Direction of Luxury Fashion Retailers' Post-Entry Expansion
– The Evidence from China

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1. Introduction

International retailing has become an increasingly important and popular research field since the 1980s, because of the transfer of market power from manufacturers and wholesalers to retailers, and the acceleration of retailer internationalisation activities (Swoboda *et al*., 2009). In particular, fashion and luxury fashion retailers, whose business activities include manufacturing, distribution, communication and service provision, have achieved considerable worldwide success since the early 1990s (Hennigs *et al*., 2015). Recently, the landscape of the international luxury fashion market had been influenced by rapidly growing continent-sized emerging markets, in particular, China (Ye *et al*., 2018). In the past two decades, luxury fashion retailers in China have not only strengthened their retail operations in tier-1 national capitals, but they have also extended their retail operations into wider ranges of tier-2 regional and/or provincial capitals and tier-3 non-capital cities as well as e-commerce (Bai *et al*., 2017). Indeed, the value of the international luxury fashion market reached €281 billion in 2019, of which over one third was contributed by the Chinese market (Bain & Co. 2019).

Meanwhile, in the international retailing literature, recent studies have focused on more

specific issues, such as branding strategies (Christmann *et al*., 2016), the internationalisation of small retailers (Hutchinson and Quinn, 2011), international expansion into emerging markets (Gomes *et al*., 2018), and omni-channel retailing (Ye *et al*., 2018). The classic six-question research agenda for retailer internationalisation (*what*, *who*, *why*, *where*, *how* and *when*), and in particular the direction of retailer internationalisation (*where*), however, still remain important, because the choice of host markets helps to understand retailers' internationalisation strategies, that is, perceived psychic distance, resource commitment, and external trading conditions (Schu and Morschett, 2017).

Nevertheless, the majority of the previous literature has focused on the country-level market, rather than post-entry expansion strategies and activities after initial market entry (Frasquet *et al*., 2013). Indeed, retailer internationalisation is a dynamic and is a continuous process, which is not only about foreign market selection and entry, but is also about post-entry further expansion and ongoing management and operations (Bai *et al*., 2017). Therefore, this empirical study, aims to examine the direction of luxury fashion retailers' post-entry expansion direction after their initial entry into a host market in China. The following section reviews the literature in relation to the definition of luxury fashion retailers and their post-entry expansion direction.

2. Literature Review

2.1 Defining Luxury Fashion Retailers

The democratisation of luxury in modern society has seen increasing numbers of marketers

adopt the philosophy of luxury into their branding strategies for both tangible goods and intangible services in order to fuel demand and persuade target consumers to trade up, communicating exclusivity and adding value for example through material sourcing, production processes, distribution and communication (Kapferer and Valette-Florence, 2016). The growth of luxury market potential has resulted in expansion into international markets and increased global success and has led academics to focus their research on luxury brands, and particularly luxury brand management (Kapferer, 2015), brand extension (Boisvert and Ashill, 2018), and consumer behaviour (Shukla *et al*., 2016), especially online shopping activities (Liu *et al*., 2013), and counterfeit consumption (Chen *et al*., 2015). Despite this level of interest in the luxury goods and market, a universally accepted definition for luxury brand has yet to be established because of a high degree of subjectivity and the strong influence of the social-cultural context, various expectations about the quality of luxury goods and services, and different levels of premium prices within different countries or cultural zones (Laforet and Chen, 2012). Most recently, Ko *et al*. (2019) evaluated several high impact studies relating to the luxury market and re-defined the luxury brands from the consumer perspective as: "*a branded product or service that consumers perceive to*:

1) *be high quality;*
2) *offer authentic value via desired benefits, whether functional or emotional;*
3) *have a prestigious image within the market built on qualities such as artisanship, craftsmanship, or service quality;*
4) *be worthy of commanding a premium price; and*
5) *be capable of inspiring a deep connection, or resonance, with the consumer*". (p.406)

Although the definition re-emphasised the majority of criteria of luxury brands in general,

some elements can be challenged, particularly in the context of fashion retailing. The parameters that qualify a brand to be luxury brand are dynamic in nature. The exclusivity of luxury brand image can be diluted by easy accessibility and over distribution (Kapferer, 2015), and the inconsistency between a brand's country-of-origin and place-of-production (Arora *et al.*, 2015). It is also difficult for a luxury brand to maintain its luxury status in the face of fast moving markets and increasingly sophisticated consumers, witnessed by "anti-logo" consumption patterns, which reveals that luxury brands with conspicuous logos are decreasing in popularity (Makkar and Yap, 2018). Moreover, over extension especially downward extension of luxury brands and the upward extension of premium brands has blurred the boundary between luxury and premium (Spiggle *et al.*, 2012).

