Business unit Strategies in the Fashion Industry

A study on business unit strategies and their effect on entry mode choice
Management summary

The fashion industry is a million dollar industry in which many multinationals operate. In this study, there is made a distinction between strategies executed by multinationals that are known as the exclusive designers and strategies executed by multinationals that produce fashion for an international target market while keeping the average customer in mind. For the first mentioned multinationals, the Italian fashion-house Prada is used as reference. The Spanish company Zara is used to describe the second multinationals.

When concluding about the business unit strategies that are executed in the fashion industry, three theories are used. The first is that of Porter, who states that there are three generic strategies. These strategies are cost leadership, differentiation and focus. The second theory is developed by Treacy and Wiersema and takes three value disciplines into account; operational excellence, product-innovation and customer intimacy. Miles and Snow, who developed the third typology, claim that there can be distinguished four groups, namely defenders, prospectors, analyzers and reactors.

Business unit strategies seem to have an influence on entry mode choice. The entry modes that are used in this study are licensing, joint venture and wholly owned subsidiaries. As concluded from this study, defenders should enter a new market in wholly owned subsidiary, prospectors by forming a joint venture and analyzers by licensing. Because of the poor performance of reactors, they should reconsider entering a new market.

The purpose of this study is to identify the strategies that are executed by multinationals in the fashion industry. Conclusively, there is found that multinationals like Zara show most similarity with the analyzer from Miles and Snow’s typology and should thus enter a new market by licensing. Multinationals like Prada, have most characteristics of Miles and Snow’s prospectors and should therefore enter a new market in a joint venture.
Preface

In September 2006, I came to Tilburg to study at Tilburg University. The education program I was going to follow was Business Administration. At the beginning, the study program was harder than I expected and it was sometimes hard to stay motivated and focused. This was mainly due to the broad scope of the study. In the course of my third year at Tilburg University, I found out that my main interests lie in the direction of marketing and organization and strategy. Last year, I joined a study association: Asset Marketing Association Tilburg. Thanks to formal and informal activities, I got in touch with companies and marketing in different ways.

For the completion of the Business Administration program, I decided to write my Bachelor Thesis about a subject in the field of Organization and Strategy. Since the fashion industry has always caught my attention, I wanted to write about this million dollar industry. I decided to write about the different business unit strategies that are executed in this industry. At the suggestion of my supervisor, Onno Cleeren, I added the subject entry mode choice to this thesis. All in all, writing my Bachelor Thesis was a very interesting and fascinating process. The first stage was mainly about clearly defining my subject. In the second stage, finding literature was the most important thing to do. I sometimes struggled with finding literature that completely applied to my research. Still, I managed to filter the right information out of the articles.

After all, I think I managed to deliver an interesting and comprehensible thesis. During the process of writing it, I could count on the support of a few people in particular. First, I would like to thank my supervisor, Onno Cleeren, for his feedback which was always very useful. Next, I thank my family for always believing in me. Finally, I would like to thank my boyfriend for supporting me along the process of writing my Bachelor Thesis and his willingness to read my writings several times, even though he is writing a Master Thesis himself.

After completing my Bachelor, I hope to be able to enroll in the Master program Strategic Management at Tilburg University. For now, thank you for your interest in my Bachelor Thesis and I hope you will enjoy reading it.

Tilburg, June 2010

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1. Introduction

1.1 Problem indication
Nowadays, the fashion industry is a million dollar industry in which many multinationals operate. On the one hand, there are the multinationals like the Italian fashion-house Prada. These exclusive designers want to stand out in their designs and don’t keep the average consumer in mind when making their products. On the other hand there are the multinationals like the Spanish company Zara, which produce fashion for an international target market. These multinationals don’t follow the same strategy as the exclusive designers. Multinationals like Zara offer fashion against affordable prices. Though, their designs reflect the latest international trends (Christopher, 2000). In this study, business unit strategies of multinationals like Zara are compared to those of multinationals like Prada. When looking at business unit strategies, there are three theories that are relevant in this study, namely that of Porter (1998), Treacy and Wiersema (1995) and Miles and Snow (1986). Through analysing these theories, there can be found what strategy these multinationals follow and what differences between these strategies can be distinguished. When penetrating a new market, companies are confronted with different entry modes. They can penetrate the market by, for instance, a joint venture or by a majority interest. Since the strategy a company follows also influences the entry mode of the market, this study will also take a look at entry modes. First, the different entry modes will be pointed out on the basis of an article by Harzing (2002). Next, the distinguished business unit strategies are associated with these entry modes. This study will discuss the effects that the business unit strategies have on entry modes in the fashion industry.

