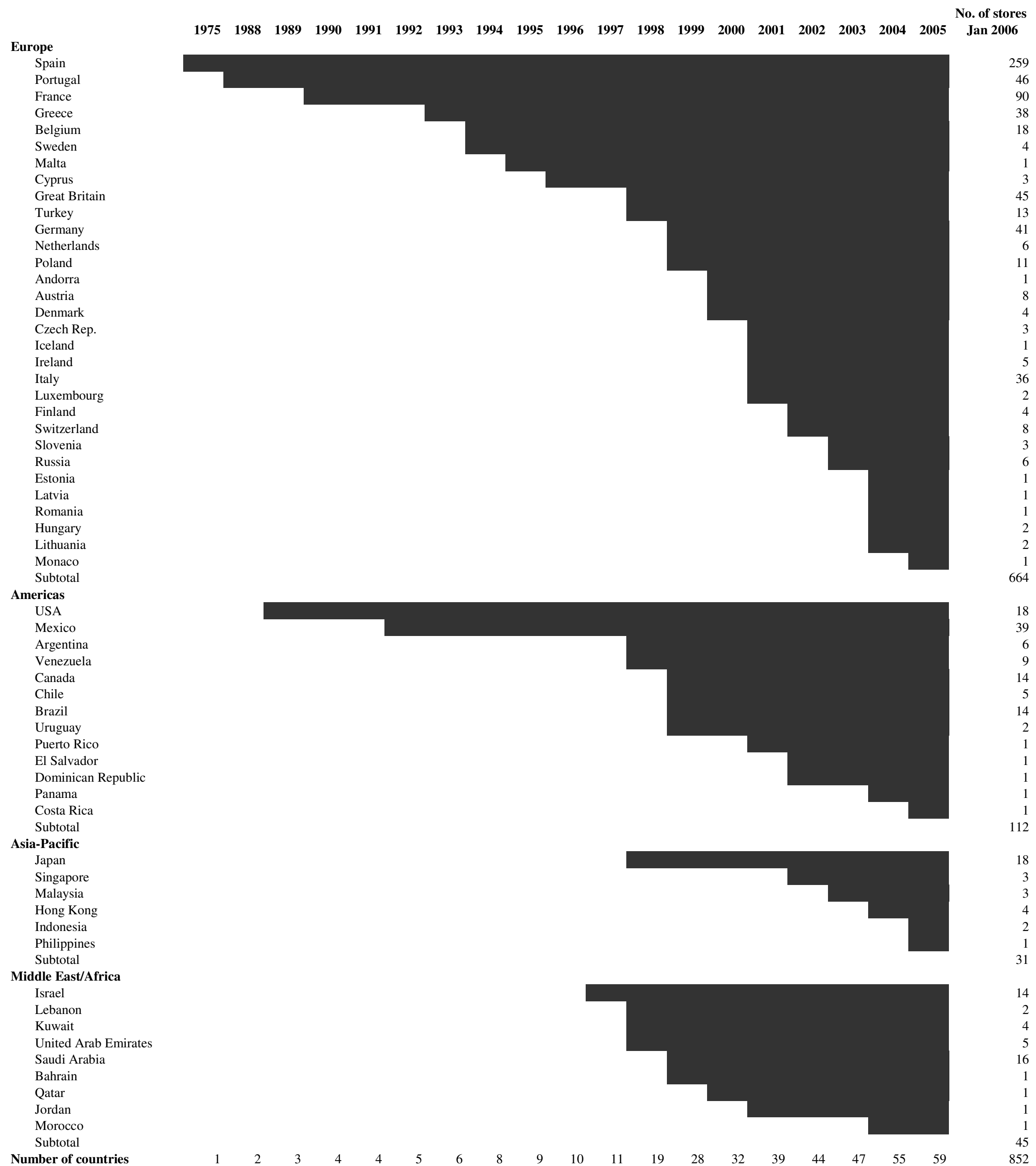
and the risk of cannibalisation are the major drawbacks of this strategy. Inditex has tackled cannibalisation by differentiating the brands mainly through the product, target market, presentation and retail image (Fabrega, 2004).

