

Master's thesis

“An analysis of internationalization strategies in the apparel industry: How companies create a competitive advantage in culturally different markets”

Thesis for the Master's degree in
“International Management and Intercultural Communication”

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Abstract

The research in this thesis illustrates that retailing companies in the apparel industry, like H&M AB and Inditex, are faced with the complexity of culturally different markets. Four key business areas are selected as a basis for the analysis, namely market entry, brand positioning, promotion, and product adaptation, and are examined in the context of the German, Chinese, and US-American markets. The strategies adopted in these four business areas and in these three countries serves as the outline for a comparison of the two firms. In conclusion can be said that both brands aim to standardize and implement a global strategy but adapt to the business environment, consumer behavior, and cultural perceptions when it is necessary to create and sustain a competitive advantage. Several cases of best practices are given for the consideration of companies that also want to enter culturally different markets in the apparel industry.

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List of abbreviations

CEO	Chief of Executive Officer
CMO	Chief of Marketing Officer
EU	European Union
EUR	Euros
GPA	Government Procurement Agreement
H&M	Hennes & Mauritz
H&M AB	H & M Hennes & Mauritz AB
HQ	Headquarters
ITC	International Trade Center
Mio.	Million
PR	Public Relations
PTA	Preferential Trading Agreements
RMB	Ren Min Bi
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
US	United States
USA	United States of America
USD	United States Dollars
WTO	World Trade Organization

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1 Introduction

1.1 Background and problem statement

Retailing companies in the apparel industry, like H & M Hennes & Mauritz AB (H&M AB) and Inditex, are not only faced with the complexity of international trade relations. They are also faced with the challenge of catering to global consumers with different backgrounds, languages, and cultural perceptions (Cateora & Graham, 2007, p. 403). Especially in the clothing and fashion markets, personal preferences and taste are critical for the buying decision. Distinctions in climate, culture, and physiology demand adaptation to each market (Cateora & Graham, 2007, p. 403). For example, German consumers have a stronger preference for natural fabrics than consumers in the Netherlands (Cateora & Graham, 2007, p. 403).

Companies which operate on a global scale are not only faced with various customer expectations but also with different marketing and advertisement channels, as well as cultural meaning attached to communication (Schultz & Kitchen, 2000, p. 46). While marketing communication sends the intended message, receivers decode the received meaning according to their cultural conditioning (Schultz & Kitchen, 2000, p. 46). Successful marketing in international markets relies heavily on the right amount and methods of adaptation. However, standardization of marketing materials tends to be cheaper and easier to manage. Firms need to engage in multicultural research to determine to what extent an adjustment of their global strategy is necessary in each market (Cateora & Graham, 2007, p. 229). This decision impacts not only marketing expenses, but ultimately the match or mismatch of the brand and products with the targeted consumers.

This paper examines current practices within “the old issue of adaptation versus standardization” (Schultz & Kitchen, 2000, p. 209) in one of the most global industries. The topic is not only relevant in the apparel industry but also shows how essential this discussion is regarding competitiveness in the global marketplace. The resources invested in the research of cultural aspects in the beginning of international projects are important to determine whether this additional market will add value considering the current business model (Doole & Lowe, 2004, p. 99). Lack of knowledge

of foreign markets is one of the first barriers managers have to overcome (Doole & Lowe, 2004, p. 99). Retailers like Wal-Mart have failed with their investments because they underestimated the differences between the German and their home market (US) (Christopherson, 2007, p. 451). In the US, Walmart's business model created a comparative advantage for them, but due to the different customer expectations and regulations, Walmart was not able to build on the competitive advantages in the same way in Germany (Christopherson, 2007, p. 451).

Therefore, the decision of standardization and adaptation is not only relevant for a market but, as this paper shows, for the global firm to stay overall competitive. The results of research also show how companies think about international consumers in terms of the cultural convergence-divergence debate, and how they leverage global and cross-national trends to gain a competitive advantage in international markets.

1.2 Research objectives

This study primarily aims to examine the strategies employed by two major apparel firms to cater to culturally different markets, and how much adaptation each of them pursues in the three significantly dissimilar countries, namely Germany, China, and the United States of America (US). Four key areas within the internationalization process serve as the basis for a comparison. Therefore, the analysis is multi-layered, as it includes the aspects of two firms, three markets, and four key areas of the business process.

This paper intends to investigate best practices of some of the biggest players in the global apparel market: the Spanish firm Inditex and the Swedish firm H&M AB, with a special focus on their brands Zara and Hennes & Mauritz (H&M), respectively. The analysis reveals the strategic decisions of these two European retailers, which are often directly competing in the apparel market. The juxtaposition of these companies has been driven by the fact that both (1) expand globally, (2) excel in offering affordable yet fashionable, in-season collections, and (3) target similar market segments across a multitude of countries around the world.

The goal is to draw concrete conclusions in form of best practices that offer evidence of how global firms act in the context of "global integration and local responsiveness" (Cateora & Graham,

2007, p. 312). The choices made by companies in this context can lead them to gain a competitive advantage or fail in international markets. Apparel retailers operating in and entering new markets can benefit from the findings of the research, and can learn from the best practices that are outlined. Marketing professionals can also use the country-specific sections on China, Germany, and the US to gain insights about cultural and market factors that are unique to these countries. Therefore, this cross-cultural comparison in the apparel retail market, will contribute to the research of international marketing strategy and intercultural marketing communication.

Many business operations contribute to the success of a firm and its competitive advantage. Because the focus of this paper is on cultural dimensions in global markets, the analysis focuses on the business areas which are the most affected. Generally, direct interaction with the customer requires more cultural sensitivity than e.g. logistical operations. Especially in the apparel retail industry, factors like brand image and product management play an important role. Therefore, the four most interesting focus areas of research were identified to be market entry, brand positioning, promotion, and product adaptation.

In scientific literature, these areas are recognized as key to success or failure of a company's international marketing strategy. In their book "International Marketing Strategy", Doole and Lowe (2004) include market entry strategies and international product and service management (which includes branding and product adaptation) as part of strategy development. International communication is part of implementation (Doole & Lowe, 2004, p. ix). The authors stress that in practice, there can be substantial overlap between analysis, strategy development, and implementation, and that organizations themselves decide which areas are grouped together (Doole & Lowe, 2004, p. xvii). In Cateora and Graham's work "International Marketing" (2007, p. xix), our four areas of research are also represented, and are in the part "Developing Global Marketing Strategies". Therein, the chapter "International Marketing Channels" treats the topic of market entry and "Products and Services for Consumers" includes brand positioning and product adaptation (Cateora & Graham, 2007, p. xix). Promotional theories and practices can be found in "Integrated Marketing Communications and International Advertising" (Cateora & Graham, 2007, p. xix). This short literature assessment is to show that the four areas of research selected are considered highly important for a company striving to gain a competitive advantage when entering a foreign market.

First, the form of market entry is usually the most significant decision a company must make since it affects all future aspects of the business (Doole & Lowe, 2004, p. 217). It can also be a signal to competitors about the company's intent, and shape the competitive environment (Douglas & Craig, 1997). This paper examines H&M and Zara's market entry strategy under the aspect of adaptation to business environment and culture. Depending on the existence of a consistent global strategy, the mode of entry may or may not vary by country. Higher levels of involvement and direct investment carry a higher risk for the firm but also offer more control over quality and brand image (Doole & Lowe, 2004, p. 219). More importantly, the international implementation of the chosen market entry strategy will determine whether the company can create and maintain a competitive advantage in the market.

