’Luxury retailers’ entry and expansion strategies in China

Bai, Huifeng; McColl, Julie; Moore, Christopher

Published in:
International Journal of Retail and Distribution Management

DOI:
10.1108/IJRDM-11-2016-0232

Publication date:
2017

Document Version
Author accepted manuscript

Luxury Retailers' Entry and Expansion Strategies in China

Huifeng Bai; Julie McColl; Christopher Moore

1. INTRODUCTION

The luxury market in mainland China has grown significantly since 2005, when the Chinese government lifted all restrictions on foreign investment to fulfill the promises made to the World Trade Organisation (Peng, 2010). According to Bain & Co. (2015), the Chinese luxury market exhibited double-digit growth rate between 2008 and 2014, when many traditional luxury markets experienced economic recession, increasing in value from $14.3 billion to $25.3 billion. China overtook Japan as the second largest luxury market globally in 2011, and it is predicated to be the largest by the end of 2016 (McKinsey, 2012). Despite stagnation and decline in Western markets, luxury fashion retailers in mainland China have not only strengthened operations in the national metropolis such as Beijing and Shanghai, but have also aggressively extended operations into a wide range of tier-2 regional and/or provincial capitals and tier-3 local markets (KPMG, 2013). Some luxury fashion retailers operate more brick-and-mortar stores in mainland China than in their home markets (Li, 2013).

Empirical studies on the Chinese luxury market have focused on brand management and consumer behavior, particularly cultural influences on luxury consumers' purchase motivations (Li, 2010). Few have focused on the Chinese luxury market from the perspective of international retailing (Lu, 2012). In the context of China, most studies on international retailing have focused on large-scale supermarket chains (Siebers, 2011). Despite the valuable contribution of these studies, they are limited in their capacity to explain luxury fashion retailers' activities because of considerable differences in retail format, focused product and managerial strategy (Kapferer, 2015).

Swoboda et al. (2009) identified that the majority of studies on international retailing have focused on foreign market entry rather than post-entry activities, and argued that retailer internationalisation is not only about foreign market entry strategies, but is also about post-entry expansion and operations. Fraquest et al. (2013) has suggested that examining retailers' post-entry expansion strategies is necessary in markets where considerable intrinsic differences exist in economic development and regional culture, such as China (Chevalier and Lu, 2009). Consequently, this study aims to examine luxury fashion retailers' market entry strategies and post-entry further expansion strategies in mainland China.

2. LITERATURE REVIEW

2.1 Defining Luxury Fashion Retailers

Kapferer (2015) argued that the luxury brand is difficult to define because of subjectivity, cultural and social influences, and the dynamic dimensions involved. For example, a luxury brand would no longer be perceived as luxury if there were changes to crucial parameters, such as dilution of brand image, over stretching of the brand and/or product, or changes in place of production (Chevalier and Gutsatz, 2012). Nevertheless, the most commonly accepted definition is from Nueno and Quelch (1998), who proposed that from the perspective of marketing, luxury brands are:

'*those whose ratio of functional utility to price is low while the ratio of intangible and situational utility to price is high*' (p.62).

From the perspective of retailing, Moore and Doherty (2007) defined luxury fashion retailers as those who:

'*distribute clothing, accessories and other lifestyle products which are: exclusively designed and/ or manufactured by/ or for the retailer; exclusively branded with a recognised insignia, design handwriting or some other identifying device; perceived to be of a superior design, quality and craftsmanship; priced significantly higher than the market norm; sold within prestigious retail settings*' (p.278).

In terms of this study, focusing on the internationalisation strategies of luxury fashion retailers entering and expanding in mainland China, this is considered to be an appropriate definition of the operational dimensions of international expansion.

2.2 Current Research in International Retailing

Research interests in retailer internationalisation have significantly grown because of retailers' rapidly increasing internationalisation activities, considerable worldwide success, and, from the 1980s onwards, a shift in power from manufacturers and wholesalers to retailers (Fernie and Alexander, 2010). Earlier studies explored the characteristics of retailer internationalisation (Moore and Burt, 2007), classifications international retailers (Alexander and Doherty, 2009), motives behind retailers' international expansion (Evans et al., 2008), direction of retailer internationalisation (Myers and Alexander, 2007), retailer internationalisation strategies (Liu et al., 2014), foreign market entry methods (Lu, 2012), retailers' divestment from foreign markets (Cairns et al., 2010), and the role of the internet (Doherty and Ellis-Chadwick, 2010). More recent studies have considered internationalising retailers' supply chain management (Castelli and Brun, 2010; Castelli and Sianesi, 2015), branding strategies (Tofighi and Bodur, 2015; Park and Wang, 2016), sustainable growth strategies (Fuentes, 2015) and the internationalisation of small retailers (Gardo et al., 2015). Foreign market entry methods, however, remains an important research topic because the choice of market entry method is influenced by retailers' expertise, market position, trading format, internationalisation strategies, resource commitment, perceived risks, and external trading conditions in host markets (Forslund, 2015). In recent years, luxury retailer internationalisation has been influenced by the growth of omnichannel distribution and particularly e-marketing as an opportunity to expand or complement existing internationalisation strategies (Picot-Coupey, et al., 2016), with luxury fashion retailers increasing sales through mobile technology and m-commerce, such as apps for mobile devices (Park and Wang, 2016). Additionally, luxury fashion retailers have adopted less traditional methods of market entry such as pop-up stores, to test the market and increase brand accessibility (De Lassus and Freire, 2014; Picot-Coupey, 2014).