The success of the Zara concept is also reflected in the impact that the company has created in the fashion industry that brought changes in the organisational methods of other clothing retailers, namely Benetton and Mango (Cinco Dias, 2003), and has even obliged luxury fashion brands like Gucci and Burberry to increase the rotation of their goods and develop sister brands to expand their customer base (Fernie, *et al.,* 1997; Foroohar, 2005).

THE INTERNATIONALISATION OF ZARA

Zara opened its first store in 1975 in La Coruña, north-west Spain. During the 1980s, Zara expanded within the domestic market, opening stores in all Spanish cities with a population greater than 100,000 inhabitants (Ghemawat and Nueno, 2003). The international expansion of Zara started with the opening of a store in Oporto (Portugal) in 1988. By the end of January 2006, Zara was operating in 59 countries with 852 stores: 664 stores were located in Europe (259 in Spain), 112 in America, 45 in the Middle-East and Africa and 31 in Asia. International sales accounted for 69 percent of its total turnover in 2005, with Europe being its largest market by far. This section will discuss the internationalisation process of Zara focusing on three issues: motivation, market selection and entry options.

Figure I International presence of Zara



Source: Adapted from Ghemawat and Nueno (2003)

Motives for Internationalisation

Existing literature has classified the motives for retail internationalisation into push and pulls factors. Push factors are those that encourage the organization to search for international opportunities. Pull factors involve attractive conditions in the host

market (Alexander, 1995b). The limited market growth opportunities at home was the main influence on Zara's decision to expand internationally as recalled by Jose Maria Castellano, former CEO of Inditex: "*Of course before opening the first store in the host market, we had the feeling and then we knew for certain that the Spanish fashion and design market was on the verge of saturation*" (Martinez, 1997). In addition to the maturity of market, there was a change in Spanish consumer behaviour over this period, with increased spending in their spare time on travelling and education, and less on clothes.

The key pull factors that explain the internationalisation of Zara include Spain's entry into the European Union in 1986, the globalisation of the economy and thus potential economies of scale, the homogenisation of consumption patterns across countries – Zara's belief is that "*national frontiers are no impediment to sharing a single fashion culture*" – and the abolition of barriers to export as well as the development of information technology.

McGoldrick (1995, 2002) provides a third group of factors related to the organisation: the facilitators or enabling factors. The expansion of Zara in New York (1989), Paris (1990) and Milan (2001) was justified by image and status reasons (Castellano, 2002; Ortega and Blanco, 2004). These three cities are considered fashion capitals that are highly competitive. The USA offered Zara the opportunity to learn first hand about its American competitor Gap and consumers in a large market with an interest in fashion. The USA was perceived to be a high risk market, a view justified with hindsight (Martinez, 1997). Amancio Ortega wrote in his 1998 annual report regarding the learning experience: "*International expansion is the objective that cannot be delayed*

and will allow us to enrich our culture and vision of the market". Last but not least, the internationalisation involved the spreading of cost and risk into different markets.

Table 2 Motives behind Zara's internationalisation

Push factors	Inhibitors	Facilitators	Pull factors
Saturation	Administrative barriers	International status	Spain joined the EU
Low growth opportunities	Geographic distance	Learning process	Economies of scale
Changes in consumer behavior	Low economic development	Spreading cost and risk	Globalisation
	Different seasonality		Abolition of economic barriers
	Cultural distance		Growth chances
	Lack of experience		Cultural affinities
	Risk perception		Information technologies

Source: Adapted from McGoldrick (2002)

Market Selection

The internationalisation of Zara seems to follow the classic `stage model´ (Johanson and Wiedersheim-Paul, 1975; Bilkey and Tesar, 1977 and Cavusgil, 1980) by firstly entering geographically or culturally close markets before taking opportunities in more distant markets. Zara has moved through a learning curve during these stages. These phases are described in detail as follows:

- Reluctance and trial: Between 1975 and 1988 Zara focused its expansion in the domestic market. The maturity of the Spanish market led Zara to search for international opportunities in 1988. Portugal was an attractive and familiar market due to its geographical and cultural proximity to Spain. By opening a store in Oporto, Zara acquired experience and knowledge and realised that it had to adjust its business model to suit the new markets (Bonache and Cerviño, 1996; Fabrega, 2004).
- Cautious expansion (1989-1996): During this stage Zara expanded into markets geographically and/or psychologically proximate and with a minimum

level of socio-economic development, adding one or two countries per year to its market portfolio. In 1990 Zara started operating in France (Paris) a geographically contiguous country, a fashion capital and a starting point for the later expansion in Northern Europe -Belgium and Sweden-, in 1994 (Bonache and Cerviño, 1996). Mexico was added in 1992. This market, though geographically distant, is culturally close to the home country Spain, and provided with a reference of the South American market. Greece was next in 1993, followed by Malta and Cyprus in 1995 and 1996 respectively. The exception at this stage is the opening of a store in 1989 in New York, a distant and very competitive market. It was a strategic decision by Zara to build brand awareness and international prestige and to get close to fashion trends (Bonache and Cerviño, 1996; Martinez, 1997).

- Aggressive expansion (1997-2005): The experience gained in the international environment made Zara more determined and intent on a rapid global expansion, regardless of cultural or geographical proximity. Zara started this stage by opening a store in Israel in 1997. One year later, 1998, Zara entered eight countries, consolidating its presence in the Middle East with Kuwait, Lebanon and the United Arab Emirates. Argentina along with Venezuela, Great Britain, Japan and Turkey were also added in 1998. This was followed by nine countries in 1999 (Germany, The Netherlands, Poland, Canada, Chile, Brazil, Uruguay, Saudi Arabia and Bahrain). Between 2000 and 2003 Zara consolidated its position in the European market as opposed to gaining a foothold in new countries. The enlargement of the European Union in 2004 justifies the considerable number of European countries that were incorporated that year. Costa Rica, Monaco, Philippines and Indonesia were added to the

market portfolio in 2005. At the beginning of 2006 Zara was operating in 59 countries with 852 stores with plans for more stores in its existing markets in Europe (France, Italy, Germany and Great Britain) and Asia as the centrepieces of its international operation (Fabrega, 2004).

Market Entry Strategies

While Zara owns a majority of its stores in Spain, the international expansion has adopted three different entry modes:

- Own subsidiaries**:** This direct investment strategy is the most expensive mode of entry and involves high levels of control and risk in case the firm exits the market. Zara has adopted this strategy for most European and South American countries that were perceived to have high growth potential and low business risk (Flavian and Polo, 2000).
- Joint ventures: This is a co-operative strategy in which the manufacturing facilities and know-how of the local company are combined with the expertise of the foreign firm in the market, especially in large, competitive markets where it is difficult to acquire property to set up retail outlets or where there are other kinds of obstacles that require co-operation with a local company (Camuñas, 2003). In 1999 Zara entered into a joint venture with the German firm Otto Versand and benefited from the latter's experience in the distribution sector and knowledge of one of the largest markets in Europe. The administrative barriers in Italy, wherein local traders decide whether an international brand could operate in a specific city and the amounts of money required for the transfer of the stores (Expansion, 2001) led Zara to link with Gruppo Percassi, a successful firm in the property sector, in 2001. The

experience of Biti in the clothing sector together with its knowledge of the property market encouraged Zara to sign an agreement with this company to enter Japan in 1998 (Castro, 2003). In Germany and Japan the deal was on a 50-50 joint venture. In Italy Inditex held a 51 percent investment in Zara. However, Zara has recently increased its ownership to 78 percent in Germany, 80 percent in Italy and 100 percent in Japan.