Second, brand positioning of the firms is strongly linked to the competitive environment and market conditions in each country's apparel market. Therefore, the image and positioning of the brand can differ from market to market. According to Schultz and Kitchen (2000, p. 103), the "definition of a brand is primarily based on the idea that it is the relationship between the buyer and seller." Brand positioning therefore depends on customer perception which is shaped by history, meaning, shared understandings, and prospects for the future (Schultz & Kitchen, 2000, p. 103). As both companies in this paper established global brands, they use a "worldwide name, term, sign, symbol (visual and/or auditory), design, or combination thereof intended to identify goods (...) and to differentiate them from (...) competitors." (Cateora & Graham, 2007, p. 361). Besides the brand, global companies also must price their products competitively and provide real consumer value (Cateora & Graham, 2007, p. 366). The fact that a standard product may be an innovative, trendy piece in another market is critical, and the company's understanding thereof might lead to different decisions when positioning the brand in each market (Cateora & Graham, 2007, p. 366). This paper examines the overall market segment, and whether H&M and Zara adapt their brand positions or are consistent with the target and price segment in each country.

Third, promotion, which includes several advertisings as well as communication methods, is a key component in the company's internationalization strategy. There are many examples of marketing blunders that were caused by unawareness of the country's language(s) or cultural symbols (Doole & Lowe, 2004, p. 298). The effectiveness and success of promotion is strongly influenced by understanding the culture of each market. Globalization and converging consumer behavior are an advantage to global promotional campaigns, which have worked well within trading blocs, like North America and the European Union (EU), or across homogenous segments in global

markets (Schultz & Kitchen, 2000, p. 38). Even though the company owns the brand and controls the messages that are sent, the consumers assemble these messages and interpret them according to their own frameworks which can lead to misunderstandings (Schultz & Kitchen, 2000, p. 103). As mentioned, the convergence and standardization debate from the 1980s has turned into the discussion of “global integration versus local responsiveness” (Cateora & Graham, 2007, p. 312). In promotional activities, global companies are faced with two major challenges: the degree of integration of all marketing channels worldwide, and the most suitable balance of adaptation to the local market (Schultz & Kitchen, 2000, p. 38f). This paper will highlight how H&M and Zara approach promotion, how they execute a global strategy, and whether specific activities are implemented to reach culturally different markets.

Fourth, apparel products are the source of revenue for apparel companies. There are three important aspects related to the product that should be considered when catering to the customer: product benefits, product attributes, and marketing support services (Doole & Lowe, 2004, p. 254). In this paper, we focus on product attributes but also stress the fact that cultural influences are interwoven with the product (Cateora & Graham, 2007, p. 343). How much adaptation of the assortment and the actual products are necessary depends on the cultural differences between the market they were primarily developed for, and the new target market (Cateora & Graham, 2007, p. 343). The combination of China, Germany, and the US can offer interesting examples of adaptation. As both brands are global, it can also be determined whether they create a competitive advantage by either adapting products for each market or not. Many critical buying decisions in apparel retail are made per personal taste, but companies can draw overall conclusions of taste based on culture, climate, and physiology. Examples from primary and secondary sources reveal the internationalization strategies of H&M and Zara in the aspect of product adaptation.

1.3 Methodology

The methodology used is mainly based on qualitative research methods and draws on international market theory. Qualitative studies offer the advantage of not imposing pre-specified conceptual models on the international marketing research but are rather helpful in examining the context of the environment and consumer behavior in each market. In addition, as qualitative techniques are often observational, they are particularly suited for research in dynamic markets, and provide insights into the role of culture and best practice.

The validity of research findings in the apparel retail industry is often short-lived since the whole industry has to keep up with ever-changing trends. Especially brands which can be grouped in the sector of fast-fashion, like H&M and Zara, change campaigns and styles very frequently. Information and pictures of previous collections, promotional materials, or shop window settings, are often not documented or publicly available, unless a third party published images online. Therefore, most pictures in this paper are taken first hand and are serve as primary sources.

Interviews and articles from industry experts are often published in online magazines. Therefore, due to the topic, parts of this work rely more strongly on online sources and articles from newspapers or fashion magazines, than conventional scientific research. Additionally, email correspondence and interviews with employees serve as a primary and reliable source.

1.4 Thesis structure

After introducing the topic and formulating the objectives in the first chapter, the second chapter examines the overall apparel industry, which will lead to an understanding about how both firms' business model and strategies are shaped by this environment. The third chapter offers a review on culture and cross-cultural consumer behavior which serves as the basis for the further analysis.

The fourth and fifth section analyze H&M and Zara, respectively. The description of the global business model will examine aspects such as market participation, value-chains, marketing and production management, which will be essential for the later comparison of firms and the strategies they implemented in the different countries considered. Then, the four selected key business areas of market entry, brand positioning, promotion, and product adaptation are evaluated. The use of practical cases, primary data, and secondary literature reveals the degree of cultural and market adaptation the firm used in the US, Chinese, and German market.

The sixth chapter provides a comparison between the internationalization strategies of the firms H&M and Inditex by highlighting significant differences. It also investigates why different strategies were chosen when expanding to a specific market and what cultural factors influenced these decisions. This section provides the results of the research which are used for the concluding

section, the seventh chapter. Therein, best practices and common trends are regarded as the practical application derived from this thesis and relevant results for businesses in international apparel retailing. A special focus is put on identifying strategies that successfully adapted to the culture of the target market.

example, traffic in any shopping center increases by ten percent when an H&M store opens (Hansegard & Burkitt, 2013). They are competing in these areas with national and international retailers.

Foreign retailers compete with H&M because China is an enormous market and many competitors are fighting for a share in it. H&M is competing against Inditex's Zara chain. As of July 2016, Zara has 181 stores in the Chinese market (Inditex, 2016a). Fast Retailing Co.'s Uniqlo opened its largest flagship store in the world in 2013 and has plans to continue rapid expansion (Hansegard & Burkitt, 2013, para. 13). Gap, Inc. has also been tapping into the rising income in China by adding more stores to the Chinese market (Fickling & Lin, 2014).

H&M has a similar brand position to other multinational apparel retailers expanding and entering the market in China. The government has hurt some of the luxury brand business, such as Prada SpA and LVMH Moët Hennessy Vuitton SA. H&M has not been hurt by the government policies which indicates that their position is different from luxury-goods producers (Fickling & Lin, 2014, para. 9).

In conclusion, H&M is positioned a segment similar to other foreign retailers in China. However, according to the evidence discussed above, not all foreign retailers are in the same market segment. For example, H&M does not compete with the luxury fashion segment but with a cheaper foreign retailer. The rising wages in the Chinese market have allowed more competitors to enter the market to sell instead of just produce clothing. H&M is growing in the Chinese market by opening new stores and drawing attention to the areas where they are located.

4.2.3 Promotion

This section points out which marketing and promotional tools H&M uses globally and then which ones are more specifically used in the German, US, and Chinese market. After analyzing promotional campaigns and various marketing materials in the three countries, it will be possible to argue that H&M runs a global marketing strategy but does make some adaptations in each market.

Promotional campaigns by H&M are created in its headquarters (HQ) in Stockholm, Sweden, and then distributed and used in their 63 different markets. The marketing department aims to keep print advertisements simple and straightforward, and states to inform customers about new products (H&M Hennes and Mauritz AB, 2016a, para. 2). According to H&M's website, they use "Responsible marketing" in which they "don't aim to communicate any specific ideal, but rather a large range of styles and attitudes." Their print campaigns have a uniform layout which includes models wearing H&M's season designs and the price of the product (H&M, 2016a, para. 3). These advertisements are largely identical across markets, "(...) but the media strategy is adapted to local requirements and conditions." (H&M Hennes and Mauritz AB, 2016a, para. 3).

Therefore, H&M's promotional activities and ways of customer involvement include five major channels that are representative for H&M's basic promotional activities worldwide: (a) Direct marketing through catalog and email newsletters, (b) social media marketing through Facebook, Twitter, Instagram, YouTube, Google+, Pinterest, and others, (c) print advertisements, (d) TV commercials, and (e) shopping outlets including the website and physical stores. Depending on the market, certain marketing channels are not utilized (for example the catalog in China) or alternative platforms are used (for example Youku in China).