2.3 Luxury Fashion Retailers' Foreign Market Entry Methods

Vital factors in selecting appropriate entry methods include the level of control, involving the assessment of risks, profits, operational performance, and the amount of power, processes, and decision-making desired over foreign operations (Swoboda et al., 2015). Appropriate entry methods provide retailers with control over the marketing mix, and the potential for continuous operation in the host market (Fayos et al., 2015). In order of highest to lowest degree of control and investment, Alexander and Doherty (2009) propose nine major market entry methods. These are flagship stores, organic growth, merger and acquisition, joint ventures, franchising, licensing, concession, exporting and wholesaling, and internet sales, indicating that a retailer may adopt multiple methods to enter into a market. More recently, pop up stores have been sited as a means of testing the luxury market, offering a short term presence in new markets and allowing for a lower level of financial commitment (Picot-Coupey, 2014; De Lassus and Freire, 2014).

The most distinctive advantages of flagship stores as an entry method include ensuring the greatest level of international coverage, designing a blueprint for post-internationalisation expansion, and providing a high level of profit and control over foreign operations (Moore et al., 2010). Flagship stores not only assist luxury fashion retailers to build and enhance brand awareness, but also signify their most important foreign markets (Mandara and Moore, 2013). However, this is not suitable for all companies because of the considerable investment and strong local knowledge required, and is only appropriate in developed markets where advanced retail infrastructure and sophisticated consumers already exist (Lu, 2012).

As a high cost and high control entry method, organic growth that is defined as '*new store development within the existing or an integrated organisational framework*' (p.256, Alexander and Doherty, 2009). In the context of international luxury fashion retailing, organic growth is regarded as the primary method used to enter foreign markets (Mintel, 2013). Kapferer (2015) suggests that luxury brands should adopt organic growth across all markets in order to maximise control over their brands and operations. Through acquiring organisations that have established a well-developed retail structure, mergers and acquisitions provide retailers with relatively easy market entry and fast development within host markets (Siebers, 2011). It is the most common entry method employed by all types of retailers, particularly supermarkets (Chuang et al., 2011) and luxury fashion retailers (Chevalier and Gutsatz, 2012). Acquisitions that have resulted in international luxury conglomerates have helped them to diversify their portfolios of products, thus broadening market coverage and avoiding the over-extension of a single brand (Kapferer and Bastien, 2012).

As a medium cost and medium control entry method, retailers are required to consider operational factors such as business policy, decision-making, and knowledge-exchange when selecting joint ventures (Owens et al., 2012). Palmer et al. (2010) identified a series of reasons behind the adoption of joint ventures in host markets, including gaining access to new geographical markets, obtaining operational skills and physical locations, recruiting new management, overcoming political restrictions, and developing the store image and retail brand in the foreign market. It has been widely employed by manufacturers and generic retailers such as supermarket chains (Siebers, 2011), however, it is not popular amongst luxury fashion retailers because of the required 50/50 share of brand equity and the risk of loss of control over brand and business activities (Lu, 2012).

Franchising is an organisational form based on a legal agreement between a parent company (franchisor) and a local partner (franchisee) to sell products or services using the franchisor's brand name and established format (Nisar, 2011). It provides the franchisor with a guarantee of uniformity for their brand, a fast means of expansion, and cost effectiveness in learning local knowledge (Lu, 2012). The popularity of franchising among luxury fashion retailers rapidly decreased from the late 1990s because of the inherent risk of losing control over business operations and the risk of diluting brand image (Kapferer, 2015). Nevertheless, Mintel (2013) indicates that franchising is still important for many small-scale luxury brands and some large luxury brands in geographically and/or psychically distant markets.

Despite the popularity of licensing during the 1980s and 1990s, luxury fashion retailers have come to understand the dangers of damaging their brand image through over-licensing into incorrect products, and losing control over brand management if licensees control more of the processes of design and manufacture than the brands themselves (Jayachandran et al., 2013). Li (2010) found that licensing is particularly employed in cosmetics and perfumes, eyewear, watches, swimwear, underwear, and homeware, in order to develop a 'lifestyle' brand image. More recently however, licensing strategies have been more about forming strategic alliances than market entry, and have been more carefully managed by luxury brands (Moore et al., 2010).

As a low cost and low control entry method, concessions allow retailers to present their products in a similar way to their standalone stores but without the same amount of risk, helping to lessen their commitments in foreign markets (Alexander and Doherty, 2009). The concession can be directly owned or operated through local partnerships, and can co-exist with luxury brands' flagship stores in host markets to maximise market coverage at a low financial risk (Moore et al., 2010). Export and wholesaling are often adopted by retailers who possess a distinctive brand image, and who sell own-brand products (Ared and Winser, 2005). Moore and Burt (2007) identified that luxury fashion retailers often enter foreign markets via a stepwise strategy: they adopt export/wholesaling to test out foreign markets at a lower financial risk, and then change to other methods after they gain experience in the markets. Nevertheless, concessions, exporting and wholesaling are only appropriate in markets where well-established upscale department stores exist (Lu, 2012).

The internet has become increasingly important for luxury fashion retailers', particularly in terms of omnichannel communication and omnichannel distribution strategies, since this is regarded as an efficient and effective channel to communicate with customers, to promote brand awareness and to distribute products (Picot-Coupey et al., 2016). The introduction of mobile technology and mobile apps allows luxury fashion retailers the opportunity to extend purchase opportunities beyond markets where they have a direct presence (Parker and Wang, 2016). It has been proposed, however, that extended accessibility through the internet can dilute luxury fashion retailers' exclusive brand image and 'dream value' (Liu, 2014). Additionally it is proposed that consumer loyalty is difficult to nurture through the internet when luxury brands want their consumers to have contact with and feel products via the superior personal customer service available within the nuanced environment of physical stores (Li, 2013). More recently, however, Picot-Coupey, et al., (2016) have suggested that it is important to synchronise the image of the brand with that in-store and the online as a means of reinforcing the brand image and helping to prevent brand dilution.

Because of their considerable success in international expansion since the 1990s, there have been a number of academic studies that have considered the internationalisation strategies of luxury fashion retailers (Kapferer, 2015). However, there are two significant gaps in the existing literature. Firstly, almost all studies have focused on developed markets rather than China (Lu, 2012). Secondly, studies have concentrated on foreign market entry, and post-entry expansion thus has long been neglected (Frasquet et al., 2013).

