

# The internationalisation of luxury fashion



## **Chapter 1.**

### **1. 0 Introduction**

Phau and Prendergast (2001) defined luxury brand has these characterises that are “ evoke exclusivity, have a well know brand identity, enjoy high brand awareness and perceived quality, and retain sales levels and customer loyalty”. For the Chinese economy, it has been increased at an average rate of 13 percent per year (wgsn-edu. com, 2002). In 2004, a total of 236, 000 Chinese became millionaires (Merrill Lynch & Cap Gemini, 2005). As for luxury consumption, 37% of luxury goods are purchased in Asia (Chadha and Husband, 2006). In China Chinese luxury consumer population is 300, 000 millionaires. That means Chinese consumers are playing the important role for the luxury brands as Chinese market will make or break the luxury products factors potentially (Okonkwo, 2007). Therefore, the customer usually would like to have different choices of purchasing fashion products. According to Howard and Herbig (1996) noted that “ People can perceive value is a major determinant of product success: quality images are far more important than product value; high prices portray high quality.” Bake (2003) indicated that some factors could influence the retailer companies entry on the other markets, for example, legal and language. Therefore, the retailers in order to get most profit from products from foreign markets, they will use two ways that are the methods for the company of entry into foreign market and have a choice of distribution channels in each foreign market (Terpastra & Sarathy, 1997). In international marketing, the entry method is very important for the fashion retailer to enter foreign markets.

According to the global luxury consumption, it is indicated the luxury brands are successfully in the world and also in the global luxury market growth per year (Verdict, 2009). By using the theory of internationalisation and using the process of internationalisation example of Burberry. It has strategically penetrated the Chinese market to comprehend the Chinese market. The market will have a great positive impact on the consumption of fashion goods and by highlighting their British origins and positioning themselves towards the aspirational consumers.

## **Chapter 2.**

### **2.0 Literature Review**

This literature review aims to address that the concept of retail internationalisation, its impact upon luxury fashion brands and the strategic operations of British luxury brands with Chinese retail market by using the examples of Burberry.

Hines and Bruce (2001) noted fashion retailers were the most “ prolific and successful when it came to foreign market expansion”. Unsurprisingly, the rise in academic interest reflects the increase of retail internationalisation activity as more companies seek to expand their operations overseas (Moore et al 2000).

According to Alexander and Akehurst (1995) there are six key subject areas for researchers to thoroughly address all issues concerned with the process when discussing the internationalization of retailers;

What is the internationalisation of fashion retailing?

Who are the international fashion retailers?

Where do fashion retailers internationalise?

Why do fashion retailers internationalise?

How do fashion retailers internationalise?

When does fashion retailer internationalisation occur?

## **2. 1 Definition of the luxury fashion brand**

Kapferer and Bastien said:

“Luxury is in fashion, and the fashion is for luxury.”

(Kapferer and Bastien, 2009)

Luxury brands have the power of branding, which means they can influence cultures, societies and generations potentially. Traditionally, luxury brands have main core characteristics that are brand strength, exclusivity, creative, innovation, product craftsmanship, differentiation and precision, premium pricing and high quality (Okonkwo 2007). Furthermore, the other core characteristics for the true luxury brand are global reputation, strong brand image, emotional appeal, tightly controlled distribution and visibility (Jackson and Haid, 2006). For example, Gucci, the results of the strong brand image of Gucci are in several of brand's products being back-ordered to two years. The brand value has an important relationship with consumers.

## **2. 2 What's internationalisation of retailing?**

The internationalisation of retailing is defined Treadgold (Wigley et al, 2005) as having “ visible” and “ invisible” dimensions. The Invisible dimension has been defined as the international sourcing of products and services and the cross-border transfer of management expertise in the form of managerial policies or technical skills (Kacker, 1997). That refers to the intangible facets as opposed to the physicality of opening overseas stores. On the other hand, for the visible dimension, the fashion retailer internationalisation is the operation of retail shops within foreign markets (Hines and Bruce, 2001). Consequently, the luxury fashion brands are visible in the market.