(a) Direct marketing. The layout of the catalog and the email newsletter are created in the HQ, and are in line with H&M's global corporate identity. The pictures featured on the cover and back page are the same in the US and Germany (H&M Catalog, 2016a; H&M Catalog, 2016b). The catalogs are also translated into different languages depending on the customer's native tongue (H&M Catalog, 2016a; H&M Catalog, 2016b). Email newsletters are released almost every day, and communicate discounts, special holiday offers, or the arrival of new collections. Newsletters are all sent from H & M Hennes & Mauritz GBC AB email address "no-reply@hm.com" and very often have the same topic and pictures across Germany, the US, and China. Nonetheless, they are translated into the respective language. In some countries, like China, Switzerland, and Canada, multiple newsletters are offered since the target market consists of different language segments.

To be able to compare the differences for the German, US and Chinese market, the email newsletter from October 17, 2015, and the fall catalogs of 2016 will illustrate whether H&M adapts its direct marketing.

(b) Social Media. It is part of H&M's global marketing strategy to focus on global social media accounts in English instead of managing many country-specific accounts. Considering that H&M's most important markets are Europe and the US, the most popular social media outlets used are Facebook, Google+, Instagram, Pinterest, YouTube, Snapchat, and Twitter. H&M tries to integrate its overall strategy in all channels where themes, images, and videos, are coherent and even refer to each other. The Facebook account is a global one and posts appear about once a day about H&M events, celebrities wearing their clothes, or new fashion releases (Facebook, 2016). The +HM account posts pictures with headlines on Google+ with a similar frequency (Google+, 2016).

Pinterest and Instagram are platforms focusing on images and photographs, and therefore, language differences are not in the way of communicating a message. Youtube, a video platform, is used to host videos and commercials, and Snapchat, an app for short video clips, is used to share H&M events in real-time. Twitter is the only social media platform that has accounts for each country. "Hmdeutschland" tweets two to three times a day, including pictures of new products, celebrities wearing H&M clothes, events that H&M supports or personalities and models who work with H&M (Twitter, 2016). The pictures on Twitter and Instagram are often identical, which is in line with H&M's integrative marketing approach across channels (Twitter, 2016; Instagram, 2016).



Figure 4.1: H&M social media icons on Facebook, Google+, Twitter, and Instagram using the Snapchat ghost icon and Kenzoxhm background patterns.

Source: H&M facebook page, October 14, 2016, URL: <https://www.facebook.com/hmtheus/?fref=ts>; H&M Google+ page, October 14, 2016, URL: <https://plus.google.com/+HM>; H&M USA Twitter page, October 14, 2016, URL: <https://twitter.com/hmusa?lang=en>; hm Instagram account, October 14, 2016, URL: <https://www.instagram.com/hm/>

In October 2016, social media account icons were used for promoting the recently established Snapchat account as well as the current designer collaboration with Kenzo. The icons on

Facebook, Twitter, Instagram, and Google+ were all created using the Snapchat icon with a KENZOXHM pattern in the background (figure 4.1) which is an example where H&M's promotional activities are clearly drawing attention to each other and are coordinated across channels.

(c) Print advertisements have been a very important promotional tool for H&M in Europe, for example in Germany. Print posters featuring models with their newest line of clothing and the price are the standard images. Print campaigns line up with overall promotional materials and strategies and are also created in the H&M HQ (H&M Hennes and Mauritz AB, 2016a, para. 2). Among others, H&M has contracted Naomi Campbell, Heidi Klum, and Johnny Depp for campaigns, which have also featured bikinis and underwear (Heer, 2005, para. 1).

(d) TV commercials. Unlike in its earlier days, H&M has increased its TV commercials since 2005 and now uses print advertisements to support them as an integrative tool (Lachmann, 2005, para. 5). Commercials use only little text in English and communicate most messages with images. Apart from airing them on TV channels, H&M's also shows them on its worldwide YouTube channel. Especially in the US, H&M has used commercials to raise brand awareness and gain popularity (Taylor, 2012, para. 1).

(e) Store interior, displays, and signs are also created in the H&M HQ. Besides physical store locations, H&M also offers online shopping through their website in many countries including Germany, the US, and China (H&M Hennes & Mauritz AB, 2016n). Websites are available in the country's language. For example, the website for Mainland China can be opened in English as well as in Mandarin (H&M Hennes & Mauritz AB, 2016n).

4.2.3.1 US-American market

H&M recognized its market potential in the US, and coming in as a global brand, has also made efforts to fully tap into the market using several adaptation strategies. This section shows examples in direct marketing (catalog cover and Columbus Day email newsletter), and a strategic campaign utilizing several channels (Super Bowl commercials with extensive social media involvement).



Figure 4.2: Cover of the US H&M catalog “New Season”. Arrived on October 12, 2016.

Source: Picture of “H&M Catalog. (2016a). New Season 2016. Distributed in the USA: H&M Hennes & Mauritz AB.” Own photograph, Jacksonville, USA, October 12, 2016.

Figure 4.2 shows the cover of the H&M catalog distributed in the US in the beginning of October 2016 which has few similarities compared with the cover of the German catalog that was sent out at the same time. The title “NEW SEASON – The top trends to boost your style” is rather broad and does not focus on a special weather season. Additional text advertises “THE NEW STYLES! - The must-have shoes, bags & details”, “MENSWEAR: versatile & wearable”, and “STYLE HEROES for kids”, covering the three target segments of women’s, men’s and children’s clothing. It also offers a “20% discount and free shipping on orders over \$60”. The female cover model is sitting indoors by herself on a chair, wearing flat ballerina shoes, a long light pink dress and a olive green light jacket. The US version of the “FALL FASHION” catalog arrived in the end of October, about two weeks later than in Germany. This approach might be due to fact that the US covers various climates and fall weather can range from cold and rainy to warm and sunny.



Figure 4.3: Cover of the US H&M catalog “Fall Fashion”. Arrived on October 24, 2016.

Source: Picture of “H&M Catalog (2016b). Fall Fashion 2016. Distributed in the USA: H&M Hennes & Mauritz AB.” Own photograph, Jacksonville, USA, October 24, 2016.

The US catalog that arrived in late October 2016 is titled “FALL FASHION” as seen in figure 4.3 has the same cover picture and headlines than the German catalog. But the tone in which customers are addressed is more informal, e.g. “All the new season styles you’ll want”. The abbreviation of “you’ll want” from “you will want” makes the statement sound more casual.



Figure 4.4: H&M email newsletter from October 8, 2016 promoting Columbus Day Sale.

Source: H & M Hennes & Mauritz GBC AB (October 8, 2016). Columbus Day Deal. H&M Fashion News. Email Newsletter from no-reply@hm.com.

On the one hand, some promotional email newsletters are for special sales in the US, e.g. before minor US holidays like Columbus Day on Oct 10, 2016. The Columbus Day Deal as seen in figure 4.4 was only valid online and offered 60 percent off on selected items. Since Columbus Day is only observed in the US (but has recently been eliminated as a school holiday), H&M's sales promotion was specific to the US market.

On the other hand, email newsletters which are all prepared in the HQ, have the same or very similar content, and most often only the languages differ. Figure 4.5 shows the US version of the Halloween promotional newsletter from October 19, 2016. Compared to figure 4.7 (Germany), and figure 4.8 (China), the picture is the same, except for the highlighted item, Imitation Leather Shorts 17.99 USD, which is different. The "Printed Body" which is featured in the German and Chinese newsletters is not available in the US (figure 4.6 and figure 4.8). While the promoted items differ, the newsletter's design is still part of the global strategy.



Figure 4.5: Email newsletter for the US market, Oct 17, 2016.

