



School of Sustainable Development
Of Society and Technology

Mälardalen University

2008-09-29
Bachelor Thesis
EFO703

Marketing strategies of European companies In the Middle East

- Case study: Zara and H&M

Tutor: Leif Sanner

Authors: Samar Younan
Eliane Selwan

Group number 1930

Abstract

Date	September 29, 2008	
Level	Bachelor Thesis in Business Administration, 15 ECTS credits.	
Authors	Eliane Selwan	Samar Younan
Supervisor	Leif Sanner	
Title	Marketing strategies of European companies in the Middle East. Case Study: Zara and H&M	
Research question	What role does the competitive advantage of nations play when European companies, such as H&M and Zara, choose to establish in the Middle East? And what are their marketing strategies and whether to adapt or standardize.	
Purpose	The purpose is to study if European companies choose certain countries of the Middle East because they have a competitive advantage over others and their way of “fitting in” to the new nation to either standardize or adapt. We know that markets can differ very much from one another and would like to study whether the same strategy when opening domestically is also used or changed when establishing in a different market like the Middle East.	
Method	The authors have been using qualitative data. Qualitative data in the form of interview questions through e-mailing and secondary sources such as books, articles and journals. No quantitative data has been added because the authors did not believe it would have an impact on our results and conclusion.	
Conclusion	Porter’s determinants are a good help on the way, but it is not enough and does not guarantee success since we live in a constant changing business environment. Whether it is important for a country in the Middle East to have a competitive advantage is answered by a comparison made of H&M and Zara. H&M might consider the determinants of nation’s competitive advantage, while Zara’s main goal is to be located in every possible corner of the world. The difference in adaptation versus standardization between the companies is that H&M is mostly standardized and only adapt the marketing to the different markets while Zara includes both adaptation and standardization.	

Acknowledgement

First of all, we would like to thank our tutor Leif Sanner for time, guidance and feedback. It played a major role and contributed to a better thesis. We are also grateful for the seminars where our opponents' gave us valuable criticism to make our thesis better.

Second, we would like to thank Rouba Abbouchi, the marketing manager for H&M in the Middle East for her time and effort to answer our questions.

Last but not least we thank our friends and family for giving us the support throughout the thesis work.

Thank you.

Samar Younan

Eliane Selwan

Table Of Contents

1. Introduction	6
1.1 Problem Discussion	7
1.1.2 Problem Statement	8
1.2 Purpose	8
1.3 Limitations	8
1.4 Target group	9
1.5 Company background of H&M and Zara	9
1.5.1 H&M	9
1.5.2 Zara	10
2. Method.....	11
2.1 Deduction and induction	11
2.2 Qualitative and quantitative data	11
2.3 Primary and secondary sources	11
2.3.1 Primary sources.....	11
2.3.2 Secondary sources.....	12
2.4 Reliability and trustworthiness	12
2.5 Case study	13
2.6 Research Strategy Structure	14
2.7 Method critique	15
3. Theoretical Framework.....	16
3.1 Michael E. Porter's Competitive Advantage of Nations	16
3.2 What is marketing strategy?	18
3.2.1 Definition of marketing strategy	18
3.2.2 Marketing plan	18
3.2.3 Marketing Models	19
3.2.4 Strategic marketing	19
3.3 Adaptation versus Standardization	19
4. Empirical Data.....	21
4.1 The Middle Eastern Market	21
4.2 Saudi Arabia	23
5. The companies marketing strategies.....	27
5.1 H&M's marketing strategy	27
5.2 Zara's Marketing Strategy	28
6. Discussion: Marketing Strategies	30
7. Discussion: Standardization versus adaptation.....	33
8. Conclusion	35
APPENDIX.....	40

Table of figures

Figure 1 Research Structure	14
Figure 2 Porter's Determinants of National Competitive Advantage	16
Figure 3 Marketing Model.....	18
Figure 4 Standardization vs. Adaptation	19

1. Introduction

This part is an introduction of what the authors' subject is and what the thesis will include.

Today's clothing branches are distinguished by a tougher competition and smaller margins. The world, with the help of the Internet, is shrinking with more and more companies choosing to expand their business and open abroad. The reason for this is high competition in the domestic country, less profit and saturation. Companies always seek more and want more therefore they choose to internationalize.

So why go international? Companies want to grow, they seek niche opportunities, countries that have few or unlike companies as their own and profit from it.

Through a company's perspective, when entering a foreign market, three main strategies have to be taken into consideration:

1. **Market seeking strategy:** which means that the company is looking for new markets to enter
2. **Efficiency seeking strategy:** which means that firms are looking for countries and markets where they can reach efficiency
3. **Resource and asset seeking strategy:** means that companies want to enter countries to get access to raw materials, low-cost unskilled labor or other essential areas that can give them a lower overall cost¹.

What companies need to think of when changing markets is the attractiveness of their company. They should be able to identify the risks of entering that market also, if the country has any political instability or economic issues for example. Another important aspect is to think of using the same strategies internationally or adapting them to different countries. A company's strategy is very important and changing them could be a major risk for them.

Product, price, distribution and advertising are the main marketing strategies the company has to take into consideration when internationalizing. If the company's product will fit the specific country is the question and what price it should have. When it comes to distribution, whether to have direct selling or have several retailers. Advertising, using the same ones all over the world or adapt them in the sense of language for example².

This study shows whether H&M and Zara use the same strategies in their home countries as they do abroad or if they change it and adapt it. With the use of Michael E. Porter's model and the adaptation versus standardization model these questions are answered. Since Porter's model highlights what one should focus on the most it is very helpful. After the analysis of Porter's model it is important to see if companies change anything or not and this is interesting since it shows how companies form their marketing strategies. Whether they adapt their strategy or keep it as it is.

¹ Philip R. Cateora and Pervez N. Ghauri, 2000, *International Marketing European Edition*, McGraw – Hill Publishing

² Philip R. Cateora and Pervez N. Ghauri, 2000, *International Marketing European Edition*, McGraw – Hill Publishing

1.1 Problem Discussion

Here the authors' will discuss what the problems are in the areas they are going to write about.

Many of today's companies consider a part of success as being accessible for the customer. Besides order and online shopping, the biggest goal is opening in as many cities and countries as possible. Nowadays we can find big companies having more than one store in the same city; this kind of availability is a way of maximizing the companies' profit. But to give the consumer this product and service ability is a difficult task. Opening abroad brings many new challenges to the company, especially when the new market is very different from the company's home market. The behavior and mentality are different in different countries and this can cause problems when marketing a product in a foreign country.

According to Cateora and Ghauri, "the company has to develop a global awareness". This is what they further explain is an awareness of "*objectivity, tolerance towards cultural differences and knowledge of history, market potential and economic, social and political trends*"³. After learning that the country has market potential then it is up to the company to take on the right marketing strategies suitable for the country.

Porter's Determinants in Saudi Arabia

So how do companies really choose the countries they want to open in and what do they consider? Using Porter's model the authors will analyze Saudi Arabia which is the chosen country for this thesis to find out if they match each other.

H&M and Zara are European companies that have expanded rapidly worldwide. And they have chosen to open in a markets considered to be very different from their home markets. So through porter's diamond model the authors will analyze Saudi Arabia, which is the chosen company, and illustrate the idea through examples using H&M and Zara.

And that is why we have chosen to work with companies with European home countries that have expanded to the Middle East and specifically in Saudi Arabia. And with the help of Porter's Nations of Competitive Advantage, if we can see that the countries they have chosen to open in are compatible with the factors mentioned by Porter and if it is necessary for a country to have a competitive advantage to become eligible for the companies.

Adapt or Standardize

After dealing with which country they will open in, the question of whether to standardize or adapt their company remains. Here the problem of weather companies need to change their company's strategy will be described.

The companies we have chosen to work with are H&M and Zara since they are highly competitive with one another. We will adapt the theory of Porter to these companies and

³ Cateora and Chauri, International Marketing, European Edition, McGraw-Hill, 2000, pp. 17-18

figure out why they have chosen to establish in their chosen countries

Since marketing is a broad area one has many things to consider. It is a long process to choose a country where your company will establish, will your product have an increased demand and success. We know that people are different, countries are different and the demand for different things. The next step is about the price should it be constant all around the world or should we adapt it to the country. There are countries that are less fortunate and other countries that are luxurious. How should one promote the company and the product? Not every country is a fan of ads of young women only wearing bikinis'. Marketing is all about advertising and selling and one must have the demand and customers in orders to succeed.

1.1.2 Problem Statement

What role does the competitive advantage of nations play when European companies, such as H&M and Zara, choose to establish in the Middle East? What are their marketing strategies and in specific whether to adapt or standardize?

1.2 Purpose

The purpose is to find out how companies chose the country they want to open. What they think of taking into consideration Porter's model and implementing it on Saudi Arabia. The purpose of using Porter's model is because he takes up the most important factors when one chooses a country to establish in. It touches the main aspects that companies take into consideration when they decide to open elsewhere.

The purpose with this research is also to find the different strategies H&M and Zara has taken on when it comes to entering in the Middle Eastern market with concentration on Saudi Arabia. The authors want to study whether the same marketing strategies of fashion industries are similar and constant or not and whether the companies adapt or standardize when entering a new country. Different markets have different needs and demands therefore the purpose is to learn whether foreign companies such as H&M and Zara can make it.

1.3 Limitations

Limitations are subjects which the authors will not take up in the research. It concerns things that one has in mind but is not necessary for the subject to mention but would be worth stating.

Since H&M and Zara are very interesting to write about we must restrict ourselves from writing more than our title allows. This thesis will only be considering the marketing strategies of each of these companies and nothing else. The cultural differences of Europe and the Middle East, more specifically Saudi Arabia, will not be taken up as well as the educational systems, laws and regulations of the country since they are not needed in this thesis. The authors will mention background and basic information about the Middle East as a whole, but not go into depth about the whole Middle East, but only mention Saudi Arabia.

1.4 Target group

This is beneficial for present and future clothing companies that are considering expanding to foreign markets different from their domestic ones. In this thesis it is specifically concerning the entry of the Middle Eastern market.