Because fashion retailing is one of the most important and popular business sectors which widely employs luxury branding strategies, Moore *et al.* (2010) suggested to understand luxury brands from a more practical perspective. They define 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 setting*". (p.143)

Since the scope of this study is international retailing, this definition is considered to be the most appropriate due to detailed operational dimensions employed by luxury fashion retailers.

This paper focuses on luxury fashion (manufacturing) retailers such as Louis Vuitton (Guercini and Milanesi, 2017), rather than high-end fashion (distributing) retailers such as Harrods or premium fashion (manufacturing) retailers such as COACH.

2.2 Luxury Fashion Retailer Post-Entry Expansion Direction

Similar to other categories of retailer, the international expansion of luxury fashion retailers is a geographical process (Siebers, 2017). Therefore, their evaluation and decision-making about host markets provides important clues as to the challenges that they expect to face and how may find solutions to these challenges (Ojala, 2015). Luxury fashion retailers assess target markets through either the one-stage approach which mainly involves screening macroeconomic indices or by multi-stage models which are stepped decision based on market evaluation (Frasquet *et al*., 2018).

Within the classic international business literature, psychic distance is regarded as the core of the incremental internationalisation approach, which explores the challenges of foreign markets, including culture, language, education, business practice, political and legal systems, economic development and industry structure (Evans *et al*., 2008). The Uppsala model identifies that companies initially expand into markets psychically proximate with their home markets, and then extend into psychically distant markets, increasing their commitment to the host markets when they become more confident having gained local knowledge and international experience (Vahlne and Johanson, 2017). Indeed, in order to minimise the risks

associated with internationalisation and maximise control over operations abroad, generic retailers even fast fashion retailers are keen to adopt a "stepwise" expansion strategy to internationalise, from geographically/culturally proximate host markets to distant markets, for example ZARA, GAP and H&M (Lopez and Fan, 2009).

