Expanding into new markets

Is Lebanon a potential market for Swedish fashion companies?
Abstract

Title: Expanding into new markets – is Lebanon a potential market for Swedish fashion companies?

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Aim: The aim of the thesis is to describe and analyze the potential in a new and foreign market and the market we chose to define is Lebanon. We want to see if there is any potential for Swedish fashion companies to establish there and what kind of problems and barriers the companies could bump into if they decide to expand their operations to Lebanon.

Theory: The theories that the study is based on are Push & Pull, The Uppsala-model, the Internationalization model, international market environments and the entry modes.

Method: The research is conducted through personal interviews and observations.

Main results: Lebanon is a potential market for Swedish fashion companies. It is a market with a big consumer group that likes to spend money on fashion. Since Sweden is famous for fashion that comes with both good quality and price, it would profit them if they entered the Lebanese market. Companies should travel to Lebanon and experience the market and the potential there by themselves, before they enter it. It is important that companies which are in the starting hole to expand to a new market collect as much information as possible about it before establishing there to be able to succeed.

Keywords: Internationalization, Lebanon, expansion, foreign markets, Swedish fashion
Acknowledgments

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It would not have been possible to realize this field study without our parents that helped us during our trip, Taxi Nervous, and our siblings, friends and fellow students who pushed us and gave us valuable comments throughout the process.

This has been an amazing experience for us. We hope you appreciate our thesis and find it interesting.
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1. Introduction

In this chapter we present the background and the purpose of our study. We also discuss the problem for the research, which follows by the research questions and the delimitations. Terms that will be used throughout the thesis are also described and explained herein. Finally, there is a pre-study about Swedish fashion companies’ internationalization process, which was fulfilled through interviews.

Today, we are moving towards globalization with an integrated world where the country’s economy and the companies are dependent on each other. The increasing globalization is the reason to all of the multinational companies in the world. Sweden is counted as one of the top countries in Europe when it comes to having multinational companies (Johanson, 2002). Swedish fashion is an international industry that has been growing radically the last couple of years and is seen as one of the “big businesses” of today. This was mainly noted during the financial crises when figures showed that Swedish fashion export actually grew with 2 percent while other trade industries was reduced with 17 percent, during the same period. The export of Swedish clothing was counted up to 11,3 billion SEK in 2010, which is a figure the government and the Swedish minister of trade, Ewa Björling, wants to double until 2015.1

Swedish fashion equals good quality for reasonable prices. The “Swedish fashion miracle” started when companies such as Acne, Nudie, WESC and H&M achieved global success when expanding on international markets.2 The government has taken a role in expanding Swedish fashion and has decided to give the Swedish Institute (SI), one million SEK to support them in finding new communication strategies and new platforms for export to make Swedish fashion companies more visible on the international market.3 There is a lot of potential for expanding outside European frontiers and for the future; it is there the future growth holds. Though it is a challenge for most Swedish fashion companies, since it means taking a big step to make it in the emerging markets. Through finding new kinds of strategies, it will create a positive image of Sweden, as well as it will create more job opportunities.4

1.1 Background

Fashion retailers are one of the most important international companies. What makes fashion retailers to choose to expand in the first place is usually because

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2 http://www.sweden.se/eng/Home/Lifestyle/Fashion-design/Reading/The-Swedish-denim-miracle/(2012-04-20)
4 http://www.regeringen.se/sv/d/15716/a/184803 (2012-04-09)
there is demand for their products on other markets. Another reason to why they expand could be because the domestic market is already saturated and therefore they need to find new markets to continue their growth (Hines & Bruce, 2007).

However, it is not all about finding new markets. The economical conditions have changed in the latest years and the global market has shrunken. In previous years it has only been seen as a possibility to establish in new markets since the domestic market had been too small, but today companies are searching to new markets to even be able to survive and continue their operations. Nowadays, it is not given that you as a company choose the geographically closest market. Instead companies look at where in the world there are best possibilities for their concepts and products. The latest trend is to establish in low-cost countries in for example Asia that also usually means cheap labor costs.5

In the last couple of years many international fashion companies have chose to establish their business in the Middle East, among these are the Swedish fashion chains H&M and Lindex.6 H&M is a forerunner for Swedish fashion brands and they were the first international Swedish fashion company to expand to the Lebanese market. This considers them being a forerunner when it comes to expanding to new markets as well.7 Even though, the regions in the Middle East and North Africa (the MENA-region) has been a war zone the last decades, and has been involved in conflicts during the last years, the region is about to rise again (Behar & Freund, 2011).

Years of bad news have given the MENA-region a worldview of uncertainty. The region has been dealing with an uncertain development since the country’s economy has been suffering from conflicts.8 However, the region has reached and is expected to reach a growth that will result in a market worth investing in, in the long term. Having oil as one of their biggest resources, the raising prices of the oil have showed that there is still potential for business in the area. The oil has been supporting the financial system in the Middle East and gives the region a large budget surplus, which stimulates the economies. In order to make the economy less dependent on the oil resources, the MENA-region has built power networks, schools, bridges, hospitals and desalination plants to a value of four times Sweden’s GDP the next five years.9 Fact is that the Middle East has the same potential that attracted the Swedish investors to Brazil, Russia, India and China, the BRIC-countries, in the past decade with stock market, which tops the Stockholm Stock Exchange by far.

8 http://www.regeringen.se/sb/d/15716/a/184803 (2012-04-16)
One country that has suffered in previous times is Lebanon. Before the civil war in 1975, Beirut, the capital of Lebanon, was a very much-travelled city and got the nickname “The Mediterranean pearl” or “Little Paris”, but the civil war naturally made the country less attractive for both investors and tourists. Now, when the country is beginning to stabilize again, the interest in the capital of Lebanon increased and in 2009 the city was appointed to the top destination of the year by the American newspaper New York Times. Lebanon was in pre-historic time one of the most important trading centers in the Mediterranean area and the country worked as a meeting point for Europe, Africa and Asia, until the civil war broke out. The economy in the country became reduced because of the military actions and most of the foreign companies closed down their operations in the country. The foreign trade of the country consists mostly of fruit, vegetables and different textiles. In contrast to the other countries in the area, Lebanon established an important industry early. Lebanon also produces furniture and different wooden goods. Even if the industry has been highly affected by the conflicts in the country it has recovered with time.\(^{10}\)

In 2006, the latest conflict in Lebanon broke out, but it did not take long before the country rose once again. Only a couple of years later, Lebanon were stabilized and in 2009 the economy grew with 7%. The memory is short in Lebanon and today the inhabitants do what they possibly can to not disturb the peace and the stability that makes the economy grow. The money practically flows in to the banks of Lebanon, and not only made it through the crisis but also made profit out of it.\(^{11}\)

The uprisings in Syria, Bahrain, Yemen, Tunisia, Egypt and Libya also called the “Arab spring” curbed the Lebanese economic growth in 2011 to the slowest pace since the conflicts in 2006. In 2010 the growth was 7.5 percent but in 2011 it was decreased and showed only 2 percent. The International Monetary Fund had forecast growth of between 1 percent and 2 percent for last year which eventually was proven right. However, the faith in the economical growth is strong even though political shocks and instability in the first half of 2011 led to a significant drop in consumer confidence in Lebanon. Political stability would help improve consumer sentiment and, therefore also support economic growth according to Nassib Ghobril, chief economist at Beirut- based Byblos Bank SAL. Fact is that overall the activity of 2011 and the “Arab spring” was satisfactory given a difficult situation in the region. He also says that the potential of growth is in the area since the liquidity is available and that the infrastructure projects and the exploration of gas and oil also can spur confidence in the economy.\(^{12}\)

1.2 Problem

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\(^{10}\) http://www.globalis.se/Länder/Libanon (2012-04-10)


\(^{12}\) http://www.dailystar.com.lb/Business/Lebanon/2012/Jan-26/161159-lebanese- economy-may-grow-at-more-than-4-bank-governor-says.ashx#axzz1sOW2vmbH (2012-04-17)
As we mentioned earlier, Swedish fashion is on the rise today. It is a fact that Swedish fashion is becoming a big business and probably will grow more now when the Swedish government have noticed these figures and want to help Swedish fashion companies with their internationalization progress. Today, Swedish fashion is primarily exported to Finland, Norway, Denmark and Germany, and secondly UK and Northern Ireland, Netherlands, Poland, Belgium, Italy and France (www.e24.se). However, many of the countries in Europe, especially in southern Europe, today suffer from financial crisis and therefore they are less attractive to establish in. Because of that, Swedish fashion companies need to explore new, foreign markets to expand to and Europe is becoming an over saturated market.

The problem is that Swedish fashion companies” today lack information about new markets and how to enter them and naturally they are afraid to enter for example the Middle Eastern market because of the previous uncertainty in the area. Since figures show that the economy in the Middle East, and more specific in Lebanon, are rising and the political situation are beginning to form, we want to see if Lebanon could be a potential and interesting market for Swedish fashion.

1.3 Research Question

- How does a company approach when establishing in a foreign market?
- Is Lebanon a potential market for Swedish fashion?
- What problems and barriers may occur when Swedish fashion companies choose to establish on the Lebanese market?

1.4 Purpose

Our purpose with this research is to first define how companies do and which strategies they use when they establish on a new market. Then we describe and analyze the potential in a new and foreign market, and the market we have chosen is Lebanon. We want to see if there is any potential for Swedish fashion companies to establish there. We also study what kind of difficulties the Swedish fashion companies could face if they decide to expand their operations to Lebanon.