It can also be of interest for H&M and Zara to read through our study and conclusion of this thesis. It is beneficial for other students that also would like to write about the Middle East, Saudi Arabia or about the companies H&M and Zara.

1.5 Company background of H&M and Zara

1.5.1 H&M

H&M opened its first women's clothing store in 1947 as Hennes (Swedish for "hers") in Västerås, Sweden. It later bought the hunting and men's clothing store Mauritz Widforss. H&M is controlled by the family of Chairman Stefan Persson (the billionaire son of founder Erling Persson); they own nearly 37%. It operates more than 1,400 stores in 28 countries with direct sales operations in selected areas. Germany is H&M's number one market, accounting for more than 25% of sales. About 60% of its clothing is made in Asia; the rest is manufactured primarily in Europe. From being Hennes and Mauritz they became H&M.

Today H&M has 120 stores in Sweden making them the second largest market in the country. H&M is a very fast growing company and in the last five years time until today it has about 1400 stores. The company uses a lot of good and positive tactics to grow world wide. The first store that was opened abroad was located in Norway in 1964. The store became a huge success there and resulted in over 70 more stores all around the country⁴.

Since 1980 it has been possible for H&M's customers to shop through mail order. This service is functioning in Sweden, Norway, Finland and Denmark. Their online shopping service became available in 1998 where it first extended in Sweden, then Denmark and Finland. A few years later it was possible for Norway and the most recent country to join in on the online shopping was the Netherlands.

H&M's head office is located in Stockholm where the central functions such as advertising, buying and designing, investor relations, communications, finance and IT are found. The sales countries have their own national office except for Luxembourg, Poland, the Czech Republic, Portugal and Italy who are administrated by their neighbor countries.

H&M has 28 production offices around the world. The production offices are located in Asia, Europe, Central America and Africa. They have approximately 100 designers who work with a team made up of 55 pattern designers, around 100 buyers and a number of budget controllers to create H&M clothing collections for women, men, teenagers and children. The group has more than 60 000 co-workers. H&M does not have any factories of its own but instead works with around 700 independent suppliers. Around 60% of their production takes

⁴ H&M, *About H&M*, accessed 2008-03-04, www.hm.com/se/omhm_abouthm.nhtml

place in Asia and the rest mainly in Europe⁵.

H&M even has donating activities to international organization as well as keeping their prices low by buying large quantities of garments. H&M is in collaboration with famous people for designing or modeling which attracts new buyers. Their employees are in focus. Their employees' commitment makes a major contribution to H&M success. They believe in individual abilities and encourage employees to develop further either by taking them to special courses and training facilities on the company's budget.

1.5.2 Zara

The first Zara store was opened in 1975 in La Coruña, in the north western Spain. It was after a German wholesaler had cancelled a big shipment of clothing and the owner, Amancio Ortega, of the factory decided to open a store beside the factory and sell the clothes himself. The store was well received by the public and they started to extend their stores to other major cities in Spain.

Zara belongs to one of the world's largest fashion distributor groups in the world called Inditex. It has eight sales formats; Zara, Pull and Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Kiddy's Class. The different sales format is for different target groups and has different products. Inditex Group has over one hundred companies that have main activities within the textile industry. The group owns 3863 stores which 1412 are Zara stores, in 68 countries⁶.

The first time Inditex opened a Zara store outside of Spain was in 1988 in Portugal and within the two next years they opened in France and United States. In less than 20 years they have managed to open over 800 stores around the world. The headquarters to its central offices is still in the same city where it first time opened, La Coruña. Most of the stores are located in main shopping are and districts. And they believe that the best fashion message that can be sent to the customer is from their store windows.

Zara's business idea is: *"creativity and quality design together with a rapid response to market demands"*. The basic idea is that it should not take more than 2 weeks from production till the clothes are on the shelf. Their rapid response has taken them to grow internationally in a high pace. Another part of their business model is that the customer is the centre. They design, manufacture and distribute to *"give the customer the fashion they expect"*.

The business chooses to have control over most of the steps in the supply-chain, which makes them a vertically integrated retailer. Zara manufactures 50% of its products in Spain, 26 % in the rest of Europe and, the rest in Asia and the rest of the world. The only time they depend on outsourcing is for the clothes with longer shelf life, such as T-shirts, and usually its in Turkey or Asia⁷.

⁵ H&M, *Our employees*, accessed 2008-03-04, www.hm.com/se/omhm/faktaomhm/vramedarbetare_ouremployees.nhtml

⁶ Zara, *Who we are*, accessed 2008-05-11, http://www.inditex.com/en/who_we_are/stores

⁷ Zara, *Who we are*, accessed 2008-05-11, http://www.inditex.com/en/who_we_are/stores

2. Method

2.1 Deduction and induction

When choosing a research question for testing or building a theory will be asked. If you follow through by developing a theory and use a strategy to test the theory then you should apply the deductive approach. But if you collect data and with the results of the data analysis you develop a theory then you are applying the inductive approach⁸.

The thesis will include the deductive approach; because with the help of earlier strategies to test the theory is a more consistent with the thesis work and its findings.

2.2 Qualitative and quantitative data

Qualitative research is the analysis of data that comes from interviews, pictures or objects. Meanwhile quantitative research is the analysis of numerical data coming from subjects such as statistics.

These two ways of research are independent of each other in the eyes of many other researchers. Other researchers think that one is better than the other since qualitative data has to do with words while quantitative data involves numbers. Qualitative data is inductive and quantitative data is deductive.

The disadvantages of these two methods of research are that qualitative research concentrates too much on individual results rather than focusing on larger aspects possible to give a better result. What is negative with the quantitative research is that it forces responses or distributes people into different categories which might not be necessary and meaningless⁹.

The authors have been using qualitative data. Qualitative data in the form of interview questions through e-mailing and secondary sources such as books, articles and journals. No quantitative data has been added because the authors did not believe it would have an impact on our results and conclusion.

2.3 Primary and secondary sources

2.3.1 Primary sources

Primary data is data which one has collected through surveys, interviews and observation. It is information which has been published for other people to read and analyze and maybe make their own assumptions¹⁰.

⁸ Saunders, Lewis and Thornhill, 2003, *Research Methods for Business Students*, Prentice Hall, Harlow, pp. 85-90

⁹ Writing Guides Generalizability and Transferability, *The qualitative versus quantitative debate*, accessed 2008-08-26, <http://writing.colostate.edu/guides/research/gentrans/pop2f.cfm>

¹⁰ Ghauri & Gronhaug, , 2002, *Research Methods in Business Studies*; A Practical Guide, pp. 81-83

For this research, the authors tried get several interviews from the respective companies. The authors have tried to get in contact with both H&M and Zara, but they consider themselves having a slimmed organization and choose not to provide any information besides the one already published on their websites. In the end the data the authors could gather was through sending a number of questions through e-mail. The e-mail was answered by H&M's marketing manager in the Middle East Rouba Abbouchi.

2.3.2 Secondary sources

Through secondary sources you explain, combine and analyze information which you have gathered through books, articles or the Internet. This means that secondary sources are primary sources, but since we are the second ones using this information which we have collected it now becomes secondary sources¹¹.

Secondary data is data which is collected through books, articles and reports that others have written. Most of the collected data the authors have used in this thesis are secondary data.

Books were collected from Mälardalen University and were used to analyze and explain different terms of marketing and models. The information collected through Internet was background information about H&M and Zara as well as market information about Saudi Arabia. The authors used articles as well to answer the thesis problem. Articles were also used to explain Porter's determinants and find necessary information about the Middle East and Saudi Arabia. The articles were collected from Mälardalen University and its databases such as Google Scholar and Emerald.

2.4 Reliability and trustworthiness

Here the reliability of the thesis is discussed and the sources chosen, whether they are valid or not. Sources need to be trustworthy in order to introduce a good thesis¹².

The sources the authors have chosen to examine are information that has been found through books, articles and the Internet. As we know, books and articles are the most reliable sources that one can choose to analyze. One must be very careful with the information that has been found and which the authors have been throughout the thesis. The Internet sources that have been examined are articles which have been found on the web.

Since information tend to change over time, and concerning this thesis when writing about markets, the reliability cannot be guaranteed. The market grows and changes rapidly so the numbers and information reliability are subject to change. The authors have tried to carefully pick reliable sources to make this thesis as valid as possible. The sources used in this thesis are picked out carefully and the authors have taken in consideration their trustworthiness. For

¹¹ Ghauri & Gronhaug, 2002, *Research Methods in Business Studies; A Practical Guide*, pp. 76-80

¹² Saunders, Lewis and Thornhill, 2003, *Research Methods for Business Students*, pp.100-102

something to be trustworthiness it needs to be true. The information that this thesis contains as mentioned before are taken mostly from books and articles which are trustworthy sources.

The trustworthiness of Internet is difficult since this anyone can put anything on the internet. Homepages like H&M, Zara and Gap's are trustworthy and sites with articles in are as well which the authors have tried to use mostly to make the thesis are reliable as possible. The franchisors' web pages are reliable as well since the information taken from there is written by well known and trustworthy companies that are recognized by the business world. The rest of the information from Internet sources is taken from universities, migration agency and information about Saudi Arabia which is trustworthy to analyze facts through because they are reliable institutions and organizations.

As we know statistics change over days and months and since the authors are writing about markets the validity of certain facts may change. For example if the number of stores that H&M has opened may change the next day due to an opening of another. This thesis is valid through a number of months until some statistics changes, but it doesn't make it invalid right now.

2.5 Case study

This part will describe what a case study is and why the authors chose H&M and Zara to write about.

A case study is a strategy which involves investigation of a certain phenomenon using multiple sources of evidence¹³. The case study strategy is a good approach when there is an interest in gaining a deep understanding of the research and its process.

The authors had three main points that were necessary in the work process for a company to have. These were to have Europe as a domestic market, competitiveness and aggressive expansion. These three points suited H&M and Zara, because they have both have European origin and started off by expanding in Europe before taking on new continents. They are as well the two most competitive companies in the apparel industry, where H&M has highest amount of stores and Zara has opened in more countries which makes them aggressive in expansion¹⁴.