From the report of clothing retailing UK (Intel, 2003), there are 18 out of 20 top-selling clothing retailers have presence outside of domestic market, for instance, Burberry, it has 236 stores around world (BBC, 2010). At 30 June 2010, Burberry globally had 139 retail stores, 140 concessions (excluding Spain), 44 outlets and 97 franchise stores (Burberryplc, 2010). In China, Burberry has opened stores in 30 cities such as Beijing, Shanghai, and Wuhan (Burberry, 2010). According to Baker (2003, p. 799), he indicates that because of the legal, language and logistical problems, the most successful retail is difficult to enter other markets. Even though the retail companies could be slow and difficult entry the other countries, however overseas expansion is a significant process for development of retailers. Liu and Mcgoldrick (Bcaker, 2003) indicated that the long history of international product sourcing has facilitated foreign retailing operations because relationships have already been construct with the foreign destinations that is easier to instigate the process of internationalisation.

## **2.3 Who are the international fashion retailers?**

According to the British fashion council, the editors of the international fashion magazines, journals and fashion experts, who define characteristic of the international fashion retailers such firms:

Have an international profile in the fashion industry as evidenced in their having bi-annual fashion show in one of the international fashion capitals, e. g. Paris, Milan, London

Have been established in the fashion design business for at least two years

Named their own label merchandise

Retail merchandise either via outlets bearing the name of designer or within other outlets with two or more countries

(Moore et al, 2000)

From other definition, following Hines and Bruce (2007) the international fashion retailer can be defined into the four types:

The product specialist fashion retailers – narrow product range, clearly defined customer base

The fashion designer retailers – internationally recognized brand, exclusive positioning

The general merchandise retailers – mix of fashion and non-fashion products and large stores

The general fashion retailers- broad range of products and accessible pricing

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(Hines and Bruce, 2007)

Moore and Doherty (2007) defined luxury fashion retailers as:

“... those firms that 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; and

Sold within prestigious retail settings.”

Retailer that conform to this characterizes include Chanel, Giorgio Armani, Hermes, Burberry, Prada, Gucci, Louis Vuitton, Versace and Mulberry.

## **2. 4 Chinese retail cultures and economy**

For this stage, it will indicate the Chinese luxury fashion history, retailers and exporting in the world. By examining Chinese economy in the luxury fashion, China is playing an important role in the world of luxury fashion.

Chinese have great history, but to date most of people have not exhume it or they reclaimed it by their own understanding. Once China has recovered its culture and confidence in itself, there is no uncertainty factor that great Chinese luxury brands will appear, recreating the link with the past such as shanghai Tan (Chadha and Husband's, 2006)

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\$1.4 trillion economy of China is the sixth largest in the world and gross domestic product is forecast to increase 7.9% over the next five years (wgsn-edu.com, 2004). “ Since the 80s, Chinese economy has increased at an average rate of approx 13per cent per year. In some coastal cities growth has been as high as 35%.” (Wgsn-edu.com, 2002. Sep 04).

World trade in clothing and textiles is about \$350 billion. In China, employment figure range from an estimated 19 million employed Textile and Clothing manufacture in 2005 up from 14 million in 1995 to 17963 in Mauritius. That is from the table, it also indicates employment in clothing manufacture in some countries from 1995 to 2005 (see figure 1) (Hines and Bruce, 2007). There is a reason for it that the Chinese textile and retail industries have cheap labour. On the other hand, China and Hong Kong China are the leading exporters which are significantly higher than others (see figure 2) (WTO, 2005) However, China and Hong Kong China are being relatively small importers in the table.