Source: H & M Hennes & Mauritz GBC AB (Oct 17, 2016c). Gather your squad: it's Halloween!. H&M Fashion News. Email Newsletter to subscribers in the US from no-reply@hm.com.

H&M adapted their marketing to the US market and culture, and successfully implemented a cross-channel promotional campaign in 2012. It used one of the unique and most prominent advertisement channels in the US which is a TV commercial during the Super Bowl (the championship game of the National Football League). The Super Bowl is one of the most attractive and expensive advertising opportunities in sports to reach a large audience (over 100 million viewers). Commercials are recognized to be the most creative and memorable of the year (Kim, Cheong & Kim, 2012, p. 249).

First, Steve Lubomski, who has been the Marketing Director of H&M in North America from 2008 to 2015, identified the potential of this advertising channel particularly important in the US, and issued the first campaign in 2012 (Conniff, 2012, para. 1). The commercial starred soccer star David Beckham and introduced the David Beckham Bodywear line which includes briefs, boxers,

tank tops and henleys (Elliott, 2014, para. 2). To prepare for the campaign, Lubomski had to explain the potential of the Super Bowl to the global Chief of Marketing Officer (CMO) and the Chief of Executive Officer (CEO) in the H&M's Swedish headquarters, and make sure that enough products would be available in stores throughout the entire duration of campaign (Taylor, 2012, para. (1)). After successfully convincing the headquarters of this strategy for the US, H&M utilized this special cultural event for their marketing campaign and hired a US sports PR agency to be able to adapt the commercial to the audience (Taylor, 2012, para. (4)).

Second, using celebrities to endorse and promote your brand is very popular and can be very effective in US advertisement (Kelting & Rice, 2013, p. 602). H&M's strategy to star David Beckham worked because he is a well-known celebrity in the US, since he was already advertising for Emporio Armani, Gillette, Sharpie, Adidas, Burger King, Samsung, and Pepsi (Kelting & Rice, 2013, p. 603). Kelting & Rice (2013) showed that a high match between the celebrity and the product will lead to more memorability among consumers. Choosing David Beckham and focusing the commercial on him wearing the Bodywear line ultimately increased H&M's brand awareness (Taylor, 2012, para. (5)). Additionally, H&M also cooperated with Twitter accounts of celebrities during the social media interaction, like Cruz, Touchdown, and Madonna to talk about the commercial, so that the topic would draw more attention among followers (Taylor, 2012, para. (3)).

Third, H&M has recognized that the US consumers engage in social media with companies, and share and discuss advertisements and commercials on social media platforms. Social media includes a variety of forms of internet-based communication which allows to share written statements, visual content, and other information (Blanco, Doering, Hunt-Hurst, & Lee, 2016, p. 272). Through these channels, firms can create a personal dialogue with consumers, and immediately address customer complaints and comments (Blanco et al., 2016, p. 272). The Twitter account @HMUSA currently has about 575.000 followers (Oct 23, 2016), and the marketing team posts pictures and short messages several times daily, including sales promotions, new products, and prominent people wearing H&M items (Twitter, 2016b). Also during the championship game, the H&M marketing team was actively involved on their social media accounts publishing 21 times on Twitter, and engaging with comments from the audience who had mentioned the TV commercial (Taylor, 2012, para. (3)). Employees also monitored the H&M Facebook account and other social media outlets closely and in real-time which made them the most active brand during Super Bowl in 2012 (Taylor, 2012, para. (3)).

In conclusion, H&M's strategy in the US mainly follows the global marketing campaigns, but also recognizes and adapts to US particularities, like the large amounts of climate zones, holidays, sporting events, the popularity of celebrities, and the use of social media. During the US Super Bowl, it focused on combining all advertising channels and social media outlets to convey one message and product line. Utilizing the US-specific event and tapping into the knowledge of a US PR firm for sport audiences, the campaign was a success and increased their national brand awareness by 6 percent (Taylor, 2012; Conniff, 2012). Due to the success, another commercial with David Beckham was aired in 2014 (Elliott, 2014, para. 1).

4.2.3.2 German market

Germany is H&M's largest and most important market in the world and creates the largest revenue for the company. Therefore, the access to stores as well as the use of different marketing channels in Germany are exemplary among H&M's markets. Germany has been the country of pioneering for marketing campaigns, and new promotional channels or campaign strategies are often first introduced and utilized in Germany (Cope, 2016). The German website reveals that H&M indeed does have a global marketing strategy, and therefore, only adjusts to specific culture where necessary. The German market is no exception in that some promotional activities are not adapted, e.g. global social media platforms remain in English.

Thus, there some examples where H&M used promotional activities that worked particularly well for the German market considering its culture or other aspects. H&M currently chooses to adapt and not just translate its catalog for Germany. Email newsletters are often just minimally adjusted.



Figure 4.6: Cover of the German H&M catalog “Herbstmode”. Arrived October 18, 2016.

Source: Picture of “H&M Catalog. (2016c). Herbstmode 2016. Distributed in Germany: H&M Hennes & Mauritz AB.” Own photograph, Bayreuth, Germany, October 18, 2016.

The H&M catalog distributed in Germany in fall 2016 is titled “HERBST MODE – Alle neue Styles der Saison, die Sie sich wünschen (Translation: FALL FASHION – All the new season styles you’ll want)”. The German catalog addresses its customers with the formal form of “Sie (You)” instead of the informal “du (you)”. Other headlines in figure 4.6 also particularly address the change of season and need for warmer clothing, i.e. jackets with “1 JACKE, 4 LOOKS (Translation: 1 JACKET; 4 LOOKS)” and “FRISCHE LOOKS – Von Rüschen zu trendigen Strick (Translation: FRESH LOOKS – Frills to trendy knits)”. Interestingly, the English word “looks” is used on the German cover whereas on the US, it says “4 WAYS” instead of “4 LOOKS”. The female cover models in figure 4.6 are standing in front of what seems to be blue sky and their hair is blowing in the wind. The women wear a knitted sweater, a woolen high-neck long sleeve sweater, and a long, long-sleeve patterned dress and cap. This shows that H&M focuses on warmer clothing for the fall season.

The email newsletter from October 17, 2016 (figure 4.7), with the same picture as in figure 4.5 was also sent to the German customers. But the language was changed to German, and the highlighted item was “Body mit Druck” (Translation: printed body) with the price of 12.99 EUR (about 14.11 USD). Therefore, adaptation to the German market was minimal, and the global template was used.

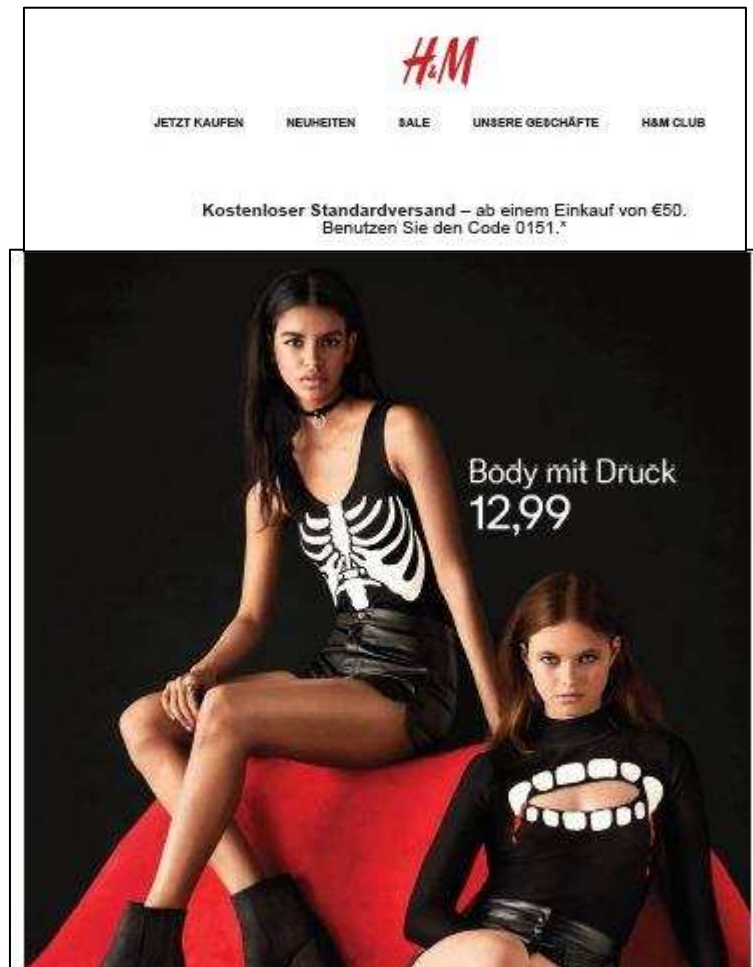


Figure 4.7: Email newsletter for the German market, Oct 17, 2016.