The reasons why the authors decided to write about the Middle East market and concentrate on Saudi Arabia is since H&M and Zara entered there recently. It is interesting to look at the strategies they took when entering this new country and if they made any changes when opening their stores there.

¹³ Saunders, Lewis and Thornhill, 2003, *Research Methods for Business Students*, page 93

¹⁴ Pia Gripenberg, DN Ekonomi, Nu är H&M störst, accessed 2008-10-01,
<http://www.dn.se/DNet/jsp/polopoly.jsp?d=3130&a=821414>

2.6 Research Strategy Structure

This part will describe for the readers how the authors structured their thesis. What they did first and second and so on constructed with a model.

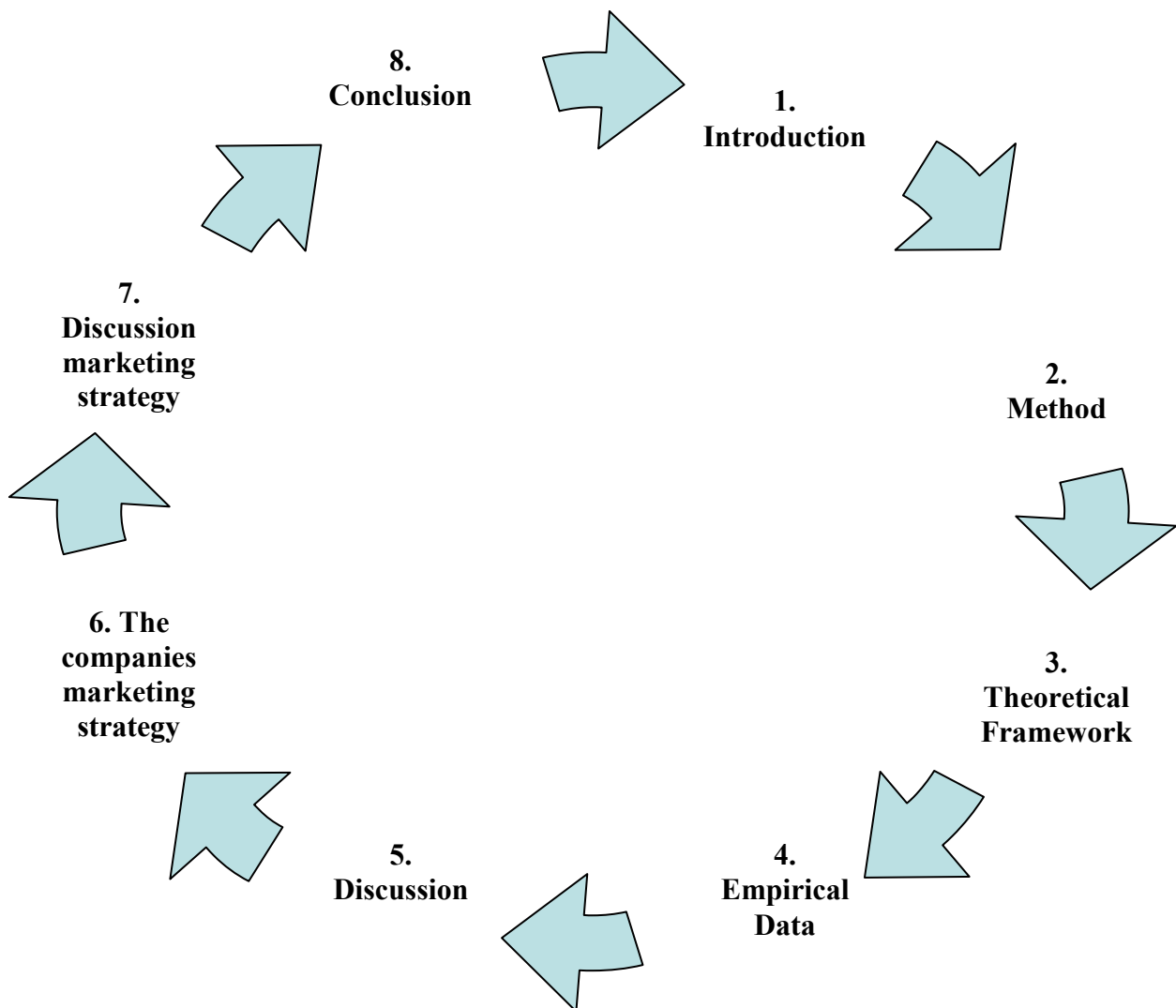


Figure 1 Research Structure
Source: Made by authors

2.7 Method critique

Here the difficulties that the authors found will be explained and discussed.

What the authors found the most difficult with the thesis was getting in touch with the respective companies. Since they are very large successful companies with a great deal of work on their hands, reaching them is difficult. Many emails were sent to H&M and Zara's head office as well as to some of their stores.

Finally the authors got in touch with a marketing manager in the Middle East and were able to get two short email interviews where Rouba Abbouchi, H&M's market manager in the Middle East, answered a few of our questions.

3. Theoretical Framework

Here the authors will describe which models and frames were used to write this thesis. Also show different figures to explain the different frameworks.

3.1 Michael E. Porter's Competitive Advantage of Nations

There are several interesting forces that can affect the interior of a business as well as the exterior. There are also several models that explain these forces of influence.

The main model that is used in this research as mentioned before is Michael E. Porter's diamond of national advantage. It is adaptable to any company that chooses to internationalize and seek answer to why people search for new markets such as the Middle East. Porter's model explains the aspects outside a business that pressure a company's competitive advantage, the way they compete and profit. A business must understand how the surrounding markets work and it has to recognize its competition.

Porter's diamond model is used to study a company's task environment. It explains that strategies should not only focus on the structure and resources of a company, but also on the functions of its framework¹⁵. The national advantage model includes firm strategy, structure and rivalry category, demand conditions, related and supporting industries and factor conditions¹⁶.

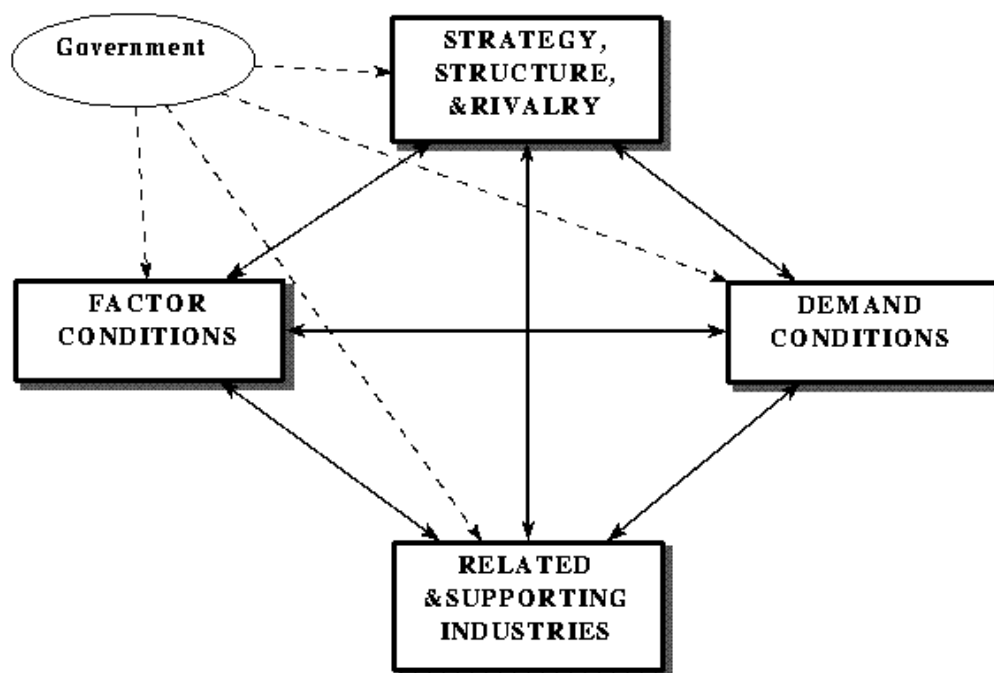


Figure 2 Porter's Determinants of National Competitive Advantage

Source: <http://pacific.commerce.ubc.ca/ruckman/diamond.gif>

¹⁵ Michael E. Porter, 2007, *The Competitive Advantage of Nations*, International Business – structure, strategy, organization, Compendium, page 77

¹⁶ Michael E. Porter, 2007, *The Competitive Advantage of Nations*, International Business – structure, strategy, organization, Compendium, page 78-79

The factor conditions mean skilled labor, good infrastructure which is necessary in competing. If we consider the standard economic theory there are a few factors of production that affects the trade flow. Those factors are land, labor, capital and natural resources. But now we know that at its best those factors are still incomplete to explain the conditions.

The new economic thinking gives another way of defining the important factors of production which are not inherited. The advanced economy tells us that a nation creates the factors of production by skilled human resources or scientific base. For the factor to have that kind of support it needs to be specialized at a certain area to the industry's need and the factors must be difficult to duplicate for the competitors. To have skilled human resources gives the company an advantage when it comes to innovation which is another important factor.

The demand conditions refer to the company's home-market demands of its products and services. Connected to the factor condition it is the demand condition which explains that when the home demand is high and specific it gives their companies a better picture of future buyer needs in their home country, but also in foreign countries. This demand condition can pressure the companies to innovate faster and meet higher standards leading to better improvements.

Related and supporting industries stand for the local industries that are highly competitive. To be able to have the advantage of being innovative the companies are reliant on related and supporting industries which gives them good working relations. When suppliers and end-users are located close to one another their communication lines become shorter and quicker leading to better information exchange and the transaction of the innovations and ideas are constant. An advantage for some nations is the suppliers with interaction on the global market because acting globally has higher competition which forces the supplier to be more innovative.

Firm strategy, structure and rivalry focus on how companies are created, organized and managed. There is always different ways of managing a company, but there is not one managerial system that is perfect. It depends on the country, the organization and its structure, and how it is integrated to the company and its workers.

As we know from before the skilled human resources is important and a country's prosperity is dependent on what kind of education they choose and what they want to work with. It is also important that the people are hard working and care to make an achievement. Like mentioned in the earlier factors, global competition makes better suppliers, but as part of the fourth factor local rivalry is discussed. It becomes intense and better when it's more localized and especially with the attendance of strong rivals¹⁷.