Twenty years ago, there was no middle class in China but now, the middle class has been more than 100 million. Currently, China represents 12% of global luxury goods purchases and will grow 26 per cent per quarter for the next four years. The current of Chinese luxury consumer population is 300,000. The number of people who can afford the luxury products will grow up 1.3 billion in the next five years. That means the Chinese consumer is important for luxury brands as Chinese market will have make or break the luxury products factors potentially (Okonkwo, 2007). The high growth rate of the Chinese economy is an amazing market for the luxury fashion products industry. Chinese luxury market is the second largest to Japanese in the Asia-

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Pacific region and will grow 28 per cent annually in 2010 (Wiederhecker, 2007). Furthermore China will likely play influence role in the world of fashion. The effective of the rising Chinese designers will be increased in the next decades (Okonkwo, 2007).

## **2. 5 Market entry Strategies**

Fashion retailers as the most prolific of international retailers can be consistently recognised (Wigley and Moore, 2007). Luxury fashion brands have attracted more consistent attention and form the basis of the current work while the general fashion brands have been the focus of some academic attention (Laulajainen, 1992; Fernie et al., 1997; Moore et al., 2000; Moore et al., 2004). From Root (1987) summaries the definition of entry methods is as “ institutional arrangement that makes possible the entry of a company’s product, technology, human skills, management or other resources into a foreign country. Traditionally, entry methods can be classified into along risk or control continuum (Teradgold and Davies, 1998; Dawson, 1994; Doherty, 2000). According to Alexander and Doherty (2009), international retailers will use more than one method to develop their markets when they face a number of methods for international expansion. There are main methods for international retailing developing their markets:

Flagship stores: company owned, large in scale to show case the brand

Organic growth: internal expansion, likely new store develops within the existing or an integrated organization framework

Merger and acquisition: the acquisition of control over a firm in the international market

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Joint venture: between a company in the host country and an international firm or two firms enter into a joint venture and enter the host market

Franchising and licensing: a business gives the authorities to the international franchisee to operate the brand. Licensing, such like a agent

Exporting/ wholesaling: products sold to an international market without really stores

Concessions: a shop within a shop, usually a department store, in the host market

Within each of these methods has advantages and disadvantages, which is chosen by a retailer on basis of its product portfolio, corporate confidence and has consequent set up cost and operational control, which a retailer needs to take into consideration (Burt, 1993; Dawson, 1993; Moore and Fernie, 2004; Quinn and Doherty, 2000; Sparks, 1996; Treadgold, 1991; Treadgold and Davies, 1988). Burt (1993). Following Simpson and Thorpes (1996) PLIN model the companies successful in foreign markets because their heritage provides them with niche differentials and internationally appealing brands as highlighted. This model suggests that retailers should do differential advantages via “ product, lifestyle, image and niche differentials from their competitors.

### **The factors of internationalization entry methods**

Goodnow and Hanz (1972) indicate that companies need to consider five factors to start planning for foreign market entry:

The environment of market- policy decision is affected by the environment of political and economic factors of the foreign market

The competitiveness of the company- affected by the scale of company, technological level and experience of internationalisation

The characteristic of the product- influenced through specialty of the production or different of production life cycle

The consideration of company's capital and budget- it is affected by the limitation of company's capital.

The cognition of inner company- the decision maker of company has the opinion towards the scale of risk for the demands of expansion foreign market

The luxury fashion company, Burberry, says it is going to buy out its franchisees in Mainland China at beginning of September (Independent, 2010). Burberry will pay £70 million (\$108 million) to take full control of 50 stores in 30 cities in China, which include 9 stores in Beijing and 4 stores in Shanghai, from its franchisee Kwok Hang Holdings of Hong Kong (BBC, 2010).

The reason for Burberry to buy out its local franchise partner is that it will give more Burberry company control over the merchandise and how it is marketed. The chief financial officer of Burberry said: " We believe we can drive more productivity with those stores." and Burberry was looking to double the number of shops in the country. She also said the country would be a " double-digit growth driver"(Independent, 2010). Furthermore, for the development of retailer expansion in the foreign country, SWOT analyses can

provide them with an outline of their strengths, Weakness, opportunities and threats, which can assist in direction when they enter into international markets (See figure 3).