Nevertheless, the importance of psychic distance in modern international markets has been weakened due to integration of global culture and economics, and improved communication technology (Schu and Morschett, 2017). Not all retailers, however, adopt an incremental path to internationalisation, particularly luxury fashion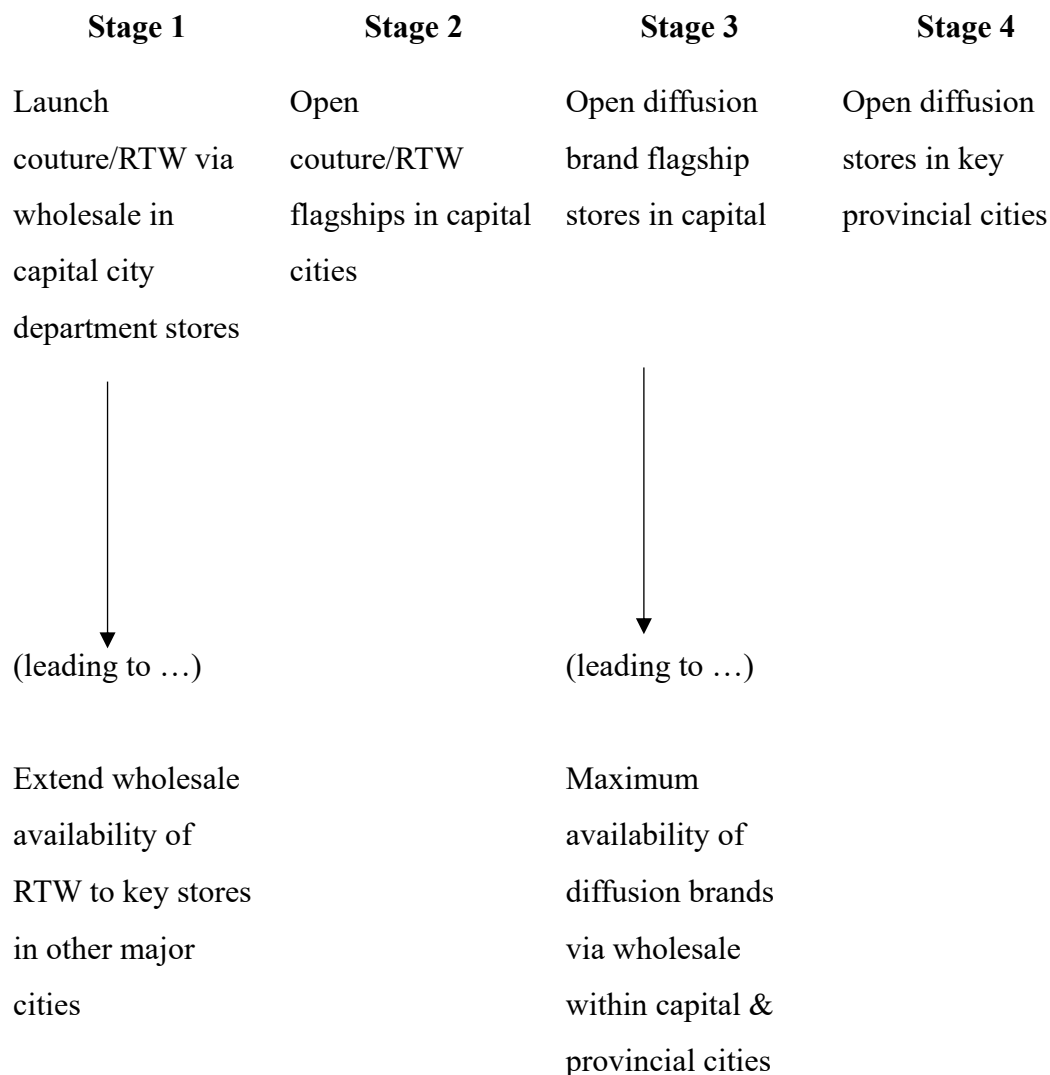 retailers (Chevalier and Gutsatz, 2020). Increasingly homogeneous global customer preferences, distinctive products, and the global attractiveness of brands can each prompt worldwide expansion of luxury fashion retailers, who are less inhibited by issues of cultural and geographical accessibility and instead seek to maximise success through aggressive globalisation strategies which involve aspects of product desirability, lifestyle, image and niche opportunities, such as the "New York, London, and Paris syndrome" (Moore *et al.*, 2010). Despite contribution, most of prior studies focused on developed markets rather than emerging markets (Yu and Ramanathan, 2012). They also focused on initial foreign market entry rather than explaining the criteria used to assess and evaluate local markets after initial entry (Bai *et al*., 2017).

According to a small body of literature, which focuses on grocery retailers in China, it is identified that multinational supermarket chains developed their business operations in China

through a countrywide expansion pattern, which simply followed the tier-system of Chinese cities (Wang and Li, 2012). Indeed, Wang and Liu (2008) argue that foreign supermarket chains extended their operations to tier-2 and then tier-3 cities from tier-1 national capital cities or entry city. Siebers (2017) confirmed such post-entry expansion patterns, and highlighted the regional differences in terms of socio-economic factors within China. These valuable studies identified the regional differences, and provided a relatively comprehensive understanding of foreign retailers' post-entry expansion direction in China. Unfortunately, they are limited in explaining the activities of luxury fashion retailers due to different branding strategies and operations (Kapferer, 2015). Moreover, Chevalier and Lu (2009) identified that luxury fashion retailers typically enter into the US market from East and West costal metropolis, and then simply expand further into middle regions. However, the regional differences in China are far more complicated than in the US market (Liu *et al*., 2016).

In the context of the luxury fashion retail market in the UK, Moore *et al.* (2000) developed a four-step business model employed by internationalising luxury fashion retailers entering and developing business within the UK (Figure 1).