1.5 Perspective

Our thesis is written from a business perspective, which means that we mainly study the companies potential to make profit from a new market and not from the current market perspective or a consumer perspective.

1.6 Delimitations

We have chosen to only focus on middle-big and small-sized Swedish fashion firms that want to expand. The market we want to explore and define is Beirut, Lebanon.
1.7 Terms

Herein, there is a brief description of the terms we are going to use throughout the thesis to give the reader a short picture of the expressions.

1.7.1 Small and Medium Enterprises

One has to consider how much working force there is in a company, how much the company’s turnover is and what the total balance sheet is, to judge weather a company is seen as a micro or small and medium sized enterprise. A medium sized company should not have labor force consisting of more than 250 employees and an annual report that does not exceed 50 million euros. Also, the total balance sheet shall not exceed 43 million euros per year. A company that has labor force less than 50 employees with an annual report or a total balance sheet that does not exceed 10 million euros a year, is defined as a small sized company. Companies that have labor force less than 10 employees with an annual report or a total balance sheet that does not exceed 2 million euros a year is defined as a micro company (The European commission, 2003). Hereinafter, the term “SME” will be used as a shortening of “small and medium enterprises”.

1.7.2 Swedish Fashion and Export

When it comes to producing clothes in Sweden, the Swedish system has been changing the last decades. Around 50 years ago, most of the clothes in Sweden were also produced in Sweden. Factors such as communication, salaries and transportation started changing, and became easier abroad, led to that Swedish fashion companies moved their productions to Asia, more specific China. There still are Swedish fashion companies that operate their production in Sweden. However, those fashion companies who have their productions abroad export the products from where the productions are (Johansson, 2006).

1.7.3 Internationalization

The technology has made the distance between countries smaller, consequently this has led to that the world has been moving, and is in a present homogenous business world (Laine & Kock, 2000). It has made it easier for companies to expand on global markets, and globalization is an important factor for the world’s economy today. Hence, competition among companies is growing. Therefore it is important for small, middle sized and big companies to constantly find new ways to stand out, and expanding on the global market is one way to grow for a company since it reaches out to new customers and new market
2. Theory

This chapter introduces the theories we have chosen for this field study, and definitions of strategies that are used in an internationalization process. Finally, there is a summary of the theories and the strategies that have been used.

2.1 Push and Pull

Market opportunities are one of the first things that need to be analyzed when a company is going to expand to new markets, since they are the main reason of a firm’s internationalization of export (Bel et al 2003). When SMEs decide to internationalize, they either get an internal or an external stimuli to make the decision. The factors that are taken into consideration during the decision-making are internal qualities, as well as environmental factors. When the firm once plans to expand on international markets, the market opportunities should be well known for the management team in order for them to practice them. The proactive factors (pull factors) are a kind of export stimuli. This stimulus is expected from the reaction to changing circumstances and quiescent attitude towards export opportunities (push factors) (Cavusgil, 1982).

The environmental considerations are similar to the “push” and “pull” factors that have emerged as an important method to understand retailers’ motives for expanding to overseas markets. This theory seeks out to explain why retailers are pulled towards an international market and are pushed out of their home market. Alexander emphasize however the fact that these factors do not exist by them selves, but are mutually inclusive. These factors consist of the political, economic and cultural, as the ones Kotler describes, but also social and retail structural conditions of the specific period (Hines & Bruce, 2001). All the “push” and “pull” factors are introduced in table 1.
Table 5.4 Push and pull factors behind retailer internationalization, p. 97

<table>
<thead>
<tr>
<th>Boundary</th>
<th>Push</th>
<th>Pull</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td>Unstable structure, restrictive regulatory environment, anti-business culture dominant, consumer credit restrictions</td>
<td>Stable structure, relaxed regulatory environment, and pro business culture dominant, relaxed consumer credit regulations</td>
</tr>
<tr>
<td>Economic</td>
<td>Poor economic conditions, low growth potential, high operating costs, mature markets, small domestic market</td>
<td>Good economic conditions, high growth potential, low operating costs, developing markets, property investment potential, large market, favorable exchange rates, depressed share prices</td>
</tr>
<tr>
<td>Social</td>
<td>Negative social environment, negative demographic trends, and population stagnation</td>
<td>Positive social environment, positive demographic trends, population growth</td>
</tr>
<tr>
<td>Cultural</td>
<td>Unfamiliar cultural climate, heterogeneous cultural environment</td>
<td>Familiar culture reference points, attractive cultural fabric, innovative business/retail culture, company ethos, homogeneous cultural environment</td>
</tr>
<tr>
<td>Retail Structure</td>
<td>Hostile environment, high concentration levels, format saturation, unfavorable operating environment</td>
<td>Niche opportunities, company owned facilities, ‘me too’ expansions, favorable operating environment</td>
</tr>
</tbody>
</table>
2.2 The Uppsala model

The steps to internationalize are many and there are several factors that need to be taken into consideration such as finding solutions for transport, communication, contracts, hire personnel and find the right location. These can be a challenge when the psychic distance, the distance between home market and foreign market, is big. The bigger it is, the harder it is to understand and learn the business differences. The lack of knowledge might be one of the biggest reasons to why barriers of entry are high on the international market for companies. To be able to face these kinds of challenges, resources, such as time and money are necessary when a company inflates on the international market (Melin, 1992). The obstacles in the information flow between the company and the market is another important factor, and also a challenge for companies, since the language, education, traditions and industrial development mostly differ from the domestic market. The internationalization process can be pliable and companies can occupy their new markets in a more effective way when they develop knowledge about the certain market (Johnason & Valne, 1977). Businesses within the service industry have to first develop on a local, regional or national level to then be able to take the next step to expand on new markets. The Uppsala model, developed by Johanson & Vahlne (1977), explains the internationalization process.

The Uppsala-model is one of the first models that affect companies’ process to internationalization. It was developed to investigate how four different Swedish companies did when they decided to operate abroad. They found out that it was a slow process that had a lot of different steps. Physical distance is a keyword in this model, which means that differences when it comes to business, language and culture could be obstacles for companies that are planning to establish themselves in new markets. Another keyword in this model is knowledge. Knowledge about the foreign market seems to be the essential factor or else uncertainty and fear easily could occur. With knowledge about the foreign market the uncertainty could decrease, since one of the prime obstacles for internationalization is just lack of knowledge. The authors states that the reason that companies usually decides to do business with geographically close countries is because of their lack of knowledge in other, long-distance countries and markets. They also assume that many companies, at least in the beginning uses for instance agents or other intermediaries to be able to sell abroad and to save in on the commitment of resources, that otherwise might require another subsidiary to sell the products or the services (Johanson & Vahle, 1977).

The Uppsala-model suggests that companies could generate knowledge by exploring the foreign markets on their own. This kind of knowledge could be collected by active commitment in the foreign market. The more knowledge you collect about a foreign market by own experience, the less uncertainty and risks (Johanson & Vahle, 1977).
According to the Uppsala-model, companies are going to face four concepts when going abroad. These four concepts are (1) Market knowledge (2) Market commitment (3) Commitment decision and last but not least (4) Current activities. Market knowledge and Market commitment are meant to have an impact on activities implementation an their commitment decision, which in turn affect the Market knowledge and the Market commitment. The Model therefore suggest that a company should invest in one or a few close markets to be able to later on, carefully and progressively, when it have generated knowledge and experience, expand to other long- distance markets. They also introduce two types of knowledge, which are objective knowledge, which can be transferred from one market to another. The second one is experiential market, which is the type of knowledge a company learns by acting or doing. When the company has gained enough information about a certain market, they can decide in what way they want to commit to it to later be able to plan in which way they will enter it and commit to the market (Johanson & Vahle, 1977).

2.2.1 Critical views of the model

The Uppsala-model has been criticized extensively both from the theoretical aspect as well from the operational level. The model’s strengths and weaknesses have been tested through different methods.

What it has been most criticized about is the step-by-step character of the model. Studies have shown that it is possible to achieve internationalization even though the companies tend to miss some stages that are described in the model, and in some cases, the process goes more rapid rather than following each step gradually (Chetty & Champell, 2003). The world has changed since the model was created, and that the world today is much more a homogeneous market and that the psychic distance has decreased. Other studies have shown that the U-model is not relevant for service industries such as for example the bank sector, since their foreign establishment is not controlled by cultural distance (Johanson & Vahle 1977).

2.3 The IP model – A network approach

Studies have shown that when it comes to internationalization, a firm will be depended on what relations it has in the foreign market. This is something SME companies decide how to enter the market and which market entry mode to choose, depending on the networks relationships they have to the certain market (Madsen & Servais, 1997). Johanson and Vahle (2009) changed the model, almost 30 years after it was created, though; it has kept its basic structure. One of the reasons was that both economic and regulatory environment have changed and business behavior today is different from what it used to be. The latest model, also called the IP-model, stresses the fact that the network context is an important factor. When firms have business relationships in other countries, it makes it possible for them to identify opportunities and the factors learning and commitment helps companies to abuse the
opportunities. When the companies have a strong commitment to each other, it helps them create more opportunities and also it helps them to get knowledge about a certain market that is not accessible to everyone and that is only possible to get from a network insider (Johanson & Vahlne, 2009). In the IP model Johanson and Vahlne (2009) brings up factors that are more relevant for business companies today.