3. METHODOLOGY

This paper adopts a pragmatic two-stage mixed methods research approach, which focuses on research questions and reveals rich details that cannot be achieved through either a quantitative research or a qualitative study alone (Silverman, 2015). According to Creswell (2014), the decision made regarding the elements of a mixed methods approach involves four aspects. The first is timing. In this study, a quantitative research in form of a mail survey from a macro perspective was carried out firstly, achieving a comprehensive understanding of the strategies employed by luxury fashion retailers for initial Chinese market entry and post-entry expansions. The second is weighting. A priority was given to qualitative data, as this study seeks to examine the methods used by luxury fashion retailers for post-entry expansion in greater depth through the qualitative research. The quantitative data analysis was mainly descriptive. The third is mixing. The data and collected results from stage one were used to identify (connecting) the research questions and the participants for qualitative data collection in stage two. Both quantitative data and qualitative data collected from stage one will be integrated with the qualitative data collected from stage two (integrating). The final aspect is theorising. There was no single, explicit theoretical perspective guiding the entire research design. The theories and frameworks identified in the literature review are used to underpin the research.

Subsequently, the first research stage was conducted through a quantitative mail survey with the self-completion postal questionnaire (Appendix 1). Because this study's research topic has not been addressed previously and no database of luxury fashion brands with a presence in the Chinese market has been established to date, the authors had to develop the database.

There were two criteria for the target retailers: originating from foreign countries, and having operations in at least two local markets in mainland China. Based upon such criteria, the database was developed through three major sources. Firstly, lists of members of reputable luxury committees were employed, including Comite Colbert (France), Fondazione Altagamma (Italy), the Walpole and British Council of Fashion (UK), and the Council of Fashion Designers of America (US). Secondly, as well as directories of the top ten luxury malls in mainland China, the directory of Peninsula Hotel Beijing was employed, since the hotel is regarded as the most popular location for many luxury fashion retailers' first stores in mainland China (Chevalier and Lu, 2009). Thirdly, marketing reports from established organisations were evaluated, including Bain & Co. (2013), McKinsey (2012), Mintel (2013) and KPMG (2013). Subsequently, 130 luxury fashion retailers were identified and selected.

The questionnaire was designed by using a 5-point Likert scale with space for additional comments. Questionnaires were sent to 130 target retailers in March 2013. Questionnaires were also sent to Hong Kong, Beijing and Shanghai, as some retailers have set up subsidiaries or have senior management there, and their local partners are there. In order to encourage the response rate, the questionnaire was sent with a covering letter which explained the purpose of the survey and assured respondents of their confidentiality and anonymity, as well as a postcard with picture of Scotland and hand-written '*Thanks for your participation*'.

In order to obtain in-depth understanding of why and how these retailers have changed post-entry expansion strategies, the second research stage employed qualitative research methods through eleven executive interviews. The participating retailers were those who had shown willingness to participate during the mail survey. In order to fulfill confidentiality agreements, all participating retailers' and interviewees' names were coded. All interview lasted between 30 minutes and one hour. A profile of the participating interviewees is provided in Table 1 below.

Place Table 1 here

The participants outlined in Table 1 are senior executives able to supply the necessary information on motives, strategic direction, policy making and strategic implementation. The participating companies were established, operating stores in at least two markets in mainland China, thus having sufficiency of strategic and operational experience. The findings of this study will be presented in the following section.

4. RESEARCH FINDINGS

4.1 Chinese Market Entry Strategies

According to the findings of this study, all respondent retailers entered the Chinese mainland market using a single entry strategy rather than multiple methods. No respondent retailers entered China through flagship stores, mergers and acquisition, concessions, export/wholesaling, or the internet (omnichannel distribution strategy). Table 2 indicates that direct retailing (organic growth) is more important than any other kind of local partnership. From the highest to the lowest level of control, the methods employed by respondent retailers entering China include direct retail (33, 52.4%), franchising (17, 27%), joint ventures (10, 15.9%), and licensing (3, 4.7%).

Table 2: Luxury fashion retailers' Chinese market entry strategies

Place Table 2 here

Different from some empirical studies which argue that fashion and luxury fashion retailers are willing to enter foreign markets through medium or low cost and control strategies such as local partnerships, wholesaling and/ or exports (Moore and Burt, 2007; Picot-Coupey et al., 2014), this study identifies that high-cost and high-control strategies are more popular. More than half of respondent luxury fashion retailers (52.4%) had entered China through direct retailing, which allows for the retention of control over brands and business operations (mean=4.81) and their management culture (mean=4.42), and avoids inappropriate local partnership and incorrect brand positioning strategies. Interviewee E (an Italian group owned design house, entered into mainland China in 2007) stressed:

'*The strategy (in China) is to take full control over the brand and operations from the start... We have learnt a lot from other brands' experiences, in particular, the dilution of brand image because of using the wrong local partners and inappropriate brand positioning strategies*'.

Although direct retailing is able to provide luxury fashion retailers economies of scale, such benefits are not a major reason behind this choice (mean=1.92). Interviewee K (an American independent jewellery and watches brand, entered China in 2001) explained:

'*We want to carefully accrue local knowledge and tailor our marketing strategies to local conditions correctly in the Chinese (mainland) market rather than economies of scale*'.

Despite offering less control over brands and business operations than joint ventures, franchising is the second most popular strategy employed by respondent retailers entering China (17, 27%). The study recognised that the most important motivations behind franchising is the desire to maintain uniformity of brands (mean=4.47). As well as the availability of appropriate local partners (mean=4.00), the desire to expand quickly but at a low cost (mean=3.82) was also significant, as echoed by interviewee D (a Swiss independent jewellery and watches brand, entered into China in 2001):

'*We only work together with local experts, who can understand and appreciate the importance of our brand, since what we want is not only fast expansion in the Chinese (mainland) market, but also to maintain a consistent brand across the whole world*'.