- Franchising: This strategy is chosen for high-risk countries which are culturally distant or have small markets with low sales forecast like Saudi Arabia, Kuwait, Andorra or Malaysia (Flavian and Polo, 2000). Zara's franchisees follow the same business model as their own subsidiaries regarding the product, store location, interior design, logistic and human resources. However, they are responsible for investing in fixed assets and recruiting the staff. Zara gives franchisees the chance of returning merchandise and exclusivity in their geographic area, although Zara has the right to open its own stores in the same location (Castellano, 2002).

Table 3 presents details of the market entry strategy in each country. Zara owns 90 percent of its stores. Since Zara gained management control of the stores located in Japan, Germany and Italy, such sites have been incorporated in the group of own stores (Ghemawat and Nueno, 2003).

Table 3 Zara: Mode of entry and number of stores by country, January 2006

Country	Year established	Mode entry	Number of stores
Spain	1975	Own stores	259
Portugal	1988	Own stores	46
USA	1989	Own stores	18
France	1990	Own stores	90
Mexico	1992	Own stores	39
Greece	1993	Own stores	38
Belgium	1994	Own stores	18
Sweden	1994	Own stores	4
Malta	1995	Franchising	1
Cyprus	1996	Franchising	3
Israel	1997	Franchising	14
Argentina	1998	Own stores	6
Great Britain	1998	Own stores	45
Japan	1998	Joint venture[2]	18
Kuwait	1998	Franchising	4
Lebanon	1998	Franchising	2
Turkey	1998	Franchising[1]	13
United Arab Emirates	1998	Franchising	5
Venezuela	1998	Own stores	9
Bahrain	1999	Franchising	1
Brazil	1999	Own stores	14
Canada	1999	Own stores	14
Chile	1999	Own stores	5
Germany	1999	Joint venture[2]	41
Netherlands	1999	Own stores	6
Poland	1999	Franchising	11
Saudi Arabia	1999	Franchising	16
Uruguay	1999	Own stores	2
Andorra	2000	Franchising	1
Austria	2000	Own stores	8
Denmark	2000	Own stores	4
Qatar	2000	Franchising	1
Czech Rep.	2001	Own stores	3
Iceland	2001	Franchising	1
Ireland	2001	Own stores	5
Italy	2001	Joint venture[2]	36
Jordan	2001	Franchising	1
Luxembourg	2001	Own stores	2
Puerto Rico	2001	Franchising	1
Dominican Republic	2002	Franchising	1
El Salvador	2002	Franchising	1
Finland	2002	Franchising	4
Singapore	2002	Franchising	3
Switzerland	2002	Own stores	8
Malaysia	2003	Franchising	3
Russia	2003	Franchising[1]	6
Slovenia	2003	Franchising	3
Estonia	2004	Franchising	1
Hong Kong	2004	Own stores	4
Hungary	2004	Own stores	2
Latvia	2004	Franchising	1
Lithuania	2004	Franchising	2
Morocco	2004	Franchising	1
Panama	2004	Franchising	1
Romania	2004	Franchising	1
Costa Rica	2005	Franchising	1
Indonesia	2005	Franchising	2
Monaco	2005	Own stores	1
Philippines	2005	Franchising	1
Total			852

Source: Compiled from annual reports; press releases; Camuñas (2003); D´Andrea and Arnold (2003); Ghewara and Nueno (2003).

[1] Zara started operating in Turkey and Russia through franchising. In 1999 and 2006 respectively Inditex purchased Zara´s franchises in both countries.

[2] Inditex has increased its ownership of Zara Japan, Zara Germany and Zara Italy

Once the entry decision is made for a particular country, Zara follows a pattern of expansion known in the company as "*oil stain*" (Castellano, 2002): Zara opens its first store, the so-called flagship store, in a strategic area with the purpose of getting information about the market and acquiring expertise. The experience guides Zara in the following phases of expansion in that country (Blanco and Salgado, 2004).