The government role in the diamond is to stimulate, encourage and support companies to improve their productivity. Good examples of that is that the government should focus on specialized factor production, avoid interfering in currency markets and strict standards when it comes to products, safety and constrain cooperation between rivals in the same industry.

¹⁷ Michael E. Porter, 2007, *The Competitive Advantage of Nations*, International Business – structure, strategy, organization, Compendium, page 81-83

3.2 What is marketing strategy?

Descriptions of what different concepts of marketing and marketing strategies are will be taken up in this part.

First let us begin by defining what the word marketing means. “Marketing is the process of planning and executing the *conception, pricing, promotion* and *distribution* of ideas, goods and services to create exchange and satisfy individual and organizational objectives”¹⁸. This means creating and planning a product, for example for the people according to their demands. First one needs to come up with a concept, this will then be given a price for and of course there has to be some promotion done for the people to know of these products. When all this is done the products are distributed to organizations which will offer it to their customers.

3.2.1 Definition of marketing strategy

Marketing strategy is a method, where a business plan is how to achieve a competitive advantage. A company plans for example a strategy for a new product which starts with how to satisfy the demands of the customers. Creating something new and different gives the product a competitive positioning. It is a way for the business to achieve its goals. Through implementing a good marketing strategy and having something different they can reach their aim¹⁹. In short it is creating a plan which no one has thought of, since it will bring a competitive advantage.

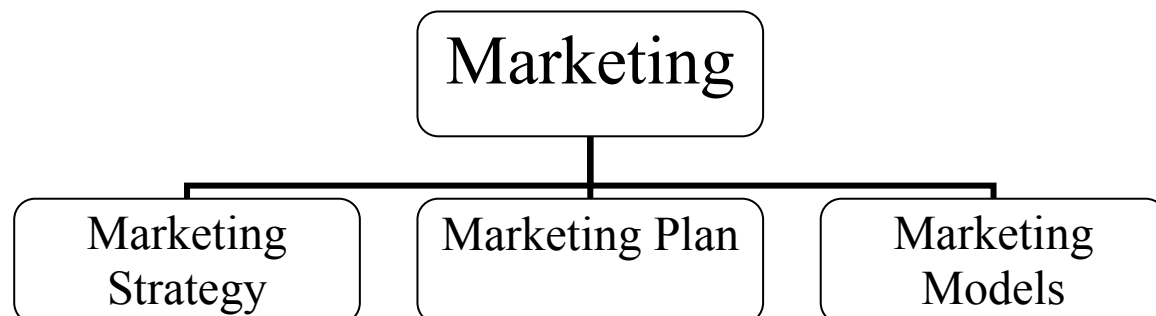


Figure 3 Marketing Model

Source: Made by authors

3.2.2 Marketing plan

Marketing strategies lead to the marketing plans. The marketing plans are the most important tool for managing a marketing effort. The marketing plans are made through the organizational functions such as the corporate, division, business and product planning. Examples on marketing plans can be how to advertise a product and then later how to market it and how to reach the customers demand. These plans are then later on implemented with monitoring the results and if anything need to be corrected²⁰.

¹⁸ Christian Grönroos, 1989, Defining Marketing: A Market-Oriented Approach, *European Journal of Marketing*, Vol. 23, Issue 1, page 54

¹⁹ Kotler Philip, 2003, A Framework for Marketing Management, 2nd ed., page 72

²⁰ Kotler Philip, 2003, A Framework for Marketing Management, 2nd ed., page 59

3.2.3 Marketing Models

Marketing strategies and plans have been discussed so far but there is also a term called the strategic models. Strategic models are the tools a company uses to study and analyze the market decisions they take or will take. A marketing model is a future plan that a company makes in order to keep track of their decisions and the points they want to work with. They come up with a plan which is a specific model that the company will follow. It is good to make a model to be better coordinated when following through the plan²¹.

3.2.4 Strategic marketing

Some of the strategies are affected by the market dominance, if they are first movers or followers. Other is based on strength which is the competitive advantage that involves subjects such as different product offers, cost leadership and market segmentation. Strategies also involve innovation effectiveness which means how fast one can produce something new that no one else has done. In short the product managers tries to pick out a group, check their needs and works on satisfying it²². This all has to be done before someone else gets the chance to in order to keep a competitive advantage and be a threat to other companies.

3.3 Adaptation versus Standardization

Adaptation and standardization are two concepts that are thought of when opening another store in another country. This part will describe what the two concepts are about.

Porter's model is one of the two models used in this paper. The second model is called the adaptation versus the standardization model. The concept provides answers on how to act in a certain market, which every company that is seeking to internationalize has to study hard.

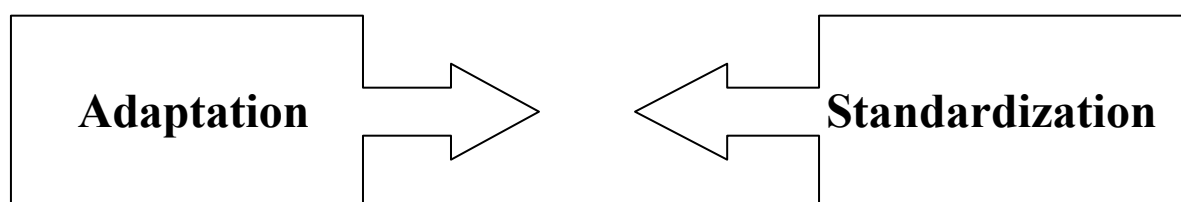


Figure 4 Standardization vs. Adaptation

Source: Made by authors

The question is to adapt to the different countries to fit the business or to standardize and keep the same concept all around the world.

Adaptation is when a company studies the country, all from small matters to larger ones. They

²¹ Kotler Philip, 2003, A Framework for Marketing Management, 2nd ed., p.p. 71-72

²² Kotler Philip, 2003, A Framework for Marketing Management, 2nd ed., p.p. 71-72

study the culture, religion, the people, and the market and if it is necessary they try to change some of the company strategies. Adaptation is also about the business needs to change its products to fit the international markets. For this one must be aware of the political and legal environment of the country one is planning to enter. Another thing that affects adaptation is the economic and market development of that country²³.

Standardization is when a company that is going international or global does not change anything from price of a product to commercials. They keep the same strategy as they have in their country. Everything remains the same as in the country it first started in.

Standardization has some positive effects on a company. It reduces cost of inventory, as well as an allowance to an increased product innovation since the company focuses more on developing their product instead of spending too much time trying to adapt to the market. It may result in lower profits for the company²⁴.

In general a company that has decided to expand internationally or globally the need for adapting or standardizing its strategies is important. It is highly important to study that market before entering it. A study of their culture is the most important and the high need of enough knowledge about the market and the people's needs. Without this research they are most likely to fail.

The model, adaptation versus standardization, is an important model for us to use since it is a reflection of what this thesis is about. The authors of this thesis are doing a research to find out if the marketing strategies of H&M and Zara are the same in Europe and in the Middle East. This means that what needs to be researched is if the companies adapt their marketing strategies or standardize them.

²³Philip R. Cateora and Pervez N. Ghauri, 2000, *International Marketing European Edition*, McGraw – Hill Publishing, pp. 246

²⁴Philip R. Cateora and Pervez N. Ghauri, 2000, *International Marketing European Edition*, McGraw – Hill Publishing, pp. 297-300

4. Empirical Data

4.1 The Middle Eastern Market

This part of the thesis will give a brief description of the different markets in the Middle East.

The Middle Eastern market is growing very fast, contributing potential for companies looking to expand their business. In the coming years, the foreign direct investment and the trade activities are to increase which will effect the trade development and the free trade agreements. The opportunity for brands in the Middle East is comprehensible. In order to succeed there though, one must be aware of the different tastes and preferences of the Middle Eastern consumer²⁵.

People are homogenous in means of different economies, religion, history and culture which effect the consumption of the different markets. It is important for international companies to be aware of how to adapt to the Middle East. About a third of the residents in Saudi Arabia, Iran, Egypt and Lebanon are from the age of 15 to 24 compared to just 15% of Western Europe. The household size of the Western nations is much smaller than in the Middle Eastern countries. Demographic factors, to look at the Middle Eastern population profile which affect the consumer trends inside that region. They are much younger than the Western consumers and they are ready to try the coming new products. Information technology products are highly used in that area as well as clothing and audio-visual goods.

The demand for goods and services has increased and the Middle Eastern market for advertising has expanded. Most of the consumers in the Middle Eastern market are very open to marketing communications. The market is very brand oriented and the consumers there are prepared to pay more for well known brands.

As mentioned before, the Middle Eastern household size is larger than the Western ones which means that the larger purchase decisions are taken in the family. This is mostly seen in Iran where 62% of the consumers seek advice before purchasing compared to 39% in Britain. The shopping mall culture; in the Middle East the malls are filled with consumers who are very willing to buy. It has a very hot climate which results in indoor activities which are air conditioned. The large increase in spending has resulted in a strong shopping mall culture in the Middle East.

The shopping malls include multiplex cinemas, children's play areas, food courts, shops and entertainment. In the United Arab Emirates, Iran, Kuwait, Saudi Arabia and Lebanon, 50% of the consumers really enjoy shopping compared to about a third in Western Europe²⁶.

Egyptian consumers, compared to other Middle Eastern consumer, are not very passionate about shopping. Egypt is more of a tradition keeper with high moral values, shopping and extravagance is seen as unnecessary. Only a fifth of the Egyptians shop compared with 41% in Lebanon. There shopping is something common and people spend rather more than their income.

²⁵ MIDDLE-EASTERN CONSUMERS: Lands of opportunity, *Brand Strategy*, page 56-58

²⁶ MIDDLE-EASTERN CONSUMERS: Lands of opportunity, *Brand Strategy*, page 56-58

There is a market for the advertisement spending in the Middle East. Consumer demand on goods and services has increased which results in an increase of advertising. Saudi Arabia has a high advertising expenditure and accounts for the largest share of the advertising market in the Middle East. Saudi Arabia has a high per capita income which has resulted in being a major target for product manufacturing and more expansion of international advertising firms.