As shown in figure 1 the model keeps it variable which are the state aspect and the change aspect. Both of the variables affect each other, both negative and positive, and they are seen as important factors within a business relation. Starting with the first box “knowledge opportunities”. Knowledge is seen as one of the underlying factors to internationalization. Knowledge is something that companies get either through experiencing a market, or through networks they belong to, and they create opportunities.

The second state variable is “network position”. With that, Johanson and Vahlne (2009) says that as a firm, you are either and “inside” in a network, or an “outsider” of the network. When firms internationalize today, they use different types of networks and they use their networks to expand their networks. For companies that are “outsiders”, it is hard for them to get in to new markets or get market knowledge.

In the box “relationship commitment decision”, Johanson and Vahlne (2009), talks about that when a firm is an “insider” in a network, commitment is a strong factor. Every firm decides how much they want to commit to the relationships in the network. The effectiveness of the process of learning, creating knowledge and building trust depend on the already existing knowledge, and the higher the level it is of these factors, the more effective business process (Johanson & Vahlne, 2009).

![Figure 1 – Internationalization Process Model (Johanson & Vahlne, 2009).](image-url)
2.4 International Market Environments

According to Kotler (2007) the world is shrinking constantly with help from new technologies like faster communication, transportation and the financial flows. In 1969 there was about 7,000 multinational companies in the world, today there are about 70,000 of them and several of them are really big. It is a fact that international trade is booming. Since 2003, the total world trade has been growing about 6-10 percent every year. While global trade is growing - the competition gets more intense. Many companies are internationally expanding into new markets and there are few industries today that are safe from foreign competition. If companies choose to not expand or internationalize, they might lose their chances to enter new, successful markets but also a risk losing their own home markets in the long run. The risks when going global are high as well. Companies may face unstable currencies and governments, strict regulations and high trade barriers. Before a company decides to go abroad it should try to define its international marketing objectives and policies. It should also decide what volume of foreign sales it wants. The company also needs to choose in how many countries they want to establish in. It is important that a company do not spread themselves too thin or to operate in too many countries too fast. The company’s next step should be to decide what types of countries they want to establish in. After deciding what type of countries it should focus on, it needs to carefully evaluate them one by one. Many factors are important to consider; market size, market growth, competitors, costs and risks. Every country has unique features and this is important for companies to understand. If a new market is ready for a foreign firm depends on its economic, political-legal, and cultural environments (Kotler, 2007).

2.4.1 Economic environment

There are two economic factors that are important when defining the markets attractiveness and that is the country’s industrial structure and its income distribution. The Industrial structure of a country shapes its needs for products and services, income levels and employment levels. There are four different types of industrial structures;

*Subsistence economies*
In this type of economy, the majority of people engage in simple farming. The people also consume most of their own production and the rest are replaced for simple goods and services. This kind of economy offers very few market opportunities.

*Raw material exporting economies*
These economies have one or many natural resources and get most of their revenue by exporting these. These economies can be good markets for large equipment, tools and supplies, and trucks. It could also be a good market for luxury products if there are many foreign residents and an upper class.
**Industrializing economies**

In these kinds of economies, manufacturing accounts for 10 to 20 percent of the country’s economy. While the manufacturing increase, the country could need more import of automobiles, textile materials and paper products. While an economy gets industrialized it usually crates a new rich class and a smaller but growing middle class and they are both require new kinds of imported goods.

**Industrial economies**

In an already industrial economy they export a lot of manufactured goods, services an investment funds. They both trade the goods with each other but also export them to other kinds of economies in exchange for raw materials and semi-finished goods. These industrial nations and their large middle class make them good markets for all kinds of different goods.

Income distribution of a country is the second economic factor when analyzing a country’s market potential. In some economies, like the industrialized ones, it may have low-, medium-, and high-income households while in contrast; in the subsistence economies the majority of the households have a very low income. In some countries the people consist of both very poor households and very healthy households. The fact is that even the developing economies could be attractive when it comes to see potential markets. China is a good example of a developing economy with a “small” group of very healthy people that demand all kinds of products.

### 2.4.2 Political-Legal Environment

Before expanding to a country, one should consider factors such as its attitude towards international buying, political, economical and social stability, government bureaucracy, and monetary regulations. Some countries could be very open-minded to international companies while other countries are not. Some countries adopt import quotas or other currency restrictions that makes it hard for foreign businesses to operate there. Though, there some that offers favorable operating conditions for foreign companies. Another issue is political problems. Some countries have unstable governments or other political issues, which could affect the business and financial matters. International trade usually involves cash transactions but some nations have too little hard currency to be able to pay for their imports. In that case, they sometimes want to pay their purchases with other items instead of cash. This practice is called countertrade (Kotler, 2007).

### 2.4.3 Cultural/Social Environment

Each and every country in the world has its own values and norms. Companies need to take in consideration and understand how the culture of a country can affect the business and how the business affects the culture. The firms must examine the ways consumer of different countries and cultures think about and use products before they can expand there. Companies that choose to ignore cultural differences can make
embarrassing and not to mention expensive mistakes (Kotler, 2007). All countries have their manners and traditions. If risking acting in a manner that is perceived as offensive for a country or any other failure from a company when it comes to these aspects means loosing important trading partners (Ellis & Williams, 1995). Norms within the business world could also differ a lot from country to country and both could end up being offended. It is a fact that companies that take time to understand cultural differences not only avoid embarrassing mistakes but also can use them to their advantage when expanding internationally (Kotler, 2007).

### 2.5 Foreign Market entry modes

After a company has decided to enter a foreign market, it must decide in which way it will enter the market. Kotler (2007) mentions exporting, joint venturing and direct investment as three different market entry strategies. These strategies are also presented in figure 2.

![Diagram of Foreign Market Entry modes model](image)

**Figure 2 – Foreign Market Entry modes model (Kotler, 2007).**

#### 2.5.1 Exporting

Exporting is seen as the first step for entering an international market since it works as a platform for future international expansions (Kogut & Chang, 1996). The company produces all its goods in its home country and then either exports their goods from time to time or makes a commitment to expand exports to a specific market. Exporting means the least change for the company. Most often companies begin with indirect exporting, which means working through independent international intermediaries. This means less investment because the firm does not have to spend money on international marketing or network. Direct exporting is usually the next step and it means that the company handles their own exports. The investments are bigger with this strategy but so is the possible return. There are several different ways to handle the direct export. One way is to start a export-department in the companies’
home country that handle and carry out all the export activities. The company could also set up an international sales branch that handles sales, distribution and in some cases even promotion (Kotler 2007).

2.5.2 Joint Venturing

Joint venturing is another way of entering a market. This method means joining a foreign company to produce or market the products or services. The host country partners are often joined to market the company abroad. There are four types of joint ventures: licensing, contract manufacturing, management contracting, joint ownership.

Through licensee, the company writes an agreement with a license in the specific country, which will pay a fee or royalty to be able to use the company’s items of values such as manufacturing process, logo, patent and trade secret. The risk is on a low level and the licensee gets a brand and products that are well known instead of starting a company from scratch. The disadvantage with this method is that the company will not have as much control on the business at it would normally have (Kotler 2007).

Contract manufacturing is a method that gives the business an opportunity to start a faster business with less risk. The company starts contracts with manufacturers in the foreign market to produce the products or services the company develops. This might eventually lead to that the company forms a partnership with the local manufacturer or even at some point buy out the manufacturer. However, not owning the manufacturers leaves the companies with little control over the manufacturing process. Management contracting is another joint venture where the domestic firm supplies the management know-how to a foreign company that supplies the capital. It is a low-risk technique for getting of to a market and gives income to a company already from the start (Kotler 2007).

2.5.3 Joint ownership

When a company joins forces with foreign investors to start a local business they join ownership. This ownership is owned and controlled by both parties. A company can either buy themselves into a local firm or two companies can start a whole new business idea. Some countries demand companies to joint ownership as an entry mode because of certain economical and political reasons. The most common reasons to why joint ownership has not been working for certain firms and investors are because there has been a disagreement on investment, marketing or other policies (Kotler 2007).
2.5.4 Direct Investment

Direct Investment is the biggest kind of involvement when it comes to getting in to foreign markets. This strategy is about entering the foreign market by developing foreign-based assembly or manufacturing facilities. When using this kind of entry mode, a company can keep their costs down as well as getting cheaper raw materials. It can also strengthen the image of a company since it creates job opportunities for the inhabitants in the country, it also strengthen the relation with the government, customers, local suppliers and distributors. It can also facilitate the process of adapting the products to the local market. Limited and devalued currencies and government changes are risks that a firm has to deal with when operating through Direct Investment (Kotler 2007).

2.6 Summary of the Theories

The first theory we present in our thesis is the Push & Pull theory. This theory defines the underlying factors to why a company chooses to expand and search for new markets in the first place. The theory explains why companies are pulled towards new international markets and pushed out from their domestic markets. The Push & Pull theory is also divided into four different factors, which are the political, economical, social and cultural, that affects the companies choice to establish in a new market (Hines & Bruce, 2001).

