Strategic fit in a new market – H&M's expansion to China

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[1] Images from: http://butterboom.com/new-stores/its-here-hm-opens-in-hong-kong/
http://butterboom.com/new-stores/hm-opens-3000th-store-chengdu-china/
http://wanphing.com/tag/fashion/

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Executive summary

Strong economic growth, increased domestic consumption, these are statements often heard in combination with China and its economic status. The Chinese market is considered to be highly dynamic and to offer plenty of opportunities for international retailers. The vast market with its 1.3 billion potential consumers can make any business developer dream about sales going through the roof and a forever green bottom line. However, it is not always easy to assess and understand how to expand to a market that is likely to be relatively different from ones domestic market. Moreover, business developers need to understand what global strategies can applied to fit the new market and what strategic choices need to be adapted (if any). The aim of this thesis is to provide an answer to this issue.

This thesis investigates H&M that expanded to China in 2007. First the thesis presents the methodology and research procedures chosen to provide an answer to the research question: *How does H&M's strategy apply to the new business environment in China and how does the strategic fit between H&M and the Chinese market influence the company?* Second, relevant literature in the fields of international business, marketing and strategic fit are assessed to provide a theoretical framework for the thesis. Third, the Chinese market is investigated through market studies based macro and micro level factors. Fourth, the case company and its development and strategies are assessed with a focus on the marketing mix. Fifth, the analysis section combines the above chapters to evaluate whether H&M managed to obtain a beneficial fit with the Chinese market. Sixth, the discussion part highlights the importance of the findings in the analysis.

H&M expanded to China by largely applying its existing strategies that were used in its global markets. The retailer made few significant changes to its strategy and these were related to price, icon style collaboration and what social networks the company used to promote its products and brand. H&M was well received on the Chinese market and its performance was much higher than previously anticipated by the company. H&M's year-on-year sales increased between 2007 and 2014 and the growth target of opening new shops with an annual rate of 10-

15 percent was easily obtained. The actual rate of store openings in China was between 42 and 108 percent during the same period. The reason that H&M chose to follow, to a large extent, the same strategy in China as in many others of its international markets is most likely to be able to leverage economies of scale.

1. Introduction

""My grandfather wanted H&M to always have the mindset of a small company. There is no room for prestige here. We insist on an open-door policy, and no hierarchies," Mr. Persson says. These ideals, he maintains, are the reason the company is profitable in every country in which it operates.[2]"

As the second largest retailer in the world, H&M has successfully established its brand and its products in multiple foreign markets since its inauguration in Sweden in 1946. Today, the group includes several different brands with shops in 53 countries. One of the H&M's most dynamic markets is China, which it entered in 2007. Compared to many competitors H&M entered the Chinese market relatively late. In comparison, the Danish retailer Besteller entered the market in the 1970s and the sports brand Nike in the 1980s. However, Inditex, which is H&M's strongest competitor, entered China with its largest brand Zara in 2006, thus, only one year prior to H&M. It is possible that H&M's strategy to enter the market at a later stage was made in order to be able to assess the success of other retailers before establishing its brand there. It is reasonable to assume that the potential differences in tastes, sizes, marketing and advertising possibilities between China and Western Europe required careful investigation before making the decision on how to enter the new market. By establishing in China later than its competitors, H&M would have had the opportunity to make post-market studies related to competitors' success and failure in the target country.

International expansion has been treated in business and academic literature (Dunning, 2000; Ghemawat, 2001; Lasserre, 2007). Differences between developed and emerging markets have also been discussed by several scholars such as Ghemawat (2001), Arnold & Quelch (1998), and Khanna & Palebu (2006). Indeed, a deep understanding of internationalization of the firm and of the nature of emerging markets is argued to be a key success factor for a successful expansion. An enlargement into the Chinese market is an expansion into an economy in transition from having been planned and managed by the government to become increasingly dependent on

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[2] http://online.wsj.com/news/articles/SB10001424052970204826704577074052812729344

market forces, as supply and demand. This dynamic environment can create a lot of opportunities for companies that can reap the benefits of the more open economy. China has been the focus of internationalizing companies in the era of globalization due to the large market potential offered by its vast population of 1.3 million people and growing consumption (BCG, 2011). However, many multinational companies that have established in China have experienced a worse performance than anticipated (Ghemawat, 2001). These numerous failures find their origin in various factors such as the country's vastness, cultural differences and also regulatory barriers or, possibly, lack of strategic fit – a concept that will be treated more exhaustively below. Even though China lately has adopted several international standards imposed by the accession to the WTO it can still be complicated for foreign companies go get a good understanding of the market and how to best apply their strategy. As a late comer to the market, H&M had time to study its competitors and their performance in China to assess if current strategy would be applicable to the new market. H&M's business model is based on wholly owned operation in each of its foreign markets when allowed by local regulation. The head quarter in Stockholm controls the global strategy as well as the design of the apparel that is subsequently pushed in all the company's markets. Moreover, the marketing strategy is primarily made in Stockholm and rolled out at a global level, even though local adaptations are sometimes made. Hence, much of the strategy is concentrated in Stockholm and later applied to the new markets which seem to leave little room for adaptations to obtain a fit between operations and the market if necessary.

H&M's ideals based on no prestige and low levels of hierarchy, as mentioned above, have helped the brand to expand successfully to new markets around the world. However, to apply these ideals to China could prove to be a challenge since Chinese and Swedish cultures and preferences can be considered to be very different. One example is Hofstede's 'Dimensions of national cultures' that uses six types of dimensions to plot cultures against each other. China and Sweden are highly different in individualism and indulgence (China scores low whereas Sweden scores high). The countries are also different in what regards power distance and

masculinity (related to achievement and prestige) where China scores high and Sweden low[3]. This indicates that different marketing strategies could potentially be used in the two markets to ensure highest possible performance. A marketing message promoting a message about finding yourself and do what is best for the individual might not be perceived the same way in China as in Sweden. However, to run two different strategies, in particular in relation to marketing can prove to be expensive and also harmful to the brand's global image that risk to become watered down if different messages are promoted in various markets.

Local preferences and structures can prove to be obstacles for international companies in their efforts to increase their global market share, in particular when they expand to markets that differ significantly to the market where they are currently operating. To align strategy and internal operations to a foreign market with dissimilar features compared to the domestic market, such as physical and marketing infrastructures, is a challenge for many companies, and some trial and error is likely to be take place before the right strategy is adopted. The company needs to consider if it can sell the exact same products in the new market or if consumer tastes and needs for the products are different to the extent that it would make sense to promote a new product line or only a sample of the global one. As an example, Nike changed the soles of a line of its basketball shoes offered in China due to a preference for more durable material. Also, marketing strategies and channels need to be revised since the marketing infrastructure, how people perceive the message and interaction between consumers and brand are likely to be different in various markets. For example, marketing through what is considered the traditional marketing channels such as TV and radio are highly expensive in China and they only reach a limited number of the consumers. Instead, young, Chinese consumers emphasize online channels and the retail store itself as important means for marketing (Forbes, 2011). Also, once the potential differences have been understood, it is important to assess whether it will be worth its while for the company to adapt to local preferences or whether it would better off by rolling out its global strategy when expanding internationally.

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[3] http://geert-hofstede.com/countries.html

The concept of strategic fit has not been extensively treated in previous literature about foreign direct investment but is an important element to performance in foreign markets. Strategy in general is created with a long-term vision on how to improve the performance of a company. When expanding into a new market it is important to assess whether the current strategy, in its entirety or partly, can be applied to the new market or whether changes are necessary. What is important is to keep consistency between the strategy, operations and the new market. It is possible that to copy and paste the strategy used in the domestic market onto the new market will entail some complications. Moreover, it is equally likely that, for any company, to make too many adaptations to its current strategy to fit the new market will also lead to difficulties. Hence, the importance of assessing the strategic fit between the market and the internal operations.

The focus of this thesis is H&M's expansion into China and the strategy the company applied since entering the country in 2007 and whether the retailer managed to find the strategic fit to be successful in this new market.

Research question for this thesis:
How does H&M's strategy apply to the new business environment in China and how does the strategic fit between H&M and the Chinese market influence the company?

2. Methodology

The purpose of the methodology section is to explain in detail the chosen methodology and methods. In order to come up with a relevant and exhaustive answer to the research question, it is important that the research process is guided by a clearly defined research methodology. Other researchers would then be able to replicate the methodology to other cases and research questions to test its validity. The outline of the methodology chapter follows, to some extent, the 'research onion' created by Saunders et al. (2009). The methods in each layer are highlighted in figure 1 below and will be introduced in a more detailed fashion. Consequently, this chapter has six sub-sections (i.e. the number of steps of the research process). The research 'onion' will be guiding the methods of this thesis even though other methods also will be assessed and applied.

Figure 1 The research 'onion'
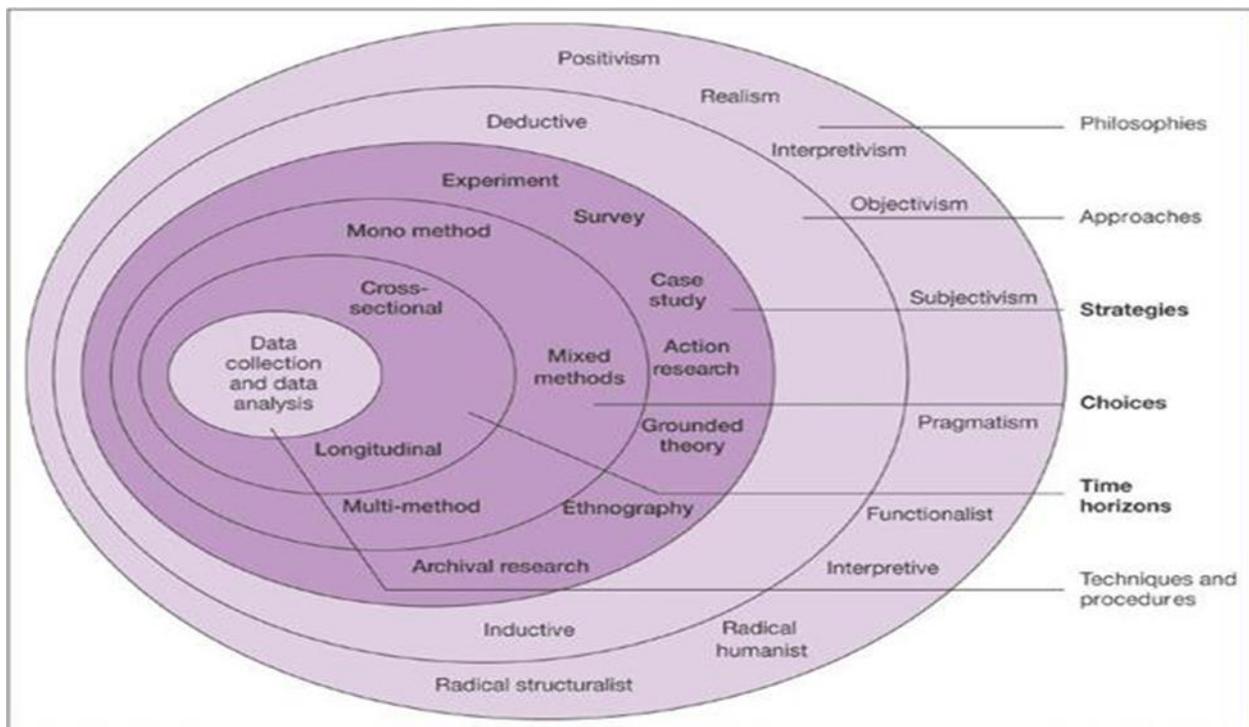
Source: Saunders et al. 2009, p.102

2.1 Research philosophy

The choice of research philosophy influences the process leading up to the researcher's conclusion and is the foundation for the research strategy and methods. Conducting a study in

the social sciences field offers several options of philosophy. The choice depends on the researcher's experience and reveals the assumptions of the surrounding world even though the main guidance comes from the research question itself. The applied research philosophy affects how the research will be carried out and what results will be highlighted (Saunders et al., 2009).

The four research philosophies highlighted by Saunders et al. (2009) are pragmatism, interpretivism, realism and positivism. The first is a practical approach allowing for a mix of different philosophies. The second highlights the importance of understanding differences between people and their acting. The third holds the position that matters exist whether we are aware of their existence or not. The last refers to a research approach where the focus is on observation and an end-product easily applicable to other, similar, cases. Saunders et al. (2009) admit that mixed methods is possible when choosing the research philosophy which is largely the view of the pragmatist. However, in this paper I will focus on the interpretivistic approach but mix it with pragmatism as the case study includes marketing models that are influenced by the social actor. However, financial figures, results and other outcomes are better viewed through the pragmatist lens.

Interpretivism/pragmatism

This thesis will be guided by interpretivism combined with a pragmatist lens. Interpretivism is an approach to social sciences that acknowledges that the 'social actor' – the human – is important to the research findings. It is often contrasted with positivism that is a more objective approach that isolates the researcher from the case that is studied. In interpretivism, the social actor is researched through an interpretation of his doings but the interpretation is also influenced by the researcher's own experiences and the sense she gives to the social actor that is investigated. However, it is important for the researcher to understand the researched events from the point of view of what is being researched. In business and management research this philosophy of science is widely used since business cases can be are exceptional and far from the natural scientist's laboratory where specific subjects can be isolated to ensure coherent and stable experiments. In business research there are several factors such as surrounding events and persons that will impact the process and the answer of the research question – most which

cannot be isolated from the research topic or case that is being studied. However, to choose interpretivism as approach it becomes more complex to generalize the findings and apply these to other cases since each case is considered to be highly unique. Nonetheless, the business world is today changing rapidly and the need to generalize has become less prevalent. (Saunders et al. 2009). The world is dynamic and prone to change and the agents acting in this dynamic environment are also capable of changing the social world (Bhaskar, 2010). As mentioned, the interpretivistic approach can be combined with the pragmatist's approach that acknowledges that a deeper understanding of social actors and our own interpretation are important in guiding our understanding of the world even though it is still important to consider the possibility that not one single philosophy is better than another. Many research questions require a mix of methods since data sources can vary from qualitative to quantitative in order to provide a comprehensive answer. Interpretivism combined with a pragmatist lens is a more accurate choice for social science research compared to positivism which too narrow for the broad spectra of factors that need to be taken into consideration to find an answer to the research question. Furthermore, a social scientist does not have the luxury of a laboratory wherein it can single out one specific unit and investigate it in its isolation.

2.2 Research approach

To define a research approach assists the researcher in his aim to outline an appropriate research design and strategy (Easterby-Smith, Thorpe, Jackson, & Lowe, 2008). This section introduces the deductive and inductive research approaches. The first refers to application of theory and creation of hypotheses that are tested during research process. Deduction is primarily connected to natural sciences due to its rigorous testing processes. It aims at explaining cause and effect between two or more variables. In the deductive approach the researcher needs to be objective and try to stay independent to what she is investigating. However, complete objectiveness and independence is difficult as even the initial questions in any research are based on the researcher's own decisions. On the other hand, the inductive approach refers to the creation of theory. This approach starts with the collection of data that is later analyzed before a theory is developed. It is used to create an understanding of the event (Saunders et al., 2009).

This thesis is treating the subject of international expansion and how well the expanding company fits with its new business environment. The research approach is based on deductive reasoning as already existing theory is used to explain the firm's activities in the new market and of it achieves strategic fit with the same. To use a deductive approach by applying a theory will unveil if the case company's approach to the new market was a good choice or if adaptations to strategy would have made the company better off.

2.3 Research strategy

The research strategy is the third layer of the research onion in figure 1. Several factors such as the nature of the question, the objectives, the time-frame and the existing knowledge in the field of investigation impact the choice of research strategy. Saunders et al. (2009) outlines several strategies such as experiment; case study; and survey. The focus in this thesis is on the case study approach since it fits the research objectives of investigating if the success of international expansion implies that the firm needs to obtain strategic fit with the local business environment. An experiment is more likely to take place in a laboratory where the researcher is able to single out specific events and keep everything else stable. This approach is also easily applicable to other experiments since all the factors would be noted down. However, in management research the subject is generally more complex and it is not possible to separate one factor from another which is why the experiment approach is not a valid choice for this specific case. Moreover, the survey strategy is quantitative method often combined with a deductive approach that is often used together with management research since it renders it possible to collect a significant amount of data from which the conclusions subsequently are made. However, as this thesis has a qualitative focus this method is not chosen whereas the case study approach fits the aim of this thesis and will thus be applied (Saunders et al., 2009).