1.2 Problem statement
What business unit strategies are executed in the fashion industry and what is their effect on the entry mode choice?
1.3 Research questions
The following research questions will be answered in order to formulate an answer to the above mentioned problem statement.

1. What business unit strategies are distinguished?
2. What effect does business unit strategy have on entry mode choice?
3. What business unit strategies are executed by multinationals in the fashion industry?

1.4 Relevance
Extensive research has been done towards the subject fashion. Some studies, such as that of Christopher (2000) are about the multinationals like Zara, some are about the exclusive designers (Djelic and Ainamo, 1999). Unlike most studies, this study will also investigate what differences exist between the business unit strategies multinationals in the fashion industry follow.

1.5 Research Design and data collection
This study can be qualified as a descriptive study. It’s a literature review in which a distinction is made between multinationals like Zara and exclusive designers like Prada. The purpose is to identify what differences exist between the business unit strategies that these companies follow. For this study, data and literature are collected from secondary sources. Relevant information will mainly be derived from scientific journals. An article that has a big part in this study comes from Christopher (2000). This article is about competing on volatile markets and uses Zara as illustration to this subject. Another article that has a big part in this study is from Harzing (2002) and is about international strategy and the management of entry modes. Articles from Porter (1998), Treacy and Wiersema (1993) and Miles and Snow (1978) describe the underlying theory for this study.
2. Business unit Strategy

Business unit strategy has a big part in this study. It is therefore important to describe what this concept implies. That is why, in this chapter, there will be found an answer to the question: what business unit strategies can be distinguished? As mentioned before, this study takes three theories into account, namely those of Porter, Treacy and Wiersema, and Miles and Snow. These theories are successively discussed in sections 2.1, 2.2 and 2.3. This chapter will end with a conclusion in which main findings are pointed out once more.

2.1 Porter’s generic strategies

Porter (1998) defines three generic strategies in his theory. These three strategies are cost leadership, differentiation and focus. Porter states that differentiation and cost leadership are two strategies that exclude each other. If a company chooses to combine these two strategies, it will find itself “stuck in the middle”. According to Porter, this company will never be successful, because in this case low profit is guaranteed.

2.1.1 Cost leadership

A firm that follows a strategy of cost leadership strives to be the most important low-cost producer in its industry. The firm serves many industry segments and it sometimes operates in related industries. The sources of cost advantage depend on the structure of the industry and they vary from economies of scale to preferential access to raw materials.

A low-cost producer sells a standard product and gathers absolute cost advantages from all sources. A firm that can achieve and sustain over cost leadership will be an above-average performer in its industry and can ask prices for their products that lie near the industry average. When charging lower prices than its rivals, a cost leader’s position translates into higher returns. Still, these firms can’t ignore the meaning of differentiation. A cost leader therefore must deliver an acceptable product to their customers, otherwise a cost leader will be forced to discount prices below competitors’ to gain sales.

The strategy of cost leadership can best be described as being dependent on preemption, unless major technological change allows a firm to thoroughly change its cost position.
2.1.2 Differentiation
A firm following a differentiation strategy wants to be unique in its industry in terms of product design consistent with some dimensions that are widely valued by customers. It chooses one or more attributes that are perceived as important by many buyers and positions itself to meet those needs. These attributes must be different from its rivals. The products are sold at a premium price, but therefore the firm must really be unique at something or be perceived as unique. Differentiation can be based on many things, such as the product itself, the delivery system by which it is sold and the marketing approach.

If a firm can achieve and sustain differentiation, it can become an above-average performer in its industry. To become this performer, the differentiator must search for ways to charge a price premium that is larger than the costs of differentiating, but only if the premium price exceeds the extra costs made for being unique. The firm must therefore reduce costs in all areas that do not affect differentiation.

