

Zara vs handm supply chain | case study



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In today's business environment, most of fast fashion retailers are tend to globalization that aiming achieves further growth, and it is the necessity action when the competition in domestic market is becomes fierce (Vida and Fairhurst, 1998) However, different fast fashion retailers (Zara, H&M, and Benetton) have its different approach to support its international expansion ambition which will discuss in detail below.

Theoretically, there are three different modes of market entry strategies were be consider internationally that included Wholly-owned subsidiary, Joint Ventures or Partnership, and Franchising (Johnson et al., 2008). In recent decade, Zara is aiming much to the international market because Zara are facing stagnant result by the heavy recession in its home country, Spain. However, Zara are tendency expended internationally through wholly-owned stores. By the beginning, Zara will open a flagship store in the major city. After obtain the experience that useful for operating locally, Zara will added the number of its own stores in adjoining areas. This pattern of market expansion is called as "oil stain" by Inditex. The main reason that Zara are favorite in expended internationally by wholly-owned stores is because Zara believe that the controlling a large part of supply chain which include own its own store is the only way to achieve the shortest lead time. In other words, Zara focuses on speed through control. Zara tend to have used franchising and joint venture method in the countries where this is a legal necessity and administrative barriers, otherwise, Zara will mainly focus on company-owned stores (Garcia, 2010).

Similarity, H&M mainly choose the wholly-owned subsidiary entry mode to expended internationally that similar as Zara doing. The chain of company-

owned stores is the main distribution channel in H&M, which means that it is allowing H&M can tight control on every store's operation and own the right of store locations decision. The store location must be located in the prime location such as major town or cities' shopping area. H&M always chooses the way of investing directly in the foreign markets where is politically stable and high growth purchasing power such as European markets, Asian markets and North American (Li and Frydrychowska, 2008). However, in Middle East, because of the legal restriction, H&M is impossible to operate wholly owned subsidiaries. Therefore, H&M change its original entry mode and partnership with franchisee Alshaya, which is one of the biggest retailers in Middle East. That is, H&M sells the clothes on wholesale and deliver them to its partner, which Alshaya stocks these clothes and sell them in shops. Meanwhile, H&M puts everything under its control that includes store location decision, range of merchandise, arrangement inside the store and the training of the staff in order to remain the H&M company concept. It is so-called "franchising" (Walter, 2009).

Unlike the Zara and H&M, most of the Benetton shops in market were not company-owned. Benetton have sold its products in 5, 800 mono-brand stores that distribute throughout the world, and 95% of which are in franchising. It is not same as those of the franchising contract. There was informally franchised to shopkeepers with royalties were not requested and granted no exclusive right. Benetton was the first Italian fast fashion company that used the quasi-franchising system to retailing. That is, Benetton coordinated by its independent partners or agents who are working on commission to recruited franchisees and collected their orders. When

these franchisees open several independent shops in the same urban area, it will not only produce a positive iteration effect on end consumers but also a dissuasive effect on its rivals (Garcia, 2010). Indeed, Benetton's international expansion relies predominantly on its network of independent retailer, this franchising method is beneficiary Benetton more easily to enter the new markets where culture barriers and registration on wholly-owned. Besides, it is allow the Benetton can expand without investing too much of its own capital, that was good for Benetton open its success journey at the beginning that lacked of necessary capital. This system is allowing Benetton has a fast growth of sales and it is becomes the driving element of a strategy for Benetton's global expansion. However, since the commission for agent is only encourages sales, there is little direct incentive to share business intelligence with Benetton or share best practices to those agents. Therefore, it may encourage the free rider problem (DocShare, 2010).

After analysis three companies' global expansion journey, we can found that Zara and H&M are still struggling on its brand internationalization. Zara believe that controlling a large part of the chain is the only way to guarantee fastest throughput time. It may lead Zara sinking an enormous of necessary capital. Subsequently, Zara is primarily rely on company-owned store entry methods therefore it is lead to Zara bearing a big obstacles and investment risk when they enter a countries where are culture barriers, wholly-owned restrictions and managerial barriers. Doole and Lowe (2008) says that internationalization should tends to be an incremental process, which means that Zara should not to choose wholly-owned entry modes but franchise to access the countries when they are low involvement. Furthermore, Zara

didn't have invested in distribution channel to support its internationalization ambitious. The Zara's "centralized logistic" is work well in the current number of store that majority in Europe, but it may not able to supply more retail location into other countries (mbaNERDs, 2010).

Similarity, H&M also implied wholly-owned subsidiary method as its main foreign entry mode as what the Zara doing. H&M didn't not follow the Uppsala model which at the beginning with no regular export activities, then export takes place via independent agent, later through a sales subsidiary (franchising or licensing), and eventually manufacturing. H&M immediately implied wholly-owned store in all the countries may lead them bearing a high capital investment and failure risk when they operate its store in the unfamiliarity country. Meanwhile, international expansion by investing in retail may be partly because H&M is the design-led company and it generally sells its products price at a lower price that Benetton. The high cost of design and store will due to low margin, therefore H&M may wish to retain entire retail margin for itself rather than give some of it to franchisee and it may restrict its global expansion. To an even greater extent than Benetton, H&M should not invest in between retailing and design stage of the chain (Li and Frydrychowska, 2008).

By comparison with Zara and H&M, Benetton's supply chain is most competitive in the global expansion's aspect. Benetton's franchising system is allow the company can enter the new market without the high necessity high cost as Zara and H&M, also it is helpful the uncertainty risk when the higher physic distance (e. g. culture different, language, restrictions).

Besides, Welch et al., (2007) mention that Benetton has relying on

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franchising model in term of four main contribution factors: captive distribution network (sell only Benetton goods), no financial commitment (franchisees use its own finance to operate shops), hastens expansion (remove the need to oversee day-to-day performance. The image and strong brand name also has the significant contribution to Benetton. It should be thanks to its marketing effort which is always provide a positive, international, world peace, and characterized by universal themes. It is not only allowing Benetton wining praise and the attention of public but also strengthen its global brand and image (Garcia, 2010).

However, there is some recommendation that helpful for Benetton. Since Benetton is always focus image on brand what the Benetton should do is sufficient control through factories that it does have and the stores and franchising that it operates. With this approach, Benetton's internationalization's journey can be going with greater far.