Case study

This thesis will be based on a case study approach to research since it is a qualitative study of one organization's fit with its external environment and thus suits the case study approach. A case study is based on contemporary events that are observed or investigated by the researcher. Yin (2003) describes two types of single case studies: holistic and embedded. The

holistic type has one unit of analysis whereas the embedded type includes several units of analysis. As this thesis includes more than one unit of analysis (implicit to assess strategic fit) the focus will be on the embedded case study. Further, he argues that a single case study is useful when it meets one (or more) of five conditions:

1) when the case is testing a specific theory;
2) when the case is unique;
3) when the case is representative;
4) when the case has a revelatory purpose;
5) when the case has a longitudinal purpose.

Consequently, it is important to define the unit of analysis (organization, individual, country) and the purpose of the research already at the outset. Furthermore, the importance of context is highlighted in relation to case-based studies. The unit of analysis and its surrounding environment cannot be entirely separated which is also a reason why the case study is a viable choice in combination with an interpretivistic approach (Saunders et al., 2009; Yin, 2003). The objective of a case study can be to build or test a theory based on several data collection methods. However, the research question and the study design need to be clearly defined to obtain a successful result (Eisenhardt, 1989).

Reliability is important for case studies since a proof of reliability means that the research procedures will derive at similar findings, independently of whom the researcher is and when a new study is taking place (Saunders et al., 2009). In order to come up with consistent conclusions, the researcher needs to consider the likelihood that he or a colleague, using the same measures at another point in time, would get the same results. Transparency in how the data analysis was conducted is also crucial for the study to be reliable (Easterby-Smith et al., 2008). To ensure the reliability of this study, there is a thorough methodology and method chapter in this thesis. Hence, other researchers will be able to assess the methods and theories to replicate the study on other cases if necessary. Saunders et al. (2009) and Yin (2003) agree that a clearly defined case study method can be replicated and applied to other studies. However, replication does not refer to generalizability, and I want to stress the fact that the aim

with this case study is not to make industry-wide generalizations. It is rather an approach to create deeper knowledge in the field of international business and strategic fit. Moreover, to investigate an international retailer company's operation fits the requirements of a representative case. Even though quite extensive research has been undertaken in the field of international business operations, there is a lack of literature where this theory is applied to the expansion of an international retailer from a small economy establishing in a developing market with the objective to serve the local market. Also, there is a significant lack of academic papers dealing with the strategic fit of the company's culture, its activities and the location choice. Finally, this thesis is based on a single case study in that the investigated processes and conclusions drawn are based on one firm's operations only. The units of analysis are the case company, H&M and the contextual environment in China.

2.4 Research choices

Saunders et al. (2009) introduce two types of research choice: quantitative and qualitative. The choice relates to the data collection and analysis processes. The first one refers to data collected in a numerical manner which are later analyzed through statistics. The second choice is based on non-numeric methods such as interviews, observations and review of documents. The two methods are not mutually exclusive but can be combined into a mixed methods approach. Also, triangulation of data permits the use of one or several methods in various configurations – the multi-method approach. If triangulation of data arrives to the same or similar findings the validity of the conclusion is increased. Triangulation also helps to solve issues of reliability since the same data is presented in several different ways. To be able to triangulate the data would help the research to meet criticism towards any of the research choices. Qualitative research has been criticized due to its inclination towards an inductive research approach, and thus lacking a theoretical framework, as well as having high uncertainty, it is a valid method if the researcher is able to justify the criteria and analyses choices. Quantitative data has been criticized since it is isolating the numbers from the social actor and thus does not take all variables into consideration (in that it considers that it is possible to be perfectly objective towards the research) (Jonker & Pennink, 2009). This research is based on a multi-method research approach. Qualitative data is gathered through the review of articles, books and

secondary data sources as well as from annual reports, and social media networks as primary data sources. Quantitative data from financial analyses and databases are used to assess performance and contextual environment.

2.5 Time horizon

The onion displays two time-based classifications: cross-sectional and longitudinal. The first is referred to as a snapshot of events taking place at a certain time. The second has a longer time perspective and assesses the unit of analysis over a specific period of time. Saunders et al. (2009) argue that, despite time constraints, it is possible to conduct a longitudinal study by using data collected prior to the current research. The data can then be re-analyzed and would add to the longer time-frame. This thesis has a longitudinal approach in that it will analyze the case company's arrival in the new market until its practices today in order to be able to establish the strategic fit and its impact on the success in the new market.

2.6 Research techniques and procedures

This section outlines the methods that will be used to answer the research question and represents an important part of the research design. It is the sixth and final layer of the research onion. The confines of the research process are also included to show that the researcher is aware that there some limitations to the process and that the findings could look differently in the case the researcher would have had access to other data.

Secondary and primary research

Secondary data is data that has been collected and published by someone else than the researcher. To assess the secondary data it is necessary to conduct an extensive literature research prior and during the writing of any project. This is made in order to avoid investigating an area that has already been researched and validated numerous times. It will also give the researcher the necessary basic knowledge that will enable her to progress in her research as it will add to her knowledge and also reveal gaps in the literature. Primary data is data that come directly from the source of information such as interviews, focus groups, annual reports and social networks (Saunders et al., 2009).This thesis will be based on documentary secondary and primary data sources to enable the researcher to triangulate and compare the data before

arriving at a conclusion. Data sources that are used in the thesis are academic articles, journalistic material and commercial data. Also, some of the data will come from non-written material, such as audio-casts and video recordings. Moreover, social networks are included in the research process and are used to understand how the case company is leveraging different networks on the global and local markets.

2.7 Limitations

This thesis is solely based on data obtained from online sources such as reports, web sites, articles and offline sources such as books and academic literature, which represents one of its biggest limitations. To conduct interviews with key managers in the case company could have provided valuable insights about the company's strategy and the process of expanding into the new market, which would have been an appreciated contribution. Another limitation lies in the inability to access Chinese resources of information due to lack of Chinese language skills. To be able to read and analyze secondary data about China in Chinese would have opened up for bigger opportunities in creating a deeper understanding of the Chinese business environment. Even though translation programs such as Google translate can give good indications it does not replace the ability to search and read in the local language. Finally, financial data released by the case company does not always separate its performance on the Chinese market but presents cumulated numbers for its global market which renders it complicated to single out the individual Chinese performance. However, the annual reports together with other financial reports, and news still gives a quite clear overview of the case company's performance on the local market.

2.8 Summary of research methodology and method

Above, I have introduced the research methodology and method that guide the design and analysis of this paper. An interpretivistic approach with a pragmatic lens is utilized to answer the research question. This philosophical methodology guides the choices of strategy and data collection. The research question will be answered by using a case study approach. The information will come from secondary and primary data sources. The consequences of the limitations to the thesis are potentially that the findings look different compared to if the

research had had the appropriate language skills and access to key staff in the case study organization. Figure 2 represents a visual of the research process.

Figure 2 The reasearch approach
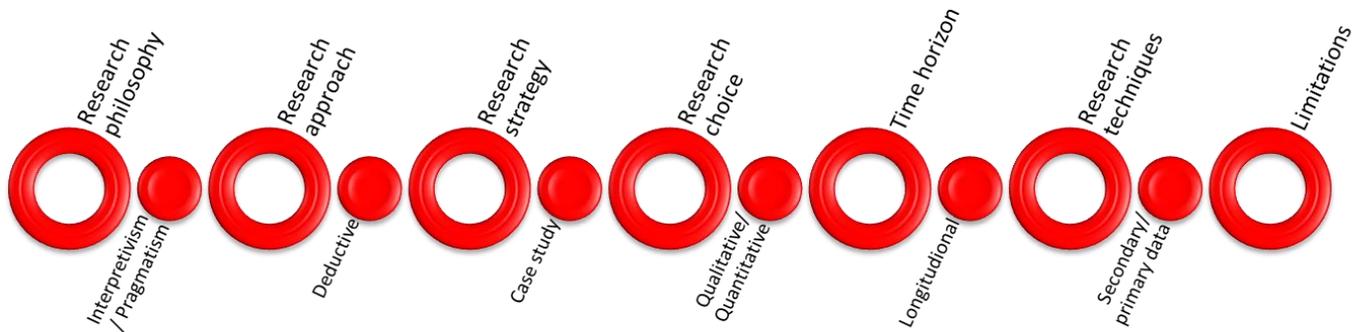
Source: Author's creation

3. Literature review

The aim of a literature review is to introduce and critically assess what has already been written in a chosen topic. This is important since previous and current understanding of a topic will guide the researcher in the aim to investigate new subjects or new angles of older theories. The element of criticism is important since if the previous theories and research findings were perfect, there would be no need for further investigation (Saunders et al, 2009). In this paper, the literature review also serves as a basis for the theoretical framework that is applied to analyze the research question outlined below:

How does H&M's strategy apply to the new business environment in China and how does the strategic fit between H&M and the Chinese market influence the company?

In the field of international expansion, focus has traditionally been on traditional literature about foreign direct investment (FDI). Academia has focused on the questions why and where companies expand across borders and how the processes from idea to implementation are structured. Classical theories are the resource-based view (Barney, 1991), transaction cost economics (Williamson, 1981), the Uppsala model (Johanson & Vahlne, 1977, 2009) and the PEST analysis. With growing economies in Asia and Latin America, the last decades have also seen a surge in academic literature treating the subject of a Western firm entering an emerging market and what strategies to use for a successful entry (Khanna & Palepu, 1997; Meyer, 2002). However, once a company is established on the local market a new set of questions arise, e.g. did the firm choose the right strategy for the market and is the firm well aligned with its new business environment?

This literature review addresses briefly traditional FDI literature such as the resource-based view, market study theories and entry strategies since it is important to understand the processes before a company expands into a new market. The reasons why a company chooses to expand abroad will facilitate the choice of features to assess when studying the strategic fit between the company and its new business environment. Factors affecting the fit are likely to be different if the company is expanding for production purposes relative to expansion for commercial purposes since the approach to the market will be different. As an example, a

retailer expanding to sell in the target market will need an increased understanding of local consumer behavior and preferences compared to a manufacturer expanding for production purposes who will need a better understanding of local regulations related to environment and labor laws. Moreover, market features of the local market and entry strategies are also important to understand since these will have an impact on the success or failure of the internationalization. Without an understanding of the target market's features the company is unlikely to achieve a fit with the new environment and is thus less likely to be successful since common, but misguided, practices might be used. Moreover, the entry strategy is important since a well-tailored entry strategy will reduce the need to make adaptations to business strategy later in the internationalization and expansionary process. The focus of this literature review is strategic fit between marketing strategy and the new environment since globalization of markets and products is becoming increasingly common (Fram & Ajami, 1998; Levitt, 1983). Thus, it is important to understand if a marketer will be able to use the same approach in all markets as a part of a cost efficient strategy or if local adaptations are necessary to improve performance. Marketing literature is included as an important part of the literature review to enable an analysis of the case company's approach to marketing on the local market. The importance of strategic fit between current strategy and the new market is discussed with an emphasis on a fit related to companies that expand abroad with market-seeking purposes. The structure of the literature review is displayed in figure 3 below.

Figure 3 Structure of the literature review

Traditional FDI literature → Marketing → Strategic fit

Author's creation

3.1 International expansion

Traditional FDI literature includes reasons why a company chooses to expand abroad (Dunning, 2000), pre-market studies to assess the market structure (PEST analysis, Porter (1979)), as well as internationalization path and entry strategies (Johanson & Vahlne, 1977; Meyer, 2002). In the below section some of the theories and models will be introduced since, as explained above,

they add to the understanding of marketing choices and strategic fit which is the focus of this thesis. The reason that traditional FDI literature is not included to a greater extent is that traditional theories about FDI in general elaborate on a company's reasoning and choices prior to the implementation phase of establishing in the new country. Previously, focus has also been on understanding how firms expand to foreign markets and whether they use a systematic approach by initially moving to neighboring markets or if they launch in distant markets shortly after the expansionary decision has been made (Johanson & Vahlne, 1977). However, the focus of this thesis is based on the implementation and post-implementation periods in a local market. This focus is chosen to understand if a global marketing strategy is applicable throughout markets or if a strategic fit between the company, its operations and the new market is necessary. To understand whether a globalization or adaptation of the strategy to obtain strategic fit and thus potentially improve performance is becoming increasingly important since an increasing number of companies are expanding across borders and will need guidance in their choice of strategy. Moreover, classic internationalization theories such as Johanson & Vahlne's Uppsala model (1977) can be considered too static for the business environment wherein companies are operating today. Today's international or global market is more dynamic and for organizations using the internet as a facilitator to do business and to sell its products it might be easier to achieve a quicker break-through in new markets relative to the incremental process of expanding first to one country and subsequently to another (Forsgren & Hagström, 2007).

3.1.1 Driving forces for internationalization

The driving forces behind the decision to expand internationally are likely to affect the chosen strategy in the new market and, in the end, the fit with the market. Dunning (2000) argues that there are four main strategies driving a company to expand beyond its domestic borders: resource-seeking; market-seeking; efficiency-seeking; and strategic asset seeking. The first relates to location specific advantages in the host country in terms of natural resources and labor to mention a few examples. The second is demand-oriented and aims to provide goods and services to the host market. The third is linked to specialization and a more efficient division of labor between home and host country. The last one refers to the objective of creating new or

leveraging existing assets in the new market to improve the firm's competitive advantage vis-à-vis its competitors. Notably, mixed motives can be a driver behind the decision to expand internationally even though one focus area is common and will guide the company in its assessment of the target market. Moreover, there are evidently other strategies or driving forces behind international expansion such as acquisition of new technologies that are not available in the domestic market to name but one (Amighini, Rabellotti, & Sanfilippo, 2012). This thesis will investigate the case company's driving force behind its decision to expand to China and assess how this had an impact on overall strategy in the new market.

3.1.2 Market studies

Prior to entering a new market, the firm needs to assess the new business environment to improve the understanding of the market and the best structure of the market strategy. The market environment studies are also important to improve understanding of opportunities and threats in the market. However, even though these are made prior to the expansion they will be able to guide the firm to choose appropriate strategies for the market. In addition, with a changing market environment, as is the case in many transition economies since they are changing from a planned to a (social) market economy, the market environment studies become an iterative process. Traditionally, market studies have focused on economic factors such as the country portfolio analysis. It measures the income per capita on the horizontal axis and the product performance on the vertical axis. Hence, this model uses economic and technological progress to estimate the attractiveness of a market (Ghemawat, 2001). However, these variables alone are not enough to indicate long-term potential of a market. Even though the current performance of a product category is low it does not necessarily mean that the market has low potential but can be an indicator that there is potential for strong future demand once the market is ready for the product. Moreover, physical and cultural distances between home and foreign market can help guiding the company towards the markets in which it will potentially be successful – an argument also emphasized by Ghemawat (2001).

Economic growth and market potential are not the only factors that influence the decision to expand to a particular market but other factors that are likely to have an impact on strategy decisions made after the implementation are equally important. The PEST analysis is a common

tool to analyze the macroeconomic environment and to assess if the target market is attractive regarding the surrounding business environment. The PEST model includes political, economic, social and technological factors. These are assessed in relation to the country's situation and the progress of each factor respectively[4]. However, the model's main weakness (but also strength) is that it is not specified what is included in each head category. The researcher can thus freely choose the factors that will be analyzed. Hence, the PEST analysis can be criticized for giving the researcher too much freedom and increasing the risk for creating a biased research framework. This should not be a great issue as long as the researcher clearly states her or his definitions included in each category of the PEST analysis. However, even though this analytical framework is likely to capture the macroeconomic features it does not necessarily take into account the industry specifics that influence the company's decision. Diverse industries will emphasize different factors of the external environment and this should be considered when making an environmental scanning.