2.1.3 Focus
This strategy is based on the choice of a narrow competitive scope within an industry. A focus-firm selects a segment or group of segments and shapes its strategy to serve this segment to the exclusion of others. The target segment must be different from other segments. A competitive advantage in its target segments is more important than possessing a competitive advantage overall.

The focuser can choose from two variants, namely cost focus or differentiation focus. These variants rest on differences between the focuser’s target segment and other segments in its industry. The target segment must have customers with unusual needs or the production and delivery system of the focuser must differ from that of other industry segments. Cost focus is about differences in cost behavior, while differentiation focus is about the special needs of buyers in certain segments. By dedicating itself completely to the target segment, the focuser can gain competitive advantage.

Still, narrow focus isn’t efficient to become an above-average performer in the industry. To become this above-average performer, the firm must achieve and sustain cost focus or differentiation focus is a structurally attractive segment.

2.1.4 Stuck in the middle
Porter’s generic strategies are criticized multiple times. The most criticism is towards the fact that Porter claims that companies can never be successful if they try to combine the strategy of cost
leadership and differentiation. According to many researchers, it isn’t as simple as Porter states. In practice, not many firms are confronted with those strong alternative strategies. Differentiation is not simply an issue of “to differentiate of not to differentiate.” All firms must make decisions as to which customer requirements to focus on, and where to position their products in the market. The strategy of a cost leader implies a narrow-line, standardized, limited-feature offering. Though, such a positioning does not necessarily imply that the product is an undifferentiated commodity (Grant, 2008).

2.2 Treacy and Wiersema’s strategy typology
Treacy and Wiersema (1993) have indentified three “value principles” that serve as basis for a strategy. These three value disciplines are operational excellence, product innovation and customer intimacy. Treacy and Wiersema claim that companies must focus on one of these strategies. Though, the other strategies must be present at a base level. This is possible since the strategies don’t exclude each other.

2.2.1 Operational excellence
Operational excellence is a strategic approach to the production and delivery of products and services. Companies following this strategy want to lead their industry in price and convenience. They are constantly seeking new ways to eliminate intermediate production steps, to reduce transactions and other “friction costs”, to minimize overhead costs and to optimize business processes across functional and organizational boundaries. Firms build their entire businesses around the following goal: delivering products or services to customers at competitive prices and minimal inconvenience.

Operational excellence can be achieved in many ways. One of these ways is the just-in-time (JIT) system. The prime goal of JIT is the achievement of zero inventory, not just within the boundaries of a single organization, but throughout the entire supply chain (Hutchins, 1998).

Another way is lean manufacturing. Lean production focuses on eliminating waste in processes, including the waste of work-in-progress and finished goods inventories. Lean is not about eliminating people but about expanding capacity. This is achieved by reducing costs and shortening cycle time between customer order and ship date (Liker, 1997).

A third method is six sigma. This is a method for strategic process improvement and new product and service development. It relies on statistical methods and the scientific method to make dramatic reductions in defect rates (Linderman, Schroeder, Zaheer & Choo, 2002). In six sigma, the customer’s definition of a defect is the most important.
2.2.2 Product innovation

Companies that follow the strategy of product innovation or product leadership strive to produce the most innovative products and services. To achieve this goal, they need to challenge themselves in three ways. The most important thing companies must keep in mind when executing this strategy, is that product leaders must relentlessly pursue new solutions to the problems that their own latest product of service has just solved. Second, creativity is a requisite, which means that a firm must recognize and embrace ideas that originate outside that firm. Third, they need to commercialize their ideas very quickly. That’s why all their business and management processes must be engineered for speed. Managers make decisions quickly and they continually look for new ways to shorten their cycle times. When dealing with unknown customers, fast reaction times are an advantage.

2.2.3 Customer intimacy

The goal of firms pursuing a strategy of customer intimacy is tailoring and shaping products and services to fit increasingly fine definition of the customer. Though this can be expensive, firms are willing to make these expenses. They are willing to spend now to build customer loyalty for the long term. Employees in these firms will do almost anything to keep the customer satisfied and give them exactly what they want. Still, they don’t pay a lot of attention to initial costs. Companies that follow a strategy of customer intimacy don’t look at the value of any single transaction, but at the customer’s lifetime value to the company. In order to empower the people that actually work with the customer, is most companies with this strategy their marketing operation is decentralized.