The second theory is the Uppsala model. This theory explains how the process is actually preceded when a company goes abroad. According to the Uppsala model the company need to go through some different steps in the process and the keywords in this process are physical distance and knowledge (Johanson & Vahlne, 1977). The Uppsala model is of interest in our thesis since it for instance focus on these two keywords, which are central when it comes to expanding to a country such as Lebanon. The IP-model is also important in our thesis since it shows how important it is for companies to have contacts when it comes to establish into new markets today. The IP-model is founded by the same authors as the Uppsala model, but they updated the model since networks and contacts has become one of the most important factors when it comes to the internationalization process today. When companies have business relationships in other countries, it makes it easier for them to identify the opportunities and collect information about the potential market (Johanson & Vahlne, 2009).

Kotler (2007) has defined the international market environments that need to be taken in consideration when it comes to expanding to foreign markets. These are similar to the Push and Pull factors since it defines the market in economical, political and social/cultural factors. Last but not least we are defining the different types of market entry modes in our theory part to see what kind of entry modes companies may use when they enter new markets. There are several different ways to expand a companies operation abroad and we thought it would be important to define them to understand
which way is the best for a market such as Lebanon. There are several scientists that describe the market environments and the entry modes, however we chose Kotler since he describes these terms detailed which helped us understand these them fairly, and his information about these factors did not differ from other scientists.
3. Methodology

This chapter begins with introducing the results of our pre-study where we interview Swedish fashion companies about their internationalization process. Later, we present and motivate the course of action and the methods that we used during our studies. We will also explain how the actual process went and how we practically did.

Our research is based on a case study of the Lebanese fashion market. Case studies require planning and preparation. Since we decided to go as far as traveling to Lebanon, we of course had a lot to do before leaving. Our first step was to book interviews with companies and key persons within the fashion business, so that we actually had a reason to travel and to do the thesis that we planned to do. Thus, the biggest method problem we had was when we tried to contact companies in Lebanon to get interviews with them before we booked our tickets. It is rather hard to make calls all the way from Sweden, explain our case and then get a time for an interview that will take place during our planned dates to visit Beirut. Fortunately, we made it, except from that one interview which got canceled. However, we believe that we got a lot of information anyway from the three other interviews. Besides from this the interviews went smooth. Our observations also went good except from the fact that the whole trip was a sort of an observation, so we had to be prepared all the time. In a whole new environment like this, there was a lot to explore and a lot of information and impressions to take in at the same time, and therefore it was sometimes hard to pick out the most relevant facts that could be useful in our thesis.

3.1 Pre-study

Before we went to Lebanon for our case study, we did a pre-study of two Swedish fashion companies; Gina tricot and Lindex. They were interviewed about their internationalization process. Gina Tricot and Lindex are fashion companies that operate their businesses on the international market and we will start with a short introduction about the companies.

Gina Tricot

Gina Tricot is a Swedish company that is counted as the Nordic countries fastest growing fashion chain for women today. During 2012, Gina Tricot will reach a turnover of 2,5 billion SEK. This is distributed in around 175 stores, in five countries and also a wide online sale. It was in 2010 that Gina Tricot took the step to expand outside the Nordic countries and established their operations in Germany. The company started in Borås back in 1997 and their main concept is to do affordable fashion for women in all ages. Their aim is to have new, fashionable clothes in store every week and this could be made since logistic is one of the keys for their fast expansion. They work without storage, which means that their garments distribute directly from the fabrics to the
stores without intermediaries. We met Jessica Syrén, who works as Expansion Manager at Gina Tricot AB (www.ginatricot.se).

**Lindex**

Lindex is one of the biggest fashion chains in Northern Europe and during the last couple of years they had a fast international expansion and selling development an reached a turnover of over 5 billion SEK (2011). Today, they have over 430 stores in the Northern countries, the Baltic States, Russia, Central Europe, Bosnia-Herzegovina and the Middle East. Lindex was founded back in 1954 in Alingsås in Sweden and their main concept is to offer inspiring and affordable fashion, to fashion interested women. Their assortment covers several different concepts within women’s fashion, women's underwear, children’s clothes and beauty care. We met Johan Eyram Isacson who works as Head of Business Area Franchise at Lindex AB (www.lindex.se).

### 3.1.1 Summary of the interviews

Fashion companies constantly strive to expand their businesses, and the case is not always that the domestic market is saturated, but that companies want to increase their turnover and turn into an international company. Both companies started their expansion with the countries that are around Sweden, which are the Scandinavian countries, Denmark, Finland and Norway. When it came to expanding on the Scandinavian market, Gina Tricot and Lindex first looked at how other Swedish companies did, and then they went to the countries to make a market research and judge weather its worth entering the country or not. Jessica Syrén at Gina Tricot mentions that the last years, Gina Tricot has been struggling on the German market since this market is oversaturated.

Both interview respondents mention that having a strong network is something important when expanding abroad. Especially when it comes to markets that are far away from the domestic market, since their economical, social and political factors differs vastly much from the ones at home. An internationalization process would be possible if not having a network, though, the process would take more time. When Gina Tricot went to Germany, they did not have much knowledge about the market. They contacted another Swedish company, Hemtex, which made the same internationalization journey as them, to get a familiarity of the market. When it came to taking the step to expand, they hired a consultant who did most of the market research. Usually, companies are not interested in franchising since this type of entry mode does not leave much control to the firms.

Lindex opened up their first franchise stores when they chose to expand to the Middle East. They took a different way than many other companies when it comes to internationalization since they chose to expand in this area before for example Germany. This was mainly because they found reasonable franchise partners, Delta International, which already had knowledge about the market and that have worked
with franchising other international companies to the Middle Eastern market. There is no secret that Lindex are developing their operations in the area, and to do this in the best kind of way, they are building up a platform, a network, and are entering country by country that are belayed close to those they already entered.

Companies contently try to find new markets to expand to, and the European market is becoming over saturated says Jessica Syrén. Johan Eyram Isacsson mentions that even if they want to expand to many countries, sometimes it becomes a problem since the social, political or economical factors does not allow, and too many changes have to occur within for example, the logistics.

3.2 Choice of method

When writing a thesis or making a study is what kind of method one should use, qualitative or quantitative, and together with this, what kind of procedure should be used when collecting data to the study; (1) to ask people, (2) to observe people and (3) to observe physical tracks and the result of human activities.

Our study is a qualitative research that contains of personal interviews and observations. Therefore, we will both ask people, as well as observe people and physical tracks and result of human activities, since we need to get a broad picture of the market in Lebanon to be able to see if there is potential for Swedish fashion companies to establish there. To get a broad image of the market, we will do a case study of the Lebanese market and interview significant people within the fashion business in Lebanon about the market as well as observe the market with our own eyes (Esaiasson, 2004). Before we started to observe people and the physical tracks and result of human activities on the current market in Lebanon, we prepared ourselves by collecting information and material about internationalization, Swedish fashion and the market and business environment in Lebanon. This is called secondary data and all of this information was collected and read through before we actually went to the country.

Before the actual case study, we read articles and books about our subject and we also got in contact with the Swedish Trade of Council to get more information from them. We also made interviews with two different fashion companies in Sweden. These two companies were Lindex and Gina Tricot. These companies were chosen since they are Swedish middle-sized fashion companies, which our research mainly focuses on. They have also already expanded abroad, and our questions were mainly about how they did when they chose their new markets, how the process practically went and what they, as a company, should know about a specific market entering to establish there. We had personal interviews with both companies at their respectively head office. The interviews took place the 23th of April in Gothenburg with the chief of franchise establishment for Lindex, Johan Eyram Isakson. The second interview took place 24th of April in Borås with Gina Tricot and their chief of establishment, Jessica Syrén. After these previous studies and collecting of secondary data in Sweden, we
went to Lebanon on the 24th of April for a case study to collect our primary data.

3.2 Case studies

As mentioned earlier, our thesis is about studying if Lebanon could be a potential market for Swedish fashion companies, and how the process is done when a fashion company chooses to establish in a new and foreign market. Thus, we will answer these questions through a case study to get a picture of the reality, built on the information we got from interviews with key persons within the fashion business in Lebanon, as well as through our own direct observations of the Lebanese fashion market. We believed that a case study was necessary when it comes to find the answers to our research questions since it is hard to understand a market and its needs without being there in place to be able to see the market, the potential, the customers and the fashion. One needs to simply experience the foreign market to be able to see if it has any potential or not.

Case studies as a research methods are often very questioned and misunderstood. In an article written by Flyvbjerg (2006) he tries to prove this view wrong. Phenomenological studies of human learning indicate that it exists a qualitative leap in the learning process of adults from the regular use of analytical rationality in beginners to the fluent performance of implicit skills. Bourdieu (1977) called these *virtuosos*, and Hubert and Dreyfus (1986) called these *true human experts*. Many people are experts of everyday social, technical, an intellectual skills such as riding a bike but only few people reach the level of true expertise when it comes to more specialized skills such as playing chess or flying a jet plane. However, common to all experts is tat they operate on the basis of knowledge and several concrete cases in their areas of expertise. In the very heart of expert activity, we find context-dependent knowledge and experience. This also lies at the center of case study as a research and teaching method. It is a method of learning. It is only because of experience with cases that a human can advance from a beginner to an expert.

The closeness of the case study to real-life situations and its aggregate of details are important to a researcher in two aspects. First of all it is important for the development of a nuanced view of reality and human behavior. Second, case studies are important for researchers’ own learning process in developing the skills they need to do a good research. If researchers have the goal to develop their own skills into a higher level, then concrete, context-dependent experience is just as important for them as to professionals learning any other specific skills. Concrete experiences can be achieved via continued closeness to the reality and through feedback from those that are studied. If one have a big distance to the object of study it can easily lead to a stultified learning process, which can lead to academic blind alleys, where the quality of research becomes unclear and untested. Therefore, the case study as a research method can be an effective remedy against this tendency.