Lasserre (2007) introduced an 'industry opportunities assessment' wherein the company is encouraged to analyze the following: the quality of the industry's competitive structure; the availability of resources; and government incentives. The first builds on Porter's five forces and determines the long-term potential of the industry. Porter's five forces is a common tool to assess the industry level and micro features in a market. These include, bargaining power of suppliers, threat of substitutes, bargaining power of buyers, threat of new entrants and, industry rivalry (Porter, 1979). The second is divided into human, natural and infrastructure resources that all can be of strategic importance to the company. The third depicts the country's quality of transport and communication infrastructure as well as the presence of supporting services. The level and quality of competition is an important factor to post-implementation success. If the firm enters the market when it has already reached maturity in terms of number of competitors the risk for failure increases since the focus will be on taking market shares from incumbent players rather than being able to reap the benefits of new market shares that are created in a growing market. Infrastructure, transport and communication possibilities are important for ease of doing business. However, emerging markets are likely to develop their

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[4] http://www.netmba.com/strategy/pest/ (last accessed 2014-12-03)

infrastructure and communication networks continuously and to assess the above-mentioned factors is likely to be an iterative process that will continue after implementation as well – the model introduced by Lasserre (2007) is simply a snapshot in time and lack a dynamic factor. The market environment studies guide researchers and business developers in decisions that will increase the success in foreign markets. Today, firms have several tools and theories to guide them and the choice is likely to depend on the underlying reasons for the expansion and the company's expectations on performance after the expansion. However, the models are static and lack a dynamic element to capture the fast moving business environment as it is developing today (Axinn & Matthyssens, 2002). Moreover, these models are unable to explain the success or failure of an entry strategy and depend on further theories and models to assess if the choice to expand abroad was beneficial for the company. This thesis will include assessments of the PEST analysis and Porter's five forces to create an improved understanding of the case company's new market. However, these models will be extended with the concept of strategic fit between the market and the case company to better explain the performance of the firm in the new market.

3.1.3 Entry strategy

After having assessed the market the next step in international expansion is to create an entry strategy that is aligned with company operations and the new business environment. Hence, already at this stage, the firm is able to influence the post-market strategic fit. Scholars debate whether a standardized approach should be used across global markets or whether the firm should adapt to local circumstances in the host market (Gabrielsson, Gabrielsson, & Seppälä, 2012; Ohmae, 1985; Yin, 2003). The general reasoning is that if the home and the host market have similar characteristics a standardized approach will be applied. The similarities between the markets will enable the firm to leverage already existing knowledge and processes and thus reduce the costs of the international expansion. However, if there are large discrepancies between the markets the firm can consider adaptations to the local environment (Lasserre, 2007). Hence, to enter a foreign market is a process consisting of several complex dimensions. Meyer (2002) divides these dimensions into two categories, primary strategic decisions and supporting operational strategies. The first set refers to location, entry mode and timing

whereas the latter refers to marketing, human resources management and logistics. Location is related to market environment studies and the attractiveness of the market. The entry mode and timing are briefly discussed below, as these are likely to influence the initial fit between the company and its new business environment. Human resources management and logistics are excluded from the debate since they are out of the scope of this paper. Finally, marketing practices are included in the discussion below. Nonetheless, to simply assess the above variables will not enable the researcher to understand the post-entry phase success or failure in the new market.

The choice of entry mode is an important factor linked to entry strategy. According to Lasserre (2007), the company should base its entry mode decision on two factors, namely ownership and intensity of investment. The first decision is related to whether the company should enter the market with full control over its operations or by collaborating with a local company. The second relates to the significance of the investment that will be made. Cavusgil, Ghaury, and Agarwal (2002) outline three categories of entry mode strategies: export, contractual and investment. The first category is an example of market seeking internationalization where there is little risk for the firm since no major investment or commitment is made. A contractual agreement requires more effort from the expanding company in terms of creating, enforcing and supervising the contractual terms. The advantage of such a governance mode is lower capital requirements compared to investment and a faster access to resources and the local market. Finally, investment strategies generally have a long-term perspective and require significant capital and commitment. Greenfield operations, mergers and acquisitions (M&A) and joint ventures (JV) are examples of investment strategies. Here, the advantages are increased amount of control over the activities and output. Lasserre (2007) argues that JV strategies are used as the most common entry mode in emerging markets. A JV includes two (or more) parties that all owns equity in the new venture. The JV can be classified minority, fifty-fifty, or majority depending on the amount of equity owned by the company and its partner. The business environment in the host market along with local government requirements and the firm's business model are likely to guide the entry mode decision. Greenfield operations are the most capital-intensive mode of entry where the firm is building its new business from scratch in the

new country and is the sole owner of its operations. The choice of entry mode is likely to have an impact on the strategic fit and increase or decrease the firm's ability to influence the fit between the company and the market.

The choice of when to enter an emerging market is an important factor to overall international strategy. It is often a matter of whether the company should be a first-mover or a follower in the new market. Meyer (2002) argues that even though many advantages are linked to being the first operator in the market – such as access to distribution networks and brand building – the company is not always able to leverage these advantages. Lasserre (2007) claims that, in particular in relation to emerging markets, a first-mover advantage can be offset by under-developed infrastructure, unsophisticated demand and lack of appropriate distribution networks supports this view. Hence, the set-up costs of being the first foreign player in the market would be too high. Arnold and Quelch (1998) state that even though there are disadvantages linked to being a first-mover, these are mainly offset by the advantages. Strong government relations, pent-up demand, and the opportunity to build a good reputation to a relatively low cost are some of the benefits (Arnold & Quelch, 1998; Khanna & Palepu, 1997). Moreover, first mover advantages or lack thereof is likely to depend on the nature and experience of the firm. However, traditional entry strategies have been criticized for being too focused on firms from developed countries and to be outdated in today's fast-moving economy. They are also unable to explain the success or failure in the post-implementation phase (Andersen, Ahmad, & Chan, 2014). It is likely that the timing of entry has an impact on the strategic fit between the market and the firm's current operations and strategy, in particular in relation to emerging markets or transition economies. Nonetheless, a successful entry strategy also depends on how the company will market its products in the local market. In addition to good timing the expanding company also needs to approach the market in an appropriate manner to convince consumers about its products superiority. This thesis will assess the case company's entry strategy in terms of timing and ownership as these factors are likely to impact the post-implementation fit with the new market.

3.2 Marketing

Marketing is a broad concept that includes several different specialties such as content marketing, relationship marketing and social media marketing to mention a few. However, in its broadest sense, marketing connects the firm with its current and prospect clients. The purpose of marketing is to get the audience or the potential consumers' attention in order to sell a good or a service (Grönroos, 2006). The latest definition of marketing, approved by the American Marketing Association in 2013, emphasizes the importance of the activities creating value for the customers. Value creation is the most important aspect to marketing and is seen as a process or bundle of activities directed towards the target group.

As can be interpreted by the definition of marketing above it is a multidimensional concept including several theories and models whereof a few will be introduced below and narrowed down to what will be applied in the discussion part of this thesis. Marketing is often divided into strategic and operational marketing activities. According to Leventhal (2005), a marketing strategy should be market driven and focus on the customers. Moreover, the strategy should be included in a long-term strategy for corporate performance and not be considered as a function that can be rapidly altered and whose budget can be cut to realize short-term gains. Nonetheless, El-Ansary (2006) states that marketing strategy needs to be divided into sub-strategies related to targeting, segmentation, position and differentiation. Market segmentation and product differentiation are two marketing strategies that often are combined and would be considered as strategic by El-Ansary's standards. The first concept refers to the heterogeneity of markets that enable the marketer to slice the market into several segments with differing demands to which the company would offer its products. The second refers to the perceived differences between own and competitive products – these differences can be either physical or connected to a brand name (Dickson & Ginter, 1987). Similar strategies will enable the company to target the appropriate segment of the market by highlighting the differentiating factors that will induce the consumers to buy. On the other side of the spectra, an operational marketing dimension is relationship marketing. It was first introduced by Berry (1983) as a means to highlight the importance of a good relationship between corporations and clients. The relationship is in focus to create trust between the two parties and to encourage repeat

purchase and loyalty leading to profit (Grönroos, 1994). However, it is a complex process to quantify and measure the value of a relationship – in particular, when including the factor of time in the case the relationship is a long-lasting one (Ballantyne, Christopher, & Payne, 2003) To assess the (potential) value during the initial steps of the relationship is complicated since not enough data is available. Furthermore, what is missing in Berry's theory of relationship marketing is the political environment as an actor and influencer in the relationship created between the company and the consumer. The political environment is defined as the government, laws, regulations and pressure groups whereof the government is often perceived as the strongest actor. Through legislation, technical standards and norms the government can affect the boundaries of a relationship for other actors in the economy. Laws are promulgated to protect organizations from one another, to protect the consumers from   corporations and also to protect the society at large (Kotler, Armstrong, & Harris, 2013). Common government actions are restrictions on marketing actions on tobacco and alcohol related products. In China, the luxury segment is regulated to avoid an emphasis on the gap between rich and poor in the country. Religion can also affect the framework of relationship marketing through its normative influence in certain countries of what is perceived as socially acceptable (Sheth & Parvatiyar, 1995).

To fit the aim of this thesis a pragmatic view towards marketing is considered. El-Ansary (2006) considers the marketing mix, first introduced by Borden (1964) to be part of operational marketing practices used to implement the strategy. It is a framework including several factors related to a company's go-to-market strategy and useful when assessing the marketing aspect of international expansion. This strategy is offering a practical approach to marketing and will be discussed more in detail below.

3.2.1 Marketing mix

The marketing mix is a conventional framework that considers the four dimensions of price, product, promotion and place respectively (the 4Ps) that can help the marketer in the pursuit of an appropriate strategy in the local market. Despite being several decades old, the variables in the marketing mix are still used to guide marketing decisions that potentially will create value for the target customer segment in any market. The model was long unchallenged even though

scholars added some extra variables to the mix at times when it was deemed as being too shallow (Grönroos, 1994). Indeed, the marketing mix has been criticized in academia on several points. First, the framework does not take into consideration all aspects of marketing. Second, there is no clearly defined structure as what variables each P consists of (Van Waterschoot & Van den Bulte, 1992). Third, no strategic dimension is included in the mix (Ohmae, 1982). Fourth, the customer dimension is not included in the mix (Constantinides, 2006). However, Möller (2006) is defending the marketing mix and argues that it is misread by its critics. Even though, as some scholars argue (Grönroos, 1994), the world is moving from transactional marketing to relationship based marketing the mix is still not redundant in relation to influence consumers in their buying process (Möller, 2006). The mix is the practical output of strategy that is applied to different markets and its operational purposes serve the aim of this thesis. Hence, each variable is discussed below in relation to whether the factor can be directly applied to the any market or if adaptations are needed for it to fit and improve performance in the new business environment.

Price

To offer the same products at different prices in various markets is a sensitive topic and increasingly so due to consumers' opportunity to compare prices and also buy from neighboring markets if these are offering the product at a lower price (Accenture, 2012). Globalization and internet have increased the price transparency throughout markets and thus made it more complicated for companies to offer differentiated pricing (Melewar & Smith, 2003). Supply and demand factors will also influence the pricing decision since firms in markets with few suppliers but high demand can be tempted to increase local prices. Moreover, the pricing decision is also influenced by local market and industry standards and regulations (Powers & Loyka, 2010). One example is the lowered priced cigarettes sold on the Luxembourgish market compared to neighboring markets due to a lower TVA applied to tobacco products in Luxembourg. Lasserre (2007) argues that to provide the same price model throughout different markets is a valid model for highly standardized products and where no local regulations, related to pricing, apply. This strategy will avoid arbitrage and protect brand integrity. However, a standardized pricing does not consider the demand in the local market and the consumers' value perception in

relation to the product. Moreover, Batra (1997) argues that the size of China enables companies to propose lower prices due to the opportunity of economies of scale. In addition, consumer segments and purchasing power is likely to differ between a developed market and a transition economy (T. Khanna & Palepu, 2006).

Product

The product is generally in focus in international expansion and implementation since this is what the company wants to push on the new market. To optimize sales it is important that the products fit the market needs and preferences but also that it is economically viable to adapt any product to the local market – should this be necessary (Powers & Loyka, 2010). Lasserre (2007) introduced a decision making model to find out if it is economically valid to adapt the product to local preferences (see figure 4).

Figure 4 Global brand positioning
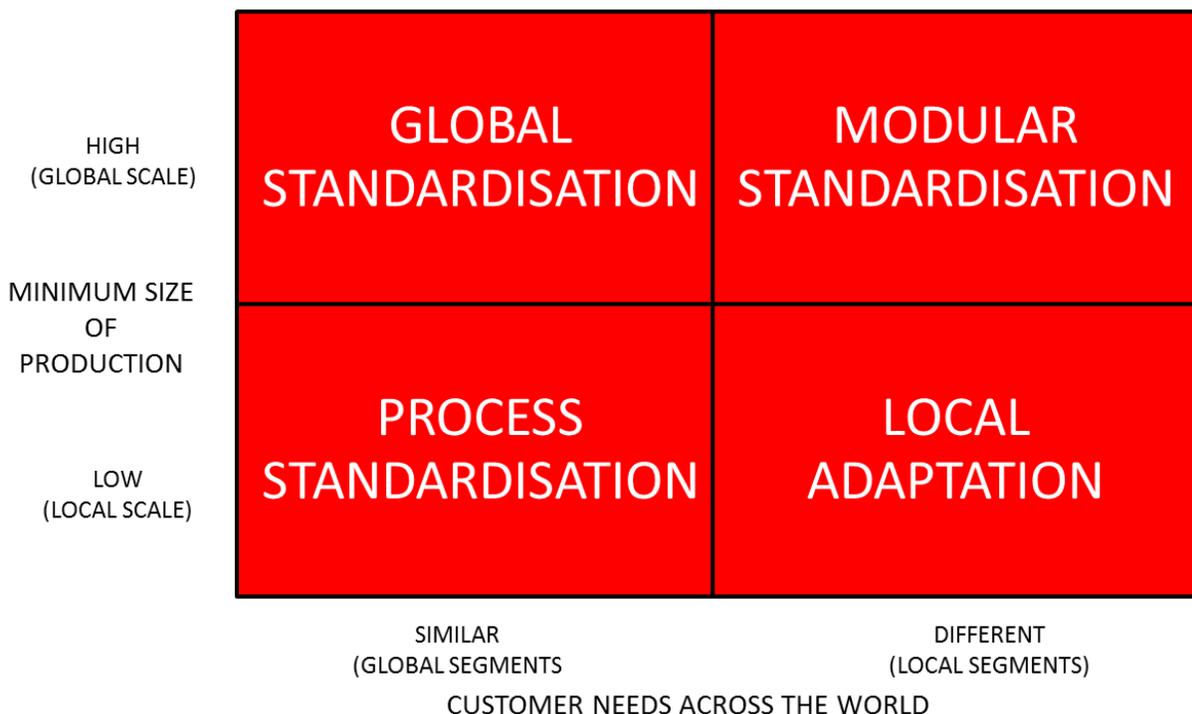
Source: Lasserre 2007, p. 224 (modified by author)

The first factor is similarity of customer needs as shown on the horizontal axis; the second factor is the amount of products that needs to be manufactured to make a profit as described in the vertical axis. In order to optimize its processes and profit, the company should standardize its product offer if customer taste is similar and a high amount of products is required. This is referred to as global standardization. However, the firm should choose modular standardization if the minimum size of production is high but the consumer preferences vary. This strategy enables the firm to reach economies of scale on the first production processes with the option of product adaptation at a later stage. When low levels of production are needed in combination with similar consumer preferences, the company can choose to standardize its processes even though the location of the production will be localized – process standardization. Finally, if consumer tastes are different and the minimum size of production is local, the company needs to conduct local adaptation to be economically viable. In fast fashion retail, economies of scales are preferred to keep the costs low while still being able to quickly push products to the market. However, the important question is whether it is feasible to push all the same products to all the markets.

Promotion

The promotion decision is an important aspect when the company needs to decide whether it should roll out global advertisements in all its markets and whether it should offer the same promotions in all countries (Theodosiou & Leonidou, 2003). According to Lasserre (2007) there are three advantages of choosing a global promotional message: strategic, economic and organizational. By having one unified message the company strengthens its corporate identity and saves time to market. However, it can be hazardous to choose a globalized strategy if the local market is not susceptible to the global message and cultural differences are significant (Karande, Almurshidee, & Al-Olayan, 2006; Powers & Loyka, 2010). T.-S. Chan and Cui (2004) argue that firms need to familiarize themselves with local preferences that, potentially, can vary between regions in the same country if it is a large market. Consequently, local adaptations to message and packaging can be necessary to perform in the new economy. However, the market in a transition economy is likely to change at such a rapid pace that what is a valid promotional strategy today might no longer be valid tomorrow (Batra, 1997). Moreover, Wen and Zhang

(2012) consider that even though distribution channels and infrastructure are not always in place for marketing and communication in China, consumers often rely on a brand name that they know which increases the significance of the brand awareness. Foreign brands are often associated with greater quality, which is something they can leverage in their promotional material in emerging markets. Nonetheless, brands will have to provide the expected quality since consumers in today's China are likely to return to local brands if the international brand does not deliver as expected.