When becoming an industry leader, a firm must choose a value discipline that takes its culture and capabilities into account, but also competitors’ strengths. Still, a greater challenge for the firm is to sustain that focus and to drive that strategy through the organization. Furthermore, it is important to confront radical change and develop internal consistency.
2.3 Miles and Snow’s typology

Miles and Snow’s typology for strategies classifies firms into four groups. These distinct groups are defenders, prospectors, analyzers and reactors. Firms are classified into the first three groups if they have a definite formal strategy and as reactors if their strategic activities aren’t organized that well (Miles, Snow, Meyer and Coleman, 1978).

2.3.1 Defenders

For the defender, a stable form of organization is appropriate. Companies create this stable domain by producing only a limited set of products for a small segment of the total potential market. In this small segment, defenders strive aggressively by competitive pricing or high-quality products to keep competitors out of its domain. Though, defenders tend to ignore trends from outside their domain. In the long term, defenders are able to maintain a small niche in the industry which is hard for competitors to penetrate.

When looking at the theories of Porter and Treacy and Wiersema, the defender shows the most similarity with a company that is a “focuser”. Defenders don’t choose one strategy explicitly, but try to keep their competitors outside their domain by either differentiation or competitive pricing. Furthermore, they focus on a target segment rather than on the complete market.

2.3.2 Prospectors

The goal of the prospector is to find and exploit new product and market opportunities. They want to maintain a reputation as innovator. They develop and maintain the capacity to consider a wide range of environmental conditions, events and trends. Therefore, the company invests a lot in people who scan the environment for potential opportunities. To keep competitors out of their domain, prospectors use change as a major tool.

Prospectors are most similar to the “differentiators” of Porter and “product innovators” of Treacy and Wiersema. They all want to stand out in terms of product design and are continually looking for new ways to improve their products.

2.3.3 Analysers

Analyzers attempt to minimize risk while maximizing the opportunity for profit. This shows that these firms are a combination of the prospector and the defender. When moving towards new markets, the analyzer only adopts the most successful product innovations developed by prospectors. Though, the most revenue is generated by a stable set of products and customer or
client groups. In short, for an analyzer to be successful, it must be able to respond quickly and at the same time maintain operating efficiency in its stable product and market areas.

Treacy and Wiersema’s “operational excellence” shows the most equality with this group. They both want to deliver products or services to customers at competitive prices and minimal inconvenience.

2.3.4 Reactors
The fourth and final type is the reactor. Reactors show a pattern of adjustment to its environment that is unstable and inconsistent at the same time. This type of organization thus lacks a set of response mechanisms which it can consistently put into effect when facing a changing environment. Reactors respond inappropriately to a changing environment and perform poorly as a result.

This strategy arises when one of the other three strategies is improperly occupied. Companies can’t behave as reactors indefinitely, unless it exists in a protected environment. They have to move towards one of the other three strategies.

Reactors show the most similarity with companies that are “stuck in the middle”. Both groups don’t operate that well in an industry and must thus move towards another strategy sooner or later.

2.4 Conclusion
The above mentioned strategies represent the underlying theory for this study. Porter defines three generic strategies, which are cost leadership, differentiation and focus. Cost leadership is mainly focused on low costs, while differentiation focuses on the uniqueness of the product.

Focusers target one or a group of segments in an industry.

According to Treacy and Wiersema’s typology, there are three value disciplines. These are operational excellence, customer intimacy and product innovation. Firms that follow the strategy of operational excellence want to lead their industry in price and convenience. Customer intimacy is about tailoring and shaping products and services to fit increasingly fine definition of the customer. Product innovators strive to produce the most innovative product or service.

Miles and Snow state that a firm can be an analyzer, prospector, defender or reactor. Analyzers, prospectors and defender can all three be successful. The reactor on the other hand, must move towards one of the other three strategies sooner or later.