Figure 1: The four stages of luxury fashion retailers market development in the UK

Stage 1	Stage 2	Stage 3	Stage 4
Launch couture/RTW via wholesale in capital city department stores	Open couture/RTW flagships in capital cities	Open diffusion brand flagship stores in capital	Open diffusion stores in key provincial cities

(leading to …)   (leading to …)

Extend wholesale availability of RTW to key stores in other major cities		Maximum availability of diffusion brands via wholesale within capital & provincial cities

Luxury fashion retailers initially entered into UK through wholesaling agreement with established and high-end department stores in London, because this low-cost and low-risk entry mode helps them to generate cash flow, customer loyalty and market intelligence. Once created demands within the capital cities, they would expand to provincial capitals through the department stores' networks. Having gained success through wholesaling agreements, they enhanced engagement with capital cities by opening couture/Ready-To-Wear (RTW) flagship stores located in the premium shopping districts. Despite the extremely high cost,

such flagship stores within capital cities have not only help them to generate profits through relatively more standardised RTW, but more importantly to help them to raise brand awareness and even loyalty. They then extended further by opening diffusion brand flagship stores in capital cities, which maximised the availability of diffusion. Finally, they developed diffusion stores in key provincial cities, such as Manchester and Glasgow.

The study offers depth insight into the where and how of luxury fashion retailers entering a host market, and the further development of operations within the country. However, it was developed within the UK, where high-end department stores are popular and regarded as an appropriate shopping destination for luxury fashion brands. This kind of market infrastructure offers foreign luxury fashion retailers opportunities to adopt low-cost and low-risk entry modes and to further expand via an incremental process. While, the market infrastructures in emerging markets are largely different. Bai *et al*. (2017) identified that luxury fashion retailers are keen to adopt high-cost modes to enter into China because of the lack of high-end department stores and the desire to fully control their brands and business practices. In terms of store formats, stand-alone stores located in luxury malls and high-end hotels are more suitable for foreign luxury fashion retailers in China, because of the lack of high-end department stores and premium shopping districts (Lu, 2012).

Post-entry expansion beyond provincial cities had not been considered by this study. In terms of geographic size and domestic regional differences relating to economies, culture, urbanisation and market infrastructure, the UK market is not as complicated as the Chinese

market (Bai *et al*., 2018). Therefore, the first research question is:

R1: *Where and how have internationalising luxury fashion retailers expanded after their initial market entry into China*?

Moore *et al*. (2000) only identified the post-entry expansion from capital cities to key provincial cities and did not offer the criteria employed by luxury fashion retailers to assess and select local markets for further expansion. Therefore, the second research question is:

R2: *What are the criteria employed by internationalising luxury fashion retailers to assess local market for their physical stores*?

Finally, the impact of e-commerce on luxury fashion retailers' operation and brick-and-mortar store portfolio was not considered, probably because the impact and popularity of e-commerce at that stage was not well developed. The rapid development of e-commerce has influenced luxury fashion retailers' internationalisation strategies and offered effective opportunities for them to explore and to build an insightful understanding of local markets in advance of actual market entry (Bai, 2018). Therefore, the third research question is:

R3: *How has e-commerce influenced foreign luxury fashion retailers' decisions about local markets for brick-and-mortar stores in China*?

The next section will justify the research methodology and discuss the research design according to the above three research questions.

3. Research Methodology

Since this study's research topic remains under researched, it is necessary to obtain a relatively comprehensive understanding of luxury fashion retailers' post-entry expansion direction in China. Therefore, the researchers regarded an interpretivist qualitative multiple case study as the most appropriate methodology, focusing on "*what*", "*how*", and "*why*" research questions (Creswell and Creswell, 2018). It is also capable of analysing data within each case and/or across cases, and gaining an understanding about the similarities and differences between cases, therefore enhancing the validity and reliability of the findings (Yin, 2018). Indeed, multiple case studies have been widely employed in the luxury fashion marketing research field (Liu *et al*., 2016).

In order to ensure sufficiency of strategic and operational experience, the target sample for this research was evaluated and selected by means of three criteria: originating from foreign countries; having operations in at least two cities in China; and having at least five-years of experience. The database then was developed from three major sources. The lists of members of reputable luxury committees were employed, including Comité Colbert (France), Fondazione Altagamma (Italy), Walpole and British Council of Fashion (UK), and the Council of Fashion Designers of America (US). The directories of the top ten luxury malls in mainland China and the Peninsula Hotel Beijing were employed. The marketing reports published by established organisations were evaluated, including Bain & Co. (2017), Deloitte (2017), and McKinsey (2017). In the end, 76 target luxury fashion retailers were identified.