International Marketing Strategies

At the early stages of internationalisation, the management at Zara was following an ethnocentric orientation whereby the "*subsidiary companies had to be a replication of the Spanish stores*" (Alexander and Myers, 2000; Bonache and Cerviño, 1996). However, this approach encountered unexpected difficulties in some countries due to the cultural differences. Therefore, Zara decided to move towards a geocentric orientation, allowing the company to adopt in some cases local solutions rather than merely replicate the home market. Zara sells a largely homogeneous product for a global market (Flavian and Polo, 2000). Nevertheless, there are some adjustments in its marketing mix because of the customer's size differences in Asian countries (Monllor, 2001), laws issued that require the availability of garments for youths in all sizes in Buenos Aires (La Opinion de La Coruña, 2006), cultural differences in Arab countries where some garments cannot be sold, and a different season in the southern hemisphere (Euromonitor, 2002a). The information gathered by the store guides the decisions of the design department that finally produces those garments that can be sold in all the markets where Zara operates (Bonache and Cerviño, 1996). Each store manager, based on the customer's remarks on the products, decides the specific garments that will be put on display in the store to meet the customer's taste in that area (Fabrega, 2004).

Zara's promotion strategy is the same in domestic and foreign markets. Advertisement campaigns are carried out only at the start of sales or a new store opening. Zara relies on the store as its main promotional tool. The prices of Zara's garments differ between countries with the Spanish market being offered the lowest prices (D´Andrea and Arnold, 2003). Prices are set centrally following a market-oriented strategy. Prices in international markets are generally higher due to longer distribution channels (Ghemawat and Nueno, 2003).

As in the domestic market, the store location is a critical factor in international markets. All Zara's shops are situated in prime locations. This decision is based on an analysis of the local market environment that identifies the niche opportunities for Zara's products in those markets, the price of competitors' products and the recommended price to achieve a maximum level of profitability (Bonache and Cerviño, 1996). The shop window display and interior design are prototyped centrally and then replicated in all international shops by professional store decorators. Hence, Zara standardises the key strategic elements, namely the location, window display, interior design, store layout, store display rotation, customer service, information systems and logistics. The rest of the elements are customised to the market to suit local preferences (Fabrega, 2004).

Once the location for the store is identified, the next stage is the recruitment and selection of the company personnel. Initially Zara sent Spanish managers to replicate the management procedure used in Spain (Fabrega, 2004). Difficulties arose in countries like Mexico and France (Bonache and Cerviño, 1996) which made Zara change to a practice of recruiting employees locally to get a better understanding of the local market preferences (Martinez, 1997). Zara makes a great effort to transfer

know-how in order to share the same corporate values. The Head Office in Spain controls the subsidiaries to maintain Zara's concept across its international markets (Bonache and Cerviño, 1996).

Branding Considerations

International retailing is regarded as the transfer of a retail brand with its associated image across national borders (Brown and Burt, 1992) so branding has an important role to play in the internationalisation of Zara. Zara has transformed itself from a local brand to a global brand in less than 30 years. Zara brand was ranked 73rd in the list of the world's 100 top brands 2006 by Interbrand and has overtaken fashion brands like Hermes, Prada and Armani. The firm declines to use any kind of identification with its origin (Ghemawat and Nueno, 2003; Monllor, 2001). Hence, the COO effect is played down to convey a broader image. The fact that the prices of Zara's garments are higher in the international market affects its positioning in those countries and therefore, its brand image (Ghemawat and Nueno, 2003).

Zara's products are labelled following a dualistic brand-name strategy. The company uses the name of the firm and a unique brand name for the same product group. Examples of these sub-brands are `Zara Woman´, `Zara Basic´ and `Zara Trafaluc´.

The company's 1999 annual report states that the aim of Zara is to democratise fashion and to target a broad market, especially a young segment sensitive to fashion. In line with this objective, Zara filled a niche in the Spanish market that was neglected by the department stores (Martinez, 1997) by offering the latest fashion at medium quality and attractive prices. Zara's positioning strategy is based upon design, quality and price. In order to communicate its benefits, in some cases Zara has had to educate the market and influence consumer shopping habits (Blanco and Salgado, 2004).

