

# Chapter 1: Introduction

## A. Focus and relevance of the study

The goal of this study is to examine retail format replication in international retail fashion firms. The foundation of the study is the identification of format replication patterns and strategies with a connection to the success of international fashion retailers. A dynamic dimension over time complements the study. Fashion retail firms are generally understood to be heavily internationalized and are expected to replicate their entire format unchanged in foreign countries when pursuing a global strategy. Such firms' format replication strategy—defined in terms of format change patterns and the factors motivating the format change decision—substantially contributes to their success and is primarily associated with strong standardization and global strategy (Goldman 2001). This thought-provoking statement will be traced in a theoretically grounded and empirically tested study that examines the development of fashion retail firms over a period of time. A qualitative approach on the chief executive level (CXO) is used as an appropriate method to understand the behavior of firms and managers over the five years analyzed (Chen, Murray and Jones 2007). To categorize the respective format replication strategies and to analyze successful strategies and the transfer of format elements, decisions are analyzed on a general, internationally holistic level and on the level of activities in two countries that are particularly important in the fashion industry.

The relevance of this study results from the dynamic but relatively young phenomenon of retail internationalization, which has become relevant in the last two decades for most retail firms (Swoboda, Zentes and Elsner 2009). Thus, the distinction between "national firm" and "international firm" appears linguistically simple: national firms limit their activities to one country, whereas international firms operate in several countries. An international firm is therefore present when it has sales activities abroad—regardless of the type of foreign activity and regardless of the functional areas that are internationally oriented. In the present study, an international retail firm is defined as a firm with own-store activities in at least two foreign countries (Waldman 1978, p. 1; Zentes, Swoboda and Morschett 2004, p. 7-8). More precisely, retail internationalization is dominated not by the pure export of products but primarily by the transfer of offers, processes and management culture into foreign markets. Furthermore, internationalization in the retail business is connected with strategies of global, multinational or transnational activities driving foreign value chain activities. In other words, a configuration of value chain activities is executed based on various environmental factors (Liebmann, Zentes and Swoboda 2008, p. 15ff.).

As the process of retail internationalization is gaining momentum, retailing is on a path to becoming a global industry. To become global, retailers must expand their businesses and transfer their retail formats into foreign countries. To set the scene for the topic of retail formats, it is necessary to emphasize the major characteristics of retail internationalization in contrast to manufacturing internationalization to justify the need for retail-specific research. According to Dawson (1994), Sparks (1995), and Currah and Wrigley (2004), the main differences are related to marketing, management and financial characteristics.

Retail stores are combinations of tangible (e.g., product assortment) and intangible offers (e.g., store layout), but these aspects are only the visible parts of internationalization. There are also processes that must be adjusted during the process of internationalization. Retailers have direct contact with consumers and high transaction frequencies (Dawson and Mukoyama 2006, p. 24). Markets for retailers are local and are restricted by market barriers (e.g., local rules on store location and opening hours) and store design, and retail knowledge cannot be trademarked.

International retail store networks can encompass 500 or more stores, which can cause some degree of geographical dispersion in firms and requires a balance between centralized and decentralized decision making (Wrigley, Coe and Currah 2005). The importance of local product assortments and a large number of suppliers enhance the relative value of stock and the importance of sourcing and supply chain activities (Mukoyama 2000). Retailers have a specific cost structure. The share of purchase costs constitutes a major portion of the total costs; thus, it is important to realize economies of scale (Dawson and Mukoyama 2006, p. 22-23). In retailing, the income stream generated after an investment decision and the cash flow characteristics differ from those for manufacturers. Because of the high level of direct investments that are typically made, related exit costs are enormous (Dawson 1993, p.28).

For the period between 2005 and 2011, UNCTAD shows that FDI flow in services cumulatively increased nearly 1,100% (from 6,903 to 81,659 m. USD) compared with 900% in manufacturing (3,114 to 31,594 m. USD) during the same period (see Table 1-1).