3.4 Personal Interviews

As a compliment to our case study and to strengthen our experience with feedback from key persons within the market, we also did personal interviews with companies in Lebanon. These companies were Azadea, IDAL and Byblorama. We chose to contact these companies since they all are relevant to the fashion market and the economy of Lebanon. One of the most common method when it comes to science, and when it comes to collecting facts, is to ask and to talk to people. We asked similar questions to all of the interview objects within the fashion business to get a good picture of the market, but the questions also differed a lot depending on what kind of company they worked for and what kind of sight they had in to the fashion business and the fashion market in Lebanon. We chose to use personal interviews since, as we mentioned before, they give good opportunities to get unexpected answers and give one good possibilities for monitoring (Esaisson, 2004).

A personal interview also creates an interaction and a relation between the scientist and the science object that for example a questions survey cannot. This interaction, face to face, also gives possibility to have a more trustfully conversation and therefore hopefully get more honest answers. Interviews usually contain some questions that are structured after different themes. It is important to think in a thematic way, but also dynamical when making a personal interview. When thinking thematic it means that the problem and the question of the study is in the back of ones mind while asking questions. While thinking in a dynamic way means that you as a scientist make sure that the conversation is floating in a good way and that the science object feel comfortable and motivated to answer the questions. The questions must there for be easy to understand. They need to be short and free from an academic jargon. A good sign for a successful interview is the one with short questions but long answers (Esaisson, 2004).

When forming an interview it is usually good to start with some warming-up questions. These questions could be simple questions about the science object personal data to get in contact with the person and create a good atmosphere. After a few warming-up questions it is time for the most important questions which also are called thematic questions. These questions should be as open as possible to give the interview object the chance to speak out on how he or she experiencing the subject that the study is built upon. To get more full answers from the interview, the object can use monitoring questions. These questions should tie in to the thematic questions and only be related to the answers that the interview object already gave during the interview. Direct questions can also be used if the interview object did not answer a specific question openly, but that is important for the study. If there is an uncertainty about not perceiving the answers correctly, one can ask interpretive questions. One example of that could be “So you mean that...?” to simply meet of to make sure to get the answers right. These questions should be asked in the end of the interview otherwise the answers could be affected of the scientist interpretation possibilities. In
the end of the interview it is good to ask the final question if the interview object have something they want to add or ask before ending the interview. The interview object will therefore get the chance to clarify the things that he or she said during the interview and ask questions that he or she did not have the possibility to ask earlier (Esaiasson, 2004).

3.4.1 Practical implementation: Personal Interviews

Before we went to Lebanon, we contacted several significant fashion companies in the area we thought could give us good information about the Lebanese fashion market. Some of them were really helpful and easy to get in contact with, while some of them were a bit harder to get an interview with. At last, we booked interviews with four different companies while we were still in Sweden. One of them was an international known haute couture designer named is Abed Mahfouz. Our aim with that interview was to get an insight in the Lebanese fashion market. The second interview that we booked was with a fashion magazine in Beirut, called My Fashion Guide. This was also to get a picture of the fashion market in the country; how interested the Lebanese people are in fashion, how much is written about fashion and how big fashion actually is in Lebanon. The third interview was with an investment company called IDAL, to get some economical and investment information about Lebanon. The fourth and the last and maybe most important interview was with one of the biggest fashion retail companies in the Middle East, Azadea, which owns and operate several international franchise concepts in the area. Unfortunately the interview with Abed Mahfouz got canceled when we got to Lebanon. Except from that one, we made sure to book and do all of our interviews already the first week, to get the information from the key persons in the business as early as possible, so that we could concentrate on our observations the time remained. We thought that it would be the easiest and best way to get information from the companies first, before we looked at the market with our own eyes. This because then we would have their information in the back of our heads while we were doing our own observations and at the same time get the possibility to be a little bit critical and analyze their perception of the Lebanese market and then compare it to our own view.

We had our interviews in Lebanon on Thursday 26th of April and on Friday 27th of April in all of the companies” head quarters placed in and around Beirut. We used our iPhone as a record player and also made some written notes during the interviews if anything would go wrong with the recording. We were speaking English during all of the interviews and everything went smooth and the people that we met were always helpful and professional. We always started the interviews with some warming-up questions and asked them to tell us a little about the company that they worked for and also about their own work and their position in the specific company. This is to make the interview object comfortable and create a relation between us and them to get as many trustworthy answers as possible. After the warming-up questions we had our thematic questions. We tried to keep our questions as understandable and short as
possible so that the interview object could talk more than us, since they were the actual source of information. In the end we rounded up with asking the interview object if they had anything to add or if they wanted to ask us anything before we ended.

3.5 Research Method: Observations

Observations are mostly used when a scientist wants to study processes or structures that can be hard to describe in words. Observations can be described as a discoverable abidance. The most salience with observations is that the emphasis is non-verbal data (what people are doing) comparing to verbal dictum (what people are saying) as in for example personal interviews (Esaiasson, 2004). Wet though that observations was a good method to be able to analyze the market. It was reasonable to see the people and the fashion in the city to be able to see if a Swedish fashion, medium sized or small company could take a place in the market there. The Swedish Trade of Council confirmed that many companies do the mistake to not spend time in the country before entering the market.

According to Esaisson (2004) one could also use observations when the science problem is about social interface. Our research problem is partly about social interface since fashion is a sort of a social interface between different factors. Moreover, it could be hard to describe and understand a fashion market if you have not seen it or observed it by yourself.

There are also different types of observations. The most common classifications are the scientist role as a complete observant or a complete participant. The difference is that when the scientist act as a complete observant, he or she is a fly on the wall – present but yet undetected – and as a complete participant, the scientist takes part in the activities. Different situations could require different solutions (Esaiasson, 2004). We chose to act an complete observant, since we decided to spend time on observing the people, what they wore, and the level of fashion, which stores people chose to walk in and basically the fashion awareness among the people.

3.5.1 Practical implementation: Observations

The second week of our trip in Beirut we concentrate on our observations. We went to several different places in Beirut to get a broad and fair picture of the market and the fashion. The shopping areas that we went to for observations were ABC Mall, Le Mall, City mall, the shopping streets Kaslik, Verdun and Downtown. These places are some of the most popular shopping areas in Beirut and they have the most popular stores, both national and internationally known. Nevertheless, one can say that our whole trip was a big observation, since we were constantly observing the people and the level of fashion every time we went out, even if we were visiting a shopping mall, a restaurant, a coffeehouse or a club. The observations were therefore a constant
process. Because of this, we did not have to decide a special time or place for our observations because it was constant. Whenever we went out we had our notebooks to make notes if we saw something particular.
4. Empirical research

This chapter begins with a brief description of the companies we have interviewed in Lebanon for this thesis and continuous with a summarize of the results of the interviews and the observations that were conducted in Lebanon during our field studies.

4.1 Interview objects

Hereunder, the reader gets a brief description of the companies we have interviewed in Lebanon.

Azadea

Azadea group works as a retail company in the Middle East and Eastern Europe. The company works in the fashion (80 percent of the Lebanese market), furniture and food sector in the Middle East and is one of the biggest retail companies in the region. It provides the market with products from American and European brands. The company has more than 35 international franchise brands and 350 stores around the Middle East region. Azadea has been playing an important role for the Lebanese market in the sense that it has offered the market with international fashion brands such as Zara, Mango, Massimo Dutti, Bershka, Stradivarius and Pull & Bear. The Lebanese customers appreciated these brands since they differed from the national brands when it came to question of price and quality. Azadea are also developers of the big mall chain “Le Mall” in Lebanon, who are in the process of opening second third mall in Lebanon. For the interview with Azadea, we met Elie Bou Rajel holds a position as the brand manager for Zara Middle East.

Byblorama - My fashion Guide

Byblorama is a media and event magazine that has been on the Lebanese market ever since 1980. The magazine created a fashion magazine under the name of Byblorama, called My Fashion Guide. This magazine is a shopping guide for costumers in Lebanon, and it identifies all, luxurious as well as fast fashion, shops in Lebanon with address, phone number, place and some images of the brand’s collection. My Fashion Guide is about to launch their website to make it easier to guide the Arab women from the MENA- region in the Lebanese fashion market. For the interview with the magazine “My Fashion Guide”, we met Rawad Merheb who holds a position as a PR & Event manager.

Investment Development Authority of Lebanon (IDAL)

The Investment Development Authority of Lebanon (IDAL) was established in 1994 with the aim of increasing and retaining Foreign Direct Investment (FDI) in Lebanon. IDAL supports the government’s effort to simplify bureaucratic procedures and provides the investors with complete services throughout their operations in Lebanon,
with such as economic, commercial and legal information. IDAL is organized into four boards, which are:

- Studies, planning and statistic
- board Information and
- promotion board One-to-shop
- board
  Finance and administrate affairs board

For the interview with IDAL, we met Lea Korkmaz who holds a position as an economic officer at IDAL.

4.2 Themes

The summary of our interviews and observations have ben divided into different themes we think are relevant for our research question and that also may assist the reader.