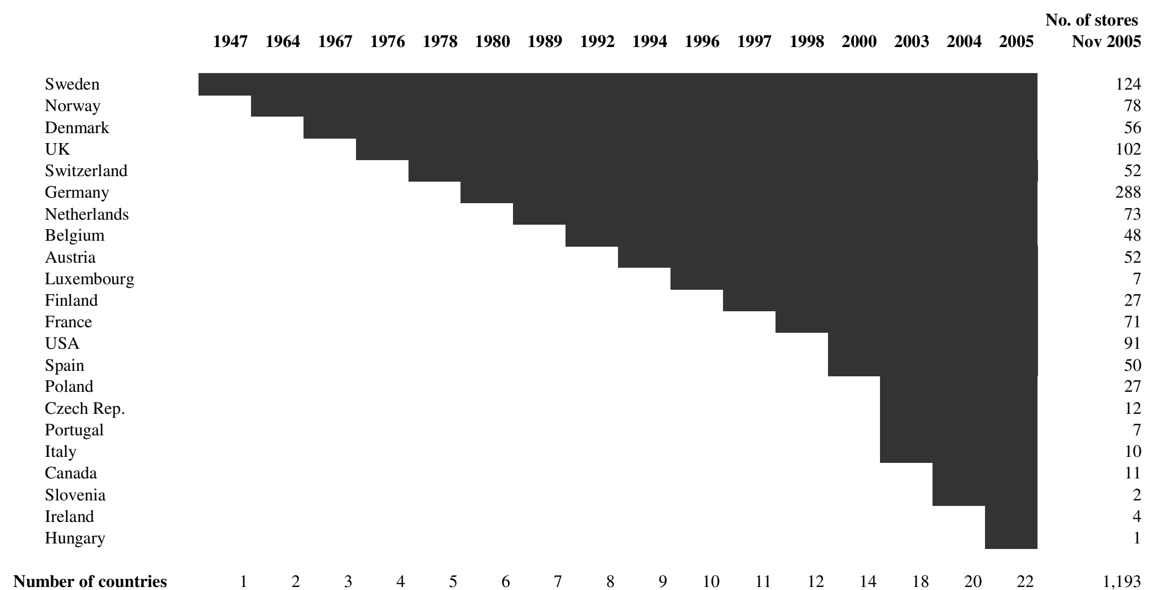
ZARA’S MAIN COMPETITORS

Zara’s major international competitors in terms of market share are H&M and Gap Inc. This section will first present some background information of the two firms before offering some comparison with Zara.

H&M

Established in 1947 in Sweden, H&M’s business concept is to offer “*fashion and quality at the best price*” for men, women, teenagers and children. H&M outsources its production from 700 suppliers of clothes. The location of its stores, flexibility of its production and low prices can be identified as the key factors behind H&M’s success. H&M hires celebrity designers like Karl Lagerfeld and Stella McCartney to democratise fashion and catch consumer’s attention. The firm churns out 500 new designs every year that can be purchased from its 1,193 retail outlets located across 22 countries and also via mail order or through its website for the Nordic countries.

Figure II International presence of H&M



Source: Compiled from H&M, 2005 Annual Report, p.31.

The growth of H&M has been marked by the addition of cosmetics and accessories to the apparel line in 1975, the incorporation of new countries to its market portfolio and the development of the catalogue and e-commerce, available in the Nordic countries. Compared to Inditex and Gap, H&M is much more internationalised with over 90 percent of its turnover coming from overseas in 2005, Germany being its largest market with 27 percent of the company total revenue. Its expansion has been at a moderate pace particularly during the early stages. H&M has been able to consolidate its position in each of the international markets. Having operated in its domestic market for 17 years, H&M followed the same expansion pattern as Zara and Gap Inc by selecting international markets based first on physical and cultural distance to the domestic market and then on economic indicators such as purchasing power, employment rate and purchasing behaviour. Local information about competitors, demand and accessibility is also considered.