Place

Place refers to transportation, distribution and inventory of the product. Distribution is likely to be highly standardized across markets. However, local requirements and market characteristics influence the distribution used by the company (Powers & Loyka, 2010). For a retailer, place would traditionally raise the questions if the company should open its own shops or whether it should push its products through department stores or franchisees. It would also need to assess if distance selling by using catalogues would make sense based on the level of infrastructure in place and the habit of not trying on the clothes prior to buying. Today, due to e-tails increasing popularity the retailer also needs to consider if opening up a web shop would be necessary or maybe even vital for success in the new market. Albaum, Tse, Hozier, and Baker (2003) argue that standardization of distribution is a cost efficient strategy choice and circumvent the challenge of creating different, successful, strategies in multiple markets.

The marketing mix relates to one of the main challenges for the marketer in a new market, namely, the decision whether to use a standardized, global, strategy or to adapt the marketing operational strategy to the local circumstances. Each part of the mix needs to be analyzed, assessed and adapted if it turns out that the appropriate strategy was not chosen. Figure 5 outlines some of the questions that the expanding company needs to consider when venturing into a new market.

Figure 5 Marketing mix

Price	Product
Should prices be adapted to the local market? What is the consumers' price sensitivity? What is the current market price for similar products? How are competitors pricing their prices? What is the added value offered by the product?	What are consumer expectations on the product? Are consumers valuing similar features in domestic and local markets? What sizes and colors should be applied? How is the product differentiated compared to competitive product? How is the product branded?
Promotion	Place
In what channels is the product marketed? Who is accessing these channels? Can a global message be applied in the market? Should the promotion be made in English or in the local language? Are there any pitfalls to avoid in relation to promotion?	Where is the product marketed and sold? Where do consumer look for the product? Does the company have access to the appropriate distribution channels? Do competitors have access to different channels and what can be learnt from them?

Author's creation

The questions included in figure 5 needs to be taken into consideration when implementing a marketing strategy in a new market. It is a relatively simple and descriptive model that enables the business developer to move forward in the market whereas it does not take into consideration whether the decisions fit the new market environment. The 4Ps are simply assessed as independent factors without consideration to the external environment. The marketing analysis in this thesis will be based on the marketing mix since, despite its shortcomings; it is a model that has been thoroughly tested in the literature and is still commonly used today by marketers and strategists. However, the mix will be complemented with the strategic fit, which is a concept that enables the mapping of firm specific and external factors. To add another theory to the marketing mix will enable for a better understanding of how an expanding company can leverage its current practices in a new market and how this impact the performance in the new business environment – including, to some extent, the political external environment. Strategic fit will be discussed in-depth and clearly defined in the following chapter.

3.4 Strategic fit

Strategic fit is a concept that has several interpretations in the management literature. Different scholars emphasize different parts of strategy and other parts of the company or the external environment it should be aligned with. Some of the interpretations will be discussed and evaluated below. Finally one interpretation will be chosen to guide the analysis of the research question. Furthermore, a part from discussing what strategic fit means it is also important to understand what its characteristics are, how the fit is achieved and if it will affect overall performance. The review of strategic fit will start with a discussion of the concept in a broad sense and get narrowed down to the particular features that will be used for the analysis part in this thesis. Finally, the overall focus in this thesis will be on external strategic fit since the case study is based on international expansion and includes the host market as a part of its analysis.

It has been argued that the world is moving towards a convergence in taste and preferences and that the same marketing strategy would be equally successful in different markets (Ohmae, 1985; Yip, 1994). However, this view is contested by other scholars who argue that global firms still need to consider local adaptations to their marketing strategies – particularly when operating in emerging markets that are very different from the developed domestic market (T. Khanna & Palepu, 2006). Whether or not markets are globalized, the expanding company needs to find a fit with its new market to enhance performance and the strategic fit discussion is mainly considering definitions of strategic fit and if a company should standardize or localize its strategies.

3.4.1 Definitions of strategic fit

Hill & Brown (2007, p.1333) define strategic fit as *"… the degree of linkage or consistency between the competitive priorities, delivery system and infrastructure of an operation"*. Even though the focus in the definition is on internal dimension, Hill and Brown (2007) agree that the concept strategic fit has an external dimension as well. The external dimension refers to the fit between the firm, its operations and the competition in the market and is thus the context where the firm implements its strategy. The internal dimension assesses how well the firm aligns its business and operational strategies whereof the marketing strategy is one part. The

different functions in a company need to be aligned to ensure internal strategic fit. Moreover, Hill & Brown (2007) highlight the fact that most research related to strategic fit has been done in the manufacturing industry and argue that there is little research conducted in the services industry. Their research is based on domestic firms in one single country and even though they consider the element of external fit the focus is on internal factors. Furthermore, there is little focus on other industries such as the retail and fashion industries. Finally, since Hill & Brown's research paper is mainly about internal fit it is too simplistic when considering international expansion where external factors are also important to take into consideration.

A second definition of strategic fit that gives more importance to the alignment between internal operations and the business environment is given by Lee & Kim (2012, p. 31) who emphasize *"...that a strategy can work for an organization only when it fits well with the organization's external and internal environments."* This definition clearly highlights the internal and external factors but does not specify what these factors are which gives a lack of clarity and opens the definition up to interpretation. Moreover, their research is based on federal agencies which, in general, has a different type of business model compared to companies in the private sector. In addition, the focus of their paper is on implementation of performance management systems in federal agencies rather than a private company's implementation strategy in a foreign market and thus does not fit the objective of this paper.

Lillis & Macaulay (2012, p. 40) define strategic fit as:*"…the degree of linkage or consistency between what the business strategy has specified as the means by which competitiveness will be achieved and the delivery system and infrastructure of its operations."* The competitiveness factor in strategic fit is explained as an objective of the strategic fit and the infrastructure and operations used to obtain it are the measures. However, even though this definition includes an important performance influencer, the competitor, it does not include the external environment, which is likely to affect the company's performance in a new market.

Another definition, proposed by Gabrielsson et al. (2012 p. 29) is more marketing oriented: *"The strategic fit perspective emphasizes the need to maintain a close and consistent linkage between a firm's marketing strategy and the context in which it is implemented."* Strategic fit between

marketing, environment and internal processes is argued to improve performance. They state that the product range and the choice to standardize or localize the product are two important choices related to marketing and fit during international expansion. Moreover, they argue that previous international experience will influence the firm's marketing strategy in the target market. Overall, their findings show that a standardized marketing strategy is beneficial for the firm, provided there is a fit with the external environment. One of the main reasons to choose a standardized strategy, according to Gabrielsson et al. (2012) is that pressure from a globalized environment makes it a more viable choice. This definition of strategic fit has a focus on a fit between the organization and its external environment and will thus guide the analysis of this thesis.

3.4.2 Strategic fit characteristics

After having introduced several definitions of strategic fit, its characteristics will be discussed below and be used as a basis to facilitate the analysis of strategic fit at a later stage in the thesis. Zajac, Kraatz, and Bresser (2000) made a study based on American loans and savings institutions in the US wherein the strategic fit measured the alignment of the organization and its external environment. Admittedly, this study only considers companies conducting business in their domestic market whereas presumably it is a more complex process to obtain strategic fit between a company and its foreign market due to factors such as distance, culture and language barriers. Nonetheless, Zajac et al. (2000) state that the strategic fit should be viewed as a dynamic concept rather than a snapshot of a particular period in time, which implies that strategic fit is a concept that can be evaluated on a continuous basis and be improved over time. Moreover, Lukas, Tan, and Hult (2001) argue that since the firm cannot control its environment it will, generally, be better off by continuously adapting and accepting to make strategic changes to improve performance in the new market. Furthermore, Zajac et al. (2000) introduce several external factors inductive to organizational change. They argue that there are specific conditions under which it is valid to research whether a company manages to obtain strategic fit. First, a changing environment is necessary. Second, the environment and firm attributes need to differ. Third, the choice of strategy is not a straightforward one. Fourth, factors influencing the strategic fit should be clear. Finally, performance measurement is

important. As organizational factors, the company's competencies and internal resources are prevalent. The environmental factors include micro and macro factors that have an impact on the business such as competition and economic policies in the host market. Their model is introduced in figure 6 below.

Figure 6 Four possible scenarios in the pursuit of dynamic strategic fit

Does Strategic Change Occur?

		Yes	No
Is Strategic Change Needed to Establish Dynamic Strategic Fit?	Yes	Beneficial Strategic Change (Dynamic Fit)	Insufficient Strategic Change (Dyn. Misfit)
	No	Excessive Change (Dyn. Misfit)	Beneficial Inertia (Dynamic Fit)

Zajac et al. (2000, p.433)

As can be seen in figure 6 above, Zajac et al. (2000) highlight four types of strategic (mis)fit. All are dynamic and depend on the company's action in relation to the external environment. These different scenarios are introduced in figure 7 below.

Figure 7 Fit or misfit

Beneficial strategic change	Insufficient strategic change
The company readapts its strategy in alignment with the external environment leading to improved performance. The ability to obtain a dynamic strategic fit needs to be applied throughout several dimensions of the firm. Dynamic fit	The company fails to change its strategy in alignment with its environment, which subsequently leads to lower performance. Dynamic misfit
Excessive change	Beneficial inertia
The company misjudges its environment and changes its strategy even though it was already aligned with the environment. Consequently, the performance drops. Dynamic misfit	The company can use its initial strategy without pressure from the external environment to change which leads to improved performance. Inertia can also be caused by internal factors such as unique resources that offset the need for change. Dynamic fit

Author's creation based on Zajac et al. (2000, p.433-435)

Zajac et al. (2000) argue that previous assumptions about strategic fit referred to it as appearing during a static period with an assumed bivariate relationship. The dependent variable was the organizational structure and, as such, also static. Only one independent variable was included which was the environmental factors in the new context. The conclusion was often assumed to be that strategic fit was easy achievable for organizations operating in similar markets. However, today's business operations require a more dynamic view of strategic fit – also in terms of the time frame to which it is applied. The factors affecting strategic fit or misfit are related to organizational strategy (e.g. the marketing mix) as well as environmental factors and organizational contingencies. The proposed view of strategic fit is considered to be dynamic since several factors are included and which are not considered as a snapshot in time. The relationships and variables are introduced in figure 8 below.

Figure 8 Towards a new conceptualization of strategic fit

	Traditional view	Proposed View
Time frame	Static	Dynamic
Assumed Relationship	Bivariate	Multivariate
Dependent Variable	Organizational Structure	Organizational Strategy
Independent Variables	Environmental Factors	Environmental Factors and Organizational Contingencies
Fit: Common/Unique?	Fit is Common Across Organizations in Similar Environments	Fit is Largely Unique, Given Differences in Organizational Contingencies

Figure 1.   Towards a new conceptualization of strategic fit

Zajac et al. (2000, p.431)

According to Gaberielsson et al. (2012) it is possible for firms to achieve strategic fit through adaptation and that companies with specific characteristics have a greater chance to succeed compared to others. They consider that large multinational corporations from big, domestic, economies have a larger customer base and thus, generally more resources that will help them to succeed in achieving strategic fit in their new markets compared to smaller companies. To achieve strategic fit seems then to be a matter of resources, which is reasonable since the company can use a larger budget to assess the new market, create and apply an appropriate (marketing) strategy. Regarding the size of the domestic market, it can be argued that Sweden is a small and open economy. Nonetheless, it is a bold assumption to state that all the firms from this country face resource constraints and, consequently, are unable to adapt to the foreign country's business environment. Furthermore, it is easier to achieve strategic fit in markets that are similar to the home market. Strategic fit is more complex to obtain in a highly different market with another infrastructure, preferences and business structure, in particular if the company chooses to keep its current strategy (Albaum et al., 2003). However, Zajac et al. (2000) also argue that to obtain strategic fit with the external environment might require too many internal changes and create a misfit with company culture. Hence, it is not always beneficial for a company to change its strategy when entering a new market.

In this thesis, Zajac et al. (2000) matrix' based on strategic fit or misfit will be applied to assess if the case company managed to obtain strategic fit or if too many or too few changes were made to the strategy in order to obtain an appropriate fit. They dynamic element proposed by Zajac et al. (2000) and Lukas et al. (2001) will be included to assess if the case company made changes over time to improve the strategic fit with the host country. However, to be able to assess the fit specific factors need to be considered and evaluated, these will be introduced below.

3.4.3 How to measure strategic fit

According to Zajac et al. (2000), Lukas et al. (2001), and Lillis and Macaulay (2012) strategic fit has an impact on performance. The scholars, Xu, Cavusgil, and White (2006) explore how this fit affects performance. They argue that a company is unlikely to benefit from using a standard marketing strategy globally due to differences in taste and preferences. However, they consider that a global strategy can be beneficial in the following dimensions, competitive position,

opportunities in the new market and the product life cycle. Moreover, when external factors such as the local market and consumer taste are similar in the home and the host country, it can be advantageous for performance to keep the same strategy. Nonetheless, the political actor is equally important to take into consideration due to the significant impact it can have on business behavior in particular markets. One example is the search engine Google that decided to exit the Chinese market in 2010 due to a disagreement over Chinese government censorship policy (Kotler et al., 2013).

Xu et al. (2006) introduce a purely quantitative measure of strategic fit based on: profit, return on investment, and cash flow which are clear indicators of economic performance but less reliable for long-term purposes. Lukas et al. (2001) combine financial indicators with qualitative measures related to strategy decisions and outcome to measure strategic fit for companies operating in China. Lillis and Macaulay (2012) focus on the strategic fit of services companies' strategies and operations. However, they also include the business environment as a factor complicating the ability of achieving strategic fit and they argue for a dynamic approach to strategic fit. They introduce three methods to assess strategic fit:

1) Step-by-step, gap-based, audit methods set in place to identity gaps between required practices and current practices
2) An audit of the performance measurement system – to measure the result of operational activities and the competitive objectives, one challenge that companies are facing is that their competitive priorities have changed even though they still use the same operational activities in an attempt to obtain these objectives – strategic misfit.
3) Knowledge audits – used in order to discover previously hidden capabilities within the firm that can be used to alter the business strategy.

This thesis will assess strategic fit based on quantitative factors such as financial performance and growth but will also include qualitative factors related to how the company was received and perceived in the new market.

3.5 Summary literature review and theoretical framework

The above chapter outlines the literature that has been reviewed and assessed while working on this thesis. It also explains what theories and models will be applied to provide an answer to the research question. Traditional FDI literature will be considered to the extent that it guides the researcher to understand the initial steps of the international expansion of H&M to China. In particular, the driving forces for internationalization will be assessed together with the choices of entry mode and timing. Moreover, the PEST analysis and Porter's five forces will help the researcher to understand the new environmental context wherein H&M now operates. To comprehend the characteristics of the new market will help the researcher to assess the fit between H&M, its marketing strategy and the context. The marketing mix is the guiding model to assess H&M's marketing strategy as it as a pragmatic and operational model that can be applied to strategic and operational decisions. Finally, Strategic fit will be assessed by evaluating how well H&M has been received by the Chinese consumers in the market and social media. Financial performance will also be taken into consideration when deciding on whether H&M has achieved a fit with its market. Any adaptations made by H&M to obtain a fit will be assessed and discussed in the analysis part of this thesis.

4. The case company

4.2 The H&M group

The H&M group, henceforth referred to as H&M, is a Swedish fashion retailer consisting of six brands: H&M, Weekday, COS, Cheap Monday, Monki and & Other Stories. A figure with all H&M brands can be found in appendix A. The main focus of this thesis is the H&M brand – which is the largest brand of the group. Its objective is to provide "*Fashion and quality at the best price*"[5]. H&M has been a family run business since its initiation in 1947. The current CEO, Karl-Johan Persson, is the grandchild of the founder, Erling Persson. In 2014, H&M had 3 511 stores throughout the world. It is a fast fashion retailer with global operations. However, it is the European market that provided 77 percent of turnover in 2013 (H&M, 2014). The group's growth target is set to 10-15 percent annually, which it obtains by expanding into new markets as well as by increasing its market share in existing markets. It is the second largest fashion retailer in the world, only preceded by Spanish Inditex, which includes retail shops such as Zara, Massimo Dutti and Bershka (McLaughlin & Cruz, 2013). H&M is listed on the Swedish stock market NASDAQ OMX Stockholm and the majority shares are owned by the founding family. The company's key figures are listed in figure 9 below.