The importance of acquiring local knowledge at a low cost and with more effectiveness (mean=3.53) and the shortage of international experience and financial strength were significant factors in driving franchising as a Chinese market entry strategy (mean=3.41). This was confirmed by interviewee F (an American independent leather accessories brand, entered into China in 1999):

'*We need our partner's help to expand the business in the (Chinese mainland) market, because running stores in many local markets is very expensive, and we cannot afford such huge investment*'.

Ten respondents (15.9%) entered China through joint ventures, driven by their partners' local knowledge and connections (mean=4.40), and the desire to gain easier access to store locations in mainland China (mean=4.20). Earlier studies indicate that the executive's personal experience and perceptions of a host market or a local partner is important for a retailer's international joint venture, however, this was not confirmed (mean=2.80). Joint ventures were the only feasible strategy used to enter mainland China before 2000 because of political restrictions, particularly for foreign manufacturers and large-scale supermarket chains (Siebers, 2011), however, this was not confirmed either (mean=1.00). Interviewee C (an American group owned design house, entered China in 1997) argued:

'*We did not encounter any challenges caused by policies…It is very difficult to understand the Chinese mainland market in a short time...*'.

Finally, partners' local knowledge and expertise in certain products was extremely important (mean=5) for three respondents who entered China through licensing (4.7%). The desire to generate profits through low-cost expansion was important (mean=3.67). However, the shortage of international experience and financial strength was not important (mean=2.67). Interviewee A (a British independent design house, entered China in 1997) confirmed:

'*Licensing is efficient for our business in mainland China… Our partner is handling several luxury brands in mainland China. So in terms of management and infrastructure, they provide us standardised warehousing administration, strong financial support, as well as local connections*'.

4.2 Post-Entry Expansion Strategies in China

Having gained local knowledge and experience, luxury fashion retailers have become more confident and have expanded further through a greater variety of methods. Over half (33, 52.4%) have changed strategies for post-entry expansion from their initial market entry. All participants entered into mainland China via a single method, however, increasing numbers of the retailers have adopted multiple methods for post-entry expansion in the Chinese market, typically omnichannel distribution strategies. Table 3 below offers a summary of the changes in initial and post entry expansion strategies.

Place Table 3 here

Table 3 provides insights into the level of confidence gained through the initial market entry experience. This is demonstrated through the increase in foreign direct investment expansion strategies such as the introduction of flagship stores and an increase in direct retailing. The increase in internet sales may also be due to a general increase in the use of new technologies and internet sales in foreign luxury markets during this time as well as increased confidence in the use of new technology to increase sales in the Chinese market.

Figure 1 below offers a summary of retailer initial market entry methods and a rationale for the further expansion strategies adopted for further expansion in the Chinese market and offers a basis for further discussion below.

Place Figure 1 here

Firstly, although no respondent had established a flagship store as an entry method, its importance and popularity were established, evidenced by 17 retailers who have adopted flagship stores for post-entry expansion. Flagship stores can be regarded as a long-term commitment made by luxury fashion retailers and the location of flagship stores can reflect the importance of these markets. Interviewee I (a German group owned leather accessories brand, entered China in 1996) regards China as its most important international market, running two flagship stores there:

'*China is the most important overseas market for us.... We regard our flagship stores in Beijing and Shanghai as the best way to show commitment and appreciation*'.

In parallel with rapid growth of the Chinese luxury market, an increasing number of luxury fashion retailers have since adopted flagship stores because of the desire to strengthen their operations in key markets and to build up brand awareness across the whole country. Interviewee H (a French independent design house, entered China in 1996) said:

'*When mainland China became a mature luxury market, I believe a flagship store is a great way to expand further in mainland China… It helps us to strengthen our performance in Shanghai and to maintain our brand image across the whole of China and even the world*'.

Flagship stores are therefore not a substitute for, but are complementary to, other kinds of expansion methods, since the major function of flagship stores is not solely to generate profit, but also to raise brand awareness in host markets. Despite the huge costs involved, flagship stores are used by the participants as a public relations tool for converting brand identity into a physical presence and communicating with customers. Moreover, flagship stores as a marketing tool are vital venues for public-relation activities, such as the launch of new products. Interviewee B (a French group owned design house, entered China in 1992) confirmed that:

'*We regard the House (flagship store) in Shanghai as an important marketing tool rather than a retail store, because it helps us to communicate with customers and to raise brand awareness, and holds public-relations purposed events*'.

This study identifies that the concept of the flagship store had been extended into e-commerce in China. T-mall.com (a subsidiary of the Alibaba Group) has provided the first online platform for luxury fashion retailers'e-commerce in China, and some have opened online flagship stores within T-mall.com, interviewee F (American independent leather accessories brand, entered into China in 1999) explained their experience of operating an online flagship store:

'*The online flagship store in T-mall is important, because China is too large to be covered by retail stores. Besides the relatively lower costs, the online flagship store also helps us reach a wider range of potential customers*'.

Secondly, direct retailing has become increasingly popular in China, which is evidenced by an increasing numbers of respondents (46) have withdrawn (or are withdrawing) from local partnerships and are adopting wholly owned strategies. Such high cost directly owned post-entry expansion strategies are driven by luxury fashion retailers' accumulated experience and financial capacity, ability to adapt according to local conditions, and the desire to fully control business and to avoid the risk of diluting their brands, as interviewee F (an American independent leather accessories brand, entered into China in 1999) stated:

'*We finished a local partnership and started to fully control the business in mainland China from 2010. Experiences and strengthened capital encouraged us to directly manage the brand for this significant growth opportunity and provide a solid foundation for expansion in the Chinese market*'.

Thirdly, despite of the increasing popularity of direct retailing, local partnerships are still important for some respondents' post-entry expansion in China, especially for those who do not have strong international experience, financial capacity, or the support from parent companies. Adopting franchising for further expansion in China is more popular than for initial market entry. The desire to constantly maintain the uniformity of brands is the most important motivation behind retailers' franchising. Partners' local knowledge and fast expansion at a low cost also proactively drives retailers' choice of franchising. Interviewee J (an Italian independent design house, entered China in 1998) stated:

'*Franchising is the appropriate choice for our business in mainland China. We do not have any knowledge and connections in the Chinese market; therefore, we need local expertise and help*'.