Source: H & M Hennes & Mauritz GBC AB (Oct 17, 2016d). Perfekte Details für Halloween!. H&M Fashion News. Email Newsletter to subscribers in Germany from no-reply@hm.com.

Interestingly, there was no language adjustment done for most social media outlets in Germany. The German H&M website forwards social media users to their English, worldwide H&M accounts. The only account customized to German users is Twitter, where @hmdeutschland posts several times a day (Twitter, 2016a).

Print advertisements have been a very important promotional tool for H&M in Germany. Especially before the year 2005, the company was prevalent and prominent for its print posters featuring models with their newest line of clothing. H&M in Germany also did not shy away from suggestive images. For example, in 1993 the print advertisements presented Anne-Nicole Smith, a playboy model, in H&M's lingerie collection. The erotic images distracted drivers, and after this reportedly had caused several accidents, officials took measures (Heer, 2005, para. 1). German society is rather open to immodest and erotic themes (Sarnow, 2013, p. 11), and even though the campaign was received with shock by some, it worked well for the German market (Heer, 2005, para. 1).

Unlike in its earlier days, H&M has increased its TV commercials since 2005 and now uses the print advertisements in a supporting role (Lachmann, 2005, para. 5). Commercials are usually produced using mostly images, some phrases in English, and a matching song that fits with the theme. Using few words and transmitting the message mainly via images, the commercials can be used worldwide, and are also accessible via H&M's global YouTube channel.

A recent example of a worldwide H&M campaign that was also used in Germany and exemplifies the integrated promotional concept of the TV commercials and print advertisements was the 2015 Christmas campaign "Happy and Merry" with Katy Perry. The TV spot and the video posted on YouTube featured a Christmas dancing show, which included several Christmas characters, the US popstar Katy Perry with changing H&M outfits, and was accompanied by her Christmas song "Every Day is a Holiday" (Rentz, 2015, p. 10). Print images of Katy Perry modeling the collection were also positioned on shopping streets throughout the German market (Piatscheck, 2015, para. 4).

Even though H&M's worldwide marketing strategy is widely used in Germany, there are a few examples of adapting the campaign to the German market. In 2010, H&M had Lena Gercke, the winner of Germany's Next Top Model, under contract for the catalog of the spring collection. She was already on the German front cover of fall the catalog 2009 (Rösch, 2010, para. 1).

Germany was the first market to be targeted for a designer collaboration. In 2004, Karl Lagerfeld, a German fashion designer became the first high-profile designer to work on a collection with H&M, creating a range of clothing items for men and women (Cope, 2016, para. 1). The collection

was sold out within minutes after opening the stores on November 12, 2014. This concept has proven to be very successful and the collaboration with the German designer set precedent for future collaboration with global designers and artists such as Madonna, Kylie Minogue and Beyoncé (Nowicki, 2014, para. 1). A promotional strategy that worked in Germany was therefore applied worldwide.

But H&M also pushed marketing concepts that worked well in another country into the German market. For example, the children's collection for the US holiday Halloween featured clothing, costumes, and toys was released worldwide for the first time in 2012. The holiday which is increasing in popularity, had not traditionally been part of German cultural events. Therefore, In this case, H&M uses a US event globally and does not adapt it to the German market. (Nowicki, 2012, para. 1)

4.2.3.3 Chinese market

When entering the Chinese market in 2007, H&M's basic promotional strategy was focused on the buzzing openings of their flagship stores. Due to the popular location near luxury retailers, H&M was able to increase brand awareness (China Economic Review, 2012, para. 5). Since launching advertisement campaigns in China is cost-intensive, H&M has relied on creating events and excitement around their flagship stores and the grand opening parties of them (China Economic Review, 2012, para. 5). Now that more locations have opened, H&M also reaches potential customer through social media, commercials, and advertisements.

However, not all channels are equally utilized compared to Germany and the US. For example, H&M does not offer a paper catalog in China. Therefore, the website and the email newsletter are H&M's only remote promotional tools. Figure 4.8 shows that H&M offers newsletters in two different languages: Mandarin and English. Adapting to the Chinese market also means considering how to reach both internationals and expats living in China as well as the local population. The featured item is the same as in Germany, the printed body offered at a price of 99.90 RMB (14.80 USD) which is about 0.70 USD more expensive than in Germany.



Figure 4.8: Email newsletters for the Chinese market (Mandarin and English), Oct 17, 2016.

Source: H & M Hennes & Mauritz GBC AB (October 17, 2016a). 万圣节来了，快召集你的小伙伴们吧!. (Gather your squad: it's Halloween!) H&M Fashion News. Email Newsletter to subscribers in China (Mandarin and English) from no-reply@hm.com.

Some social media channels, like Facebook, Youtube, and Twitter are not available in China due to government restrictions (Chiu, Ip & Silverman, 2012, p. 1). H&M chose to work with popular alternatives, namely Weibo (social network), Youku (video platform comparable to YouTube), and Wechat (social network and texting app) where they post content in Chinese (H&M Hennes and Mauritz AB China, 2016, bottom of page).

As mentioned before, Chinese consumers are very brand friendly (Doctoroff, 2012). Brands are an important tool and symbol for their success in society. Therefore, the image of the H&M brand is particularly important for their advertisement campaigns, the country-of-origin effect can also play a positive role for the brand.

International retailers like H&M are confronted with the questions whether to change the promotional materials in each market and choose domestic models or not. Whereas in most countries in-group models (i.e. native Chinese models in China) are known to be more effective, Asian consumers have responded more positively to Western models (Chang, 2014, p. 155; 173).

Chang's study (2014, p. 155) with Taiwanese consumers has shown that ads with Western models were perceived more positively and credible, and promoted stronger self-brand connections. Especially brands which target consumers looking for individual styles, the use of Western rather than East Asian models is beneficial (Chang, 2014, p. 173). Therefore, it can be concluded that H&M's standardized campaign, which usually features a variety of ethnicities, can be used in the Chinese market and there is no need to change the campaign images. Choosing the Western-looking images might even be beneficial for the brand image, as Chinese consumers associate them with a high degree of individual style.

Nonetheless, H&M does use Chinese holidays for additional campaigns. During Chinese New Year 2014, the most important Chinese holiday, H&M created a campaign and collection especially for target markets in Asia, namely China, Hong Kong, Singapore, and Malaysia (Fashion Gone Rogue, 2013). To localize the appeal of the brand, H&M collaborated with Chinese style icons to endorse the brand, namely the two models Sui He and Tian Hi. They continued the successful campaign and chose Liu Wen (a Chinese model) and Siwon Choi (a Korean singer and actor) as the models in 2016.



Figure 4.9: Promotion for Singles Day 11.11 on the homepage of the H&M Website for China (English version).