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[5] http://about.hm.com/content/hm/aboutsection/en/About/Facts-About-HM/Idea-to-Store/Idea-and-Design.html#cm-menu

Figure 9 H&M key figures 2014

Over 132,000 employees

3,511 stores

55 countries

Sales including VAT SEK 176.6 billion

Profit after tax SEK 20 billion

H&M Annual Report 2014, p.9

History of the H&M Group

H&M was founded in Västerås, Sweden, in 1947 when the first Hennes store was opened by the entrepreneur Erling Persson. Prior to opening his first retail store, he had been on a trip to the USA where he was inspired by the concept of fashionable clothes to affordable prices. Persson's business model was based on fast clothing turnover and a positioning of the shops where the people and the money were – on the central shopping streets. In order to increase flexibility and to be able to quickly follow new opportunities, Hennes rented its locations instead of buying any real estate[6]. In 1952, the company expanded to Stockholm where it opened its second shop. In addition, in the 1960s, there was an increased demand for men's clothing. Consequently, Persson acquired another retailer, Mauritz Widfors, which provided hunting and fishermen apparel and thus H&M extended its offer to include clothing for men. This was in 1964 and the year that Hennes & Mauritz (H&M) was created. The first international shop was established in Norway in 1964 and H&M expanded into Denmark in 1967. In 1974 H&M entered the Swedish stock exchange and two years later the first non-Scandinavian shop opened in London.

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[6] http://www.handelnshistoria.se/profiler/kopman-och-entreprenorer/hms-grundare-erling-persson-fran-ostbud-till-imperieskapare/

However, the broader expansion to other European countries mainly took place in the 1990s. The first American and Asian stores opened in the 2000s (H&M, 2014).

While expanding internationally, H&M also added new brands to its portfolio. It launched Collection of Style (COS) in 2007 and immediately opened up eleven stores in Europe. H&M wanted to broaden its consumer base and the new concept targeted a higher income level group with a more classic approach to fashion compared to the original H&M stores (H&M Annual Report 2007). In 2008, H&M acquired FaBric Scandinavian AB which included the brands Monki, Weekday, and Cheap Monday. The reason for the acquisition was the acquired group's growth potential on the international market (H&M, 2009). & Other Stories was H&M's latest launch and was introduced to the market during the spring in 2013. It targets consumers that are highly fashionable but want to create their own style by combining different accessories with quality clothing. & Other Stories was launched with physical shops in seven markets and as e-commerce in ten online markets – all in Europe (H&M, 2013). The countries and years of H&M's international expansion can be seen in appendix B.

Business model

The H&M brand was positioned as affordable clothing in the fast fashion industry. The CEO, Karl-Johan Persson, stated that H&M's aim was to promote democratic fashion where everyone can find their style to a fair price[7]. The fast fashion business model is based on a concept of shortening the lead time between design and store availability of the product. Important factors in the model are cost, speed and style (Runfola & Guercini, 2012). H&M supplied small quantities of the latest fashion several times per month to its shops. In combination with regular deliveries, the retailer established a cost-conscious strategy from design to production and distribution of its apparel. Many of the operations were centralized to the Stockholm office, see appendix C for further details. One of these was the buying department – consisting of 100 buyers. The 150 designers that created the new fashion lines were also in Stockholm and responsible for the new collections. However, the head office in Stockholm was helped by the national offices that were found in the majority of the retailer's sales markets, e.g. in detecting

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[7] http://www.chinadaily.com.cn/business/2012-10/01/content_15794506.htm (last accessed, 2015-03-01)

new tendencies. Employees at the national offices were discovering new trends by street spotting and also by more traditional methods such as focus groups. These trends guided the H&M launches of the two major, annual, collections and for its multiple smaller collections that were launched throughout the year. One of the major collections was launched during the spring and the other one during the fall. A part from trend analyses, other influencing factors for a new fashion collection and product distribution were the previous years' sales results and the customer demand in different markets. Hence, inventory and stock management were integrated operations. Notably, H&M developed an advanced, in-house, IT-platform, common to all the shops, that permitted the various H&M stores to keep track of sales/stocks and enabled efficient inventory management (H&M, 2014).

Transport and distribution were, generally, outsourced to a third party provider (E-BusinessWatch, 2011). Moreover, H&M did not manufacture any products but outsourced its entire production to low cost labor markets in Europe, Asia and, more recently, also to Africa. H&M had approximately 800 independent suppliers worldwide. Even though the retailer outsourced its production, the structure of its supply chain was based on using as few middlemen as possible in order to speed up the time to market – a vital part of the fast fashion industry. Due to the company's efficient supply chain and its offer-follow-up-system to track orders it could keep a quick product turnover in the shops. The product lead times varied from six weeks to six months, with shorter lead times for high fashion apparel (H&M, 2014). For seasonal fashion, which was produced in Europe, H&M used a rapid reaction supply chain and sent the clothes from Europe to China quickly via air freight[8]. However, 90 percent of all transports were either done by shipment or railroad. As for the suppliers, they were managed by the local buying and production departments. Approximately, 20 national production offices were located in the local markets and were responsible for that buyers placed their orders with the correct supplier, the quality of the apparel and to audit the of code of conduct in the supplier plants. Hence, the production offices managed the day-to-day tasks with the suppliers

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[8] http://www.prnewswire.com/news-releases/ceocio-china-business-feature-fashion-magnates-supply-chain-contest-in-china-58134907.html   (Last accessed 2015-03-01)

and mainly hired local staff with better knowledge of the local markets compared to expatriated staff.

H&M kept its strategy to work as a wholly-owned company where it is possible, which sometimes had the consequence of the company withholding from entering a market unless this was possible. This choice of strategy stemmed from the fact that H&M wanted to keep full control over its operations in its markets. However, in some markets, such as the Middle Eastern markets, H&M was bound to franchise and cooperated with local players to launch the brand in these countries. Before expanding into a new market, H&M assessed the country attractiveness based on infrastructure, political risk, economic growth, purchasing power and demographics and by taking a long-term perspective. These criteria also applied to the expansion into a new city within an existing market. Moreover, to reduce capital risk and to keep the company flexible H&M also continued to rent its store space in the majority of its markets (H&M, 2014).

4.3 H&M group China

H&M started its operations in China by working with local manufacturers in the 1970s (Yang, 2014). The retailer used local agencies when it opened its own office as a part of its East Asian strategy (Fang, Olsson, & Sporrong, 2004). Approximately 60 percent of H&M's products were sourced from Asia, of this, 50 percent was sourced from China. It was mainly clothing that was not part of the fast fashion collections but that were part of permanent collections at H&M that were produced in Asia. This is due to previous restrictions on export of textiles and to keep lead times to the European markets short for seasonal items. However, H&M decided to also enter China to market and sell to local consumers – this in order to reap the benefits of a growing economy and a large population.

Entry decision and early presence

In 2007, H&M opened its first Chinese stores in locations where it had prior experience with established production offices, Hong Kong and Shanghai. The retailer was a follower (as opposed to a first-mover) in the Chinese market. As an example, UNIQLO opened its first shop in China in 2002, H&M's biggest competitor, Spanish Inditex, opened it its first store in 2006 (CBRE, 2013). H&M's decision to launch in China was based on the reasoning that the spending power was steadily increasing as a significant amount of people were moving from the low-income segment to the middle-income segment. Furthermore, H&M assessed that fashion had become an increasingly important part of Chinese society which allowed for increased individuality and possibility to express oneself through ones clothing (Bloomberg, 2007). Based on the above statements, Eriksen (H&M's previous CEO) argued that China had the potential to become H&M's biggest market. He also stated that H&M could use the experience gained in the different, yet similar, market in the USA, where the company established in 2000. He particularly pointed out that H&M had learnt from having operated in a vast market with a large population and where regional differences were common (Boutrup, 2007). Moreover, Eriksen, stated that the amount of products sourced from China was likely to increase with higher sales and an increase in demand in the local market – making China an increasingly important location for production and sales (Hellstrom, 2007).

China launch

The 10th of March 2007, H&M opened its first East Asian store on Queen's Road, in the Central district in Hong Kong. The busy street that previously held many financial institutions had become the number one choice for fashion retailers that wanted to open up flagship stores as storefront to the rest of China. Even though rents were highly expensive on this street, it was a way for the retailer to create brand awareness since many tourists from the mainland visited Queen's Road when visiting Hong Kong. Moreover, to open flagship store in the Central district could be seen as evidence of the company being already successful and serious in its commitment to the Chinese market.

The day of the launch, more than 1000 people queued outside the store before it opened, at 11am. Some of these people had queued more than 48 hours to be the first visitors to the first H&M shop in Hong Kong. In order to attract potential clients, H&M had promoted a limited amount of trench coats signed by Madonna, who was the company's style icon representative during that spring. In addition, the Madonna collection was pre-released in China as the rest of the world would have to wait two more weeks before being able to buy it. Most of the clients were teenagers or young adults (Times, 2007). However, the main launch of the H&M brand was the opening of the flagship store in Shanghai the 12th of April. The location for the shop was the prestigious Lu Wan district in Shanghai[9]. H&M overtook the old premises of the Italian retailer Benetton who, after four years, cancelled its contract due to soaring rents[10]. A pre-launch event was held at the Science museum of Shanghai the evening before the opening with a show by Kylie Minogue celebrating H&M's arrival to mainland China. H&M had also invited local celebrities such as Du Juan, Lee Xiao Ran, and Zhao Wei to attend the event. The reason for inviting Kylie Minogue was that she was H&M's co-designer for the limited beach collection offered by the company in 2007. In addition, this collection was launched four weeks earlier in Shanghai compared to the rest of the world[11]. The quote below shows the grandeur of the launch event in China and the importance H&M attributed to its new market.

"Arriving guests were serenaded by a three-hundred-strong female choir singing acapella Kylie songs, before entering a glittering kingdom where the Science Museum's 2,000 square metre floor was transformed into a shimmering sea of 100 kilos of Swarovski crystals. And five million mirrored disco ball squares covered everything from a gyrating surf board where people had their picture taken to Ming Dynasty-style vases full of complimentary mirrored pop badges to commemorate the occasion, and Studio 54 disco-lush revolving circular beds were mirror-clad and laden with sparkling silver cushions. Sparkle was also added to the event by Shanghai's

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[9] http://about.hm.com/en/news/newsroom/news.html/en_gb/307064.html
[10] http://www.at0086.com/at_News%5C289%5C340200534287198.html
[11] http://about.hm.com/en/news/newsroom/news.html/en_gb/307064.html

starry likes including: Asian film star Zhao Wei; top model Du Juan and TV star Lee Xiao Ran. The new Shanghai H&M store is situated at 645-659 Middle Huai Hai Road. "[12]

Expansion China

The Chinese market is segmented into first, second, third and fourth tier cities, the classification depends on the city GDP per capita and development. Figure 10 introduced the classification of first and second tier cities is introduced below.

Figure 10 Tier cities in China

Tier 1
Beijing Shanghai Shenzhen Guangzhou
Tier 2
Tianjin Dalian   Qingdao Shenyang   Hangzhou Nanjing Ningbo Chengdu Chongqing Wuhan Xi'an Changsha Xiamen

Source: CBRE China Resarch, China retail: a changing landscape, 2013, p. 10

As mentioned, H&M focused on first-tier cities when it first entered China and established its first flagship stores in Hong Kong and Shanghai on two of the busiest streets in respective city. The first shop that opened in Hong Kong was 3500 square meters split on four floors[13]. Also, the first Shanghai shop had four floors. H&M opened three shops in Hong Kong and Shanghai during its first year in China. Smaller shops were opened when the Chinese consumers were acquainted with the brand[14]. The first shop in Beijing opened in 2009 at Qianmen, a pedestrian street close to Tiananmen Square and a major shopping street (H&M, 2010). It was a flagship store that was closely followed by an opening of other stores in the capital. In 2010, H&M started a more focused expansion into second tier cities at the same time as it continued to expand into first tier cities (H&M, 2012).

H&M's expansion strategy was based on location and the retailer confirmed that it would rather wait to open a store in a city than to open it in a less than optimal location[15]. Other H&M brands such as Monki was launched in 2010 with Hong Kong as a test market, followed by COS in

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[12] http://news.cision.com/h---m-hennes---mauritz-ab/r/h-m-lands-in-china--shanghai-store-opens-today,c307064
[13] http://www.hkdigit.net/2007/03/hm-grand-opening-in-hong-kong/
[14] http://www.chinaeconomicreview.com/node/56727
[15] http://africa.chinadaily.com.cn/entertainment/2013-10/09/content_17019349.htm

2011[16]. H&M also introduced its specialty shops in China and opened its first male clothes in Shanghai in august 2013.

Strategy China

Hong Kong and Shanghai became the test grounds for the expansion into East Asia. One reason was H&M's familiarity with these areas due to the production offices that were established there in the 1990s. Thus, H&M already had a functional network and business knowledge in these cities (ChinaDaily, 2007). The retailer entered China with the objective of growing 10 to 15 percent annually as this was the global growth target and needed to be able to move shops to new malls that gained in popularity. Furthermore, experience from the US market had taught H&M that it was cheaper and more efficient to outsource logistics and the company chose to do so also in China (Boutrup, 2007). H&M was consistent with its strategy not to buy any store locations but had lease agreements for its shops in Hong Kong and Shanghai. Renting instead of buying was more important in China than in other markets due to the H&M management's expectation of a fast changing business environment.

Initially in China, H&M followed the same strategy as other foreign retailers and established first in the bigger Chinese cities, whereas the two and three tier cities remained relatively unexplored (H&M, 2014)(AR, 2013). As a complement to the physical shops, H&M also developed an online presence in China. The retailer has an online shop in the Chinese market since 2014. Prior to opening the online store, H&M had a website where the Chinese consumers could view clothes and pricing and make their buying decisions before going to the physical shops. Nonetheless, according to Niels Vinge, H&M's director of investor relations, there was still a huge potential for physical shops, in particular in well located malls. Even though store space was scarce and expensive H&M had an advantage with its strong brand name than could be used as leverage when negotiating for store space and rental terms. In general, there was a 10 percent increase of visitors to a shopping center when H&M opened a shop there (Hansegard & Burkitt, 2011). A concrete example is the fact that H&M overtook Nike's lease in a flagship

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[16] http://red-luxury.com/brands-retail/hm-targets-china-for-upmarket-monki-cos-labels

store in Beijing even though Nike was willing to continue the contract with its landlord. The landlord preferred H&M's young and fashion-oriented profile[17].

H&M generally used a mix of expatriates and local employees in local markets. The importance of expatriated staff was higher during the initial steps of the expansion. Knowledge sharing took place between different local offices since staff from different H&M markets visited each other's offices to learn about operations and business processes. Moreover, the head quarter gave support and trainings to local offices to improve performance. During the first years in China, H&M engaged expatriates from seven different countries but employed a majority of local staff (H&M, 2009).

4.2 H&M marketing mix

Price

The H&M brand was globally positioned as low cost and provider of affordable fashion. The retailer said it offered democratic fashion with prices that enabled even lower income consumers to buy and change fashion styles throughout the year. However, in China, H&M entered the market in the segment between low cost apparel and luxury fashion. Consequently, H&M priced its products higher in China compared to its other markets and served the mid-tier segment of the Chinese consumers. These were generally young professionals that belonged to the growing middle class. Hence, even though H&M was referred to as "cheap chic" in Europe, the group targeted higher income groups in China. For example, a dress that cost $34,95 in the USA sold for $47,78 in China. H&M's biggest competitors in the Chinese market, Uniqlo and Zara, followed the same pricing strategy and marketed their products to a higher price in China compared to their local markets as well[18].

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[17] http://www.chinaretailnews.com/2013/04/29/6537-nikes-beijing-flagship-store-replaced-by-hm/ (last accessed 2015-03-01)
[18] http://www.chinaeconomicreview.com/node/56727

Product

The H&M clothing was divided into three categories: basics, current fashion and high fashion[19]. The mix of the product range in the local shops depended on customer demand, based on the last season's sales, the store's location and its size. High fashion clothing was only sold in the bigger cities since these were produced in limited quantities. The H&M strategy was based on economies of scale and large production batches for its products. Consequently, 80 percent of store content remained the same globally and shops looked largely the same regardless if the consumer was in Sweden or in Taiwan. However, the retailer made local adaptations when necessary. For the Chinese market, H&M conducted focus groups to assess the size and color preferences for the clothing. As a consequence, the retailer decided not to adapt the sizes to the Chinese population and the first shops in Hong Kong and mainland China used the generic H&M interior as a basis (Boutrup, 2007). Nonetheless, a few modifications in China were made. One example is that green hats were not offered in China due to an old saying that wearing a green hat refers to cheating. Furthermore, the white daisies used as a print on several clothes in the global collection were not launched in China since white flowers are connected to death (Madden, 2012). However, the product offer stayed mainly the same on the Chinese market as on the global market and no changes were made to existing products.