The 76 target retailers were initially contacted by the cover letters, which were sent by e-mail, as well as mailed to the head office in their home countries and the regional head office in Hong Kong, Beijing, or Shanghai in May 2018. By the end of September 2018, fourteen retailers agreed to participate. Since the researchers had identified that the samples had reached saturation, 30 executive interviews in total took place between October 2018 and July 2019, lasting between 45 and 70 minutes. All participating retailers and the interviewees were coded in order to fulfill the confidential agreements, and were alternatively described through country of origin, retail formats, ownership structures, and interviewees' job titles. Moreover, all interviewees listed in Table 1 were capable of providing the necessary information on decision making about policy making and strategic implementation.

Table 1: Profile of the participant retailers

	Country of Origin	Retail format	Ownership	Year & City of China's entry	Entry mode	E-commerce	Number of interviews & Interviewee position
A	France	Design house	Private	1996 & Beijing	Organic growth	Yes	2 & Managing Director, Retail Operations Director
B	France	Design house	Subsidiary	1992 & Beijing	Organic growth	Yes	2 & Vice President, Retail Director
C	Germany	Accessories & leather goods	Subsidiary	1996 & Beijing	Organic growth	Yes	2 & Managing Director, Wholesale Manager
D	Germany	Design house	Private	1994 & Shanghai	Franchising	Yes	2 & Business Development Director, Retail Director
E	Italy	Design house	Subsidiary	2007 & Shanghai	Organic growth	Yes	2 & Vice President, Brand Manager
F	Italy	Design house	Private	1995 & Beijing	Franchising	Yes	2 & Managing Director, Wholesale Manager
G	Italy	Design house	Subsidiary	1993 & Beijing	Franchising	Yes	3 & Retail Manager, Managing Director, Brand Manager
H	Spain	Design house	Subsidiary	2001 & Shanghai	Organic growth	Yes	2 & Vice President, Managing Director
I	Switzerland	Design house	Subsidiary	1991 & Beijing	Organic growth	Yes	3 & Vice President, Digital Marketing Director, Retail Director
J	Switzerland	Jewellery & watches	Private	1999 & Beijing	Organic growth	No	2 & Managing Director, Digital Marketing Manager
K	UK	Design house	Private	1993 & Shanghai	Organic growth	Yes	2 & Retail Market Manager, Strategy Director
L	UK	Design house	Subsidiary	1997 & Beijing	Licensing	Yes* (through e-commercial platforms)	3 & Managing Director, Retail Director, E-Commerce Manager
M	US	Jewellery & watches	Subsidiary	2001 & Shanghai	Organic growth	Yes	2 & Managing Director, E-Commerce Manager
N	US	Design house	Private	1997 & Shanghai	Franchising	Yes	2 & Digital Market Manager, Retail Director

In order to minimise researchers' and interviewees' subjective bias and enhance the validity of the data, the researchers utilised secondary data including annual reports, internal documents, and marketing reports. Subsequently, the qualitative data was analysed using Thematic Analysis in NVIVO 10, which allowed for the development of codes and references that were retained in an index system so that the data could be carefully identified and explored. The findings will be presented and discussed in the next section.