When compared to Porter and Treacy and Wiersema’s theories, defenders are most similar to the focusers in Porter’s generic strategies. Prospectors show the most similarity with differentiators
or product innovators and analyzers are most equal to a company that follows a strategy of operational excellence. Finally, reactors and companies that are stuck in the middle are most alike.

After analyzing these three theories, a combination will be used in the rest of this study. In this thesis, the view of Miles and Snow will be taken, but their view will in most cases be supported by the theories of Porter and Treacy and Wiersema.
3. Business unit Strategy and Entry Modes

To find an answer to the question: what effect does different business unit strategy have on entry modes? it is important to describe the concept entry mode. First, a short definition of the concept will be given and the different entry modes are pointed out. The second section will deal with the effect that different business unit strategies have on entry modes. Finally, the main findings are mentioned in the conclusion.

3.1 Entry Modes

There are many forms of entry modes. According to Harzing (2000) an organization can for example enter a market by exporting, licensing, joint ventures, or by a wholly owned subsidiary. In this study, the entry modes of interest are three distinct international entry modes. The three international modes that can be distinguished are licensing, joint venture and wholly owned subsidiaries (Harzing, 2002).

3.1.1. Definition

Licensing

In general terms a license can be seen as a transfer of intellectual property. In more specific words, a license is a contractual business relationship between a seller (the licensor) who, for compensation of some kind, authorizes a buyer (the licensee) to use the seller’s patent, know-how, trademark, copyright, or other intellectual property (Rorke, Asolli & Friedlander, 1993).

Joint venture

According to Kogut (1988), a joint venture occurs when two or more firms pool a portion of their resources within a common legal organization. Joint ventures are two or more legally distinct firms (the parents), which both share in the decision-making of the jointly owned entity (Geringer, as cited in Geringer and Hebert, 1988). A joint venture becomes an international joint venture when at least one of the parents is headquartered outside the venture’s country of operation, or if the international joint venture had a significant level of operations in more than one country (Geringer and Hebert, 1989).

Wholly owned subsidiaries

In the situation of wholly owned subsidiaries, a multinational firm gets full control over the operations of the other firm (Anderson and Gatignon, 1986).
3.2 Effect of business unit strategies on entry modes

Now that the different entry modes and business unit strategies are defined, the effect of these business unit strategies on entry modes can be discussed. In this section, the business unit strategies that are distinguished will successively be discussed related to the entry modes.

3.2.1 Defenders and entry mode choice

Defenders create a stable domain by producing only a limited set of products for a small segment of the total potential market. By either differentiation or competitive pricing, they try to keep competitors out of their domain (Miles and Snow, 1978).

For defenders, the best way to enter a new market is by a wholly owned subsidiary. In that situation, the defender keeps full control over their operations. They can still decide what price their customers must pay as well. In this way, defenders will be able to strive aggressively by competitive pricing or by offering high-quality products to keep other firms out of their domain.

3.2.2 Prospectors and entry mode choice

According to Miles and Snow (1978), prospectors want to maintain a reputation as innovator. Therefore, they invest a lot in people who scan the environment for new opportunities. Since prospectors want to maintain the capacity to consider a wide range of environmental conditions, trends and events, their best entry mode choice is a joint venture. Joint ventures have two or more legally distinct organizations that pool a portion of their resources within a common legal organization (Kogut, 1988). The required information about environmental conditions, trends and events is made available by the other firm. The fact is, this other firm has operated in this market for a specific period of time and has already experienced these conditions, trends and events. With the additional knowledge, prospectors can look for ways to improve their products. For prospectors, another entry mode that could be interesting is a wholly owned subsidiary. In this way, they control the entire production process. Though, it could be important that the prospectors remain the current employees, since these employees possess extensive knowledge that is useful for the prospector.

3.2.3 Analyzers and entry mode choice

For analyzers, minimizing risk while maximizing the opportunity for profit is the main goal. Only the most successful product innovations are adopted by analyzers when moving towards a new market (Miles and Snow, 1978).
The most successful way for analyzers to penetrate a market would be by licensing. By licensing, the analyzer is authorized to use the patent, know-how, trademark, copyright or other intellectual property of another firm (Rorke, Asolfi and Friedlander, 1993). Analyzers are able to adopt the intellectual property that shows the best results. With this knowledge, they can deliver products at competitive prices and minimal inconvenience.