4.2.1 Fashion in Lebanon

By our observations we noticed that the Lebanese market is dominated with both shops on shopping streets and malls. The shopping streets that are most appreciated in Lebanon are the ones in or around Beirut area. The shopping streets Downtown Beirut, Kaslik, Zalka and Verdun are the most known streets but they all differ from each other in form of size and movement on the streets. These shopping streets where mostly filled with international fashion brands, and very few local. The shopping street that had least movement was the area Zalka, which also were the smallest street of them all and the street that had most local fashion brands. The streets Downtown Beirut and Kaslik are both filled with cafés and restaurants, which automatically increases the amount of pioneers. These streets, together with Verdun were mostly filled with international fashion brands and international food and beverage names, such as Massimo Dutti, H&M, Bershka, Zara, Mango and Stradivarius. Lebanese value a lot to socialize and to enjoy coffee and dinners in restaurants.

When Lebanese people want to go out they want to look good and that is where fashion plays an important role. We paid attention how the Lebanese dress, and there was a difference between the styles when going to different districts. Going to the main streets Kaslik and Downtown Beirut, people were mostly dressed in classic outfits with jeans, shorts, blazers scarves and a pair of heels. However we spotted several outfits where women were dressed in glittery tops as well as prints and studs was appreciated. We rarely saw flat shoes on women in Beirut. When it comes to bags, almost, and with almost we count approximately 90 percent of all women walking on the streets, carried a bag with designer brand prints on it. We later found out that there is a lot of counterfeits bags in Lebanon, and people do not mind buying them either. Going to the shopping district Verdun, we were told to wear pants. Since
there are parts in Lebanon that are segregated after religion, Verdun is one of these areas; therefore, it is fact that fashion here was more covered up. When we observed outfits, we could point out several items that were bought in H&M, Zara, Bershka and Mango, which showed and confirmed that Lebanon is influenced by European fashion. We barley saw any black pants on women, and in Europe, black pants are considered classic. This was due to that wearing black is associated with mourning in the Middle East, and therefore when women dress, they prefer brighter colors.

Today the market has 6 malls, which are Le Mall (two malls), ABC malls (two malls), City mall and Dunes center. The malls are a growing trend in Lebanon and the Lebanese today prefer shopping in the malls today due to external factors such as the weather, since during summer, the weather gets very warm and humid. The malls are expanding today and Le Mall is in the process of building two other shopping malls in and around the Beirut area. The main streets still have their function and people do shop there, but by judging of our observation, Lebanon is becoming a mall destination.

The Lebanese market is filled with restaurants, cafés, clubs and the shopping streets are filled with shops and they have become as a meeting point or an amusement center to the costumers. Positioning is one of the most important factors when it comes to entering a new market. It is important to be visible on the market and to stand out and to get a sustainable name.

### 4.2.2 Culture and Lifestyle

The Lifestyle and the social life in Lebanon differs a bit from the rest of the countries in the Middle Eastern area. The key persons that we interviewed all said that Lebanese people are a sort of a mix between the Arab people and the western society and that they sometimes are closer to, for an example, Italians than the countries surrounding them. Because of this western lifestyle, also affected of the western fashion. In general, Lebanese people are very interested in fashion and appearance. For them, the image is important and therefore they are aware of their physical appearance. This is something that we heard both from the key persons that we interviewed and noticed for our selves during our observations. The media control for the Middle East is controlled from Lebanon and partly Dubai, which is an important factor when it comes to media, says Rawad Merheb from “My Fashion Guide.” This means that when you target Lebanon, you target the whole Middle East. It was also stated several times during the interviews that sometimes the Lebanese people even prefer to buy fashion over food because appearance is so important in their culture. They like to show off and as mentioned before, social status is important. It is kind of a competition in the Lebanese culture on who looks the best, according to the key persons we interviewed.
“To look good is very important to the people, to dress well is very important. It's our culture. Sometimes people don't even eat to be able to buy fashion! They really like to show off, they like appearance, they like beauty, they simply like fashion.”

-Elie Bou Rajel, Brand manager of Zara

Lebanese people like both luxury products and cheaper fashion items. They like to mix different brands according to one of the interview object. What we noticed and also heard from the key persons that we interviewed was that it is important for a Lebanese women to own a luxury bag, but when it comes to the other clothes, they mix both cheaper and expensive brands. The taste of the Lebanese people also differs from the other Middle Eastern countries. One of our interview object said that the Saudi Arabian women for example are more into big and shiny accessories while the Lebanese women prefers simplicity.

4.2.3 Market Entry

The international fashion industry in Lebanon mostly falls under retail and franchising and is primarily controlled by three different companies. The Tony Salame group whose operations include wholesale, retail and distribution of most of the luxury brands like Christian Dior and Bottega Venetta. They are also owners of the Aïshî stores and several international magazines. Azadea group is another company that owns and operates international franchise retail concepts in the Middle East and North Africa. The third leading group in the Lebanese fashion market is Alshaya, which also are a leading company that operates franchise concepts like H&M, Topshop, Topman and Oasis in the MENA region.

According toAzadea they are constantly looking for new successful brands to approach in Lebanon. They recommend for companies that are interested in the Middle Eastern market to come and visit and observe the market. Azadea also says that since they are exposed to Europe and US all the time, it is not difficult for them to understand the needs of western companies and their concepts. The Swedish Trade Council says that one of the most common mistakes companies make in export ventures is not being present in the country. The franchise company Azadea approached Zara to come to Lebanon but when the fashion company was expanding to the Middle East, they did not think of Lebanon as a potential market due to the political and economical instabilities in the country. However the company settled down in Lebanon for six months to observe the market and found out that Lebanon is a country that is highly influenced by the European lifestyle and fashion and noticed that the consumers in the country showed interest for European fashion. Zara were one of the first international fashion brand to open shops in Beirut Souks and have ever since been growing and reaching successful numbers in their sales.

4.2.4 Laws and Regulations

According to the investment company IDAL Lebanon often works as a springboard if one want to do business in the Middle Eastern area since from Lebanon, it is easy to
access rest of the markets due to tax exemptions with the countries in the MENA region. When it comes to hidden tariffs/duties that international companies are imposed to pay when entering a foreign market to protect domestic firms from competition, is something that is not current in Lebanon. This is due to their own production is limited and cannot cater for the need of all the domestic demand. Lebanon import products without restrictions and borders.

However, Lebanon is a corrupt country and one of the respondents in the interviews stated that laws could be manipulated in Lebanon. Having a strong network means you may pay yourself to justice in the trade business. The norms could differ a bit from the ones that Swedish companies are used to. For an example, Azadea says that they prefer paperwork when it comes to contracts, but it has occurred many times that agreements have been stated by oral contracts.

4.2.5 Political, social and economical factors

The economy in Lebanon has suffered due to the instability in the country. However it did not stop the Lebanese from shopping apparel, which the fashion company Zaras numbers of sales showed during the war in 2006. Zara grew their sales with 26 percent that year. Also, during the global financial crises, the Middle East was a region that was not that affected by it. Lebanon was counted as the second country with the highest GDP growth in the MENA region during the crises in 2009 and 2010, and grew 7,5 percent that year. When it comes to inflation rates, the purchasing power of money, the country measures 4 percent, which places them 8th in the MENA region. However the average inflation rate is 5,88 percent.

During our observations we noticed that Lebanon is a country with big class differences and it is segregated between Muslims, Christians and Druze. The class differences are obvious by only looking on the buildings in certain areas, how the shopping streets are divided and also by looking on the whole environment. The buildings in the areas have either ripped facades or they are new built, modern and luxurious. The country’s standards of living and quality of life, their human development index, rank 7th in the MENA region and 71th globally among 187 countries.

After graduating high school, for most Lebanese, the next natural step is entering a college or university. This has led to that the country has a high-qualified capita and the education capability index is 80 percent, which ranks them first in the Middle Eastern region. However, when it comes to labor force, it is as mentioned before, well educated, but salaries in the country is low. IDAL also mentions that Lebanon’s unemployment rate is 9,2 percent in the country. Though, this has led to that newly graduated students are encouraged to work abroad.

Lebanon ranks 6th in the MENA-region when it comes to the globalization index, which counts the global connectivity, interdependence and integration in the
economic, social, technological, cultural, political, and ecological domains. This facilitates trades with the European countries. Lebanon is in contact with other countries in the MENA region, such as Syria, Jordan and Egypt, where they have tax exemption with the countries.

Another important fact when it comes to the economy in Lebanon is that even if it is not stable all the time, people still like to buy. Many Lebanese people also move abroad and work outside Lebanon and then come back and spend money there. They also send money to their relatives that still live in Lebanon. The political situation in Lebanon has varied through the latest years with many different conflicts. The war in 2006 was of course tough for the country and Lebanon still have a lot of conflicts with their neighbors in Israel. Another negative political factor is the Arab spring, which took place in 2011. Even if there was no revolutions or conflicts in Lebanon, it affected all of the countries in the area and the political and economical environment in the Middle East. Another factor is the conflicts in Syria that are happening, even though Lebanon is not a part of it, it have affected the country’s stability.

4.2.6 Tourism

Our study in Beirut shows that the tourism activity is important for Lebanon and the Lebanese economy. One factor to the great number of tourists in Lebanon is that the Lebanese people are spread all over the world partly because of the previous war. This has led to that they, in their holidays, like to go back and spend their vacation in their home country. So even if the stores do not sell good during wintertime, they make it up during the summer. Lebanon counts to having around 2 million tourists every year.