4. Research Findings

4.1 Luxury Fashion Retailers' Post-Entry Expansion Direction in China

This study identified that post-entry expansion patterns of the participant luxury fashion retailers are different (Table 2).
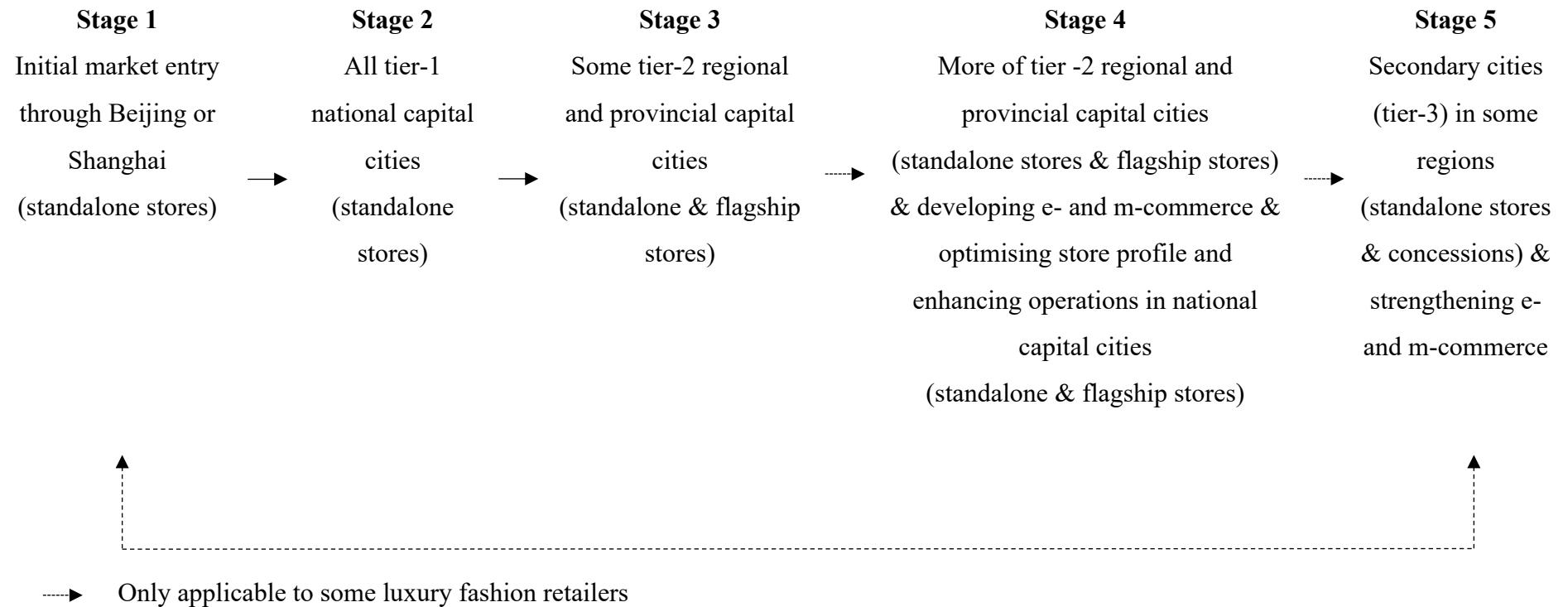
Table 2: Post-entry expansion patterns of participant retailers

	Initial entry market	Post-entry expansion patterns
A	Beijing	All tier-1 and tier-2 capitals, and small number of tier-3 cities in affluent regions
B	Beijing	All tier-1 and tier-2 capitals, and small number of tier-3 cities in affluent regions
C	Beijing	All tier-1 and tier-2 capitals, and large number of tier-3 cities in various regions
D	Shanghai	All tier-1 and tier-2 capitals, and large number of tier-3 cities in various regions
E	Shanghai	All tier-1 and tier-2 capitals, and small number of tier-3 cities in affluent regions
F	Beijing	All tier-1 and tier-2 capitals, and large number of tier-3 cities in various regions
G	Beijing	All tier-1 and tier-2 capitals, and large number of tier-3 cities in various regions
H	Shanghai	All tier-1 and tier-2 capitals, and small number of tier-3 cities in affluent regions

I	Beijing	All tier-1 and tier-2 capitals, and large number of tier-3 cities in various regions
J	Beijing	All tier-1 national capitals and a few tier-2 regional capitals
K	Shanghai	All tier-1 and tier-2 capitals, and small number of tier-3 cities in affluent regions
L	Beijing	All tier-1 and tier-2 capitals, and large number of tier-3 cities in various regions
M	Shanghai	All tier-1 national capitals and a few tier-2 regional capitals
N	Shanghai	All tier-1 and tier-2 capitals, and large number of tier-3 cities in various regions

The Figure 2 illustrates the three major patterns of participant luxury fashion retailers' post-entry expansion in China. The first is cautious expansion, through which the retailers progressed to Stage Three only, and focused on national capital cities (tier-1) and regional and provincial capital cities (tier-2) for their physical stores. Two participant retailers adopted this strategy. Both entered China through high cost organic growth. The second is regional expansion, through which the retailers have developed retail operations in a wider range of cities (including small number of tier-3 cities in affluent regions) stopping at Stage Four. Five participant retailers had adopted this strategy, and initially entered China through high cost organic growth. The third is countrywide expansion, through which the retailers are running retail stores in a large number of cities (more tier-3 cities in various regions). Half of the participant retailers had adopted this strategy. Five out of seven entered into China through medium cost local partnerships, including franchising and licensing.

