

# Firms' Internationalisation Strategies: The Case of Zara and H&M

Benye Wang

Zhejiang Pharmaceutical University, Ningbo 315000, China.

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**Abstract:** Many factors can affect internationalisation strategies, such as geographic location in the target market, cultural differences between countries, and the strength of local competitors. This essay mainly compares the different internationalisation strategies of Zara and H & M influenced by geography, culture and new technology. These strategies not only enable the two multinational enterprises to enter the market of each country more efficiently, but also further influence the shopping mode and consumption concept of the consumers of each country.

**Keywords:** Internationalisation Strategies; Geography; Culture; New Technology

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## 1. Introduction

Zara and H&M have developed different international strategies influenced by geography, culture and new technologies. Zara and H&M make reasonable use of geographical advantages to develop different product supply chains. Meanwhile, they respect the diverse cultures of various countries. By using different new technologies, building online shopping platforms, which makes consumers in different countries can easily purchase clothing online. With their international expansion, consumers in countries around the world will also be affected by their corporate culture.

## 2. Literature Review

In the face of internationalisation decision, different types of firms have chosen various forms. Some companies that have a significant market share in the domestic market are mainly concentrated in the local market and also export products to foreign countries (Choi, 2016). Some well-funded firms invest directly abroad (Galeza and Chan, 2015). Foreign direct investment (FDI) can divide into horizontal FDI and vertical FDI. In order to avoid trade barriers, some companies use duplication strategy to establish subsidiaries in other countries. This method is called horizontal FDI. As for vertical FDI, firms adopt a fragmentation strategy to set up factories in different countries, which are responsible for producing products at various stages (ibid). Besides, To save costs, some domestic companies outsource some products and services to different foreign companies, these products and services generally do not involve core technologies (Choi, 2016).

Many factors can affect internationalisation strategies, such as geographic location in the target market, cultural differences between countries, and the strength of local competitors (Mo, 2015). To enter the international market, companies need to formulate corresponding internationalisation strategies. Yoder, S. Visich, J.k. and Rustambekov, E. (2016) compared the case of the failures of five international companies. Although the reasons for these companies' failures are different, there are some things in common. For example, ignoring cultural differences, choosing the wrong location, and not understanding local consumer preferences. Based on these failure experiences, these companies make corresponding strategic adjustments for better international expansion (ibid).

## 3. Internationalisation strategies of Zara

### 3.1 The strategies influenced by Geography

Zara uses different geographical features of various countries in the world to develop their strategies. Considering that Spain and Portugal have cheap production resources compared to other European countries such as France and the United Kingdom and also

have geographical advantages near Europe fashion centre. So they set up their factories in Spain and Portugal to produce fashion apparel (Inditex, 2012). Zara's market positioning is 'high quality with lower price'. In order to reduce production costs, Zara has set up factories in some Asian countries with low labour costs such as Bangladesh and China to produce some basic style clothes (Inditex, 2012). Besides, these Asian countries are close to the ocean, and the basic style of clothes do not require high timeliness. So Zara can take advantage of cheap sea transportation.

### **3.2 The strategies influenced by culture**

Zara pays attention to respecting differences of culture when the company expand to other countries' market. In 1975, Zara opened headquarters in Spain (Mo, 2015). In Zara's internationalisation strategy, they first enter Portugal, because Portugal has a similar culture to Spain. Subsequently, Zara entered other western countries such as the United States, France, and Greece. Zara entered the countries' market by setting up its subsidiaries in these countries. When facing countries with substantial cultural differences, especially some Middle East countries, Zara changed its strategy and adopted franchising to enter the markets of these countries (Mo, 2015). When entering some large Asian markets such as Japan, South Korea and India, in order to adapt to the local market, Zara adopts the form of joint ventures. According to the different customs, Zara appropriately adjusts the clothing sold in the local market.

### **3.3 The strategies influenced by new technology**

New technologies drive the implementation of 'Offline+Online' strategy. The application of RFID technology provides a strong guarantee for Zara's powerful logistics transportation (Aftab, Qin, Kabir and Barua, 2018). RFID is a radio frequency identification technology. People use the magnetic field changes of electromagnetic waves to identify the information of RFID electronic tags. The use of this technology allows Zara's employees can track every piece of clothing at any time until it sold. A strong logistics system guarantees that Zara's stores will receive new products twice a week. It greatly shortens the delivery time from the delivery centre to the store. The average delivery time in Europe is 36 hours, and the maximum in America and Asia is 48 hours (Inditex,2018). The 'corner store' system improved the navigation function of the Zara APP to make it easier for customers to browse and search.