Except from the Lebanese people that visit their origin country, many Arabs from the other countries in the Middle East chose Lebanon as a travel destination. The biggest tourist group is from Saudi Arabia and the other GULF countries. It is common that they have summerhouses or apartments in Lebanon. The magazine “My Fashion Guide” did a research with Ipsos (a company which works with data collection in Lebanon), where they studied on what tourist’s spending go on when they come to Lebanon, and it was proved that food and beverage, and fashion was highly prioritized.

Lebanon has also become a travel destination for the western citizens. The last couple of years the number of tourists are increasing and in 2010 the number of tourists in Lebanon increased with 17,6% comparing to 2009. Most of them were other Arabs (41%) while 25% came from Europe (www.lebanon-tourism.gov.lb). The key persons in the fashion business that were interviewed claims that Beirut is a fashion capital in The Middle East.
“The perception of Lebanese fashion is that it is the right place – the place for fashion in the Middle East”

Rawad Merheb – My Fashion Guide

The industry is growing as Lebanese designer names are entering the high fashion business such as Elie Saab, Zuhair Mrad, and Aabed Mahfouz. These designers are becoming international which has led to that Lebanon, as a center of fashion in the Middle East, is strengthened. The Arab women likes to shop in Lebanon, especially people from Saudi Arabia and UAE have a purchase power.

Lebanon also has some people from the Middle East and the GULF countries that travel there to do different kind of treatments and cosmetic surgery. This is something that was noticed during the observations as well where we could mark some people having patch on their noses. IDAL mentioned that these people usually stay in Lebanon for a while and therefore they also spend money in the country.
5 Analysis

This chapter consists of an analysis, which are the results applied on the theories we have used for this study.

In the interviews from our pre-study, it was stated that the European market is starting to be oversaturated and the financial crisis that has affected southern Europe has also made companies look into further foreign markets. This means that when Swedish fashion SMEs are pushed from their domestic markets, as well pushed from the European market, they want to expand to new markets. The primary push factors for SMEs are therefore the oversaturation in domestic markets, and the financial crisis in the European market. Another reason for why SMEs are pushed abroad is because the Swedish market is small and to be able to grow further they need to find new bigger markets.

One of the factors that would pull Swedish fashion SMEs to the Lebanese market is the growing economy in the country, by looking at the GDP, which grew 7.5% the last two years. When it comes to the positive social environment, the culture and lifestyle in Lebanon is similar to the Western. Lebanon is a country with high standard of living, and the Lebanese people are constantly exposed with international fashion, which also makes them familiar with international brands. Lebanon is, just as Sweden, a small market. Though, according to observations, interview respondents and the ministry of tourism in Lebanon, the country is rising as a tourist destination, and fact the country was visited by 2,3 million tourists in 2010. This has made Lebanon an attractive place for developing businesses. Lebanon has become a springboard in the Middle East, mainly because the Lebanese controls the media in the MENA-region. This also makes Lebanon to a central market in the Middle East, since fashion depends on media, and media of fashion. From our observations, as well as stated from Azadea, Lebanon is constantly under construction, where both buildings such as malls are being developed. The malls are not only a shopping center, but also an entertainment center where cinemas, restaurants and coffeehouses operate. This attracts consumers to the malls, which makes malls an attractive place to position in.

According to the Uppsala model (U-model), companies that have little knowledge about certain foreign markets chose to not expand to those markets. Because of the uncertain image the MENA-region has today, companies do not see Lebanon as a potential market. Based on our interviews and observations, Swedish fashion SMEs should visit the country to overcome the uncertainty and to gain more knowledge about it. One example that did not see potential in opening a clothing shop in Lebanon was the international fashion brand Zara. Zara were not interested in opening in Lebanon but got approached by Azadea to open up their shops there. This led to that the fashion company settled in Lebanon for six months to get to know the
market. According to U-model, the physic distance becomes smaller when firms visit the countries and gain knowledge. Today, Zara is one of the biggest retailers in Lebanon. The U-model also suggests that a company should invest in one or a few close markets in order to be able to expand to other markets. As mentioned before, Lebanon works as a springboard. By entering Lebanon as one of the first markets in the Middle East, a company can later easily expand to the rest of the Middle East.

The U-model got developed but kept it basic structure, and became the Internationalization Process model (IP-model), and the network approach was added. Companies are either inside, or outside a network. Standing outside the network means it is harder to get into new markets and get market knowledge. Standing inside a network, makes companies dependent on each other, it teaches companies about foreign markets, creates knowledge and builds trust. Currently, Swedish fashion SMEs are standing outside the network, and Lebanon is a market they have little knowledge about. When choosing a franchise retail company as an entry mode, such as Azadea or Alshaya, to help Swedish SMEs to expand to Lebanon, since these companies already are “insiders” in the network. From out pre-study, Gina Tricot and Lindex stated that it is not necessary to belong to a network but the internationalization process becomes faster and easier.

According to Kotler the risks when going abroad are high, and companies may face many barriers and problems when expanding international. After choosing a new market to establish in, the company needs to carefully evaluate it before entering. There are many factors that need to take in to consideration since every country has its unique features. If a market is ready for a foreign firm depend on its economic, political-legal and cultural environments. When analyzing Lebanon through an economical perspective, the industrial structure of the country is that it is an Industrializing economy. Lebanon has a big upper class and a big lower class but the middle class is growing and that means that they also require new kinds of imported goods.

Except from the industrial structure of the country, Kotler suggest Income distribution as an important factor to take in consideration as well. According to our interviews and observations there are big class differences in Lebanon. They are obvious by only looking at the buildings in certain areas, they have either ripped facades or new built and luxurious. Even if the middle class in Lebanon is carefully growing, there is still a group of high-income households and also low-income households. However, according to Kotler, even a developing country could be a potential market. Even if the high-income group is small, they require a lot of products and since the middle class also is growing the demand of new products will grow as well. The cost of labor force in Lebanon is low, but this is something that is not appreciated by the citizens and most of them are encouraged to travel abroad because of this situation.
Kotler also mentions that unstable governments or other political issues may affect the business and the financial matters. The political factors in the whole MENA region have been unstable due to the Arab Spring. This has not affected Lebanon’s situation in the country, though since Syria is currently in the middle of the Arab revolution, and since it is the neighbor of Lebanon, the tourism this year might decrease. In our interviews, as well from the observations, it was noticeable that laws and regulations could be manipulated, and the Lebanese government is corrupt. This is again obvious by looking at the class differences in the country. All interview objects stated that even though during worst periods in Lebanon, the Lebanese people did not stop shopping, and in some cases, the sales of fashion companies grew.

According to Kotler some countries could be very open-minded to international companies while some countries are not. During our interviews and observations we found out that Lebanon is open-minded to international companies and they encourage international companies to come to Lebanon. Kotler also says that some countries adopt import quotas or other currency restrictions that makes it hard for international companies to operate in the country but that is not the case when it comes to Lebanon. This is the case since their own production is limited and therefore they cannot cater for need of all the domestic demand. Hence, Lebanon imports products without restrictions. Since Lebanon has tax exemptions with the rest of the countries in the MENA-region, it is also easy to later access the rest of the markets from Lebanon.

When it comes to the cultural environment of a country, Kotler says that each and every country in the world has it owns values and norms and that is an important thing for companies to consider. The firms must examine the ways of how consumers of different countries think about and use products before establishing there. According to our interviews and observations Lebanon differs a bit from the rest of the countries in the Middle Eastern area. Lebanese people both like luxury products and cheaper fashion items according to our interviews. Just as in the west, they like to mix a cheaper outfit with a luxury bag.

When it comes to the culture business environment, the differences between Lebanon and the western countries, especially Sweden can be bigger. As mentioned before, the Lebanese government is corrupt and laws and regulations could easily be manipulated and this naturally also affects the business environment. In our observations, we noticed that power, money and contacts are very important in Lebanon and that differs a bit from the Swedish environment where the laws and regulations usually are strict.

After a company has decided to enter a foreign market, it must decide in which way it will proceed and what kind of strategy they will use. The international fashion industry in Lebanon mostly falls under retail and franchising and is primarily controlled by three different companies, which are the Tony Salame group, Azadea and Alshaya. They basically run all the big international fashion brands and according to Azadea they have
good reputation in the Middle Eastern countries when it comes to operate western fashion companies in the area. It is easier for an international company to establish in the Lebanese market with help from a franchise company to be able to get the right information and knowledge about the market but also the right contacts and position in the fashion market.
6 Discussion and Further Research

In this chapter we discuss the answers to our research questions, based on the results of our study, as well as we put our own opinions into to the subject. The chapter ends with suggestions to further studies.

6.1 Discussion

How does a company approach when establishing in a foreign market?