Burberry operates flagships in four markets that are London, New York, Tokyo and Barcelona (Moore and Doherty, 2007). Therefore Burberry did not use the flagships store method entry into China. However, for one of the entry methods, concessions, nowadays, Luxury players have held out longest in Europe against locating in malls, which has been anathema to the retailers. However this has been the preferred route to market in regions, such as China in Asia (Verdict, 2009). Similarly in Beijing both Shingkong Place and ST Plaza big department malls anchoring many luxury brands. Burberry operates concessions within these department stores throughout China.

However, Burberry will operate the flagship store in Beijing in 16th December. That flagship store will be the most great in Asia (ELLEChina, 2010).

## **2. 6 International expansion direction**

Some studies examined that the direction of expansion of specific fashion retailers is largely determined by their market position (Hind and Bruce). According to Hollander (1970) found that a focus on capital city expansion was a common trait of the internationalising luxury fashion retailers and termed the strategy the 'New York, London, Paris syndrome'. In the 1990s, as a consequence of the hardly competitive conditions within the European Union and as a result of the opportunities afforded by the demise of the

USSR. Therefore Fashion retailers have focused on their international expansion to emerging markets includes China, Russia (Fernie et al., 1998)

The place of distribution refers to the areas that are make products and services available to customers. Retail channels are most effective when they meet the consumer's expectations in terms of location, convenience and product assortment (Okonkwo, 2007). For luxury brands, there is the additional task of brand protection in the distribution areas choice such as licences or franchises. However, as early mention in previous chapter, in China, luxury retailers entry the market for the place of distribution via another choice.

For an instant, The British luxury brand, Burberry, has 47 stores in Mainland China. In Beijing, Burberry operates eight stores.

## **Chapter 3.**

### **3. 0 Luxury brands in the world**

#### **3. 1 Global luxury consumption**

During the last few years, the luxury market has sustained growth. The luxury market has grown from \$20 billion to \$68billion from 1985 to 2000 in spite of the September 11 attacks and other events disruptive to global trade (The Economist, 2002). Even though some factors can influence the consumption of luxury brand in the market, which include image, quality, store atmosphere (Deeter-Dchmelz et al, 2000). However, Global consumers spend on luxury brands still grow 102. 5% over 2003 to 2008 in \$. In the euros, the global luxury market grew by 41. 8% to €224. 5bn over the 2003 to 2008, with a growth slowdown becoming evident in the latter half of 2008

because consumers expenditure on luxury brands slowed under the impact of the global financial crisis (see figure 4) Furthermore, the luxury goods sector has become increasingly more internationalised in recent year (see figure 5) (Verdict, 2009).

### **3. 2 Burberry in China**

Thomas Burberry created Burberry in 1856 in Basingstoke, England when he opened a store to sell men's outwear, soon becoming known for the development of a fabric called " gabardine". During the First World War, Burberry continued to develop the officer's raincoat named the " Trench coat"(Moore & Britwistle, 2004). Burberry is a global luxury brand with a distinctive British heritage, core outerwear base and one of the most recognized icons in the world. In China, after Burberry bought its franchisee back from Kwok Hang Holdings of Hong Kong (BBC, 2010). According to Burberry Group PLC (2010) Burberry plans to open about 10 stores in China in the current financial year when applying global marketing, retail, merchandising and IT disciplines to drive store productivity. From Angela Ahrendts, Chief Executive Officer commented:

" The acquisition of Burberry's store operations in mainland China will allow us to further leverage our proven brand and business strategies in this high growth luxury region. With a solid foundation of 50 stores across 30 cities, operational expertise and strong brand momentum, this is an optimal time for Burberry to integrate this business."