Promotion

H&M worked with TV commercials, design collaboration/endorsement marketing and social media to mention a few strategies the retailer used to promote its brand globally. Moreover, the web site and the shops were important means to enhance the brand image. The campaigns and store designs were created at the head quarter in Stockholm by the H&M marketing department and subsequently dispatched to local markets. Campaigns always included the designs of the season and also the price of the clothes that were broadcasted. The models used in advertisements displayed a healthy image of the brand. H&M often mixed models of different ethnicities to appeal to global consumers. Furthermore, design and style icon collaborations were an important part of H&M's strategy since 2004 when the brand had its first collaboration

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[19] http://about.hm.com/en/About/facts-about-hm/idea-to-store/planning-and-buying.html

with the German designer Karl Lagerfeld. Since, the brand has successfully collaborated together with many famous designers and been endorsed by global artists such as Madonna, Kylie Minogue and Beyoncé.

H&M's basic marketing strategy in China was based on eventful openings of flagship stores on important shopping streets to raise brand awareness. Once the flagship store was well received and the customers acquainted with the products, H&M opened up smaller shops in the same city. First, H&M targeted the top-tier cities in China where spending power was high and where the sense for fashion was more developed compared to smaller cities. The objective was to create a buzz around the brand and establish H&M as an already famous brand in China. *"Because launching ad campaigns is expensive in China and Zara and H&M had few stores until recently, these brands have generally relied less on advertising and more on generating buzz through flagships and events[20]."*

Moreover, H&M leveraged collaboration with style icons in China by giving the Chinese consumers prior access to large collections by Madonna and Kylie Minogue during the launches in Hong Kong and Shanghai. Regarding style icon collaborations, H&M's advertisement for these product launches did not differ between global and local markets. The same David Beckham clip could be viewed on Chinese social networks as well as the global networks. In addition to global collaborations, local endorsements were important to H&M when promoting itself on the Chinese market. In 2013, H&M cooperated with Tine Leung – a Hong Kong based fashion blogger – to make a Hong Kong life city guide. The video is mainly about Hong Kong rather than about the H&M brand. However, it created brand awareness and showed certain humility in that H&M was willing to learn more about its new market[21]. H&M also ran campaigns with local focus such as the Chinese New Year campaign 2014 where the target markets were China, Hong Kong, Singapore and Malaysia. The campaign used two, well-known, Asian super models to endorse the brand – Sui He and Tian Hi[22]. In addition, Anna Dello Russo's collection of accessories promoted by H&M in 2012 used local endorsement by the famous Chinese actress

[20] http://www.chinaeconomicreview.com/node/56727
[21] https://www.youtube.com/watch?v=GqkLt1NZxWs
[22] http://www.gua.com.my/seroja/fesyen_rekaan/H_M_Celebrates_The_Year_Of_The_Horse.html

Fan Bing who was photographed in the jewels. The photos were, subsequently, launched on Weibo where they created a high buzz for the collection and increased H&M's brand awareness. The local celebrity endorsement was deemed necessary since H&M anticipated that Anna Dello Russo was not as known in China as in other markets (Schuster, 2014).

Place

H&M operated through three sales channels: stores, catalogues and internet. The physical shops constituted the most important sales funnel for H&M who had more than 3000 shops in 2013. H&M had three types of stores which were normal stores, flagship stores and specialty stores. Normal shops included a part of the H&M product range and were the most common type of shop. Flagships shops were bigger and included the entire array of the H&M clothing products for women, men and children. Specialty shops were focused on men or children fabrics only. The catalogues were not found in all markets but were focused on the Scandinavian and German markets. The internet shops were found in 14 of H&M's markets and enabled the consumers to easily access the H&M clothing from home. Nonetheless, the physical shops were H&M's most important distribution channel. In addition to the e-commerce, H&M also had an online presence on global social networks such as Twitter, Facebook and YouTube where it broadcasted its commercials, ran campaigns and interacted with its consumers to strengthen brand identity (H&M, 2014).

In China, the consumers had access to physical shops and the e-commerce but the catalogues were not distributed. As in other markets, the shops were split by flagship, specialty and normal shops. In general a flagship store was launched in a city before smaller stores were established. Moreover, H&M launched its online shop in China during the spring 2014. Prior to the e-commerce the retailer already had the product website available for consumers that wanted to view the products and find information about pricing and the brand. In general, the global and local e-shops had the same structure with product offers for ladies, men, children and H&M home. However, a few differences were present. The Chinese web site highlighted promotions and discounts to a greater extent and local holidays messages were communicated on the site. Moreover, H&M Life was more emphasized on the Chinese site. H&M's online presence in China

also included the social networks Sina Weibo, Youku and Douban which were regularly updated in order to keep a close contact with local consumers. The Chinese networks where H&M was present are listed below.

- ~853 000 follower on Sina Weibo 2015[23]
- Official Youku channel[24]
- ~65 000 followers on Douban[25]

Sina Weibo is a Chinese social network where the company can post short updates as can be done on the micro-blog Twitter and where followers can like, comment and share the content. The H&M Weibo site was quite different from the company's Facebook and Twitter pages and more customized towards local users. Youku is the Chinese equivalent of YouTube. H&M was operating on both video channels and displayed the same promotional video material on the landing pages in 2015 – showing signs of a global marketing strategy.

Performance in China

In general, an H&M store becomes profitable after a short while in its Western markets, if this is not the case the shop is either completely closed or replaced to a more profitable location. Since 2007, H&M increased its sales (incl. VAT) from 92 to 177 billion SEK (for further details refer to appendix D).Even though growth was slower during the crisis years 2008 and 2009 H&M managed to increase sales (H&M, 2012, 2015). As can be seen in figure 11 below H&M's economic performance was stable and particularly strong during the first years of the expansion to China where annual sales grew between 83 and 42 percent. For the years 2013 and 2014 H&M chose not to disclose figures specific for the Chinese markets that are comparable with previous years' figures. However, net sales in China was stated to be 5 957 million SEK in 2013 and 8 018 in 2014 which gave a year-on-year growth of 35 percent. The slowed growth in sales was aligned with the slowed growth in opening up of new shops on the Chinese market.

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[23] http://www.weibo.com/hm
[24] http://tvs.youku.com/hm
[25] http://www.douban.com/group/40831/

However, H&M was well above its target growth of shop and sales increase of 10-15 percent during all the years it operated in China.

H&M's brand image in China was overall positive with the Chinese consumers appreciating the retailer's efforts in mixing global and local marketing strategies. Moreover, as H&M worked with local key opinion leaders in the fashion field it was successful in promoting its new launches online and in social networks – channels that became increasingly important in China (Verot, 2014).

Figure 11 H&M's performance in China since its expansion 2007

Year	Sales incl VAT (SEK m)	Increase Sales YoY	No. New stores	No. Of stores	Increase shops YoY
2007	482	-	7	7	-
2008	881	83%	6	13	86%
2009	1614	83%	14	27	108%
2010	2527	57%	20	47	74%
2011	3598	42%	35	82	74%
2012	5411	50%	52	134	63%
2013	N/A	-	71	205	53%
2014	N/A	-	86	291	42%

Source: Author's creation based on H&M Group's annual reports 2007-2014

5. Market Analysis

5.1 PEST analysis

The Chinese macro environment is analyzed through the political, economic, social, and technological factors included in the PEST analysis. The time frame for the research is between 2007 and 2014 which are also the years when H&M was present in China. The different elements of the model influenced H&M's strategic fit with its environmental context.

Political

In 2007, China was politically stable with no war and low social turmoil in the country. Hence, to establish a business in China did not entail a great physical risk for any foreign investor's staff or its capital goods. One reason for the political stability in the country was the fact that China was a one-party state with no general elections for parliament. Political power is concentrated to key representatives. Moreover, political stability enabled China to conduct policies to enhance the economy and market performance that will be the focus of this section.

In the beginning of the 2000s, China initiated the 'Go West Policies' with the objective to improve the economic conditions in the western part of the country that had not experienced the economic growth entailed by the opening up policies and the creation of the special economic zones in the East of China that took place in the 1980s and 1990s. Western China accounted for 60 percent of the country's surface but only 25 percent of its population. Since the policy was initiated, a 4000 km long gas pipeline and a railway of 2000 km have been built to favor the shipment of energy and goods (Moody, Hu, & Ma, 2011). Prior to 2000, the Western region attracted a bare 5 percent of foreign investment which has now increased. Companies that established in the west after the policy was initiated enjoyed a corporate tax of 15 percent instead of the common 25 percent which spurred foreign investment (Moody et al., 2011; Plafker, 2001).

The 11th of December 2001, China entered the WTO and became a part of the global trade system. China amended more than 7000 quotas, tariffs, and other trade barriers during, prior

and after its accession to the WTO to align with global standards and to move towards a market-based economy[26]. Previously, the Chinese economy was, to a large extent, driven by relations, as opposed to by market factors, and relationships were an important factor when conducting business in China. Guanxi describes the connection and ongoing relationship between two different parties such as a manager and a government official (Xin & Pearce, 1996). The importance of guanxi decreased with the inauguration to the WTO but still stayed crucial when negotiating with government officials and when negotiating contracts. However, the terms of a contract was prevalent and more important than a guanxi connection (Mia, 2009). Despite China's efforts and fast-growing economy, it is still considered to be a transition economy that is moving from a planned economy to a market economy. The international society is asking for a more stringent implementation of the laws that were amended following the WTO membership. However, two different types of demands were posed on China: external demands required further opening up whereas internal demands required continuous protection and development[27]. Nonetheless, China experienced   close to a double digit growth rate during the decade after its WTO entry and increased its share in world[28] output from two percent to thirteen percent during the same period. China is now considered the second economy in the world after the USA (OECD, 2012).

Economic

The Chinese economy experienced strong growth the first years H&M operated in the country. This despite the financial crisis in 2008 as can be seen in figure 12 below. When H&M entered China the GDP had a growth rate of 11,9 percent in 2007 and even though the growth slowed during the financial crisis it was still relatively strong compared to the European market[29].
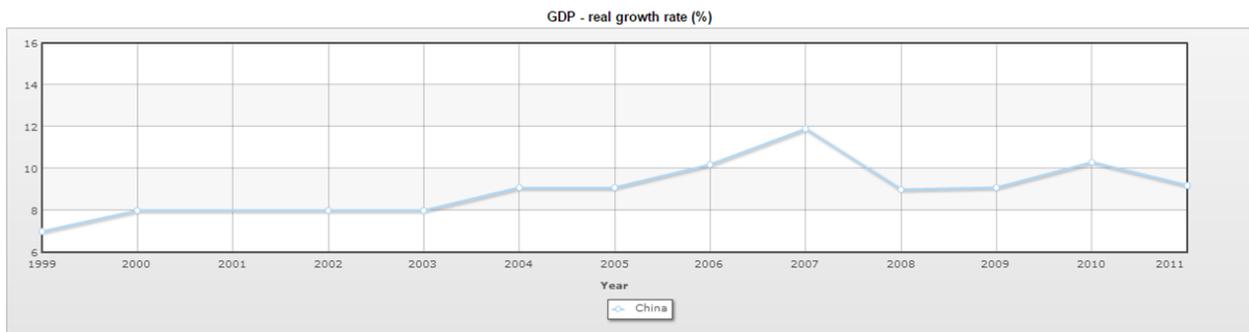
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[26] http://www.economist.com/node/21541448
[27] http://www.wto.org/english/thewto_e/acc_e/s7lu_e.pdf (last accessed 2015-04-24)
[28] Measured on a purchasing power parity basis
[29] http://www.indexmundi.com/g/g.aspx?v=66&c=ch&l=en

Figure 12 China's GDP growth 1999-2011

GDP - real growth rate (%)

Country	1999	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
China	7	8	8	8	9.1	9.1	10.2	11.9	9	9.1	10.3	9.2

Source: Index Mundi, http://www.indexmundi.com/g/g.aspx?v=66&c=ch&l=en

Lardy (2012) pointed out two issues with the Chinese economy that still persisted after the economic crisis: too much dependence on exports and residential property prices. Cheap exports were made possible due to state subsidies for water, electricity and access to cheap bank loans. China had 33 percent of the global textile market which was one of its biggest exported products. Its main trading partners were the USA and Europe whose economies slowed down significantly during the crisis. The economic slowdown of key trading partners meant a threat to the Chinese economy that was dependent on its export to maintain constant economic growth. The issue with the elevated residential property prices was directly connected to the low disposable income in Chinese households which, in turn, had an impact on domestic consumption. The high property prices were mainly a consequence of increased interest rates that were applied to keep investors and real estate agents out of the market (Lardy, 2012). However, the large domestic market was considered one of China's biggest advantages when the crisis hit and domestic consumption was encouraged which favored companies as H&M selling in the local market.

To further enhance growth, it is important with a strong middle class that can drive the economy forward (Lasserre, 2007). The Chinese consumers were divided into four segments: poor; mass middle class; upper middle class; and affluent. The middle class with annual earnings between 60 000 and 229 000 CNY grew from four percent of the urban Chinese population in 2000 to 60 percent of the urban population in 2012. Moreover, the mass middle class (annual

earnings between 60 000 and 106 000 CNY) was the biggest segment in China and constituted 54 percent of total consumption in 2012. The majority of the middle class is found in first and second tier cities. However, the middle class in third and fourth tier cities were growing at a quicker rate (Barton, Chen, & Jin, 2013).

Social

The Chinese society is based on a mix of Confucianism, Daoism and Buddhism. These roots characterize China as a collectivist society – an ideology that has been challenged by generation Y. This generation was born during the 1980s – 1990s and often as the only child in the family due to the one-child policy. Consequently, this generation embraced individuality and related values to a larger extent than their parents' generation. Also, generation Y was more technologically savvy compared to older generations and were able to establish a "me culture" where focus was more on the individual than the group (Barton et al., 2013). Moreover, globalization contributed to increase the focus of the individual in China. It was possible for (young) Chinese to express themselves through various internet channels such as blogs, Renren and Weibo[30]. It was also possible for the new generation to afford clothing and products that not only served a practical purpose but that also allowed them to express who they were through their clothes and style.

Technology

The technology factor generally includes spending on research and development (R&D), technology incentives and innovation and how well-developed the country is in technological terms. In this paper, the focus is on the usage of internet and China's online users since this technological aspect is growing in China and is important to retailers who communicate through online channels.

In 2014, the number of internet users in China was 632 million, an increase from 111 million users nine years earlier. The number of active smart devices (phones, tablets) was 700 million.

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[30] Renren is the Chinese equivalent to Facebook and Sina Weibo is the equivalent to Twitter.

These numbers give an indication of internet's breakthrough and usage in China. Approximately 24 percent of the users were using the internet on a mobile device in 2005 compared to 81 percent in 2013. The internet penetration rate increased from 8.5 percent to 45.8 percent during the same period. People aged between 20 and 39 were the most common users of the internet during this period (Woetzel et al., 2014). The internet usage and penetration is visualized in figure 13 that also makes a comparison between China and the US.

Figure 13 Internet China

China's Internet has been consumer-driven rather than enterprise-driven
2013

		China	United States
Consumer side	**Internet usage**		
	• Users	632 million[2]	277 million
	• Penetration	46%	87%
	E-tailing		
	• Size	$295 billion	$270 billion
	• Share of retail	7–8%	6%
	E-commerce platforms	Taobao/Tmall	eBay
	• Items	800 million	550 million
	• Active buyers	231 million	128 million
	Smartphone penetration (share of installed base)	54%	69%
	Social networking among Internet users	60%	73%
Enterprise side	**Enterprise cloud adoption rate**	21%[3]	55–63%[4]
	SMEs Internet adoption ratio[1]	20–25%	72–85%

1 Positive survey responses for Internet use in procurement, sales, and marketing.
2 As of July 2014.
3 McKinsey China CIO survey, 2012.
4 Rates vary depending on types of cloud computing solutions.
SOURCE: Kable ICT Customer Insight survey, 2013; National Small Business Association survey, 2013; iResearch; China Internet Network Information Center; International Data Corporation; Strategy Analytics; US Census Bureau; Pew Research Center; National Small Business Association; McKinsey Global Institute analysis

Source: Woetzel etl al. 2014 p.1

Even though internet penetration is large and growing in China it varies between different regions. Beijing together with Shanghai and Guangdong had the largest internet penetration rates whereas Tibet and Guizhou had lower amount of users but higher growth (see figure 14 below). High income regions with well-built infrastructure tend to have more internet users and China's focus on developing the western region contributed to increase the number of internet

users in that area. Lower literacy rates were also a contributing factor to the lower use of internet services in the rural areas. One of the most popular chatting systems in China – WeChat – is now moving closer towards the e-commerce sector. Together with retailers, it offers the consumers the opportunity to use their WeChat account to make buying decision and pay. Examples of companies that already have WeChat service accounts are McDonald's and Starbucks (Milward, 2014).