Middle Eastern consumers are receptive to marketing communications. For example 45% in Kuwait purchase products that they have seen advertised compared to France where barely 17% do so and just 22% in Germany. The challenge for advertisers is in Egypt where only 28% are open to advertisement²⁷.

When it comes to brands, the Middle East is brand oriented where customers are keen to pay more for well known brands as seen with the wide variety of high status brands in that market. In Lebanon about 56% claim that they wear designer clothes and people there are known to be very image conscious. Lebanon has local designer who have taken their fashion abroad. In Saudi Arabia, people wear the traditional dress so designer clothes are not very appealing.

In the Middle East more consumers choose to purchase well known brands rather than own brand products. Whereas, in Western Europe it is the other way around in order to save costs. Brands and luxury products are seen as symbols of success and status in Arab societies. About 52% in Saudi Arabia see that money is the asset of success compared to 15% in Britain.

The Middle Eastern and Western culture differs so companies that want to internationalize must be aware of that. Many Middle Eastern consumers choose to purchase products from their home country and distance themselves from the Western products. For instance in Lebanon 70% of the consumers purchases products that are produced in their own country. It does not keep international companies from establishing there. For example 83% of the Lebanese say that people should be receptive of other cultures which may explain the large amount of integration into the Lebanese society by Palestinians, Armenians and others. The same goes for Kuwait and the United Arab Emirates where they have an increased number of emigrants which has made foreign culture more accepted.

Politics may be a strong factor when choosing brands. In Egypt, Lebanon, United Arab Emirates, Saudi Arabia and Kuwait less than half of the consumers are affected by politics when making their last decision. Religion also has an impact on consumer behavior. For example when the boycott of Danish goods took place where drawings of the Prophet Mohammad were published through the Danish press. The effects of this were a loss of \$1.5 million a day for Arla, which is Europe's largest dairy firm and resulted in that they had to close in the Riyadh, Saudi Arabia. Nestle, which is Swiss, had to remove their advertisement in Saudi press and had to argue against the rumors that their products were produced in Denmark.

When it comes to brands, 9 out of 10 are internationally owned in the Lebanese market. Brands like Pepsi, Lipton, Colgate and Lux are the most famous in that market. There is still a

²⁷ MIDDLE-EASTERN CONSUMERS: Lands of opportunity, *Brand Strategy*, page 56-58

wide market for international marketing since Middle Eastern countries are buying into global brands²⁸.

4.2 Saudi Arabia

This part of the thesis is about the Saudi Arabian market according to Porter's model. It will give a clearer picture of the market using H&M and Zara as examples.

Saudi Arabia is the largest country in the Middle East with the largest GDP and the 12th largest in the world. It is a network to the world with free trade and has almost no debts.

The factor conditions mean skilled labor and good infrastructure which is necessary in competing.

Saudi Arabia comprise of uniqueness when it comes to its labor market and employment. It is highly dependable of foreign labor which takes two fifths of the Saudi market employment mainly in the public sectors. This is due to the quick economic development and the oil boom in the 1970s²⁹.

Saudi Arabia has grown strong and contributes very much in the Middle East and the world. They have also built an infrastructure which has contributed very much to the business market. Their capital gets in and out freely because there are no controls; there are also no taxes on personal incomes, duty free on imported raw materials and protection of private ownership. The inflation rate in Saudi Arabia has been very low and the average rate has been less than 1% over the past 10 years. As mentioned before, Saudi Arabia has the largest market in the Arab world for goods which makes it attractive³⁰.

They can access markets in the Gulf Cooperation Council as well as Arab countries since they have free trade regions. Strength of Saudi Arabia is the home markets demand of high quality goods³¹.

The Saudi's have higher positions in companies, while the common workers are mostly from other countries such as East Asia. Saudi Arabia relies to an important extent on foreign labor, approximately two-fifths of total employment, mostly employed in the public sector and is overwhelmingly male. The large number of foreign workforce is a consequence of the oil boom that boosted Saudi Arabia's economy in the 1970's³².

The skilled labors in Saudi Arabia cover only 15% of the foreign workers in the field of oil, healthcare, finance and trading. Most of the rest are needed for low skilled labor working in the agricultural, cleaning and domestic service fields. Workers from North America and Europe control the high skilled positions and the low skilled workers are from South and Southeast Asia³³.

²⁸ MIDDLE-EASTERN CONSUMERS: Lands of opportunity, *Brand Strategy*, 2007 page 56-58

²⁹ Salah T. Madhi and Armando Barrientos, 8/2 2003, *Career Development International*, Saudistation and employment in Saudi Arabia, page 70

³⁰ Sajjad M. Jasimuddin, Analyzing the competitive advantages of Saudi Arabia with Porter's model, *Journal of business and industrial marketing*, Vol 16 NO. 1 2001, pp. 59-68

³¹ Sajjad M. Jasimuddin, Analyzing the competitive advantages of Saudi Arabia with Porter's model, *Journal of business and industrial marketing*, Vol 16 NO. 1 2001, pp. 59-68

³² Salah T. Madhi and Armando Barrientos, 8/2 2003, *Career Development International*, Saudistation and employment in Saudi Arabia, page 70-77

³³ Divya Pakkiasamy, Migration Information Source, Saudi Arabia's Plan for Changing its Workforce, accessed 2008-09-14, <http://migrationinformation.org/Feature/display.cfm?id=264>

Statistics show that 1 to 1.5 million of the workers in Saudi Arabia is from Bangladesh, India and Pakistan and 900,000 are from the Philippines. These statistics show that they account for half of the Saudi Arabian expatriate population³⁴.

There is always training on skills development for the staff of H&M. It is developed throughout the year and is followed by a review pointing out training needs for the staff which enables progression. H&M has their own training teams who deliver courses and information. H&M even has a job rotation when opening in new countries giving the staff opportunity to learn and share knowledge³⁵.

Inditex, Zara, offer a job stability, training and internal promotion for their staff. Their corporate culture is differentiated by teamwork and open communication. They also have a high level of demand. These areas are the main highlights of personal commitment that is focused on their customers' satisfaction³⁶.

Firm strategy, structure and rivalry focus on how companies are created, organized and managed.

Michael Porter had suggested that rivalry adds to a nation's competitive advantage. Competitive advantages of Saudi Arabia are antitrust legislation, low entry barriers which have led to higher competition which has lead to an increase in production. The Saudi's constantly develop their standards for business service³⁷.

Saudi Arabia has a quick productivity growth and income, increase of the industries shares and the possibility of domestic investments. They are now adapting to the private sector after being in the public sector for years which will benefit them through growth. The encouragement of private companies is increasing in order to increase the members in the development of the infrastructure which is power, water, sanitation and public transportation. What can bring opportunities for industrial expansion is liberating the telecommunications in Saudi Arabia.

An additional advantage of Saudi Arabia is that they do not have minimum wage. Around 80% of the labor forces are non-Saudis so there is no possibility for labor unionism.

One of H&M and Zara's largest competitor is the Gap Inc. The Gap, as Zara and H&M is clothing and retailer based store. The Gap offers all from clothing to care products for the whole family. They have more than 3,100 stores world wide including Saudi Arabia and more than 150,000 employees³⁸.

³⁴ Divya Pakkiasamy, Migration Information Source, Saudi Arabia's Plan for Changing its Workforce, accessed 2008-09-14, <http://migrationinformation.org/Feature/display.cfm?id=264>

³⁵ H&M, CSR report 2007, accessed 2008-09-14, http://www.hm.com/se/fretagsansvar/csrrapportering_csrrreporting2.nhtml

³⁶ Zara, Who we are, Our team, accessed 2008-09-15, http://www.inditex.com/en/who_we_are/our_team

³⁷ Sajjad M. Jasimuddin, Analyzing the competitive advantages of Saudi Arabia with Porter's model, *Journal of business and industrial marketing*, Vol 16 NO. 1 2001, pp. 59-68

³⁸ Gap Inc., Company fact sheet, accessed 2008-09-13, http://www.gapinc.com/public/About/abt_fact_sheet.shtml

Other international competitors in the same industry that can be found in Saudi Arabia are Marks & Spencer, Benetton, Guess, Levi's and Esprit. These international competitors are able to compete through their prices especially on their medium to low categories³⁹.

The demand conditions refer to the company's home-market demands of its products and services.

Since the Saudi people have become more fashion oriented the apparel retail industry has grown very rapidly in the recent years. Higher demand for the international branded clothes has increased with the maturing of the market. The fashion trends have become more global and the Saudi consumers have shown both brand loyalty and awareness.

Saudi Arabia is a major market for clothing. This is one of the reasons why sales of H&M and Zara has succeeded since there is constant demand for international branded clothes. H&M is a great success in Saudi Arabia and they are planning to open a female only store there⁴⁰.

What strengthens the Saudi Arabian market is the home market demands and quality. The consumers' are increasing demand for higher quality products. This demand is benefiting the Saudi Arabian market since it bring higher establishment of companies⁴¹.

Since there are higher demand for international branded clothes H&M and Zara has succeeded when opening in Saudi Arabia. They offer the customers something new and international just according to their wants and needs. Both Zara and H&M offer good quality clothing to reasonable prices.

Related and supporting industries stand for the local industries that are highly competitive.

Around 25-30 percent of total clothes sales are estimated to be branded clothes. And this figure will evidently increase because there are malls and outlets specializing in international retail chains⁴².

One of the disadvantages of Saudi Arabia is the slow response to the environmental changes which makes the business people doubt success there. This is one of the reasons which make them less competitive in the world market. They have high unemployment rates and high social costs due to high financial requirements.