3.2.4 Reactors and entry mode choice
Reactors are characterized by a pattern of adjustment to its environment that is unstable and inconsistent at the same time. They respond inappropriately to a changing environment and perform poorly as a result (Miles and Snow, 1978). First, there could be concluded that a reactor should not enter a different market considering its poor performance. If the reactor still decides to go abroad, they should best adopt the license method. Reactors lack a set of response mechanisms which it can put into effect when facing a changing environment. Therefore, it is useful to adopt the knowledge and other intellectual property of the licensor.

3.3 Conclusion
In this study, there are three international entry modes of interest. These entry modes are licensing, joint venture and wholly owned subsidiaries. The distinguished business unit strategies are combined with the different entry modes. The best way for defenders to penetrate a new market is by a wholly owned subsidiary. In this way, the defender keeps full control over their operations and is also able to state a price. Prospectors should enter a new market in a joint venture. The required information about environmental conditions will be made available by the other firm, since that firm has already operated in the particular market. For analyzers, the best way to enter a market is by licensing. With the intellectual property that is provided by the licensor, the analyzer can deliver a product at a competitive price and minimal inconvenience. In the first place, a reactor shouldn’t enter a different market. If the reactor still decides to enter a new market, he should best adopt the license method.
4. Business Unit Strategies in the Fashion Industry

Now that the theory behind this study is elaborated, there can be found an answer to the question: what business unit strategies are executed by multinationals in the fashion industry? As mentioned before, a distinction is made between multinationals like Zara and multinationals like Prada. First, the business unit strategy that is executed by multinationals like Zara is discussed. The second section contains the business unit strategy executed by multinationals like Prada. Finally, the main findings in this chapter are summarized in section 4.3.

4.1 Business Unit Strategy executed by multinationals like Zara

Before concluding about its strategy, it’s important to pay attention to Zara’s background. Due to Zara’s rapid growth and on-going success, the company has managed to develop one of the most effective quick-response systems in its industry, Christopher (2000) claims. Their designs reflect the latest in international fashion trends gleaned through events deemed relevant to the lifestyles of the target customers. The production of raw materials and garments with the broadest and least transient appeal are contracted out to foreign countries. The rest are produced by quick-response in Spain. For these products, Zara uses its own highly automated factories and a network of smaller contractors. Only those operations that enhance cost-efficiency through economies of scale are conducted in-house. Their system is flexible enough to cope with sudden changes in demand. The production, however, is always kept slightly below expected sales to keep stock moving (Christopher, 2000).

After analyzing Zara’s background, the fashion company seems to show the most similarity with the analyzer from Miles and Snow’s typology. Zara attempts to minimize risk while maximizing the opportunity for profit and offers a stable set of products. The firm only adopts the most successful innovations developed by prospectors, since Zara’s designs reflect the latest in international fashion trends. Due to their flexible system in which Zara uses its own factories and a network of subcontractors, the fashion company is able to respond quickly to changes and maintain operating efficiency in its stable product and market areas.

In general, there could be stated that multinationals in the fashion industry that (approximately) operate in the same way Zara does, are considered as analyzers.
4.2 Business Unit Strategy executed by multinationals like Prada

In only a few years, Prada has become an important player in the fashion market. They started to define their customers as coconstructors or cocreators and not merely as passive consumers. Prada is not only designing, manufacturing and selling products, but is also interacting with customers and systematically segment their channels and markets of distribution (Nueno and Quelch, as cited in Djelic and Ainamo, 1998). A key feature of Prada and other producers of high-end fashion goods is that their products are recognizable (Pesendorfer, 2004).

When looking at the information about Prada, this company is most similar to the prospector in Miles and Snow’s typology. Just like the prospector, Prada wants to maintain a reputation as innovator. By scanning their environment and interacting with their customers, they develop and maintain the capacity to consider a wide range of environmental conditions, events and trends.

Generally speaking, multinationals in the fashion industry that produce haute couture follow a strategy of product innovation. These firms, like Prada, want to stand out in their designs and want their products to be recognizable. Moreover, they keep on looking for ways to improve their products.