Figure 13 Internet penetration China

Top five provinces in Internet penetration and growth (2010).

	Internet penetration rate (%)	Internet population growth rate (%)
High penetration provinces		
Beijing	69.4	10.5
Shanghai	64.5	5.8
Guangdong	55.3	9.5
Zhejiang	53.8	13.6
Tianjin	52.7	14.8
High growth provinces		
Tibet	27.9	52.7
Guizhou	19.8	31.1
Shaanxi	34.3	30.2
Anhui	22.7	30.2
Inner Mongolia	30.8	29.9

Source: China Internet Network Information Centre.

Source: Li & Shiu, 2012, p.874

E-tail is retail commerce that is carried out online where the consumers can buy their products directly from an internet site without ever entering any physical shop. Depending on the company, e-tail is accessible from computers and various mobile devices. In this thesis, e-tail and e-commerce are used interchangeably. Approximately $300 billion was spent by consumers on e-tail in 2013 and China's internet economy's share of GDP is at 4.4 percent which is higher than the USA and Germany. The e-tail accounted for 7-8 percent of total retail sales. Tencent and Alibaba are the biggest players on the online market in China (Bischoff, 2014). Clothing belongs to one of the most common goods purchased online together with books and consumer electronics (Milward, 2014).

5.2 Porter's five forces

To understand the strategic fit between a company's strategy and its contextual environment it is important to assess the industry factors in the new market. If the firm fails to understand these factors it cannot create an appropriate strategy that will help it thrive in its new surroundings and it will not be able to make a post-implementation evaluation of any potential strategic gaps between current and desirable position.

Threat of substitutes

Products in other industries that can replace the products in the analyzed industry constitute the threat of substitutes. For the fast-fashion industry that targets the consumers in the middle-income segment luxury fashion or low priced, non-branded, apparel are examples of substitutes. In the 2000s, the luxury segment grew rapidly in China as its high income class was growing and luxury products were a means to show success and status. Gift-giving, which were also popular in China, contributed to a growing luxury segment. Moreover, increased disposable income had as a consequence that consumers could spend an increasing amount of money on life-style products and services – thus having the opportunity to substitute fashion purchases with services or other products. However, in 2013, the Chinese government banned radio and TV ads promoting expensive gifts, which was an expansion of the regulation passed in 2011 that banned words such as luxury and royal from billboards in Beijing. The first regulation was applied to fight corruption and the second to avoid reminding people about the growing income gap (Phillips, 2013). Moreover, growing disposable income also implied a growing middle class which was H&M's target group and as clothing still remained a necessary good the threat of substitutes was relatively low even though it was increasing in China (CBRE, 2013).

Buyer (customer) power

The buyer power refers to the power the buyer has over the provider of goods or services. Due to increased wages in China and a large offer of different retailers, the buyer power was strong

as the consumer had a multitude of options when making its buying decision. Chinese consumers were often characterized as having low brand loyalty and of being able to move from one brand to another if the perceived value proposition, in terms of price and quality, was better. Moreover, the expanding e-commerce gave Chinese consumers increased power since they were able to quickly find and compare products (Chan, Chen, & Ying, 2013). To convince consumers to choose the H&M brand the retailer needed to be able to provide a product that was perceived to be of higher quality compared to its competitors and offer it to a price that was not deemed too high nor too low. Moreover, to mix and match high end labels with fast fashion was the new trend in China where mid-range consumers invested in a few key designer clothes and matched them to lower priced apparel. The burgeoning middle class had adapted the mix and match trend which also fit companies such as H&M (J. Lu, 2013).

Moreover, as the middle class embraced social media and digital, the consumers were likely to discuss their favorite brands and least favorite brand on social networks. This possibility increased the buyer power as word-of-mouth was one of the most important information channels for Chinese consumers. Furthermore, the online opportunities changed slightly the market and emotional selling (highlighting perceived benefit rather than the functionality of the product) became more important since retailers were now increasingly promoting its brand image online. Hence, brands with experience in appealing to customers' feelings would be one step ahead even though a dual marketing strategy was proposed by several actors on the market (Li, 2014).

Threat of new entrants

The threat of new entrants assesses if competitors are likely to enter the industry due to low or high barriers of entry. The Chinese fast fashion market became increasingly competitive with foreign and domestic players catering to the same customers. It was also a fragmented market and brand loyalty was generally low (Chan et al., 2013). The top ten fashion retailers made five to six percent of total annual sales for the entire sector. Furthermore, the Chinese retail segment was a high growth market with an annual growth rate of fifteen percent (Lu, 2010). The quick growth rate and low brand loyalty were likely to attract further fast fashion retailers

to establish. The fact that fashion retailers could enter the market through either wholly-owned operations, franchising or joint ventures contributed to an easier entrance for new, international, players. Hence, the threat of new entrants was high.

Supplier power

Supplier power refers to the influence any supplier can exercise on its buyer. A concentration of suppliers, volume and differentiation of products all affect supplier power. Standardized products and a high concentration of purchasers lower the supplier power since the product is easily produced and the switching costs from one supplier to another is relatively low. The apparel, such as fast fashion clothing, offered standardized products and relatively low switching costs as many suppliers offered similar products. In 2013, China's manufacturing sector experienced a drop in demand for apparel production (up to 30 percent for some manufacturers). One reason was lower demand from main markets such as Europe and the USA due to the financial crisis in 2008. Another reason was the wage increase of blue collar workers in China which made labor more expensive relative to labor in neighboring countries. Improved work conditions also entailed greater costs to the apparel manufacturing and was generally transferred to the purchaser[31]. Hence, the supplier power of apparel manufacturers was low in China.

Another important supplier to retailers such as H&M was real estate owners since H&M was renting its store space. Commercial property rents increased with 20.5 percent between 2008 and 2013 caused by an increasingly competitive environment. Many retailers tried to secure prime locations in popular shopping malls and streets (CRBE, 2013). Rents soared in popular areas of first tier cities where there were fewer opportunities to add store space compared to lower tier cities. Consequently, the company that was capable to pay the highest price and who was estimated to bring the most customers to the mall or to the street would win the negotiation over store space. However, in second and third tier cities the construction rate of new malls and shopping areas was fast and the vacancy rate relatively high (Hart, 2012). Hence,

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[31] http://www.scmp.com/business/china-business/article/1408015/chinas-factory-towns-fall-quiet

real estate agents and companies had high negotiation power regarding the rent and terms of the contract in first tier cities such as Hong Kong and Beijing but less so in second and third tier cities.

Intensity of competitive rivalry

The intensity of competition is decided by the number and power of competitors in a particular field of expertise. H&M entered China in 2007 when many international and local fashion retailers were already present on the Chinese market. Competitors fought for premium retail space, distributor networks and strategies to convince consumers to buy their products. The intensity of competition increased between 2008 and 2014 due to new, international, entrants to the Chinese retail markets such as Bershka and Forever 21 (CBRE, 2013). Figure 15 below shows the international fast-fashion retailers established in China the last fifteen years. Moreover, local retailers with better understanding of the market, a good network and knowledge about consumer preferences were expanding simultaneously as foreign companies enter China. Hence, the intensity of competitive rivalry is high.
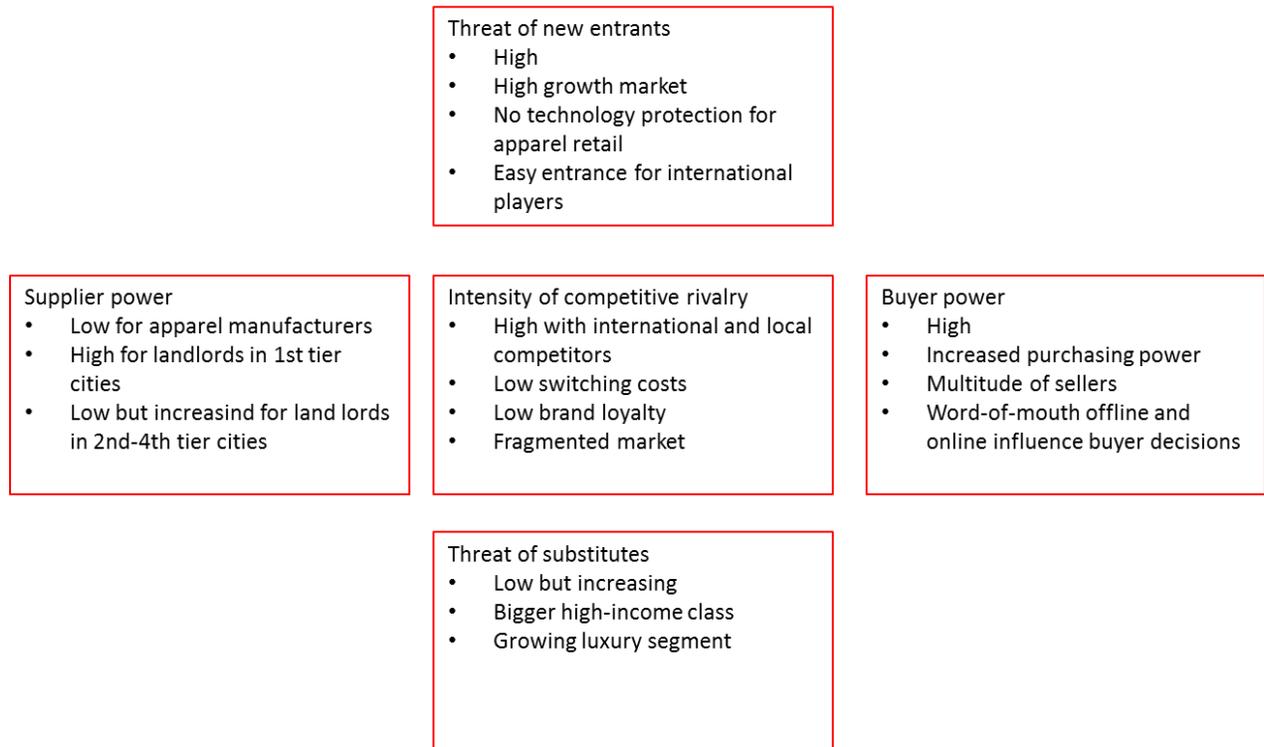
Figure 15 Fast Fashion China
International fast fashion retailers in China

2002
- UNIQLO'S first store in China unveiled at Shanghai Huaihai Road
- MANGO'S first China store opened in China World Shopping Mall

2006
- ZARA entered China and unveiled its first and flagship store at Shanghai West Nanjing Road

2007
- H&M entered China and unveiled its first store at Shanghai Huaihai Road
- C&A entered China and unveiled its first store in Shanghai Super Brand Mall

2009
- Bershka entered China and unveiled its first store at Beijing RafflesCity

2012
- Forever 21 entered China and unveiled its first store at Beijing APM
- Monki, the sister brand of H&M launched the first China store in Nanjing Wonder City

Source: CBRE, China Research Team, 2013, p.8

Figure 16 below shows a summary of Porter's five forces in China related to the fast fashion industry.

Figure 16 Porter's 5 forces

Threat of new entrants
- High
- High growth market
- No technology protection for apparel retail
- Easy entrance for international players

Supplier power
- Low for apparel manufacturers
- High for landlords in 1st tier cities
- Low but increasind for land lords in 2nd-4th tier cities

Intensity of competitive rivalry
- High with international and local competitors
- Low switching costs
- Low brand loyalty
- Fragmented market

Buyer power
- High
- Increased purchasing power
- Multitude of sellers
- Word-of-mouth offline and online influence buyer decisions

Threat of substitutes
- Low but increasing
- Bigger high-income class
- Growing luxury segment

Source: Author's creation based on Porter's 5 forces

6. Analysis

This part combines the findings of the last parts related to the contextual environment in the Chinese market analyzed through the PEST analysis and Porter's five forces and the case company's, H&M, strategy. The analysis chapter discusses in particular whether H&M was able to obtain strategic fit with the Chinese market and if it was necessary for the retailer to apply any adaptations to its core strategy to do so.

H&M expanded into China with obvious market-seeking purposes. The retailer had assessed consumers' spending power and attitude towards fashion as well as the population growth to make sure that the timing was right. One of H&M's strengths when expanding into China was that it already had extensive experience from previous international expansions. Moreover, even though competition was strong in the Chinese market brand loyalty was low and the market was highly fragmented and offered opportunities for new comers. Individual values and fashion had become increasingly important in China as the young Chinese embraced Western values to a greater extent than previous generations. Disposable income also increased rapidly after the Chinese accession to the WTO which enabled consumers to spend more of their income on goods other than necessities. Even though the Chinese upper middle class and high class had an aptitude for luxury goods the Chinese government issued policies discouraging the expensive gift-giving and the use of particular words related to luxury goods in commercials – to the benefit of fast fashion retailers such as H&M who targeted the middle-income segment and who were perceived to be fashionable and of decent quality.

H&M followed its core strategy and established as a wholly owned company in China. To be the owner of operations in the Chinese market gave H&M the flexibility to implement its own expansionary strategy, including what cities to expand to and the timing for expansion to each city. Moreover, by renting store space H&M could also relatively quickly set up a shop in upcoming and buzzing shopping streets and shopping malls. This strategy fit a fast-moving market such as China and gave the retailer flexibility that could be used as competitive advantage. H&M's entry strategy built on a staged entry model which consisted of opening the first stores in Hong Kong and Shanghai where the retailer had previous experience and that also served as storefront to the rest of China. Moreover, the brand created large launch events on

both launch occasions to acknowledge the commitment to its new market and its consumers. Once H&M had received positive response from the first two cities it ventured further into mainland China since the brand now had created a buzz and recognition necessary to expand further. Subsequently, H&M expanded into second and third tier cities while continuing to grow in the larger cities. H&M followed a similar launching and expansionary strategy as many of its international competitors in the Chinese market. It is a strategy that fit the market as conventional marketing methods were not likely to have the same breakthrough effect, in particular if the brand was unknown on the market. By creating large launch events and thus making a big splash in the market H&M created enough buzz about its brand as being successful and committed to China. Also, to focus on two major cities that attract many visitors from other parts in China enabled H&M to increase the knowledge about its brand in other parts of the country prior to establishing a shop in these regions.

H&M deviated slightly from its price model when establishing in the Chinese market. In China, H&M targeted the middle income segment whereas it commonly positioned its brand for low to middle income segments in its other markets. This strategy was adopted to meet the unfilled demand for fashion that provided good quality but that was not considered a luxury good. H&M's international competitors also chose to set their prices slightly higher in the Chinese market compared to the Western markets. Moreover, many retailers that provided clothing for similar prices offered sportswear which was not suitable work wear for fashionable youth which was H&M's target segment. As mentioned, the fashion market was highly fragmented and brand loyalty was low which gave H&M a needed opportunity to establish and gain market share. In addition, to target the young Chinese in the growing middle class gave H&M the opportunity to gain a foothold in a market that is likely to continue to grow. Despite a higher price level, H&M was well received in China with customers that queued outside the shops when they first opened.

The price changed slightly but the product offer stayed the same in the Chinese market. H&M entered the market with the same product range it offered to the global market. The retailer leveraged the increased interest in global trends and fashion that started to appear in China. To keep its product range constant in all markets also enabled H&M to continue to achieve

economies of scale in terms of design and production. However, small local adaptations were made in terms of product range since the significance of colors and specific patterns were different in China compared to other markets. It is difficult to say whether these changes were beneficial for the retailer as it is not possible to assess the customer reaction if the restricted collections had been launched in China. However, it is reasonable to believe that the changes were favorable for the company in the sense that the retailer mitigated a potential loss of sales and damaged brand image by withholding particular collections from the local market. The collections were launched in China at the same time as the rest of the world which, once again, enabled H&M to leverage economies of scale in terms of products and marketing efforts. The exceptions to the timing of collection launch were related to the launch of the brand H&M in China where the retailer chose to pre-launch specific collections to honor its new market.

In China, H&M communicated its launches of new collections on posters, its website, and its shops and in social media. This largely followed the retailer's strategy in other markets even though the usage of TV commercials was lower. H&M was present on social networks such as Weibo and Youku where it promoted the brand through videos, local endorsements and by keeping an ongoing conversation with its customers. H&M also had a strong social presence on its global markets in networks such as Facebook, Twitter and YouTube. Hence, the social network focus in China was an extension of H&M's global strategy of engaging socially with its customer – even though the focus networks differed. As word-of-mouth was considered a very important means for brands to establish good brand image and brand loyalty in China the applied social media strategy was well aligned with how brand perception was built in China.