Target Industry	2005	2006	2007	2008	2009	2010	2011
Manufacturing	3,114	4,369	10,675	16,357	30,122	31,470	31,594
Services	6,903	13,124	27,316	43,673	53,709	64,120	81,659

Note: Values are millions of US Dollars

Table 1–1: FDI by SWFs by sector/industry, cumulative flows, 2005-2011

Source: United Nations Conference on Trade and Development World Investment Report (2012, p. 15).

In particular, leading fashion retailers grew dynamically abroad. Furthermore, fashion retailers tend to grow in a standardized manner and have entered as many as seventy countries in the last two decades (Bonnin 2002; Moore and Birtwistle 2004; Bhardwaj and Fairhurst 2010). Fashion retailers have been acknowledged to be among the most dynamic operating firms (Alexander and Doherty 2009), especially with the emergence of fast fashion retailer brands, such as H&M, Gap (Moore and Burt 2007), Uniqlo, and Zara. Undeniably, the international expansion of fashion retailers in Europe is far greater than the host country activities of retailers in other industry sectors, such as food or hard-line products (Mollá-Descals, Frasquet-Deltoro and Ruiz-Molina 2011, Doherty 2000). Fashion firms operate with product assortments that change on a monthly basis, which is more complex than grocery retailing, for which articles are listed for a longer period (Swoboda, Pop and Dabija 2010). In addition to the quick time to market and design, marketing and capital investment have also been recognized as the driving forces of competitiveness in the fashion industry (Bhardwaj and Fairhurst 2010). Fashion retailers have realized that flexibility and rapid responsiveness to the market are the areas of greatest importance in today's world (Bhardwaj and Fairhurst 2010). From a consumer perspective, people are becoming more demanding and fashion savvy, which forces fashion retailers to focus on providing the appropriate assortment at the right time (The Economist 2005). This context leads to the issue of the retail format, which consists of different elements—such as price, location and processes—that must be configured adequately to attract local consumers. Because the consumer market is heterogeneous in terms of consumption patterns, speed and adaptation in fashion are gaining in importance (Bhardwaj and Fairhurst 2010).

Expanding this view to the complexities of internationalization, a foreign target market can be similar to the home country. Thus, the pressure to adapt is slight (O'Grady and Lane 1996). However, in many cases, at least some adaptation is necessary (Dawson 2007). A retailer operating internationally must adapt to customer-specific demands to ensure success (Goldman 2001). It is unclear whether this necessity also applies the fashion industry and whether firms recognize this need and are willing to respond to foreign differences. Furthermore, the web has revolutionized the industry. The rise of China and other Asian countries has overhauled the supply chain, thus driving the success of fast fashion. Moreover, the recent economic downturn has

changed shopper attitudes toward value (Retail week June 2012). The changing dynamics of the fashion industry, which include the vanishing of mass production, the growing number of seasons and collections, and modified structural characteristics in the supply chain, have enforced retailers to aim for cost advantages and flexibility in design, quality, distribution and lead time to market (Doyle, Moore and Morgan 2006).

A comparison of the different industries of retailing demonstrates that fashion is the industry with the highest revenue earned from foreign operations and the highest average number of countries served. Table 1-2 shows the data for the 250 largest retail firms in four different retail sectors. As indicated, fashion retailing is the most internationalized retail industry. As a result, fashion retailers are confronted with the challenge of successfully and extensively transferring their format to foreign countries.

Segment	Number of firms	Average retail revenue (m. USD.)	% of retail revenue from foreign operations	Average number of countries	% of firms operating only in one country
Top 250*	250	17,085	23.8%	9.0	38.0%
<b>Fashion Goods</b>	<b>39</b>	<b>8,813</b>	<b>29.5%</b>	<b>21.3</b>	<b>20.5%</b>
Fast-Moving Consumer Goods	135	21,464	22.6%	4.9	47.4%
Hardlines and Leisure Goods	55	12,013	26.6%	9.6	30.9%
Diversified	21	17,577	22.5%	10.1	28.6%

Table 1-2: Comparison of retail industry profiles

Source: Deloitte Global Powers of Retailing 2013. Based on the Top 250 global retailers.