When companies once decide to internationalize their operations, the first markets they enter are naturally the ones closest to their domestic market. This is because, as we mentioned before, the physical closest markets are usually those with the least radical changes in for example, social/cultural, economical and political environments, which are all factors that are important to consider when entering new markets. One example could be found in our pre-study with Gina Tricot and Lindex. When these two Swedish fashion companies first expanded abroad, it was natural for them to first enter the Scandinavian countries, to then continue with the rest of Europe. The reason to why Lindex suddenly opened in the Middle East was mainly because they found a good franchise partner that operated in this area and that already was familiar with the market. They opened their first stores in Saudi-Arabia and United Arab Emirates, and now they are gradually expanding to the markets closest to these countries. Hence, a strategic way to expand in the Middle Eastern market is to get in contact with some of the big companies that already operate franchise retailers in the region, for example Alshaya, Azadea and Tony Salame Group. Most international brands are connected to one of these companies and the most common way to enter the Lebanese market is by franchising through one of them. This is mostly because these companies already have an established network in the Middle East, and lack of established networks might be one of the reasons to why Swedish SMEs have not already entered the market. Since the physical distance is very big when comparing Sweden and Lebanon, it makes companies more dependent on the networks. Now when H&M is well positioned on the Lebanese market, might result in that more Swedish SMEs open their eyes for the market.

There are a lot of things that companies need to take in consideration before entering the market. However, something we asked ourselves during our field study was, “why aren’t Swedish fashion companies already here?” The Lebanese market is developing, this is something we can draw the conclusion of since most of the international fashion brands, such as Zara, Mango, Berska, Massimo Dutti and H&M, are already there, and the market is mostly dominated by international brands. When entering a market, positioning is one of the most important factors, to be seen and to have a good place. As a fashion company, you usually want to be seen among other strong fashion
brands, since this also strengthen your brand and position on the market. Lebanon is a small country, but it is still constantly building new and modern malls and shopping areas. Though, since the country is small, the chance of getting a good place on the market is limited. Therefore, Swedish SMEs should enter the market in a short matter of time.

**Is Lebanon a potential market for Swedish fashion?**

We believe that Lebanon is a potential market for Swedish fashion. Lebanon has a certain power in the Middle East when it comes to media, PR and also fashion. This is mainly because, as mentioned before, Lebanon is a mixture of the Western and the Middle Eastern culture and lifestyle, which means that they are one of the few countries in the region, that has the possibility to broadcast media without restrictions. Since media and fashion often goes hand in hand, this power makes Lebanon the big fashion center in the MENA region. This also means that as a fashion company, you will target the whole MENA-region when positioning on the Lebanese market.

Another contributing factor to why Lebanon is a potential market is the high level of fashion in the country. Lebanese people shop fashion because the social level is something important, and having a pleasant physical appearance belongs to dressing well and belonging to a higher social level. However, even though it is important to belong to the higher social level, fact is, not everybody does. The middle class is still a small group, and the market is mainly divided in a higher upper class and a low class. Since the dominating class in Sweden is the middle class, most of the Swedish fashion SMEs, such as Lindex and KappAhl, mainly focus on this group. This might be a problem when entering a market such as Lebanon. However, since the middle class is slowly growing, and since the Lebanese market have shopping streets, that are both cheap and expensive, Swedish SMEs may rather be seen as good fashion quality for reasonable prices for both classes. When it comes to which styles and collections that would work in Lebanon, considering our observations as our interview persons, both simple apparels as well as tops with prints and details would be appreciated among the Lebanese people. This is something European fashion companies can offer and not least Swedish, thinking about Gina Tricot’s H&M’s and Lindex’s collections.

**What problems and barriers may occur when Swedish fashion companies choose to establish on the Lebanese market?**

The biggest problems and barriers in the Lebanese market are the over all uncertainty in the Middle Eastern area and the old conflicts with Israel. Except from that, corruption is a problem that is vastly widespread in the country. The business environment can be affected in the aspects that laws and regulations may be manipulated. Bureaucracy is often a long process and contracts could be fulfilled orally, which differs a lot from the Swedish standards. Contacts and money are very
important. This may be a problem for Swedish companies when they get in contact with the Lebanese market.

Still, our final conclusion is that we believe that Lebanon is a potential market for Swedish fashion companies. The vital idea for any company that wants to establish in the Lebanese market, should travel to the country and experience the market and the potential there by themselves, before they enter it to collect as much information as possible. As mentioned before, the Lebanese system is corrupt and differs in some ways comparing to the Swedish norms, and this is something that companies need to get knowledge about before entering the market. Fact is also that there still is an uncertainty in the Middle Eastern area, but we still believe that it will profit the companies if establishing in Lebanon. If a company decides that they want to target the Middle Eastern inhabitant, who in fact is an attractive consumer group, since there is money in the region, we believe that Lebanon is a good market to start with. From there, they can build up a network with good franchise partners and later on, enter other markets in the area. This process will probably strengthen the fashion brand and increase the sales in the long run.

6.2 Suggestions for further research

Our research is limited since we only have defined the market in Lebanon from a business perspective and focused on a market research based on the possibilities for companies. Suggestions for further research could therefore be a market research in Lebanon from a consumer perspective and see how interested consumers are in international fashion companies and their products.

Something else that also could be a further research is to look at the constant globalization and the fact that the fashion market is being more and more homogenized and what this means for the fashion business on the whole.
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Appendix A
**Prepared Interview questions to the Swedish fashion companies in our Pre-study;**

**Uppvärmningsfrågor**
Du kan väl börja med att berätta lite om dig själv, din tjänst, företaget du jobbar på och hur länge du har jobbat här?

**Allmänt**
Vad var den främsta anledningen till att Ni valde att etablera Er utomlands? Hur skulle Ni beskriva företagets position på hemmamarknaden innan ni expanderade?
Hur många länder säljer ni i/till?
Hur har er omsättning påverkats efter att ni har expanderat utomlands? Hur många procent av er totala försäljning kommer från internationell försäljning?
Hur lång tid tar det att etablera sig på en ny marknad?

**Tematiska frågor**

**Val av marknad**
 Vilka länder säljer ni i?
Varför har ni valt att gå in i just dessa länder?
Vilka faktorer påverkade ert val? (politiska, ekonomiska, kulturella, demografiska, geografiska, teknologiska). Vilka marknader är intressanta för er i framtiden?

**Kunskap**
Hur gick ni tillväga för att förbereda er vid er utlandsetablering?
Hur viktigt var det för ert företag att ha kunskap om den nya marknaden?
Samlade ni information om kunder, leverantörer, mellan- händer och myndigheter innan er expandering?
Har Ni haft tillräckligt med kompetens i företaget för expanderning, eller har Ni fått ta till extern hjälp?

**Strategi**
Vid expandering till utlandet, använder Ni er av någon utarbetat strategi? I sådana fall, vilken?
Använder ni samma strategi för alla länder?
Tittar Ni något på hur andra företag har gått tillväga eller vilken strategi de har använt vid deras etablering utomlands
Hur mycket har ni som företag (koncept, produkter, marknadsföring) fått anpassa er efter olika marknader vid er utlandsetablering?

**Nätverk**
Hur påverkade nätverk etablering?
Kom etableringen automatiskt genom att ni redan var med i ett nätverk?
I sådana fall, vilket?
Hade etableringen varit möjlig utan nätverk?
Fanns det några personliga band eller relationer till marknaden som påverkade er etablering?

**Svårigheter/Problem**
Vilka är de främsta svårigheterna med att gå in på en ny marknad?
På vilka marknader kände Ni av det psykiska avståndet mest? (Som t ex kulturella skillnader: utvecklingsnivå, utbildningsnivå, affärspråk, vardagsspråk, affärslagstiftning.)

**Avslutande frågor**
Har Ni några frågor eller funderingar kring intervjun som ni vill ta upp innan vi avslutar?
Appendix B

Prepared Interview questions to the Lebanese companies;

Warming-up questions
Can you start to tell us a little bit about yourself, your position and the company that you work for and how long you have been working here?

Thematic questions
Market definition
How would you describe the Lebanese fashion market of today?
What is the general attitude towards international fashion companies in Lebanon?
In what kind of shops do Lebanese people buy most of their fashion items?
How does the Lebanese fashion market differ from other markets in the Middle East?
What does it mean for the Lebanese economy when new fashion companies expand to Lebanese market?

Market entry
What kind of strategies do fashion companies usually use when expanding to Lebanon?
How important is it to have knowledge about the Lebanese market before establishing here?
Which barriers and obstacles have the fashion companies faced when expanding on the Lebanese market?
What are the biggest problems for you, when negotiating with international companies?
What are the advantages with establishing on the Lebanese market?
What are the disadvantages with establishing on the Lebanese market?
How important is it to belong to a specific network when expanding to the Lebanese market?
When Zara expanded to the Middle East, one of their first markets was Lebanon, for what reason?
When Victoria Secret was asked from Alshaya to come to Lebanon, they said no. What was the main reason for that?

Laws and Regulations
How do the trade rules look like when expanding to the Lebanese market?
How do the tariffs look like when expanding to the Lebanese market? Do you have any protective tariffs?

Political/Social/Economical factors
What do you think about the general stability of the social conditions in the country?
What do you think about the general stability of economic conditions in the country? When looking at Lebanon”s economy, we can draw the conclusion that the economy has been going up and down. What is the main reason for why fashion companies” still expand to this market?
Taken these into consideration, social, economical and political factors, what do you think about the potential for Swedish companies to expand to the Lebanese market?
Culture and Lifestyle
How would you describe the Lebanese culture and lifestyle?
How important is fashion for the Lebanese people?

Tourism
In what way does tourism affects the Lebanese market and economy?
From which countries do you have the most tourists?

Final questions
Why should more Swedish fashion companies establish on the Lebanese market?
How does the future look like for the Lebanese fashion market?
Before we end this interview, do you have anything that you would like to ask or explain further?