H&M used endorsement marketing globally with well-known, global, celebrities. H&M kept this strategy in the Chinese market but adapted the approach slightly to better fit local expectations and preferences. Even though it can be argued that China had become increasingly westernized the last decades local music and TV celebrities were likely to cause a bigger breakthrough, in particular in smaller cities where global entertainment was not as known. Hence, H&M let Chinese super stars be photographed in their clothes and jewelry, pictures that were subsequently spread on the local social networks. This strategy was well received in the Chinese

market with consumers appreciating the fact that their idols were dressed in H&M whereas less known, global, stars were unlikely to have had a similar impact.

H&M followed its global strategy when setting up its physical shops in China and could leverage economies of scale for its shop design that was made in Stockholm. The retailer also decided to follow the same strategy in terms of product range based on the type of shop (flagship, normal, and specialty). A difference between global and local markets was that fewer specialty shops had opened in China who got its first shop specialized for men in 2013. H&M launched its online shop in China in 2014 – seven years after the initial launch in the market. However, the website had been online on the Chinese market since the start even though the consumer could previously not do their shopping online. The Chinese e-commerce and website were similar to the equivalents in H&M's other online markets. However, H&M launched its e-commerce in China at an earlier stage compared to many of its other markets where the retailer has been present for a longer time but where it chose not to open an e-commerce. To establish an e-shop relatively early on the Chinese market was likely to have been a good strategic move by H&M. E-tail increased significantly in China during 2000s as the internet penetration and usage of mobile devices also became increasingly important. However, as H&M has not yet released a split of its sales between e-tail and physical shops for the Chinese market it is difficult to assess whether the retailer should have changed the approach or whether the global strategy is well performant in the Chinese market.

Figure 17 sums up the environmental context, the H&M strategy in the local market (adapted or not) and if a strategic fit was achieved.

Figure 17 Strategic fit between H&M's strategy and the Chinese environment

Environmental context	H&M Strategy	Strategic fit
'Go west policies' – favorable policies and measures were initiated by the Chinese government and grew the potential market for foreign companies	Focused initially on 1st and 2nd tier cities but expanded into 3rd and 4th tier cities when experience with the market grew	Good timing and fit as H&M's expansion strategy was aligned with the Chinese government's policies to promote less developed markets
Chinese WTO accession in 2001 to which subsequent amendments of policies made it easier to do business with and in China	Entered after China's WTO accession	The timing was good as the economy grew rapidly after the WTO accession. Thus, the strategic choice of timing was well planned
Strong economic growth and increased spending power	Targeting young professionals in middle income segment	Good fit as the H&M targeted similar segments in its global markets, slight adaptation made since H&M targeted lower income segments in other markets as well which was not the case in China
Government policies to discourage promotion of luxury goods and expensive gift-giving	Targeting middle income segment but collaborations with high-end fashion designers to appeal to higher end clients	Good fit as H&M targeted middle income segment but continued its collaboration with high end fashion designers to appeal to consumers with a flair for luxury which was the case in China where, despite

		government policies, the emphasis on high end products was significant
Domestic consumption encouraged after the financial crisis 2008	Rapid expansion on the Chinese market with new shop openings annually	Good fit and good timing, H&M leveraged the government's emphasis on domestic consumption in the Chinese market
Growing middle class in 3rd and 4th tier cities	Expansion to 3rd and 4th tier cities once established in 1st and 2nd tier cities	Good fit as, after having gained experienced in 1st and 2nd tier cities, H&M expanded to 3rd and 4th tier cities which followed its staged expansionary strategy made in other markets as well
New values with generation Y such as individualism and increased focus on global trends and values	Promoted global brand message on the Chinese market with very few local adaptations	Good fit as the global brand message about expressing oneself and to create self-identity through fashion was well received in the Chinese market
Increase of internet penetration and increased usage of computer and mobile devices	H&M followed its global strategy to promote its brand on social media networks but used local	The adaptation to change from global to local network was a good decision as China does not enable access to all

	networks to reach the Chinese consumers	non-Chinese social networks (Facebook is inaccessible in China)
E-commerce became increasingly important	Established an online web site where clients could view products, prices and shops and launched e-commerce after 7 years in the market	Good fit but as e-commerce was deemed highly important for success due to the rapid increase in e-tail H&M should have considered to launch its e-tail at an earlier stage
Word of mouth off and online important for brand perception	Strong online presence in major Chinese social networks where discussion was conducted with consumers	Followed global strategy but applied on local networks to meet the new consumers, local endorsements were promoted in the local networks together with the global endorsements
Competitive and fragmented market	Positioned in the growing fast fashion segment for middle-income groups	Adaptation from global positioning of cheap, democratic, fashion but followed core strategy of fast-fashion

7. Discussion

This chapter discusses what was done in the thesis and how the different methods and models helped to answer the research question. The objective of the thesis was to found out if and how H&M obtained a strategic fit with the Chinese market when it expanded to this new market in 2007. To do so, the researcher chose to use a case study approach based mainly, but not exclusively on qualitative data – financial data was included as quantitative data to assess financial performance in the case company. The Chinese market was assessed through the PEST analysis and through Porter's five forces since strategic fit implies a comparison between two variables which, in this thesis, were H&M as case company and China as the contextual environment. The focus of the case company was its global operational strategies and how these were applied to the Chinese market. Subsequently, the retailer's China strategy was analyzed and it was assessed whether H&M managed to obtain strategic fit with its new market and how many (if any) adaptations to the strategy had to be done. The focus of the case company was mainly on its marketing strategy which was assessed through the classical market mix, also referred to as the 4Ps.

H&M expanded to China by largely applying its existing strategies that were used in its global markets. The brand was well received on the Chinese market as the company managed to create a buzz and high expectations before launching its first shops in Hong Kong and Shanghai – a strategy that they leveraged when they expanded to other new cities in China. As a consequence, consumers were queued outside the new shops several hours prior to opening to be able to benefit from promotions promised to the first shoppers in the new shop. Moreover, H&M filled a gap between low cost apparel and luxury fashion items. The retailer targeted young professionals in the middle income segment. This target group had a disposable income that was increasing and wanted to move from low cost and low quality but did not gain enough to buy high end fashion. Furthermore, they belonged to Gen Y who was a generation that, in general, grew up as the only child due to China's one-child policy and who embraced more individualistic values compared to previous generations – one outcome was to express one's identity through fashion. Hence, the fast fashion section wherein H&M operated appealed to

this segment since the consumers could acquire several fashion items to a good price while keeping the notions of fashion and quality.

Even though H&M decided to follow its core strategy when expanding into China it made a few adaptations to better serve the local market. The most remarkable of these changes was the price change. The product range offered in China is priced approximately 10 percent higher compared to H&M's domestic market Sweden. H&M followed its competitors' strategy regarding the price increase, for example, Zara entered China one year prior to H&M with the same strategy. Moreover, H&M increased its online presence when launching in the new market as the retailer realized that it would not be possible to leverage its existing social networks as some of them were blocked by the Chinese government. Instead, H&M joined the most common Chinese social networks such as Weibo, Douban and Youku in which they engaged with consumers. The retailer launched its global commercial messages also in the Chinese networks but sometimes made smaller, local, adaptations to let local celebrities endorse the brand and its products rather than solely using global style icons – this in order to better reach its local audience. The product range was around 80 percent the same in China as on the global market which is a common strategy for H&M. No adaptations to sizes or design were made but H&M avoided launching collections whose colors and patterns could have been perceived as offensive on the Chinese market. H&M decided to follow its core strategy in relation to a majority of functions which proved to be a successful choice. The retailer's performance on the Chinese market was above expectations and the company experienced a growth rate between 42 and 108 percent between the years 2007 and 2014 (on a year-on-year comparison) which was well above the annual target of 10-15 percent.

The reason that H&M chose to follow, to a large extent, the same strategy in China as in many others of its international markets is most likely to be able to leverage economies of scale. Functions such as design, marketing and purchasing are centralized to the head office in Stockholm and dispatched to international markets. One reason that H&M waited with entering the Chinese market (it was a follower) can be that it wanted to assess how well international competitors performed. Another reason can be that H&M wanted the Chinese market to be

ready for the retailer's approach to fashion and waited until Gen Y to embrace global fashion notions.

These findings are important since they give an indication to whether it is possible to use a global strategy in local markets that are perceived to largely differ from the company's domestic market. In particular, as Chinas has been and still is a market in focus for business developers due to the size of the potential market with 1.3 billion people and an economic growth that is stronger than in most part of the world. Moreover, the Chinese government's focus on easing up policies and legislation to facilitate for foreign companies to trade with and to do to business in China increases the country's attraction to foreign investors. Finally, China is currently promoting domestic consumption which increases the sales potential for retailers operating locally. However, many companies have expanded to China and failed since they either did not understand the market correctly or the market was not ready. The research conducted in this thesis can help business developers to assess the market situation and what strategic steps that needs to be considered when expanding to this dynamic market. Further research is needed to better understand the dynamic perspective and how the market is changing, as it is a fast-moving market, and how existing retailers react to these changes. It would be interesting to understand if the companies choose to adapt strategies to follow the dynamics of the market or if they consider themselves so well established, with a strong consumer base, that they chose to continue to follow its core strategy even though the market changes.

8. Conclusion

The aim of this thesis is to understand if H&M was able to apply a global strategy on the Chinese market or if any adaptations were necessary to make in order to obtain strategic fit with the new market. The particularity with the Chinese market is its fast economic growth and dynamic consumer environment that makes it a complex market to understand. To investigate how a successful retailer navigates in this market and what strategy it applies will improve general understanding of expansion to China. The contribution of this thesis is mainly related to the business field and its actors can use the findings to guide their strategic decisions when operating on the Chinese market.

Relevant literature related to international business, marketing and strategic fit has been reviewed to establish a theoretical framework that guided the analysis. Strategic fit between the company, its strategy and the context wherein it is implemented is a concept that is becoming increasingly important since more companies are expanding internationally and need to understand the implications this will have on the firm in the new market – and in the end, on overall performance and strategy. This thesis investigates the research question "How does H&M's marketing strategy apply to the new business environment in China and how do the strategic fit between H&M and the Chinese market influence the company?"

To find the answer to this question this thesis first reviews the characteristics of the Chinese business environment. First, macroeconomic factors included in the PEST analysis are investigated to get a better understanding of the overall country situation. Second, the industry level factors were assessed through Porter's five forces. This improves the knowledge about the competitive landscape in the new market and how a company can position itself within this micro level environment. Third, the case company H&M was analyzed with a focus on current global strategies and, subsequently, how these strategies were applied to the Chinese market. Finally, the analysis assessed the strategic fit between H&M's strategic choices and the context wherein it was operating.

To a great extent, H&M applied its global strategy on the Chinese market with a few exceptions. The retailer's strategy seems to have fit the contextual environment in China as the brand was

well received on its new market. H&M increased annual sales on a year on year basis in China, despite the financial crisis that occurred in 2008. Moreover, the retailer was able to keep its expansionary growth goal of increasing the number of shops with around 10-15 percent annually. In China, H&M opened up new shops with an annual rate between 42 and 108 percent between 2007 and 2014. The growth was higher during the first years of operations whereas it has slowed down the last years even though it stays well above H&M's stated goal of 10-15 percent. Two big changes that H&M did to fit its new market were to increase product prices and to establish a presence on local social networks. H&M followed competitor strategy when placing its pricing a bit higher on the Chinese market compared to its domestic market – thus, it catered to the middle income segment. The strategic choice to add local Chinese networks to its online operations was well received in China where H&M quickly created a buzz and acquired local fans. Social media is an extension to word-of-mouth as an important marketing channel in China and it is crucial to implement a successful strategy in these channels since news spread rapidly between consumers. Even though H&M launched in the Chinese local networks the retailer leveraged its global marketing efforts in these channels. However, H&M also used local celebrities for brand endorsement and to launch its collections locally. The attention paid to local celebrities can be considered to an already existing strategy of icon style collaboration. Hence, the strategy did not change but the operational implementation of the strategy was adapted to local conditions. As Chinese consumers, in particular the younger generations, consider the internet as a useful source for information H&M made the right decision to adapt some of its online strategy implementation to better fit the local market. Moreover, H&M's choice to launch its e-commerce in China was also a good fit with the Chinese market where e-tail is increasing continuously. It is possible that the retailer should have considered launching the e-tail at an earlier stage to better serve the growing segment of consumers that prefer to do their shopping online.

As mentioned above, these research findings can help business developers to make better, strategic, decision prior to launching in new markets – in particular China. It is important that the business developer understand the dynamism of the Chinese market and the opportunities these create for those who can leverage them. However, the thesis also raises some questions

that can serve as a basis for future research. An interesting angle could be to investigate the importance of social networks to a brand's success in China and whether it would be enough to leverage a global strategy only or if it is necessary to adapt to local preferences (as did H&M).

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10.   Appendix

9.1 Appendix A – Brands in the H&M Group

The H&M group's six brands (authors creation)

9.2 Appendix B – H&M international expansion

Year	Country	Year	Country
1947	Sweden	2008	Jordan*
1964	Norway	2008	Kuwait*
1967	Denmark	2008	Lebanon*
1976	UK	2008	Morocco*
1978	Switzerland	2008	Oman*
1980	Germany	2008	Qatar*
1989	Netherlands	2008	Saudi Arabia*
1992	Belgium	2008	United Arab Emirates*
1994	Austria	2008	Israel*
1996	Luxembourg	2009	Russia
1997	Finland	2010	South Korea
1998	France	2010	Turkey
2000	USA	2011	Romania
2000	Spain	2011	Singapore
2003	Poland	2011	Croatia
2003	Czech Republic	2012	Malaysia
2003	Portugal	2012	Thailand*
2003	Italy	2012	Mexico
2004	Canada	2012	Bulgaria
2004	Slovenia	2012	Latvia
2005	Ireland	2013	Chile
2005	Hungary	2013	Estonia
2007	China	2013	Lithuania
2007	Slovakia	2013	Serbia
2007	Greece	2013	Indonesia*
2008	Japan	2014	Australia
2008	Bahrain*	2014	Philippines
2008	Egypt*		

Source: H&M annual reports 2007-2014

9.3 Appendix C – H&M organizational structure
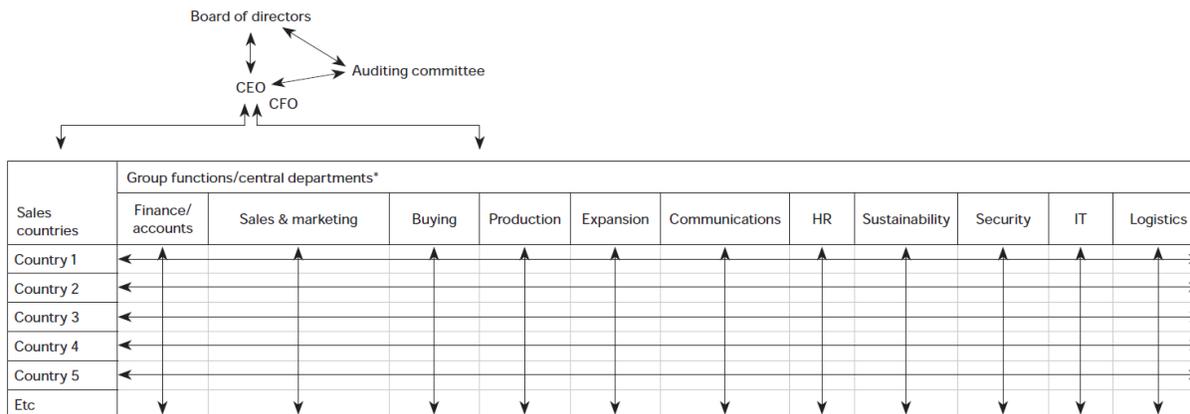
* Those responsible for group functions are members of the executive management team. In addition to the functions mentioned above and the CEO, those responsible for IR, new business and the brand are also part of the executive management team.

Source: H&M Corporate Governance Report 2014

9.4 Appendix D – H&M sales performance 2007-2014

Financial year	2007	2008	2009	2010	2011	2012	2013	2014
Sales incl VAT, SEK million	92 123 kr	104 041 kr	118 697 kr	126 966 kr	128 810 kr	140 948 kr	150 090 kr	176 620 kr

Source: H&M annual reports 2007-2014