Upon closer examination of the fashion industry, revenue growth for fashion retailers declined to 4.8% in 2011 from 7.4% in 2010. Fashion retailers continued to be the most internationalized. In 2011, nearly 80% operated outside of their home country, engaging consumers in an average of 21.3 countries. Not surprisingly, these companies derived a larger share of revenue from foreign operations (29.5%) than the other product sectors (Deloitte 2013). Table 1-3 shows that the Swedish fashion firm Hennes & Mauritz (H&M) remains the leader.

Fashion firm	Country of Origin	Total Sales 2011 Rank (across all segments)	2006 Rank	2011 Rank	2011 revenue – m USD
H&M	Sweden	3	1	1	16,123
Inditex	Spain	2	3	2	13,058
C&A Mode Bren- ninkmeijer & Co	Germany	5	2	3	7,476
TJX Cos Inc, The	USA	1	4	4	4,417
Adidas	Germany	20	8	5	3,051
Gap Inc, The	USA	4	5	6	2,838
Foot Locker Inc	USA	9	6	7	1,863
Benetton Group SpA	Italy	19	7	8	1,490
Esprit Holdings Ltd	Germany	25	9	9	1,401
Heinrich Deichmann	Germany	11	10	10	1,033
Associated British Foods Plc (ABF)	UK	12	11	11	992
Abercrombie & Fitch Co	USA	16	19	12	776
Vivarte SAS	France	22	12	13	539
Fast Retailing Co Ltd	Japan	7	18	14	534
Limited Brands Inc	USA	8	21	15	466
Tengelmann Group	Germany	27	15	16	460
Collective Brands Inc	USA	23	13	17	446
Arcadia Group Ltd	UK	28	14	18	342
Peek & Cloppenburg	Germany	21	16	19	323
Genesco Inc	USA	30	21	20	321

Table 1–3: Top global fashion retailers

Source: Retail Euromonitor International.

On a scientific level, several scholars focus on retail formats. Many studies traditionally analyze standardization versus adaptation decisions, in addition to global versus multi-domestic strategies (see literature research in Chapter 2-B). Those studies leave open questions in terms of the described challenges for fashion retailers, including the following: are there specific format transfer strategies that fashion retailers follow, how successful are those strategies, how is a retail format designed, how is a retail format adapted to foreign circumstances and how much maintenance or adjustment of a retail format is required over time (Yahagi and Kar 2009; Gielens and Dekimpe 2007; Burt et al. 2005; Goldman 2001). Within the scope of this study, the need for structure detection methods is emphasized to support the growing knowledge with new empirical evidence, including successful replication strategies in international retailing. International strategy typologies have greater explanatory power if they can be applied to a specific industry (Harzing 2000). Alternatively, the retail industry itself may only be considered a moderating variable in international business models. Consequently, some researchers make extensive use of general international business research findings, whereas others claim that conceptualizations are retail specific—particularly

those in conceptual studies—and use only the literature on retail research. There is no research examining the fashion industry in particular. It is assumed that cases are found to support existing assumptions with regard to the standardized replication of retail formats. However, some firms in the fashion industry could transfer the format in a highly adapted form. One implication of this lack of research is that variations within retail format types are inadequately addressed. Ultimately, we have insufficient information regarding the development and management of formats by particular retail firms (Alexander 2008). According to the literature, retail format elements can be divided into core and peripheral elements based on the degree of change allowed (Winter and Szulanski 2001). In particular, fashion firms are known for expanding from their home countries to foreign economies by installing replicas (Jonsson and Foss 2011). This approach to creating and operating a large number of similar stores that deliver a product is also known as replication or as the McDonald's approach (Winter and Szulanski 2001). However, how do retailers react to changing environments, customer preferences or uncertainties? An ongoing learning process appears to be important for adjusting the format for replication (Jonsson and Foss 2011). However, the question remains as to how often and how much adjustment is necessary during a certain period of time, and the literature provides no answer as to how a retail format changes over time and how changes are applied in different countries.