Source: H&M Hennes and Mauritz AB (November 04, 2016). Website for Chinese market (in English). URL: http://www2.hm.com/en_cn/index.html

A big online shopping event in China is “Singles Day” which each year falls on the date November 11 (11.11) that has four times the digit “1”. H&M utilizes this promotional festival for an extended sale of about 10 days. Singles Day was first introduced by the online platform Alibaba, where many merchants offered 50 percent discounts (Jing & Ruiming, 2013, p. 30). The participating stores and the sales volume has grown significantly since then (Jing & Ruiming, 2013, p. 31), and in 2016, Alibaba registered sales for 17.7 billion USD, only in the first 24 hours (Lucas, 2016, para. 1). Since the younger generation in China grew up with the internet, the awareness of online shopping habits is essential, and figure 4.9 shows that H&M created promotions utilizing these trends. For this Chinese event H&M also decided to use a Chinese model for the picture on their website (see figure 4.9).

The style icon collaboration with celebrities or designers were run in China as they were part of their global campaign. They did target the Chinese customers though, for example by giving them prior access to large collections by Madonna and Kylie Minogue during the launches of flagship stores in Hong Kong and Shanghai. On Chinese social media, clips with David Beckham were the same as in the global networks.

4.2.4 Product adaptation

Part of H&M’s global strategy is standardization of most of the clothing portfolio they offer. This also includes size of the apparel items. The table 4.1 below demonstrates that even though size names numbers differ in Europe (Germany), China, and the US, the actual categories (e.g. XS, S, M, L, XL) stand for the same bust, waist, and seat measurements. Therefore, the size and fit of clothes are identical in all countries.

Table 4.1: H&M size guide for ladies combining US, European, and Chinese sizes

	XS		S		M		L	
US size	2	4	6	8	10	12	14	16
EUR size	32	34	36	38	40	42	44	46
CN size Tops	155/76A	160/80A	165/84A	165/88A	170/92A	170/96A	175/100A	175/104A
CN Size Bottoms	155/60A	160/64A	165/68A	165/72A	170/76A	170/80A	175/84A	175/88A
Bust (cm)	76	80	84	88	92	96	100	104
Waist (cm)	60	64	68	72	76	80	84	88
Seat (cm)	84	88	92	96	100	104	108	112

Source: H&M Hennes and Mauritz (2016o). Customer Service – Size Guide. URL: http://www2.hm.com/content/hmonline/en_cn/customer-service/sizeguide/ladies.html; http://www.hm.com/us/sizeguide/sizeguide_ladies.

Product adaptation also includes the creation of additional lines of clothing or change of assortment within a global collection. A prime example for this is H&M's "Halloween Spirit" Collection for children. Even though the title of the collection is English in Germany, the US, and China, the items within the collection differ, as we can see in the Halloween Spirit collection. H&M chooses carefully which clothes it offers in which market and adapts the assortments of the online shop to meet customer expectations and demands. Physical stores also

4.2.4.1 US-American market

In the US, the Halloween Spirit collection for kids carried 11 items which include also shoes, socks, a few costumes, pants, and sweaters with Halloween prints (figure 4.10). The main promotion picture shows a boy in a Dracula outfit and a girl in black dress with skeleton print, and the selection also has items that are on sale (figure 4.10). Searching the term "Halloween" in the KIDS section revealed a large selection of 87 items costumes for children which are categorized under different a different section. (H&M Hennes and Mauritz AB, 2016p)

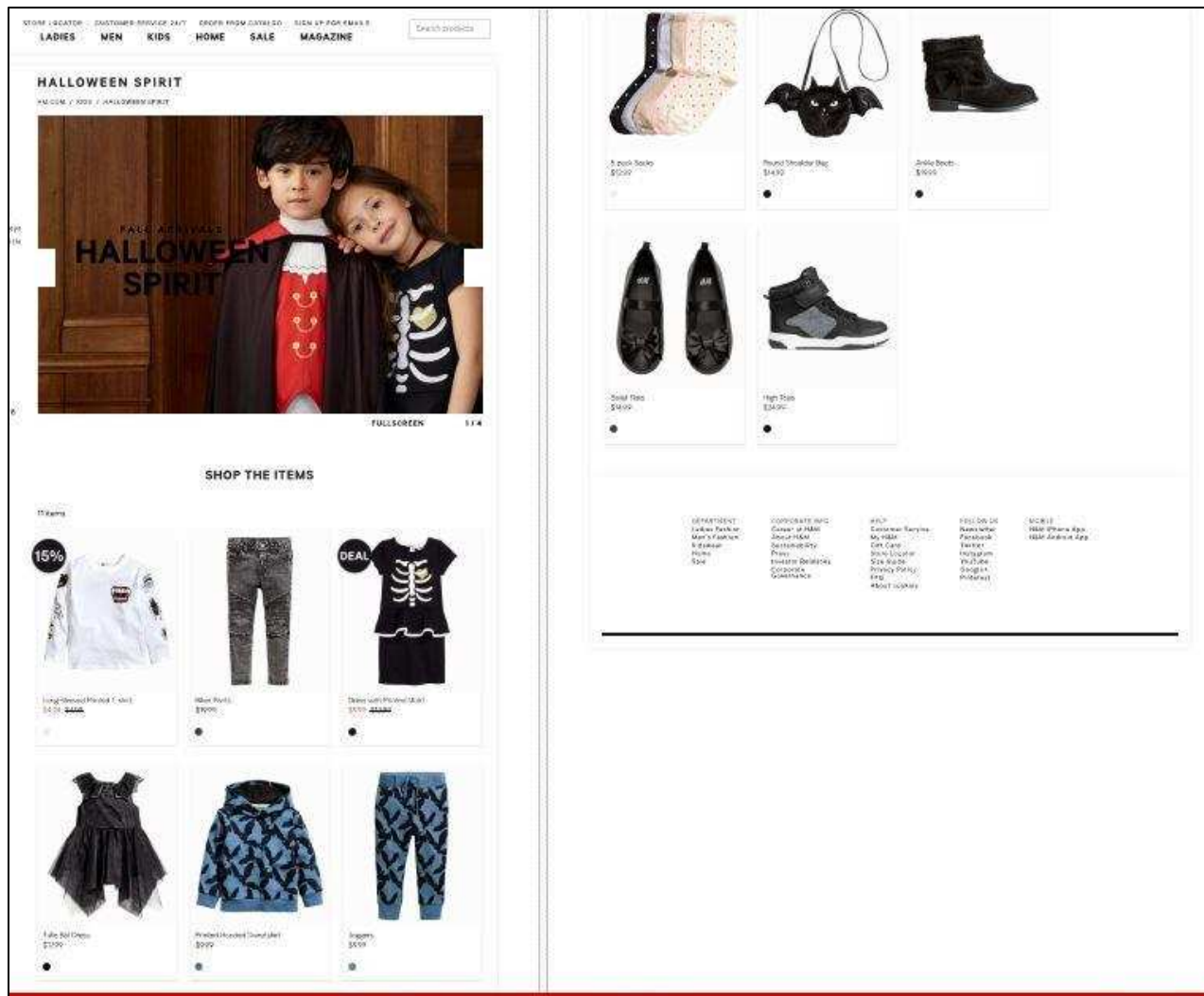


Figure 4.10: Kids Halloween Spirit Collection October 2016 in the US.

Source: H&M Hennes and Mauritz AB (2016p, October 23). Kids – Halloween Spirit. URL: <http://www.hm.com/us/departments/KIDS>

4.2.4.2 German market

The Halloween Spirit line in Germany included 14 items, and includes an additional pair of shoes and a neck band for girls (figure 4.11). The main picture is the same as on the US website. There is a total of 84 “Halloween” related items for children that can be found on the German website. However, this selection does not include as many costumes as the US website. (H&M Hennes and Mauritz AB, 2016q)

H&M offers Halloween clothing for children in Germany only since 2013 (Nowicki, 2012, para. 2). This might be due to the fact that dressing up for Halloween is not yet as popular in Germany as it is in the US.