4.3 Conclusion

Having analyzed Zara’s and Prada’s background, the following things can be concluded about their business unit strategies. Zara and similar multinationals in the fashion industry can be seen as analyzers in the market. These firms aim to minimize risk and at the same time maximize their profits. They possess a flexible system which enables them to respond quickly to sudden changes.

Furthermore, the multinationals like Zara only adopt the most successful innovations developed by prospectors so that their designs reflect the latest international trends.

Multinationals like Prada, on the other hand, want to maintain a reputation as innovator and are constantly scanning their environment for new opportunities. These firms can therefore be considered as prospectors.
5. Conclusion

In this last chapter, the findings, suggestions and implications for management of this study are successively discussed. In the first section, an answer will be formulated to the problem statement. The second section will give some suggestions for further research and the third and last section of this chapter is about the implications for management.

5.1 Conclusion

In the preceding chapters, answers to the three research questions are formulated in order to answer the following problem statement:

*What business unit strategies are executed in the fashion industry and what is their effect on the entry mode choice?*

Multinationals like the Spanish fashion company Zara produce fashion for an international target market. Their designs reflect the latest in international fashion trends (Christopher, 2000). These firms attempt to minimize risk while maximizing the opportunity for profit. They offer a stable set of products and only adopt the most successful innovations developed by others. Zara possesses a flexible system in which it uses its own factories and a network of small contractors. Due to this system, the company is able to respond quickly to sudden changes and maintain operating efficiency in its stable product and market areas (Christopher, 2000). There can be concluded that multinationals like Zara have all characteristics of the analyzers from Miles and Snow’s typology.

Multinationals like the Italian fashion-house Prada produce fashion for another market than multinationals like Zara. These firms don’t keep the average customer in mind. Multinationals like Prada want to maintain a reputation as innovator. They want to stand out in their designs and want their products to be recognizable (Pesendorfer, 2004). These firms are constantly looking for ways to improve their products and invest a lot in people that scan the environment for new opportunities. The prospector in Miles and Snow’s typology shows the most similarity to these multinational firms.

When entering a new market, multinationals like Zara should do this by licensing. In this way, the multinational is authorized to use the patent, know-how, trademark or other intellectual property of another firm (Rorke, Asolfi & Friedlander, 1993). Since these companies only adopt the most successful innovations, the intellectual property of the other firm is of great importance. With that knowledge, they are able to deliver products at competitive prices and minimal inconvenience.
For multinationals like Prada, the best way to enter a new market would be by a joint venture. To maintain the capacity to consider a wide range of environmental conditions, trends and events, they need information. This information can be obtained from the other firm in the joint venture. This firm has in fact operated in this certain market for a specific period of time and has already experienced environmental conditions. Another way to enter a new market is by a wholly owned subsidiary, in which they control the whole production process (Anderson and Gatignon, 1986). Still, it might be important that current employees are kept, since these employees possess extensive knowledge that is useful for the new firm.

According to Miles and Snow (1978), there are two more groups; the reactors and the defenders. Defenders should penetrate a new market by a wholly owned subsidiary, where the defender keeps full control over their operations and still decide what price is charged for their products. In this way, defenders will be able to strive aggressively by competitive pricing or by offering high-quality products.

Because of their poor performance, reactors should not enter a new market. If the reactor still decides to go abroad, they should best adopt the license method. It is useful to adopt the knowledge and other intellectual property of the licensor since reactors lack a set of response mechanisms which it can put into effect when facing a changing environment.

5.2 Suggestions for further research

This study is about the different business unit strategies executed by multinationals in the fashion industry. A suggestion for further research is to involve more fashion companies in the research process. Now, the conclusion is only based upon the comparison of two multinationals in the fashion industry.

Besides that, it might be interesting to look at the supply chain strategies of these multinationals in the fashion industry. There could be made a difference between the agile supply chain and the lean supply chain.

5.3 Implications for management

This study could be useful to managers, since it analyzes the business unit strategies in the fashion industry and at the same time associates these strategies with entry mode choice. When entering a new market, the management of any company could decide which business unit strategy is the most in conformity with their strategy. On the basis of this business unit strategy, the managers could decide which entry mode is best for their company when moving to a new market.
6. References