"A combination of market saturation and entrepreneurial ambition" led the company to embark on internationalisation, which had two distinctive phases in the early stages (Laulajainen, 1991): The first focused on Scandinavia, and the second aimed at the UK, Switzerland, Germany and other Germanic countries. H&M launched its international expansion first into neighbouring countries, Norway in 1964 and Denmark in 1967. Both of them together with Sweden are markets belonging to the zone of cultural similarities labelled as `Nordic Europe´ by Usunier and Sissman (cited in Usunier and Lee, 2005, page 234). The second phase was initiated in 1976 with the opening of a store in the UK and later on in Switzerland in 1978 and Germany in 1980. These three markets share cultural affinities and are grouped in the `Anglo-German´ cluster by Kasper and Bloemer (1995). The mix of cultures in

Switzerland (German, French and Italian cultures) made this market a reference point for its further expansion in those adjoining countries. During the end of the 1980s and the early 1990s other Germanic countries such as The Netherlands, Belgium, Austria and Luxembourg were entered. The experience gained over the early stages drove H&M to embark on a third phase of international expansion. This period has been marked by the quick expansion into distant and different markets like the USA, Canada, Southern (France, Spain, Portugal, Italy) and Eastern Europe (Poland, Czech Republic, Slovenia, Hungary) at the beginning of the 21st century, adding at least two more countries per year.

H&M's expansion has been mainly through its own subsidiaries. Its plan of opening stores in Dubai and Kuwait in the near future has led H&M to sign a franchise agreement, which still keeps the management control within the Swedish company to ensure the H&M concept across countries. The store location is a key factor in H&M's business model regardless of the market, establishing new outlets only in the best shopping areas. The interior design is prototyped allowing some customised solutions. In 1997 the former Managing Director of H&M, Stefan Persson, stated in his Annual Report that "*When we expand, it is important to listen carefully to the local market. We need to adapt but not at the expense of losing what makes us who we are*". Hence, H&M's strategy resembles that of Zara: replication of the same concept with some local adaptations.

Gap Inc

Created in San Francisco in 1969, Gap Inc is the world's largest specialist clothing retailer with 3,053 stores in 5 countries: United States, Canada, the United Kingdom,

France and Japan. This holding company sells clothing, accessories and personal care products for men, women and children. Like Inditex, Gap Inc operates several clothing brands: `Gap´, `Banana Republic´, `Old Navy´ and ^Forth & Towne´. Gap Inc outsources all its production from 1,100 suppliers located in the United States and abroad. Gap Inc's market growth was based on four strategies: International expansion, diversification into accessories and personal care articles, creation of new brands and development of other channel of sales like electronic commerce, launched in 1997 to increase its market share and reach a broader consumer base in the US.

Gap Inc's internationalisation process has been steady and focused on a few countries. After operating in the home market for almost twenty years, Gap Inc opened its first store in the UK and Canada in 1987 and 1989 respectively; they are both close markets given their cultural proximity. During the second phase of its internationalisation Gap Inc expanded into France, 1993 and Japan, 1995 despite their geographical and cultural distance. The experience acquired earlier and the attractiveness of these two markets were the main driving forces. After operating in the German market for ten years, the unsatisfactory results in sales led Gap Inc to withdraw from that market in August 2004 (Wells and Raabe, 2005). Gap's future expansion markets have been identified in Asia and the Middle East. International sales accounted for 15 percent of the firm's total turnover in 2005. Own subsidiaries have always been the mode of entry adopted to operate in the host markets. However, its willingness to establish itself in five markets in the Middle East (United Arab Emirates, Kuwait, Qatar, Bahrain and Oman) and in Singapore and Malaysia in the near future, has led Gap Inc to consider franchising as the strategy to expand into these smaller, culturally distant and high business risk countries.