³⁹ Alternative Investments, 2008-08-06, Saudi Arabia's shopping mall goldmine, accessed 2008-09-14, <http://www.cpifinancial.net/v2/fa.aspx?v=0&aid=104&sec=Alternative%20Investments>

⁴⁰ David Robertson, Times online, May 19, 2008, Clothes giant plans female only store in Saudi Arabia, accessed 2008-09-13, http://business.timesonline.co.uk/tol/business/industry_sectors/retailing/article3958968.ece

⁴¹ Sajjad M. Jasimuddin, Analyzing the competitive advantages of Saudi Arabia with Porter's model, Journal of business and industrial marketing, Vol 16 NO. 1 2001, pp. 61

⁴² Khaleej Times Online, 2008-07-23, News, Business, Apparel business booms in Saudi Arabia, accessed 2008-09-14, http://www.khaleejtimes.com/DisplayArticle.asp?xfile=data/business/2008/July/business_July871.xml§ion=business&col

As the fashion industry is growing in the Saudi market, the number of Saudi companies have a share of it is very small. Because the home manufacturers primarily supply the traditional abayas, which is a long black gown, worn by all Saudi women and the military uniforms⁴³.

Saudi Arabia needs to put more effort in research and development to increase their competition in the markets. They can cooperate with universities and research institutions to achieve that. Another solution can be to in source more which has started to show in companies more and more⁴⁴.

Saudi Arabia should change their company laws; speed up the change to privatization so that it encourages wholly owned foreign investments. In order to increase opportunities they should join the World Trade Organization to also attract foreign investors. They can implement the just-in-time system which Japan has and the total quality control to reduce threat from the foreign competitors⁴⁵.

Zara's production takes place in Spain and the remaining by its 400 suppliers. More than half of their suppliers, about 70% are located in Europe and the remaining in Asia.

As for H&M, their factories are placed in a way that their supply chain works quickly. They do not have any factories of their own but instead works with around 700 independent suppliers. Around 60% of their production takes place in Asia and the rest mainly in Europe.

⁴³ Saudi Gazette, Kingdom's clothing retail market grows strongly, accessed 2008-08-21, <http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentID=2008072612709>

⁴⁴ Sajjad M. Jasimuddin, Analyzing the competitive advantages of Saudi Arabia with Porter's model, *Journal of business and industrial marketing*, Vol 16 NO. 1 2001, pp. 59-68

⁴⁵ Sajjad M. Jasimuddin, Analyzing the competitive advantages of Saudi Arabia with Porter's model, *Journal of business and industrial marketing*, Vol 16 NO. 1 2001, pp. 59-68

5. The companies marketing strategies

In this part the authors will describe H&M and Zara's strategies mainly in Saudi Arabia and some in the Middle East in general.

5.1 H&M's marketing strategy

H&M's existence in the Middle East is lead by the Alshaya Group by being franchisees. Alshaya Group first started in 1890 and has since then expanded their activities in many different sectors⁴⁶. They are among the largest franchisees acting in the Middle Eastern market, dealing with international brands such as H&M, Starbucks, Peugeot and Estee Lauder⁴⁷.

The H&M brand is known as Key business units and lead by a Managing Director. The managing directors report to the Chief Operating Officer. Each unit has a structure of its own depending on their needs, but it is the Business Directors and Brand Managers that has to make sure that the Franchise partner framework is followed according to the Alshaya Retail strategy⁴⁸.

Besides the franchising concept, H&M operates a worldwide marketing strategy, with the concept of having good quality clothes at a low price. The marketing is done through communicating with the customers through basic advertising, radio, film, billboards and magazines. The best ways for H&M to reach their customers are through newspapers and billboards. The advertisements are distributed to populated areas like large cities and shopping malls. H&M take into consideration the cultural differences among each country when planning the advertisement. The budget for advertisement in H&M is 4-5% of their yearly net sales⁴⁹.

It is H&M's head office in Stockholm that produces the material for every country. There are guidelines sent for the adverts as well and the advertising managers each are responsible for producing the adverts in the different countries. With the help of the guidelines H&M in Saudi Arabia can develop the ads with some adaptation more suitable for their countries preferences and customs.

H&M does not only use text in their advertising but they use a lot of pictures which they think is important to give out their message. The white background in the adverts is constant and used all the time. All the advertising is done three months ahead compared to the marketing department where their plans are done about one year before the sales.

Their models vary from campaign to campaign as well as the photographers. When opening a new store in a new country, they often cooperate with famous people, like designers and models, from the same country, although they did not do that in Saudi Arabia or any other

⁴⁶ Alshaya, Company, Our History, accessed 2008-09-16, <http://www.alshaya.com/Company.jsp>

⁴⁷ Alshaya, Company, accessed 2008-09-16, <http://www.zawya.com/cm/profile.cfm?companyid=906137>

⁴⁸ Alshaya, Management Structure, accessed 2008-09-16, <http://www.alshaya.com/management.jsp>

⁴⁹ Michigan State University, International Retailing, accessed 2008-04-16, http://www.hed.msu.edu/internationalretailing/company/H_M/marketing.html

country in the Middle East. They keep a close eye on their marketing efforts and they register their products through a group's computer system which they have for all H&M departments. If any products are not selling well in a certain country then it is redistributed to another where the demand is higher. H&M can localize the retail business and how and what each country is selling.

H&M's main competitors are Zara and Gap since they offer the same range of products. The competitors all have everything from clothing to women, men and children to accessories and beauty products.

5.2 Zara's Marketing Strategy

Zara and the Inditex Group entered the Middle Eastern market through franchise agreement with different local franchisees in the area. In Saudi Arabia the franchisee of Zara is Fawaz alHokair Group.

Fawaz alHokair Group started by opening 2 menswear stores in Saudi Arabia in 1990 and has stores in 5 countries with 30 international brands such Banana Republic, Vero Moda and La Senza⁵⁰.

The company has their operations centralized in Riyadh where their main focus is improving their entire supply chain. To keep the high pace of retail industry they concentrate on having efficient supply chains, mobile distribution channels and coordinated logistics, which is accordingly to the vision of Zara's company strategy⁵¹.

A competitive advantage for Zara is their low advertising costs which are only 0.3 % of total expenses. Instead of advertising they go by the strategy of being available in many cities and countries. Also to increase the shopping experience Zara is dependent on their sale staff to be able to give the customer the right service, so with the good experience they rely on the promotion of word-of-mouth which is considered the best way of marketing according to Zara. But this competitive advantage is not sustainable; the interior design, the customer service and the word-of-mouth promotion can easily be copied by competitors. For Zara to lead that advantage, they must remain innovative at all time. This marketing approach is standardized worldwide including the Middle East.

The business idea is for the average person to be able to afford clothes that gives the impression of high fashion. Zara's main strategy has been product differentiation, style variety and speed to market. By having a strong impact and control on the entire supply chain, they have been able to succeed. This is what they will continue focusing on but also to keep media advertising on a minimum and promote activities in the stores, because it has been perceived as both suitable and cost efficient. Another point they want to keep promoting is the manufactured scarcity in the stores, which has proved to influence impulse buying.

Zara's differentiation is developed through a unique system of operating all the stores and providing over 1000 new styles every month. Their aggressive approach to expansion is

⁵⁰ Fawaz alHokair, Retail Group, Overview, accessed 2008-09-18,
http://www.fawazalhokair.com/content_sections/our_group/rgg.aspx

⁵¹ Fawaz alHokair, Infrastructure, accessed 2008-09-18,
http://www.fawazalhokair.com/content_sections/our_group/infrastructure.aspx#moretext

recognizable; they have at least one store in each EU country (except Slovakia). We can also see that expansion in the Middle East where they have 55 stores in 9 different countries and they plan to expand even more.

The idea of being available everywhere is fundamental for them, since it is part of their marketing perspective, with that there are of course many opportunities since there is many countries and markets that are still unexplored. Then again with such a fast expansion is what might come as a problem in the future follows the risk of cannibalization. Considering the bigger cities, the risk of stores stealing each others sales and customers is very high. A possible suggestion for that is not to open so many stores located in the same city or each store can offer different garments and styles⁵².

Zara's main competitors are H&M and Gap, but they are not as attentive and have fewer fashion choices than Zara and that is considered not as fashionable. Because Zara controls its supply chain, it can easily and faster respond to the demand of the consumers unlike their competitors. What also keeps them quick to respond is that they get their inspiration from different fashion shows, which is more like recreating designs rather than creating from scratch⁵³.

⁵²Zara Fashion, accessed 2008-04-18, <http://www.oppapers.com/essays/Zara-Fashion/64941>

⁵³ Zara Fashion, accessed 2008-04-18, <http://www.oppapers.com/essays/Zara-Fashion/64941>

6. Discussion: Marketing Strategies

Both H&M and Zara have quite similar strategies when it comes to their business. They both open stores in commercial districts and create uncountable amounts of garments in different styles. They are both quick in changing their lines as fashion changes very frequently.

Their presences in the Middle East are both with the help of franchisees. This could be due to the lack of knowledge about the market, but in the same time they see potential of growth and customer demand from the area. Zara is dependent on many different local franchisees in the area, while H&M chose to have one franchisee representing them, even though franchising is not usually a part of the H&M establishment strategy⁵⁴.

Even though the fashion industry in Saudi Arabia is mostly related with license agreements, both H&M and Zara have franchise agreements relating the Middle East.

AlHokair Group holds a franchise agreement for Zara in only Saudi Arabia since 1999. The group is the single and largest owner of operator of shopping malls in Saudi Arabia⁵⁵, which makes them a prominent franchisee according to Zara's establishment strategy.

Alshaya Group landed the franchise agreement with H&M in 2006 and opened the first store in the Middle East in Dubai and has expanded to several Middle Eastern countries including Saudi Arabia. The franchisees, Alshaya Group, H&M chose to have in Saudi Arabia as well as in the rest of the Middle East, are well-known in the retail industry in the area and in Eastern Europe.

H&M and Zara have also both been categorized as being "followers of fashion" since they keep up with their designs, manufacturing and sales. For Zara it takes 15 days while for H&M it takes 20 to complete this process. Compared to the Chinese clothing it is very fast since they have a lead time of 90-120 days. Their "fast fashion" is also adopted by their license holders and franchisors in Saudi Arabia.

Even though H&M's production takes five more days than Zara, they still have a cost advantage since 30-50% of their clothing's in the stores are cheaper when selling⁵⁶.

Zara and H&M are quite the competitors competing for the lead marketplace. H&M uses a so called three in one method supply chain where they combine time, quality and price into one category. Zara on the other hand uses a high speed supply chain where they want to produce and distribute their products fast in order to achieve results quickly.