Chinese market is an exciting market for the British luxury brand, Burberry. Furthermore, Burberry also plans to add 66 stores and 44 Chinese outlets in

China by 2012 (Independent, 2010). In the other hand, According to Burberry annual report (2009) the revenues of Burberry were up 30% in Asia-Pacific and in 2009 to 2010, the retail and wholesale revenue were 24% in Asia-pacific includes China. (see Figure 6)

## **Chapter 4.**

### **4. 0 Methodology**

#### **4. 1 Introduction**

This chapter will definite the relevant methods of research that proceeds to give the most accurate findings for the aim and objectives of the project that have already been discussed. A vary of research methods will be examined at individually. After identify all the methods a few approaches will be selected for examining the retail internationalisation of British luxury fashion brands into Chinese market.

#### **4. 2 Research approaches**

According to Proctor (2000) indicated “ Qualitative research examines the attitudes, feelings and motivations of products users.” Qualitative research is characterised by small samples and this has always focus on criticism. Qualitative research has advantages to grow in popularity. Firstly, it is much cheaper than quantities research. Secondly, an understanding of customer attitudes and motivations is produced a good mechanism by Qualitative research. Thirdly, it can improve quantitative research efficiently. Otherwise, qualitative research cannot provide samples for representative of the target population of the research.

Quantitative research is focused with measuring elements of a market or the population of consumers marking up the market. This contains 'soft' phenomena such as consumer attitude as well as market size, brand shares and purchase frequencies etc (Hague and Jackson, 1999). Quantitative research is a large sample size and it use statistical to analysis (Proctor, 2000).

### **4. 3 Sampling**

The definition of sampling is from Chisnall (2001), it is concerned with the study of the relationships existing between a population and the samples drawn from it. Proctor (2000) indicated sampling, some so-called census information is in fact obtained via sampling. That means computer assisted statistical procedures make it possible to obtain useful information about the population through questioning only a selected sample of persons.

There are two main types of sampling methods according to Chisnall (2001)

Probability samples- it is different between the sample value and the true value of the population surveyed.

Non-probability samples- it require certain percentages of the sample to be women or men, housewives under thirty or a similar criterion.

### **4. 4 Survey**

The primary data is indicated that asking people questions about their knowledge, attitudes, preferences and buying behavior (Kotler et al 2002).

According to Proctor (2000) explored some of the various method of primary data through surveys:

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Postal surveys

Personal interviews

Telephone surveys

Completely self-administered surveys

Panels

Omnibus studies

## **4. 5 Questionnaires**

A Questionnaire is an important stage of the total research methods and its preparation and administration demand considerable professional expertise. It obtains specific information about a defined problem so that data result in a better appreciation of the problem after analysis and interpretation Chisnall (2001).

According to Hague and Jackson (1999) noted purposes for the questionnaires. Firstly, primary role is to draw accurate data from respondents. Secondly, they provide structure to interviews. Thirdly, a questionnaire is to provide a standard form on which facts, comments and attitudes can be written down. Finally, questionnaire facilitates data processing.

Question can be classified into two types that are open-ended question and closed questions. Open-ended question is also known as ' free answer' or ' free response'. The respondent is considerable freedom in phrasing an answer, which may be lengthy and detailed, and in his or her own words. On <https://assignbuster.com/the-internationalisation-of-luxury-fashion/>

the other hand, closed questions are identified as calling for responses, which are strictly limited. That means he or she can choose alternative replies from they are expected to select an answer corresponding their on a particular subject (Hague and Jackson, 1999). Survey questionnaires are applied in different ways such as telephone interviews, formal structured personal interviews and self-administered studies (Proctor, 2000).

## **4. 5 Observation**

According to Proctor (2000) indicated observation is a drawback of the survey method. It obtains much of the information is based on interviewees' statements describing what they have done or expect to do in the future. Observation includes the personal or mechanical monitoring of selected activities. Chisnall (2001) said observation may be either participative or non-participative as indicated in the receding section. Participative observation would seem to have very limited application in marketing research. On the other hand, non-participative widely used in scientific studies and termed the ' classical method of investigation' has several applications in marketing research. Hague and Jackson (1999) noted that observation is used in shopping studies, especially in stores. It is used to find out how things are done in practice.