The major disadvantage of franchising is that luxury brands do not retain sufficient control over their brands and business. Therefore, the key to successful franchise is working closely with clear and honest communication, as interviewee F (American independent leather accessories brand, entered into China in 1999) stressed:

'*The local partner's honest and good communication with luxury brands, and a close working relationship between two parties, are vital for a successful franchise in mainland China*'.

As well as obtaining Chinese partners' local knowledge and connections, the ambition to expand into wider local markets through fast expansion at a lower cost is also significant for joint ventures. Interviewee G (an Italian independent leather accessories brand, entered China in 2000) explained:

'*We cannot achieve the current operation without our partner's financial support, local knowledge and existing stores*'.

Moreover, the possibility of changing to directly-controlled methods also drives retailers' joint ventures as post-entry expansion method. Interviewee C (an American group owned design house, entered China in 1997) who entered China through joint ventures had started to withdraw from partnerships by raising their equity share after years of operations and experience:

'*When we entered the Chinese market, one of the major reasons behind joint ventures was the potential change to direct control… We have started buying back the equity share step by step, and will manage our brand directly (in mainland China)*'.

Only interviewee A (a British independent design house, entered China in 1997) adopted licensing for initial market entry and further expansion in China. They initially entered Hong Kong through licensing with a local specialist in 1987, and then entered mainland China in 1997 through licensing with the same partner. They have opened over 100 stores since then. As a small luxury brand, interviewee A lacks abundant international experience and strong financial capacity, and needs its partner's management expertise, financial support and local knowledge.

The licensee's capacity to provide fast expansion at a low cost in China is very important. Compared with operating in five cities in the home country, interviewee A has built up over 100 stores in mainland China since 1997, and said:

'*From the perspective of our risk profile, we have fewer risks than our partner, because we do not own the leases of the stores in China, and we do not need to be concerned with the distribution rights there*'.

The partner's expertise in certain products and knowledge in sizing is significant for interviewee A's licensing. The licensee not only helps to produce certain products for China under approval of the head office, but is also providing appropriate solutions for sizing problems, explaining:

'*Our partner has not only helped us solve the sizing problems, but has also extended our products… because of Chinese customers' needs and preferences, we are selling some products such as Chinos and Polo shirts which are never sold in the UK. These China-only products are produced by our partner under our approval*'.

Fourthly, concessions are a less favored method for post-entry expansion in China, which is evidenced by only two participant retailers adopting concessions for post-entry expansion. As well as the lack of an appropriate retail infrastructure in some local markets, concessions in department stores are capable of providing opportunities to test potential local markets at a relatively low cost, as confirmed by interviewee I (a German group owned leather accessories brand, entered China in 1996):

'*Because of the relatively lower investment required and fewer risks, we are testing some potential local markets through concessions in mainland China… Another reason is that the infrastructure in some potential markets (in China) is not developed enough for luxury* *fashion retailing, so we have to compromise and choose concessions in the best department stores in those cities*'.

Lifestyle luxury fashion retailers that provide a wide range of products usually adopt various distribution channels for different products in order to reach different groups of target consumers. Participant retailer C (an American group owned design house, entered China in 1997) confirmed:

'*As a lifestyle luxury brand, we are selling a wide range of products in China. Because we want to focus on different groups of consumers, we adopt different retail stores for different products. For instance, we sell key products through stand-alone stores, and other products through concessions*'.

Finally, this study found that the internet has proved to be an excellent platform for luxury fashion retailers' omnichannel communication and distribution strategies, as it has become an important form of direct business between luxury fashion retailers and customers in mainland China. This is evidenced by an increasing number of luxury fashion retailers who have set up official websites (40) and online stores (28) after their initial entry. The rapid growth of e-commerce websites in China, such as T-mall.com, has created opportunities for the retailers to engage in online retailing in a suitable way. The most significant advantage of the internet is that it can be used to communicate with customers, promote brands, and introduce products and information without limitation in time and space, in order to raise brand awareness and potential purchases. Interviewee B (a French group owned design house) confirmed:

'*Our Chinese website aims to raise brand recognition through communicating with customers and promoting the brand... All information about the brand, products, fashion shows and stores is available on the website*'.

As a distribution channel, the internet has become increasingly important. The motives for e-commerce in the Chinese market were the ambition to provide more accessibility for customers, to test potential local markets or bricks-and-mortar stores, and to reach wider ranges of customers. Interviewee F (American independent leather accessories brand, entered into China in 1999) stated:

'*The country (China) is too big to be covered by retail stores, so it is our responsibility to create chances for customers in some cities where we do not have stores. Internet retailing also helps us reach wider ranges of potential customers*'.

Interviewee F emphasised that the internet represents a cost effective means by which to test local markets in China. The internet also can be used as an efficient and effective approach collecting customer information. Retailers can use such data to recognise potential local markets for stores where large quantities of customers in those cities are currently purchasing products online.

Figure 2 below identifies the various types of internet operations run by luxury fashion retailers. Not all luxury fashion retailers who have official Chinese websites support e-commerce in China. Amongst the retailers who are running e-commerce operations in China, two major kinds of e-commerce are deployed.

Place Figure 2 here

The first is developed and run by luxury fashion retailers. They are running e-commerce from their own official Chinese websites and/or e-commerce platform. The second is that supported by online experts, particularly YOOX Group. Additionally, one participating retailers is franchising e-commerce in China to Chinese online luxury e-retailers because of the latter's local knowledge and online expertise.