⁵⁴ H&M, About H&M, The World of H&M, accessed 2008-10-05,
http://www.hm.com/sa/abouthm/theworldofhm/middleeast/saudiarabia_worldofhm_countrycode_sa.nhtml

⁵⁵ Fawaz alHokair, Quick Facts, accessed 2008-10-05,
http://www.fawazalhokair.com/content_sections/our_group/quickfacts.aspx

⁵⁶ Li, Li, *Fashion Magnates' Supply Chain Contest*, accessed 2008-04-10
http://www.cbfeature.com/index.php?categoryid=VkZaU1RsQlJQVDA9K1I=&p2_articleid=Vm0weE1GbFhTWGxWV0d4VVlteEtWMWxYY3pGVmJGcHIWV3RLVUZWVU1Eaz0rTQ==&p2_page=2

The three in one method is located in regions where the cost of skilled labor is low priced. To ensure well balanced costs, H&M situated their production in Northern and Southern Europe and Asia; from there they distribute products internationally including Saudi Arabia.

In order for H&M to keep track of the different manufacturing regions, they have offices which handle the purchasing, suppliers and the development of new contacts. The offices ensure that the suppliers offer them good low priced services.

About 60% of H&M's production takes place in Asia where they manufacture regular style and children's clothes. Their more fashion sensitive clothes take production through European suppliers⁵⁷.

H&M's strategy, to combine both time and cost, works for them. They have two supply chains one, which was mentioned before the three in one method which is the effective one and is situated in Asia. The second supply chain is the rapid reaction method, which means they react fast to changes and developing something new, and this takes place in Europe. The supply chain decreases costs when their basic clothes are manufactured in Asia where communication with their suppliers is done through email. As mentioned before, all this is monitored by the offices located in H&M's different regions. These offices give the necessary information to their franchisees in Saudi Arabia for them to work according to the H&M standard.

H&M has made increasingly high revenue not only from their stores but also from their catalogues and online sales. They started their catalogue sales in Sweden, Finland, Norway and Denmark. Then later on in 1998 they started their online sales in the same countries as mentioned previously. In 2006, the Netherlands was the first country outside the Nordic countries where H&M opened their online sales. The company's first launch of the brand in Saudi Arabia and in the Middle East is relatively new, which is one of several reasons why the online shopping is not available in the area yet⁵⁸.

Zara has chosen to produce most of their products in Europe, unlike H&M. 50% of their manufacturing is produced in Spain and the remaining by its 400 suppliers. 70% of their suppliers are located in Europe and the remaining in Asia. As H&M, their factories are placed in a way that their supply chain works quickly⁵⁹.

Zara controls their raw material suppliers through the material of the cloth, the dye and other areas. When they place their orders, the production starts immediately.

A Just in Time system is used for cutting and pattern making for Zara's clothes and everything is made through small batch assembly lines. Through this system, Zara's

⁵⁷ Li, Li, *Fashion Magnates' Supply Chain Contest*, accessed 2008-04-10

http://www.cbfeature.com/index.php?categoryid=VkZaU1RsQlJQVDA9K1I=&p2_articleid=Vm0weE1GbFhTWGxWV0d4VVlEeEtWMWxYY3pGVmJGcHIWV3RLVUZWVU1Eaz0rTQ==&p2_page=2

⁵⁸ H&M, About H&M, The World of H&M, accessed 2008-10-05,

http://www.hm.com/sa/abouthm/theworldofhm/middleeast/saudi-arabia_worldofhm_countrycode_sa.nhtml

⁵⁹ Li, Li, *Fashion Magnates' Supply Chain Contest*, accessed 2008-04-10

http://www.cbfeature.com/index.php?categoryid=VkZaU1RsQlJQVDA9K1I=&p2_articleid=Vm0weE1GbFhTWGxWV0d4VVlEeEtWMWxYY3pGVmJGcHIWV3RLVUZWVU1Eaz0rTQ==&p2_page=2

production process can become more flexible. When the clothes are cut, they are sent to their factories in Spain or Portugal for processing.

Zara's logistics are dependent on their efficient distribution which is located in Spain. The products are distributed from their headquarters all around the world including Saudi Arabia. They monitor the distribution process through their web based "suppliers Management platform" which saves them time.

Zara's stores have independent information systems which later on are sent to the headquarters. The information includes things such as their sales volume, size, color, quantity, how things were paid for, at what time it was sent and such very detailed information. Then, later on the overall information is measured up to the local markets, which also incorporates the stores in Saudi Arabia and Middle East. Doing this way they can see which stores are selling more and which are selling less which can be used to improve designing. Zara takes on purchasing personnel, designer and marketing specialists in order to be up to date with the market.

The store managers have a PDA for getting hold of market information quickly when it changes and if it changes. All the Zara store managers around the world use the same system, likewise the manager in Saudi Arabia. They can keep in contact with each other and at the same time orders can be made from the headquarters.

Using the information technology, Zara has a closed communication network for getting hold of information concerning important aspects such as design, purchase, production and sales. Having a rapid supply chain is also an important aspect. No matter where they are situated their supply chain never changes pace.

On Wednesdays and Saturdays, goods arrive at the Zara stores. Zara's growth has been rapid in Mainland where they have three stores and planning to open a fourth. Zara's products are sent through air in order to keep top speed. The products arrive to the stores within 24 hours in Europe while to China and the US it takes 48 hours and to Japan 72 hours⁶⁰.

H&M arrived late in the Far East compared to their competitors. That is because the company was involved with developing in other markets and because of their idea of when Asia would be ready for the brand⁶¹.

⁶⁰Li, Li, *Fashion Magnates' Supply Chain Contest*, accessed 2008-04-10
http://www.cbfeature.com/index.php?categoryid=VkZaU1RsQlJQVDA9K1I=&p2_articleid=Vm0weE1GbFhTWGxWV0d4VVlEteEtWMWxYY3pGVmJGcHIWV3RLVUZWVU1Eaz0rTQ==&p2_page=2

⁶¹ Paul Baines, Chris Fill, Kelly Page, 2008, *Marketing*, Case insights, Oxford, New York, p.p. 274

7. Discussion: Standardization versus adaptation

Zara's business model is to own a great deal of their production and almost all of its stores. It is an integrated corporation which made their competitive advantage increase and result in quick delivery of market needs. On the other hand, H&M has a different business model when it comes to production which is outsourcing all of it.

Zara does not only choose a concept and adapt to it but combines different parts of the standardization and adaptation concept. They select their market entry through following the standard procedures like studying the country, the market, and target group etc. of foreign market entry. H&M on the other does not have an adaptation concept but they keep themselves standardized as much as possible keeping their original strategy.

When studying the market they run through a test of the basic 4P's marketing mix. H&M and Zara's expansion was at the beginning into countries with similar culture and economic situations. This brings us to how Zara prices their products according to the market situation⁶². H&M has the same marketing strategy that is applied worldwide. There are few adaptations made for the local markets including Saudi Arabia and the Middle East. There are slight retouches done on certain images due to the fact that the Middle East is slightly more conservative than Europe or the US⁶³.

When it comes to the Middle Eastern market and in specific Saudi Arabia, the companies need to be more adaptive, because Saudi Arabia is considered to be more conservative than other countries in general and in the Middle East. The majority of the people are Muslims and Islam's two holiest cities are Mecca and Medina, which are in Saudi Arabia⁶⁴.

The customization process requires Zara, with respect to culture and countries, to choose different entry modes depending on the country's state and condition. It could be all from politics to economics. They always order suitable products for the market since not all countries have the same preferences. Different markets have different brand positioning. As mentioned earlier Saudi Arabia is a more conservative market, which Zara has taken in to consideration.

For H&M most of the range (around 80%) is the same in all markets. In certain cases, the product range is adapted to country and climate. In Saudi Arabia the climate is warm almost all around the year. The product range is also adapted to each store's specific circumstances and customer group however this is a very limited percentage of the entire product range⁶⁵.

Zara always ensure that the market testing is done thoroughly before they expand their operations. The countries were chosen also depending on the shipping so that long distance shipping would be avoided due the high costs. The advertisement team also carefully studied the market before entering it. Then when Zara has taken the decisions, they expand directly to

⁶² *Zara Fashion*, accessed 2008-04-18, <http://www.oppapers.com/essays/Zara-Fashion/64941>

⁶³ E-mail interview, Rouba Abbouchi, Market Manager in the Middle East

⁶⁴ Central Intelligence Agency, Saudi Arabia, Facts, accessed 2008-09-27, <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html#Intro>

⁶⁵ E-mail interview, Rouba Abbouchi, Market Manager in the Middle East

the chosen market. H&M's production works through the three in one method which means their production is located in regions where the cost of skilled labor is low priced. To ensure well balanced costs, H&M situated their production in Northern and Southern Europe and Asia.

The different entry modes Zara chose for their factories were the regulations, economic complexities and entry barriers. Zara chose company managed stores; the franchised stores, like the ones they have in Saudi Arabia, are always controlled and free services like training is offered to the partners. If any problem occurs, Zara always has the choice to buy out its partners.

When it comes to marketing issues it also varies from market to market. To be able to point out the different issues posed by each market is important. Pricing differs and depends on the shipping cost conditions, taxes and tariffs. As with all brands, the brand positioning of Zara differed in each market depending on tastes. Zara's products are distributed according to preference and measurements⁶⁶. H&M's product are as everything else standard and not distributed as Zara's but if any products are not selling well in a certain country then it is redistributed to another where the demand is higher.

Both H&M and Zara can take on a more local marketing strategy by selling products that originates from the Middle East and in specific Saudi Arabia. The women's dress code is the black abaya and in order for the companies to show their understanding of the culture, they could make it possible to buy the abayas in their stores. But the way of doing it must be in a small way because what makes their success is in fact their image of an international brand.

⁶⁶ Oppapers, *Zara Fashion*, accessed 2008-04-18, <http://www.oppapers.com/essays/Zara-Fashion/64941>

8. Conclusion

The conclusion part will explain what the results the authors found and discuss them.