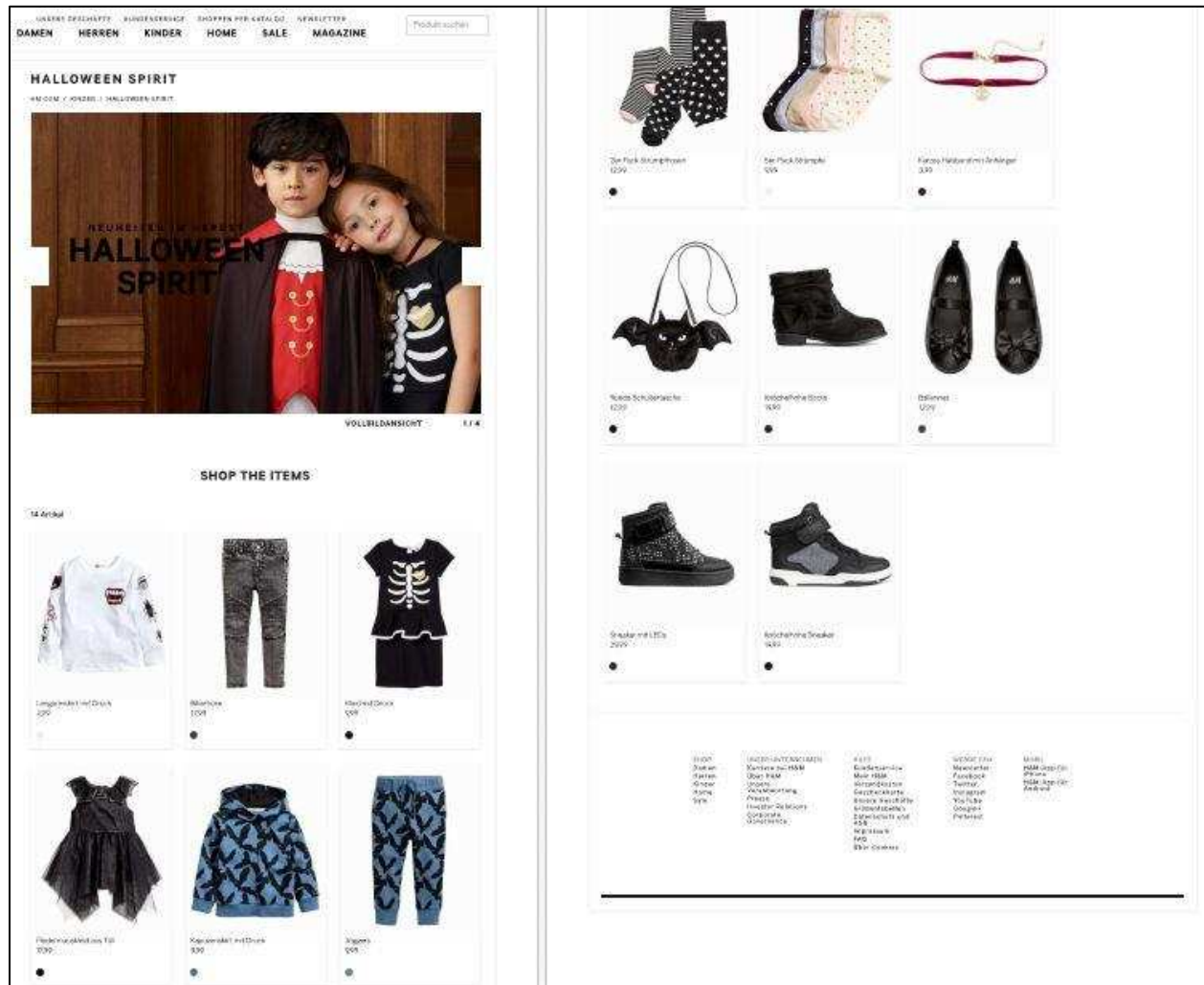


Figure 4.11: Kids Halloween Spirit Collection October 2016 in Germany

Source: H&M Hennes and Mauritz AB (2016q, October 23). Kids – Halloween Spirit. URL: <http://www.hm.com/de/department/KIDS>

4.2.4.3 Chinese market

The “Halloween Spirit” collection shown in the Chinese H&M online store contains more items than the US or German store. shows more items than the other two websites, namely 33 (figure 4.12). The main picture is different from the other two websites, and even though it shows the same boy and girl, the boy wears a blue-black graphic sweater and not a Dracula costume. When searching the entire KIDS section on the Chinese website for “Halloween”, 77 clothing articles are

available which is less than in the other two countries (H&M Hennes and Mauritz AB, 2016r). But just like on the German website, there are only few costumes but more sweaters, leggings, and socks that are Halloween themed or also Disney princess-themed (H&M Hennes and Mauritz AB, 2016r). Halloween is only entering China through Western influence and has not yet reached a substantial level of popularity. This could be a reason why items are Halloween themed but the website does not actually offer costumes.

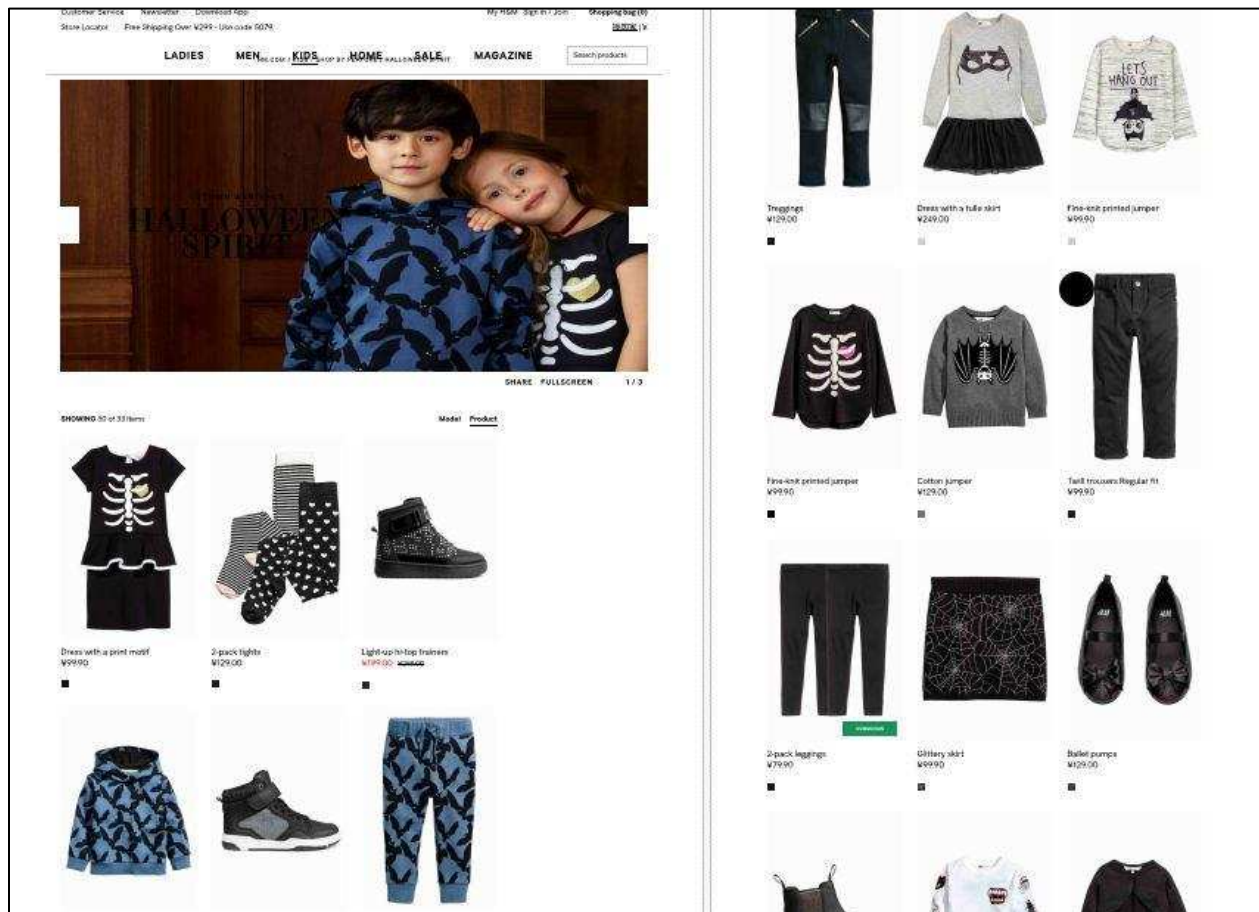


Figure 4.12: Kids Halloween Spirit Collection October 2016 in China

Source: H&M Hennes and Mauritz AB (2016r, October 23). Kids – Halloween Spirit. URL: <http://www.hm.com/cn-en/department/KIDS>