5. DISCUSSION

In the context of mainland China, some findings of this study contradict those of prior empirical studies (Alexander and Docherty, 2009). Unlike entry into developed markets where luxury fashion retailers have adopted multiple methods of market entry, particularly low-cost and low-control entry strategies, such as wholesale, export and/or concessions, entry into the Chinese market has been driven by a number of different influences. Because of the different infrastructure in Chinese retail market, such as a lack of high-end department stores and premium shopping districts, most luxury fashion retailers have adopted single methods to enter Chinese mainland market, employing high-cost and high-control strategies, such as standalone stores in high end hotel or luxury malls. The high-cost and high-control entry strategies are capable of proving luxury fashion retailers full control over their brands and business practices in China, a geographically and psychically remote market. Direct retailing has become increasingly popular in China, evidenced by increasing numbers of luxury fashion retailers who have withdrawn or plan to withdraw from local partnerships, because they desire to control their brands and business directly, and tailor their marketing mix to local conditions. However, such directly controlled strategies are not suitable for every luxury fashion retailer, because these strategies require considerable initial investment, strong international experience and local knowledge. Direct retailing may therefore, be unsuitable for many small independent luxury brands, especially for those whose brand awareness in China is relatively low and who do not have support from parent companies. These companies may be willing to trade control risks for market entry opportunities.

Local partnerships as medium-cost and medium-control strategies remain popular for foreign luxury fashion retailers, because their partners are capable of providing them fast expansion, financial support, and even consistent brand identity. Chevalier and Lu (2009) argued that luxury fashion retailers cannot treat mainland China as a single market but various local markets, because intrinsic regional differences in terms of policy, economic development, society, culture and retail infrastructure in mainland China are more complicated than Europe. Therefore, a lack of local knowledge and connections are another significant motivation in driving foreign luxury fashion retailers' local partnerships. Moreover, although directly controlled strategies are increasingly important for luxury fashion retailers' post-entry expansion, local partnerships are still important and popular. Local partnerships have proved to be especially suitable for those who aim to achieve fast expansion in a wide range of local markets, for instance some luxury brands have opened over 100 stores in mainland China. Nevertheless, these medium-cost and medium-control strategies are risky because of the potential danger of compromising their brands or diluting their premium image, the potential conflict between luxury fashion retailers and local partners, and ultimately divestment from the Chinese market.

As China becomes an increasingly important market, luxury fashion retailers are becoming more confident in their post-internationalisation expansion. Having adopted single methods of market entry, the participating companies have gained confidence and local knowledge with many adopting multiple methods for post-internationalisation expansion. Their strategies and retail formats have become more varied, particularly in terms of flagship stores and omnichannel distribution. Importantly, the concept of flagship stores has been extended into the internet and e-flagship stores have been employed by some luxury fashion retailers in mainland China. As internet sales have grown in China, luxury fashion retailers have responded through their official websites, official online stores, e-commerce websites, social media, and mobile technology, improving omnichannel communication and distribution and allowing for effective customer communication and brand promotion. This offers a wealth of opportunity in terms of reaching potential but physically remote areas of the Chinese market where demand exists but the necessary retail landscape, infrastructure and development may not.

6. CONCLUSION

This research has focused on mainland China, an economically significant market which has long been neglected in terms of luxury fashion retailing. The study has not only examined luxury fashion retailers' Chinese market entry strategies, but has also examined the strategies employed for post-internationalisation expansion strategies there. In recent years foreign luxury fashion and accessories retailers have not only strengthened their operations in Tier-1 national capitals in mainland China but have also expanded into Tier-2 regional and provisional capitals and Tier 3 local markets. In doing so they have moved from highly controlled methods of market entry such as direct retailing towards a variety of methods some of which require less control and allow easier access to more remote areas of the country. As the companies' confidence and trust in the Chinese market and infrastructure has grown their need to control operations to the same extent as they did at the point of market entry has lessened. The results of this research therefore may be applied in developing, large scale markets which have similar disparities in terms of infrastructure, culture and language. In adopting a pragmatic mixed-methods research approach with a relatively large numbers of luxury fashion retailers, not seen in the existing studies, the research has developed models which can be tested and extended within academia, and which can be applied by practitioners in the luxury fashion sector. It is suggested that the models can firstly be tested with a broader range of luxury brands and different types of company entering and expanding in China and other markets. The results of this and future studies can help guide future expansion in developing and expanding markets.

The reliability and validity of this study are strengthened through use of triangulation of methodologies and data. Nevertheless, the limitations of this study relate to four aspects. The numbers of respondents and participants are challengeable. However, there were sixty-three questionnaire respondents and eleven interview participants, across a wide range of retailing formats, country of origin and ownership structures enough to represent actuality in the market. The second limitation is the self-completion postal questionnaire, designed in English with most questions using a 5-point Likert scale. Misunderstanding caused by language barriers is inevitable, however, there was space for additional comments, and 48.5% response rate showed that language was not a major barrier. The third limitation involves the executive interviews, conducted in English and Mandarin. The researcher is bilingual in both, and is capable of dealing with ambiguity. Transcripts of interviews were provided to check understanding. Finally, this study focused on China only, the findings are thus probably of limited value in explaining luxury fashion retailers' post-entry expansion elsewhere.

REFERENCES

Alexander, N. and Doherty, A. (2009). *International Retailing*, OUP Oxford.

Ared, R. and Winser, J. (2005). 'Small business and supply chain management: is there a fit?', *Journal of Business Venturing*, Vol. 20, pp. 403-436.

Bain & Co. (2013). '2012 China Luxury Market Study'. Available at: http://www.bain.com/Images/2012%20Bain%20China%20Luxury%20Market%20Study.pdf. Accessed on: 16th Jan, 2013.

Bain & Co. (2015). '2014 China Luxury Market Study'. Available at: http://www.bain.cn/pdfs/201501221159032010.pdf . Accessed on: 18th Sep, 2015.

Cairn, P., Quinn, B., Alexander, N. and Doherty, A. (2010). 'The role of leadership in international retail divestment', *European Business Review*, Vol. 22 No. 1, 25-42.