Comparisons between Zara and its competitors

Table IV presents detailed comparisons between Zara and its two competitors. The main distinctions are as follows:

- While Zara controls its entire production chain, Gap Inc and H&M outsource all their production. Zara's vertical integration enables the firm to have a faster turnaround than its competitors.
- Product and geographic diversification has been used by the three clothing brands as their main directions for growth. Gap Inc and H&M have also developed new channels of sale. The development of electronic commerce sets Gap Inc and H&M apart from Zara which does not offer its products online.
- Gap Inc has focused mainly on the home market, international sales accounting for merely 15 percent of its turnover in 2005. H&M's expansion strategy is characterised by developing and reinforcing its business system in each country entered. Zara has a wider international presence in comparison to both Gap and H&M, having become a global company in a shorter period of time.

Table IV Inditex-Zara and competitor data, 2005

	INDITEX-ZARA	GAP INC	H&M
Net sales*	€ 6,741 million (Inditex)	€ 12,700 million	€ 6,562 million
International sales*	57% Inditex; 69% Zara	15%	91%
Global reach*	Inditex: 2,692 stores in 62 countries; Zara: 852 stores in 59 countries	3,053 stores in 5 countries	1,193 stores in 22 countries
Internationalisation	Extensive and quick international expansion strategy	Slow and focused internationalisation	Consolidated expansion and at a moderate pace
Business model	High degree of vertical integration	Partial vertical integration. Control over design, distribution and sales. Production is outsourced	Partial vertical integration. Control over design, distribution and sales. Production is outsourced
Production	Own production facilities. Control over production chain	Outsourced from 1,100 suppliers	Outsourced from 700 suppliers
Electronic commerce	No on-line shopping facility	On-line shopping facility for U.S. customers	On-line shopping facility and through mail order in the Nordic countries
Promotion	Lack of advertising, only 0.3% of its turnover. The store is its main promotional tool	3%-3.5% of its turnover on advertising	4% of its turnover on advertising. The store is its main information tool
Business areas	Clothing, accessories and cosmetics	Clothing, accessories and personal care	Clothing, accessories and cosmetics
Brand portfolio of the parent company	Zara, Kiddy´s Class, Pull&Bear, Massimo Dutti, Stradivarius, Bershka, Oysho, Zara Home	Gap, Banana Republic, Old Navy and Forth & Towne	Single format
Branding strategy of the parent company	Brand development and brand acquisition	Brand development and brand acquisition	N.A.

Source: Compiled from annual reports; Alonso (2000); Ghemawat and Nueno (2003).

* Data refer to 2005. The Inditex fiscal year is from 1st February to 31st January of the following year; The Gap Inc financial year is a 52 or 53 week period ending on the Saturday closest to January 31; The H&M financial year is from 1st December to 30th November of the following year.

- The international expansion of Gap and H&M has been largely organic. In contrast, Zara has used franchising and joint ventures as entry strategies. The expansion pattern of all three brands is marked by the physical and cultural proximity of the international markets.
- Advertising is a strong communication tool for both Gap Inc and H&M, while Zara hardly advertises. All three make some adjustments to their product offerings to satisfy the needs of local consumers. The location of the store is a key principle of the H&M and Zara business models.

CONCLUSIONS

Zara is a successful international retailer which, in less than 30 years, has transformed itself from a Spanish local brand into a truly global brand. This paper seeks to improve our understanding of the firm. The research has examined the internationalisation process of the firm with a special focus on motives, entry options and international marketing strategies. The main drawback that arises in a single case study is that of limited validity and representativeness which constrains the potential for making generalisations (Creswell, 1998). Another limitation is that the study was based solely on secondary data. However, this case is deemed adequate to provide good insight, and establish the avenue for future studies.

Although the paper has made some preliminary comparisons between Zara and its two main competitors, a more thorough comparative study of all the three firms would reveal what is being internationalised: Management expertise and systems? Innovative technique or strong retail brands (Brown and Burt, 1992)? Two areas are of particular

interests in the further study, namely the linkage between entry strategies and the degree of standardisation; the relationship between retail brand image and positioning in different markets.

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