## **4. Internationalisation strategies of H&M**

### **4.1 The strategies influenced by Geography**

Similar to Zara, H&M is susceptible to geographical factors when formulating strategies. Considering that Germany has a relative geographical advantage in Europe and is H&M's largest market, H&M's logistics centre established in Germany. Some of H&M's trendy styles produced by 40% of European manufacturers, which allows the product to reach the primary market in Europe quickly (H&M, 2012). The other basic styles produced by 60% of Asian producers( *ibid*). The basic styles are not time-intensive, which can reduce costs by cheap shipping.

### **4.2 The strategies influenced by culture**

In the progress of global expansion, H&M pays special attention to the communication of fashion enthusiasts around the world (Mensah and Osman, 2018). Through communication with them, collisions between different cultures can give H&M designers different inspirations. Social media provides an excellent medium for communication between people around the world, so H&M is active on social media (Mensah and Osman, 2018). So far, H & M has more than 37 million followers on Facebook and more than 8.4 million followers on Twitter. Also, after entering the Chinese market, H&M opened a Weibo account, with 940,000 followers on Weibo.

### **4.3 The strategies influenced by new technology**

The rapid development of the digital world has affected the way of consumption. Online shopping is becoming more and more popular with consumers who buy products through websites or mobile apps. At the same time, the role of physical stores and the way of traditional retail are changing. Similar to Zara, H & M is developing online shopping, integrating online and physical stores (H&M, 2017). H & M is transforming, which depends on the use of new technologies. H & M use ICT (Information and Communication Technology) to strengthen the company's internal connections, quickly communicate consumer demand, store sales records, and

production information (H&M, 2018). In order to give customers the best shopping experience, H&M uses advanced analysis techniques to support the entire business process.

## 5. Analysis

Zara and H&M have adopted different approaches in the process of expanding the production supply chain. Zara mainly builds its factories or acquires other companies (Inditex, 2016). H&M does not have its factory, outsource products to about 800 suppliers, and set up production offices in Asia and Europe to monitor suppliers (H&M, 2012). Zara's approach enables the head office to directly control the production supply chain, which makes production more efficient and saves time. However, this approach requires a large amount of financial support and requires a high amount of capital for the company. H&M's approach can save production costs and also make full use of the advantages of manufacturers in various countries. However, because of the different supplier, product quality may vary.

In the process of international expansion, Zara and H&M respect the cultures of different countries and also convey the company's fashion concept to consumers in different countries. For example, Zara respects the culture of Middle Eastern countries and does not sell clothes that conflict with local culture in these countries. H&M's designers communicate with fashion seekers in various countries on social media and use fashion elements from different countries for fashion design. Of course, when buying Zara and H&M clothing, consumers will also be influenced by these company's fashion ideas. During the purchase of Zara or H&M apparel, different cultural exchanges also occurred. People in different countries buy these clothes, and their aesthetics may become similar.

The two companies take on corporate social responsibility, and as they expand, they are passing on the concept of sustainable development to consumers around the world. Zara and H & M attach great importance to sustainable development in the company's development planning. Zara is pushing the current stores into eco-efficient stores (Inditex, 2018). Centralised control of electrical and air-conditioning equipment through the EcoTool platform to achieve energy saving and water saving purposes. H & M uses organic and recycled cotton to save energy (H&M, 2017). At the same time, Zara and H & M both pay attention to the recycling of resources and use green shopping bags and packaging bags. Customers send their used clothing in the stores of these companies in response to the concept of recycling. It is also the practice of sustainable development and environmental protection concepts.

## 6. Conclusions

In conclusion, based on the geographical advantages of various countries, Zara has directly invested in Europe and Asia to build factories and has developed a complete product supply chain. H & M also outsource to different suppliers in Europe and Asia and establish production offices. In the global expansion, Zara respects the cultures of various countries and sells clothing according to different cultures. H&M focuses on cultural exchanges and seeks design inspiration from various cultures. Through the rational use of new technologies, both companies have deployed their online platforms, rationally integrated online platforms and offline stores, and strengthened their own sales models. In the global expansion, the fashion concepts of the two companies have affected consumers around the world, giving them similar aesthetics. Besides, the two companies have assumed corporate responsibility and encourage consumers around the world to support sustainable development and environmental protection.

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