Castelli, C. and Brun, A. (2010). 'Alignment of retail channels in the fashion supply chain: An empirical study of Italian fashion retailers', *International Journal of Retail & Distribution Management,* Vol. 38 no. 1, pp. 24-44.

Castelli, C. and Sianesi, A. (2015). 'Supply chain strategy for companies in the luxury-fashion market: Aligning the supply chain towards the critical success factors', *International Journal of Retail & Distribution Management*, Vol. 43 No. 10/11, pp. 940-966.

Chevalier, M. and Gutsatz, M. (2012). *Luxury Retail Management: How the World's Top Brands Provide Quality Product & Service Support*, John Wiley & Sons.

Chevalier, M. and Lu, X. (2009). *Luxury China: Market Opportunities and Potential*, John Wiley & Sons, Singapore.

Chuang, M., Donegan, J., Ganon, M. and Wei, K. (2011). 'Walmart and Carrefour experiences in China: resolving the structural paradox', *Cross Cultural Management: An International Journal*, Vol. 18 No. 4, pp. 443-463.

Creswell, J. (2014). *A Concise Introduction to Mixed Methods Research*, SAGE Publications, USA.
De Lassus, C. and Freire, N.A., (2014). Access to the luxury brand myth in pop-up stores: A netnographic and semiotic analysis. *Journal of Retailing and Consumer Services*, *21*(1), pp.61-68.

Doherty, N. and Ellis-Chadwick, F. (2010). 'Internet retailing: The past, the present and the future', *International Journal of Retail & Distribution Management*, Vol. 38 No. 11, pp. 943-965.

Evans, J., Mavondo, F. and Bridson, K. (2008). 'Psychic Distance: Antecedents, Retail Strategy Implications, and Performance Outcomes', *Journal of International Marketing*, Vol. 16 No. 2, pp. 32- 63.

Fayos G, Calderón G. and Mollá D. (2015). 'Internationalisation of SME retailer: barriers and the role of public support organisations', *International Journal of Retail & Distribution Management*, Vol. 43 No. 2, pp. 183-200.

Fernie, J. and Alexander, N. (2010). 'International retail research: focus, methodology and conceptual development'. *International Journal of Retail & Distribution Management*, Vol. 38 No.11/12, pp. 928-942.

Forslund, F. (2015). 'Performance management process integration in retail supply chains', *International journal of Retail & Distribution Management*, Vol. 34 No. 7, pp. 652-670.

Frasquet, M., Dawson, J. and Alejandro, Mo. (2013). 'Post-entry internationalisation activity of retailers: An assessment of dynamic capabilities', *Management Decision*, Vol. 51 No. 7, pp. 1510-1527.

Fuentes, C. (2015). 'Images of responsible consumers: organising the marketing of sustainability', *International Journal of Retail & Distribution Management*, Vol. 43 No. 4/5, pp. 367-385.

Gardo, T., Garcia, H. and Descals, A. (2015). 'Internationalisation of SME retailer: barriers and the roe of public support organisations', *International Journal of Retail & Distribution Management*, Vol. 43 No. 2, pp. 183-200.

Jayachandran, S., Kaufman, P., Kumar, V. and Hewett, K. (2013). 'Brand Licensing: What Drives Royalty Rates?', *Journal of Marketing*, Vol. 77 No.5, pp. 108-122.

Kapferer, J-N. (2015). *Kapferer on Luxury: How luxury brands can grow yet remain rare*, 1st Ed, Kogan Page, USA.

Kapferer, J. and Bastien, V. (2012). *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands* (2nd Ed), Kogan Page, USA.

KPMG. (2013). 'Global Reach of China Luxury: Consumer insights shaping Chinese luxury in 2013'. Available at: https://assets.kpmg.com/content/dam/kpmg/pdf/2013/01/Global-Reach-China-Luxury-201301.pdf Accessed on: 16th Jan, 2013.

Li, F. (2010). *Luxury Marketing*, Economic Science Press, Beijing.

Li, Z. (2013). 'The Growth Trend of China's Luxury Fashion Retail Market', *Value Engineering*, Vol. 31 No. 5, pp. 276-277.

Liu, M. (2014). 'The outlook of China's luxury fashion retail market', *Science Technology and Industry*, Vol. 14 No. 6, pp. 9-15.

Liu, S., Perry, P., Moore, C. and Warnaby, G. (2014). ‘The standardisation- localisation dilemma of brand communications for luxury fashion retailers’ internationalisation into China’, *Journal of Business Research*, Vol. 69 no. 1, pp. 357-364.

Lu, X. (2012). ‘Market entry strategies of international luxury brands in China’, *Finance & Trade Economics*, Vol.33 No. 8, pp. 105-112.

McKinsey & Co. (2012). ‘Luxury Without Borders: China’s New Class of Shoppers Take on the World’. Available at: http://www.asia.udp.cl/informes/2013/the-mckinsey-chinese-luxury-consumer-survey-2012.pdf Accessed on: 16th Jan, 2013.

Mintel. (2013). ‘Global Luxury Goods Retailing Report’. Available at: http://store.mintel.com/luxury-goods-retailing-international-august-2013 Accessed on: 16th Jan, 2013.

Moore, C. and Burt, S. (2007). ‘Developing a research agenda for the internationalisation of fashion retailing’, in Hines, T. and Bruce, M. (Eds.) *Fashion Marketing*, Routledge, UK.

Moore, C. and Doherty, A. (2007). ‘The International Flagship Stores of Luxury Fashion Retailers’, in Hines, T. and Bruce, M. (Eds.), *Fashion Marketing: Contemporary Issues*, Butterworth-Heinemann, Oxford, UK.

Moore, C., Doherty, A. and Doyle, S. (2010). ‘Flagship stores as a market entry method: the perspective of luxury fashion retailing’,*European Journal of Marketing*,Vol. 44 No. 1/2, pp. 139-161.