For Chinese consumers, H&M clearly represents a Western brand that follows Western trends. Nonetheless, country differences concerning apparel like color, size, and their attitude towards modesty, might make it necessary to adapt products to the Chinese market.

As mentioned in Chapter 3, companies need to conduct market research thoroughly to determine whether to offer their standard assortment, selected items or adapted products. Another consideration are the many different regions in China, in which consumer tastes and purchasing power can differ. The size of consumers also differs since Southern Chinese are comparatively smaller and slimmer than Northern Chinese people. (Ern-Stockum & Kromer, 2012, p. 5)

The figure below shows which strategy H&M could have chosen for their product range, including (1) global range, (2) portion of global range, (3) partly country-specific, and (4) further differentiation of range within China.

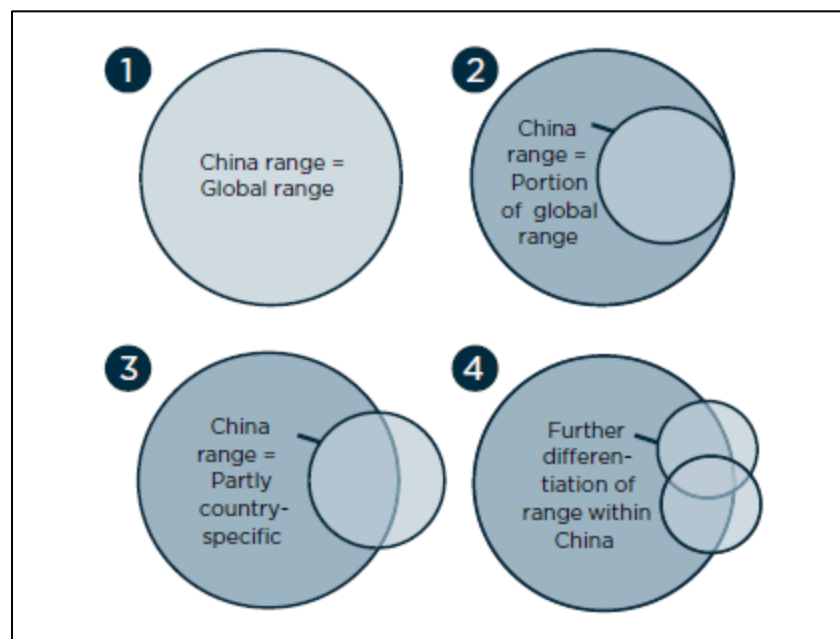


Figure 4.13: Range of Standardization vs. Differentiation in Chinese market

Source: Ern-Stockum, D. & Kromer, S. (2012). Entering China: Still a big opportunity when doing it right!. Kurt Salmon Retail Insights. Retrieved from http://www.kurtsalmon.com/uploads/2012%2BNov_WP%2BEntering%2BChina.pdf

According to an interview with H&M CEO Karl-Johan Persson, H&M carries about 80 percent of the same items world-wide but does some adaptations (China Daily, 2012, p. 1). For example, whereas H&M usually sells green men's hats, they do not put them on the shelves in China. The common phrase "wearing a green hat" refers to a cuckold, and therefore the product has a negative connotation (Madden, 2012, para. 6). Another negative symbol are white flowers as they are only used at funerals and are associated with death. Any summer dresses featuring daisies

or other white flowers are therefore not part of the adapted assortment for China (Madden, 2012, para. 6). Another adaptation of store assortment is determined by the climate in H&M's stores location. For example, stores in tropical climate in Southeast Asia, like Malaysia, carry fewer clothes that are thick or down coats. This is also true for stores in South China (China Daily, 2012, p. 1). Other adaptations happen continuously during store operation, so that the items match customer demand (China Daily, 2012, p.1). According to China's marketing manager, Vivian Chen, H&M also conducts research with focus groups to determine what colors are suitable (Madden, 2012, para. 5).

The collections for Chinese New Year also adapt to Chinese customs. H&M created a collection that particularly used "lucky colors" for Chinese New Year which are red and gold to adapt to the consumers' cultural symbolic colors (Chiu, Myers & Goad, 2014, p. 3). The campaign has been successful for several years. The latest collection in 2016 also included the monkey as the annual animal on t-shirt and pullovers. Again, the dominating colors of the collection were red, accompanied by black, white and gold (H&M Magazine, 2016).

Even with the adaptations made for Chinese customers, loose, and oversized garments, which are part of the assortment H&M carries, often gives Chinese shoppers the illusion that H&M's style is a typical "European style". Although, as CEO Persson said, the "European element" is not an intended selling point of H&M, it can work in H&M's favor to be perceived as such (China Daily, 2012, p. 1).

In conclusion, it can be said that H&M's marketing strategy concerning product adaptation falls into the third category of the standardization vs. differentiation categories in figure 4.12. This means that H&M's range of products offered in China is a portion of the global range, but some are country-specific according to special events, cultural symbols, and styles (Ern-Stockum & Kromer, 2012, p. 5). There are also a few items that are made with the Asian market in mind and that are sold in China as well as other Asian countries.

The research also showed that both H&M and Zara used their understanding of cross-cultural consumer behavior to target similar consumer segments around the world. For example, the identification of a cross-national fashion subculture present in many global metropolises enabled these apparel companies to sell a line of standardized products to customers in these cities.

7.2 Conclusion

This paper has analyzed the internationalization process of the two global apparel companies H&M AB and Inditex, focusing on their flagship brands H&M and Zara. The research has illustrated how these two companies create a competitive advantage in culturally different markets, focusing especially on the German, the Chinese, and the US-American markets. Four key business areas for the internationalization process have been selected as a basis for the analysis, namely market entry, brand positioning, promotion, and product adaptation. The analysis of the strategies adopted in these four business areas and in these three countries served as the outline to a comparison of the similarities and differences between the strategic decisions of the two firms. Specific examples showed how and to what extent the apparel companies adapted to the cultural differences that they were faced with.

This paper has contributed to the field of internationalization in business and marketing strategy, and has presented several best practices on how firms can create and sustain a competitive advantage in culturally different markets. These best practices can be useful for other companies who operate in culturally different markets or who wish to internationalize. The sections on specific markets serve business executive, researchers, and international marketers to explore and apply aspects of the local culture. Nonetheless, since cultures are dynamic, continuous research is needed in the field of international marketing and business, as current recommendations are only accurate as long as the business environment, consumer behavior, and cultural perceptions have not significantly changed. The fact, that successful global brands do not need to adapt most of the apparel, and have even identified cross-national, young target groups with similar demands, shows that there is cultural convergence among parts of the younger generation. How pronounced this development is, and how global social platforms might fuel these tendencies, is another interesting area of research that should be further explored.

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