Can we really say that the perfect way of choosing a country to establish in is by using Porter's model Nations Competitive Advantage? The answer is probably no. There are many factors that play along the determinants in the model. We live in a constant changing business environment due to for example globalization and the internet. The infrastructure of transportation has changed and telecommunication has become a lot more advanced since the model was written.

Porter's determinants are a good help on the way, but it is not enough help and does not guarantee that the country chosen with the help of the determinants is the best country.

Saudi Arabia has a political stability and flourishing economy, which makes it eligible for companies that consider the Middle East as new market. So according to Porter's model Saudi Arabia along with UAE and other gulf states would be considered to have competitive advantages over other Middle Eastern countries.

The question of whether it is important for a country in the Middle East to have a competitive advantage is answered by the comparison we made of H&M and Zara.

Zara has managed to launch in twice as many countries in the Middle East as to H&M, and that is clear from their worldwide aggressive expansion as well. H&M is located in 29 countries, while Zara is in 70 countries. It seems like H&M has a more specific model of which countries they have opened in, while Zara's strategy is open in as many countries as possible. This brings us to the conclusion that H&M might consider the determinants of nation's competitive advantage since they entered the Saudi Arabian market recently, while Zara's main goal is to be located in every possible corner of the world.

Standardization and adaptation has to be combined in order for a company to reach success. Parts of each should be included in their strategies since not all countries are susceptible to everything. In this case it concerns the fashion industry and what is accepted and demanded in the different markets. One should have a mixture of both but be careful to not lose the company image and end up with something totally different.

It was also concluded that standardization is good in a way that you keep the original strategy and image of your company and do not change anything in it. You set up your company in the specific countries as you launched it in the beginning. We see that happening with H&M since they do not adapt anything to the different markets but they keep everything standard as it is and only adapt the marketing to the different markets. The only thing that H&M has adapted in Saudi Arabia is their ads and billboards and a small adaptation to their climate. This strategy has worked out for them but it would be even better if they did something extra like having famous Saudi Arabians model for them. It would be good also if they took in some of the Saudi Arabian folk national costume such as the abaya.

Adaptation on the other hand is that you adapt your company to the different countries and markets. Sometimes this is necessary in order to survive the tough market demand. Different

countries have different needs and it is good to deliver to those needs. Throughout the writing process we learned that Zara includes both adaptation and standardization. This is good since Saudi Arabia is a different market than the European for example; Zara has chosen to adapt parts of their company. They are always concerned with what is suitable for the country they have opened in since not all have the same preference.

References

Literature

- Baines Paul, Fill Chris, Page Kelly, 2008, *Marketing*, Case insights, Oxford, New York
- Ghauri & Gronhaug, *Research Methods in Business Studies*; A Practical Guide
- Kotler Philip, 2003, *A Framework for Marketing Management*, 2nd ed., Pearson Education
- Michael E. Porter, 2007, *The Competitive Advantage of Nations*, International Business – structure, strategy, organization, Compendium
- Philip R. Cateora and Pervez N. Ghauri, 2000, *International Marketing European Edition*, McGraw – Hill Publishing
- Saunders, Lewis and Thornhill, 2003, *Research Methods for Business Students*, Prentice Hall, Harlow

Articles

- Jasimuddin S.M, 2001, Analyzing the competitive advantages of Saudi Arabia with Porter's model, *Journal of business and industrial marketing*, Vol 16 NO. 1, pp.59-68
- Burns D.J, 1997, The globalization of the retailing industry, *International Journal of Commerce & Management*, Vol.7, Issue 1, p. 5 (6 pp.)
- Karagiannopoulos G.D, Georgopoulos N. and Nikolopoulos K., 2005, Fathoming Porter's five forces model in the internet era, *The journal of Policy, Regulation and Strategy for Telecommunications, Information and media*, Volume 7, Number 6, page 68-70
- Ferdows K., Lewis M.A & Machuca J.A.D , 2004, Rapid-Fire Fulfillment, *Harvard Business Review*, pp.104-110
- Anon, 2007, Brand Strategy: Middle Eastern Consumers: Lands of opportunity, s.n. pp.56-58
- Salah T. Madhi and Armando Barrientos, 2003, Saudistation and employment in Saudi Arabia, *Career Development International*, page 70-77
- Grönroos C., 1989, Defining Marketing: A Market-Oriented Approach, *European Journal of Marketing*, Vol. 23, Issue 1, pp. 52-60

Electronic Articles

- Robertson D., 2008, Clothes giant plans female only store in Saudi Arabia Business, *Times Online*, 18 May.
http://business.timesonline.co.uk/tol/business/industry_sectors/retailing/article3958968.ece
[accessed 2008-09-13]
- Anon, 2008, Apparel business booms in Saudi Arabia, *Khaleej Times Online*, 23 July.
http://www.khaleejtimes.com/DisplayArticle.asp?xfile=data/business/2008/July/business_July871.xml§ion=business&col [accessed 2008-09-14]

De Coster J., 2002, 2004 “big bang” to create vast European clothing market, *Business News & Trends*, 3 January.

http://sme.hktdc.com/content.aspx?data=International_content_en&contentid=170488&src=BNTEur&w_sid=194&w_pid=665&w_nid=10248&w_cid=170488&w_idt=1900-01-01&w_oid=207&w_jid= [accessed 2008-09-14]

Anon. 2008, Saudi Arabia’s shopping mall goldmine, *CPI Financial*, 6 August.

<http://www.cpifinancial.net/v2/fa.aspx?v=0&aid=104&sec=Alternative%20Investments> [accessed 2008-09-14]

Li L., 2007, Fashion Magnates’ Supply Chain Contest, *China Business Feature*, 5 August.

http://www.cbfeature.com/index.php?categoryid=VkZaU1RsQlJQVDA9K1I=&p2_articleid=Vm0weE1GbFhTWGxWV0d4VVlteEtWMWxYY3pGVmJGcHlWV3RLVUZWVU1Eaz0rTQ==&p2_page=2 [accessed 2008-04-10]

Pakkiasamy D., 2004, Saudi Arabia’s Plan for Changing it’s Workforce, *Migration Information Source*, November.

<http://migrationinformation.org/Feature/display.cfm?id=264> [accessed 2008-09-14]

Gripenberg P., 2008, Nu är H&M störst, *DN*, 28 August.

<http://www.dn.se/DNet/jsp/polopoly.jsp?d=3130&a=821414> [accessed 2008-10-01]

Internet Sources

H&M, *About H&M*, accessed 2008-03-04,

www.hm.com/se/omhm_abouthm.nhtml

H&M, *Our employees*, accessed 2008-03-04,

www.hm.com/se/omhm/faktaomhm/vramedarbetare_ouremployees.nhtml

H&M, *CSR report 2007*, accessed 2008-09-14,

http://www.hm.com/se/fretagsansvar/csrapportering_csrreporting2.nhtml

H&M, *About H&M, The World of H&M*, accessed 2008-10-05,

http://www.hm.com/sa/abouthm/theworldofhm/middleeast/saudiarabia_worldofhm_countrycode_sa.nhtml

Fawaz alHokair, *Quick Facts*, accessed 2008-10-05,

http://www.fawazalhokair.com/content_sections/our_group/quickfacts.aspx

Zara, *Who we are, Stores*, accessed 2008-05-11,

http://www.inditex.com/en/who_we_are/stores

Zara, *Who we are, Our team*, accessed 2008-09-15,

http://www.inditex.com/en/who_we_are/our_team

Gap Inc., *Company fact sheet*, accessed 2008-09-13,

http://www.gapinc.com/public/About/abt_fact_sheet.shtml

Alshaya, *Company*, Our History, accessed 2008-09-16,
<http://www.alshaya.com/Company.jsp>

Alshaya, *Company*, accessed 2008-09-16,
<http://www.zawya.com/cm/profile.cfm?companyid=906137>

Alshaya, Management Structure, accessed 2008-09-16,
<http://www.alshaya.com/management.jsp>

Zara Fashion, accessed 2008-04-18,
<http://www.oppapers.com/essays/Zara-Fashion/64941>

The Competitive advantage of Nations model, accessed 2008-03-10,
<http://pacific.commerce.ubc.ca/ruckman/diamond.gif>

Global Retail Development Index, accessed 2008-05-14
<http://www.atkearney.com/main.taf?p=5,3,1,141,3>

Michigan State University, International Retailing, accessed 2008-04-16,
http://www.hed.msu.edu/internationalretailing/company/H_M/marketing.html

Colorado State University, Writing Guides Generalizability and Transferability, *The qualitative versus quantitative debate*, accessed 2008-08-26,
<http://writing.colostate.edu/guides/research/gentrans/pop2f.cfm>

Central Intelligence Agency, Saudi Arabia, Facts, accessed 2008-09-27
<https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html#Intro>

APPENDIX

E-mail contact with Rouba Abbouchi, H&M's marketing manager in the Middle East

First Email Sent 14 April 2008

Hello,

We're working on our thesis and decided to have H&M as a case study. We were wondering if H&M is adapting the marketing strategy to the Kuwaiti (Middle Eastern) market or do you have a worldwide standardized marketing strategy? Do you use the same kind of ads and commercial as in Europe? We hope you'll be able to answer our questions and if possible we would also like to some one responsible for the marketing department there.

Second Email Sent 11 May 2008

Hello Rouba,

Thank you for the last reply and answering some of our questions.

I was hoping you might be able to answer a few more questions and if you have any information about the stores in the Middle East, that you might be able to send us.

These are other questions we would like to know more about:

1. Is there any information about your expansion in the Middle East, like the process and what you did to enter that market? Maybe tell us a little bit about that.
2. What you took into consideration when entering the market?
3. Is it the exact same product line as it is in Europe?
4. The main key points in our thesis is Marketing, Strategies, Middle East, Adaptation or standardization process if you could tell us a little about that if possible.
5. If you have an example to show us or describe to us about the retouch on the images.
6. Any information about expanding Your business to the Middle East would be of great help to us.
7. What was the main reason or reasons for H&M to open in the Middle East? Are they considering opening in several Middle Eastern countries?

Thank you so much for giving us from your time and knowledge, it has been to great help!

Best Regards,

Samar Rola Younan and Eliane Selwan