Myers, H. and Alexander, N. (2007). ‘The Role of Retail Internationalisation in the Establishment of a European Retail Structure’, *International Review of Retail, Distribution* *and Consumer Research*, Vol. 35 No. 1, pp. 6-19.

Nisar, T. (2011). 'Intellectual property securitisation and growth capital in retail franchising', *Journal of Retailing*, Vol. 87 No. 3, pp. 393-405.

Nueno, J. and Quelch, J. (1998). 'The mass marketing of luxury'. *Business Horizons*,Vol. 41 No. 6, pp. 61-68.

Owens, M., Zueva-Owens, A. and Palmer, M. (2012). 'Partner identification and selection of joint ventures in international retailing', *The Service Industries Journal*, Vol. 32 No. 3, pp.383-410.

Palmer, M., Owens, M. and De Kervenoael, R. (2010). 'Paths of the lease resistance: understanding how motives form in international retail joint venturing', *The Service Industries Journal*, Vol. 30 No. 6, pp. 965-989.

Parker, C. and Wang, H. (2016). "Examining hedonic and utilitarian motivations for m-commerce fashion retail app engagement", *Journal of Fashion Marketing and Management*, Vol. 20 No 4, pp. 487-506.

Peng, X. (2010). 'Research on the Brand Culture of Luxury Goods', *China Soft Science*, Vol. 23 No. 9, pp. 69-77.

Picot-Coupey, K. (2014). The pop-up store as a foreign operation mode (FOM) for retailers", *International Journal of Retail and Distribution Management*, Vol. 42 No. 7/8, pp. 643-670.

Picot-Coupey, K., Huré, E., Piveteau, L. (2016). "Channel design to enrich customers' shopping experiences: Synchronising clicks with bricks in an omni-channel perspective – the Direct Optic case", *International Journal of Retail and Distribution Management*, Vol. 44 No. 3, pp. 336-368.

Picot-Coupey, K., Burt, S. and Cliquet, G. (2014). 'Retailers' expansion mode choice in foreign markets: Antecedents for expansion mode choice in the light of internationalisation theories', *Journal of Retailing and Consumer Service*, Vol. 21 No. 6, pp. 976-991.

Siebers, L. (2011). *Retail Internationalisation in China: Expansion of Foreign Retailers*, Palgrave Macmillan, UK.

Silverman, D. (2015). *Interpreting Qualitative Data* (5th Edition), SAGE Publications, USA.

Swoboda, B., Elsner, S. and Olejnik, E. (2015). 'How do past mode choices influence subsequent entry? A study on the boundary conditions of preferred entry modes of retail firms', *International Business Review*, Vol. 24 No. 3, pp. 506-517.

Swoboda, B., Zentes, J. and Elsner, S. (2009). 'Internationalisation of retail firms: state of the art after 20 years of research'. *Marketing: Journal of Research and Management*, Vol. 5 No. 2, pp. 105-126.

Tofighi, M. and Bodur, H. (2015). 'Social responsibility and its differential effects on the retailers' portfolio of private label brands', *International Journal of Retail & Distribution Management*, Vol. 43 No. 4/5, pp. 301-313.

Appendix I- Questionnaire

An examination of luxury retailer internationalisation in China

Section I

This section aims to collect general information of your company. Please choose an appropriate option for each question.

Q1. Where did your company initially enter the Chinese market?

Beijing/ Shanghai	
Others	

Q2. Please tick to select local markets operated by your company in China

Tier-1 metropolis only	
Multiple tiers cities	

Q3. Does your company have official website in Chinese?

Yes	
No	

Q4. Does your company support e-commerce in China?

Yes	
No	

Section II

This section intends to explore luxury retailer's international expansion strategies for China.

Questions are answered by choosing on a scale of 1-5, where:

1= of the least important

2= of slightly important

3= of moderately important

4= of highly important

5=of the most important

Q5. Which market entry method(s) did your company adopt for China, and why?

Flagship Stores ☐

Why	**1**	**2**	**3**	**4**	**5**
To signify most important markets					
Highest degree of control over brand and business practice					
Greatest level of market coverage					
Blueprint for post-internationalisation expansion					
A vital tool for brand communication					

Direct Retail (Wholly owned foreign enterprises) ☐

Why	1	2	3	4	5
Your own business model in all foreign markets					
To gain full control over business operations					
Divestment is relative easy if mistake decision made					

Merger or Takeover ☐

Why	1	2	3	4	5
Substantial market presence quickly achieved					
Management already in place					
Cash flow is immediate					
Possible transfer of technology back to home market					
A way to obtain store location and supplier					

Joint Venture ☐

Why	1	2	3	4	5
Easily gain of local knowledge and local connection					
Fast expansion with lower cost and lower risk					
Possible change to full control operation or exist					

Franchise ☐

Why	1	2	3	4	5
Rapid expansion with lower investment and lower risks					
Attractive offers provided by Chinese partners					
Partners' local knowledge and expertise					
Less cost and time to learn Chinese culture					
No need to concern of distribution right					

Licensing ☐

Why	1	2	3	4	5
Rapid expansion with lower investment and lower risks					
Partners' local knowledge and expertise in certain products					
Less cost and time to learn Chinese culture					

Concessions ☐

Why	1	2	3	4	5
Lower investment and lower risks					
A feasible method to test a new market					
Possible change to other strategies					

Exporting & Wholesaling ☐

Why	1	2	3	4	5
Rapid expansion with minimum cost and risk					
Divestment is relative easy if mistake decision made					
Trial to the China mainland market					

Internet ☐

Why	1	2	3	4	5
Fast expansion by minimum cost and risk					
Easy to communicate with consumers and advertising					
Divestment is relative easy if mistake decision made					
Trial to the China mainland market					

Could you please make any additional comment

Q7. Which expansionary method(s)is (are) employed by your company in the mainland China, and why?

Flagship Stores	
Organic growth (Wholly owned)	
Merger and Takeover	
Joint venture	
Franchise	
Licensing	
Wholesaling	
Concessions	
Internet	

Could you please make any additional comments about your chosen method