Consequently, the goals of this study are threefold.

- First, successful retail format replication strategies must be addressed. The contingency shall be a starting point for this analysis.
- Second, the question of how formats are specifically designed by fashion retailers in general and in foreign countries must be answered.
- Third, the analysis of whether format replication is stable over time and in different countries is not addressed by former scholars and will be approached within the scope of this study. Consequently, the combination of different theoretical approaches, such as contingency and format replication theory, is applied to examine the goals of the study.

The described objectives will be further specified after the literature review in Chapter 2.

## B. Structure of the study

The approach of the present analysis follows the characteristic pattern of confirmatory work. As indicated, there is a comprehensive review of the literature on Anglo-American literature on the subject in **Chapter 2**. The goal of the literature review is the further specification of the three research questions:

1. Do format replication patterns or strategies exist for fashion firms, and if so, how successful are they?
2. How is a retail fashion format designed in general and in different countries with regard to permitted changes?
3. Is retail format replication a stable phenomenon with regard to different countries and over time?

First, the terminology is defined. During the literature review, empirical (large-N-designs compared with small-N-designs) and conceptual studies are reviewed to increase the level of knowledge and to identify research gaps. As of today, there is no existing study with a qualitative design with C-level executives, and every study will be summarized with the research questions, theoretical foundation, empirical basis, method, and key results and implications. Subsequently, the research questions are refined, which leads to different levels of analysis.

Within the scope of the detailed literature review and the resulting identified non-homogeneous results, the theoretical foundation is constructed in **Chapter 3**. The starting point is the comparison and categorization of the central explanatory approaches to explain strategies of internationalization and format transfer. First, contingency and configuration approaches are examined. This examination solidifies one particular level in the theoretical framework. The realization of this foundation allows the identification of characteristic patterns and—in combination with context factors—allows format transfer strategies to be derived. Because contingency theory is not specific in naming structures and processes as well as success, additional theories are considered. This leads to the conceptualization of successful format transfer strategies. Furthermore, because contingency theory does not cover the content of the respective strategies, the studies of Szulanski (2001), Swoboda and Elsner (2013), and Goldman (2001) are used to explain standardization versus adaptation of the retail format. Next, format replication theory is used to address the second aspect of the study in terms of whether retail format elements are designed identically and which are considered core and peripheral. Differences in the design of dedicated format elements are expected in regards to different countries. Finally, flexible format replication theory based on Jonsson and Foss (2011) is used to explain the structure of retail formats over time and across countries to assist in answering the question of

whether format replication is a stable phenomenon. The research questions derived relate to all three levels of analysis. This chapter establishes the theoretical framework, conceptualizes the areas of examination and derives the propositions.

**Chapter 4** consists of the empirical study, which includes an introduction to the qualitative approach of the study, the sample design, the measurements and the methodological approach. I conducted personal interviews with C-level executives of twenty-one firms at two points in time. The content of the interviews and the measurements are based on past studies regarding format transfer. The retail format and its elements, context factors, retail format strategies and success are also measured. Furthermore, the method of the empirical study is described, concluding with results and discussion.

**Chapter 5** summarizes the key findings, the central theoretical and empirical results, and the most important implications for research and practice. Subsequently, areas for further research are outlined. Finally, limitations that result from the holistic and empirical study are discussed, and recommendations for retail fashion firms are offered.



<http://www.springer.com/978-3-658-07540-8>

The Replication of Retail Fashion Formats into Foreign  
Countries

A Qualitative Analysis

Schröder, C.

2015, XXI, 271 p. 11 illus., Softcover

ISBN: 978-3-658-07540-8