Observation can classified into these stages for the in-store environment:

Distribution

Shelf price

Shelf facings -reported in number and share

Shelf location

Display activity

Presence of point-of-purchase material

(Proctor, 2000)

## **4. 6 Focus group**

A focus group is a common form of a group interview. The aim of focus group is to learn and understand what people have to say about a topic and understand their arguments. The purpose is to discover how it forms part of their lives and how they feel about products, idea or organization.

Focus group can be classified into three types that are exploratory groups, clinical focus group and employing focus group. Exploratory groups method is often used by focus group and helping to define the problem precisely. Clinical focus groups are used as true motivations and feelings of a person are subconscious. Employing focus groups provide information and data about problem by the mechanism of group dynamics. (Proctor, 2000)

## **4. 7 Interviews**

According to Chisnall (2001) defined as a conversation directed to a definite purpose other than satisfaction in the conversation itself. An interview concerned with a purposeful exchange of meanings and interaction between the interviewer and the respondent. The quality of the interview depends on the interviewer developing a relationship with the answers, which will encourage good communication.

## 5. 0 Conclusion

Tungate (2008) indicated luxury brands have identified opportunities in Asia as a whole, everyone wants to talk about China. And also, Dickson Poon, the Hong Kong entrepreneur who owns Harvey Nichols, said: “ China definitely has the potential to become the largest luxury goods market in the world.” Poon says that a number of Chinese with the wherewithal to buy mid-price consumer goods has reached 300 million. The Chinese is already worth an estimated US\$550 billion. The people frequently travel for shopping not only to Hong Kong, they will go to further afield such as Beijing, Shanghai, Shenzhen, as there place is a new wealth. Therefore, British luxury brand, Burberry successful entry into Chinese market. According to the data and information as mentioned in previous sectors indicated Burberry is good example of British luxury brand in Chinese market even though Burberry spent £70 million (\$108 million) to take full control of 50 stores in 30 cities in China. Like Angela Ahrendts, Chief Executive Officer said: “ Chinese market is an exciting market for the British luxury brand.”(Burberry Group PLC 2010) So, Burberry is developing in Chinese market constantly, and they will open the most largest flagships store in Beijing soon as mentioned in previous sector.

The aim of this project is to understand the retail internationalisation of British luxury fashion brands into the Chinese market. Therefore, objectives will be achieved by using both primary and secondary research methods to examined the retail internationalisation of British luxury fashion brands into the Chinese market. The literature review includes extensive secondary research from published authors of books, journal articles etc. to provide an

examination of theoretical work. However, this project would benefit from the following methods of research have been selected as the best approaches to gain the most accurate findings.

Index.

Figure 1.

Source from: Bruce M. and Hines, Fashion Marketing contemporary issues, pp. 3

Figure 2.

Source from: Bruce M. and Hines, Fashion Marketing contemporary issues, pp. 5

Strengths

Gross margin increased from 52. 1% in 2008/09 to 59. 7% in 2009/10

Annual sales of £1280m

Retail revenue is £749m

Authentic British heritage

Its founding in 1856 by Thomas Burberry

Globally recognized icon portfolio e. g. trench coat, trademark check

Top 100 global brands

Weaknesses

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Profit fell from £62m to 25m in 1998

The foreign group out of control

Over-reliance on a number of key product suppliers

Burberry over-relies upon licensees

Opportunities

Enhance consumer responsiveness

Operate more efficiently and effectively

Upgrading existing stores

Execution of the global buy

Threats

Competition from other luxury global brands such as Chanel, Gucci

Burberry could suffer if its supply chain is unable to produce

Burberry may be unable to control its wholesale and licensees

Figure 3  
Burberry SWOT analyses

Figure 4.

Source from: Verdict (2009), Global luxury retailing, pp. 23

Figure 5

Source from: Verdict (2009), Global luxury retailing, pp. 24

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