Figure 2: Internationalising luxury fashion retailers' post-entry expansion direction in China

Stage 1	**Stage 2**	**Stage 3**	**Stage 4**	**Stage 5**
Initial market entry through Beijing or Shanghai (standalone stores)	All tier-1 national capital cities (standalone stores)	Some tier-2 regional and provincial capital cities (standalone & flagship stores)	More of tier-2 regional and provincial capital cities (standalone stores & flagship stores) & developing e- and m-commerce & optimising store profile and enhancing operations in national capital cities (standalone & flagship stores)	Secondary cities (tier-3) in some regions (standalone stores & concessions) & strengthening e- and m-commerce

------► Only applicable to some luxury fashion retailers

In Stage One, all participant retailers entered into China from national capital cities, either Beijing or Shanghai, through standalone stores in high-end hotels and luxury malls. Eight participant retailers who entered from Beijing developed their first retail stores in China at the Peninsula Hotel Beijing. Even today, luxury hotels remain important for luxury fashion retailers' market entry in most of emerging and less developed countries, because they are capable of providing a safer investment environment and luxury shopping experience. Participant retailer B (a group owned French design house, entered China in 1992 through wholly owned standalone store in Beijing) justified such importance, and explained:

"*Until today, high-end hotels are extremely important for any luxury brands in most emerging markets, because they are usually regarded as symbols of luxury, and they are really good at offering intangible value and luxury experiences for consumers there, as well as appropriate investment environment for us*".

During Stage Two, all of the participant retailers had developed their operations into the remaining tier-1 national capital cities, Guangzhou and Shenzhen, through standalone stores in luxury malls and hotels. The expansion in this stage was motivated by two main reasons. The first is that local knowledge about South China and experience obtained in established operations in Hong Kong prior to entering mainland China, proactively encouraged them to establish retail operations in both cities (Bai *et al*., 2018). The second is strongly related to their long-term growth strategy in China. In order to develop a strategic distribution network to cover most parts of the country, the retailers needed to establish operations in Guangzhou and Shenzhen (regional capital cities in South) after Beijing (North) and Shanghai (East).

Participant retailer N (a private American design house, entered China from Shanghai in 1997 through a franchised standalone store) confirmed:

"*Our business in China is a long-term strategy, we must establish a distribution network to cover all major regions, so we went to Guangzhou (South) right after Beijing and Shanghai*".

After establishing retail operations in all national capital cities, all participant retailers started to develop their business further into tier-2 capital cities in some provinces and autonomous regions in East, South and North in the Stage Three. Standalone stores remain popular and important, but flagship stores started to be adopted in some regional capital cities, such as Hangzhou (East). The two participant retailers, adopted cautious expansion strategies, halted further expansion before moving into the final two stages. The reasons include limited financial capacity because of expensive wholly owned expansion, and the desire to avoid diluting a highly exclusive brand image because of over distribution. For instance, participant retailer J (a private Swiss jewellery and watch specialist who entered China in 1999 through a wholly owned standalone store in Beijing) explained:

"*As a top exclusive brand, difficult accessibility is vital for us. We do not want to dilute such brand image by over exposure… Directly owned operations are very expensive, we cannot afford to operate in many cities*".

During the Stage Four, twelve participant retailers further extended their operations into more tier-2 regional and provincial capital cities through standalone stores and a few flagship stores. Five participant retailers, who had adopted regional expansion strategies, have paused their offline expansion here. The fast-growing West China has also become increasingly

important, for example Chongqing and Chengdu in Southwest and Xi'an in Northwest.

Indeed, participant retailer A (a private French design house, entered China in 1996 through a wholly owned standalone store in Beijing) was preparing to open their first store in Northwest at Xi'an during this research. Meanwhile, the national capital cities became increasingly competitive, some participant retailers have started to strengthen their operations by running more standalone and flagship stores in Beijing and Shanghai. Nevertheless, four participant retailers indicated that overall post-entry expansion of physical stores had slowed down during this stage because of their desire to develop e-commerce and an increasingly saturated physical stores portfolio. Thus, they had started to develop their online operations through multiple channel strategies, and optimised their store profile through withdrawal from some less strategically important tier-2 provincial capital cities. For instance, participant retailer K (a private British design house, entered China in 1993 through a wholly owned standalone store in Shanghai) explained:

"We had established e-commerce through official online store (embedded in official website), and e-flagship store at Tmall.com (a subsidiary of Alibaba Group). Such development helps to optimise store portfolio via opening more stores in strategically important cities and shutting stores in non-strategically important cities".

Only seven participant retailers who adopted countrywide expansion strategies had progressed to the final stage, through which they penetrated their offline operations further in to secondary cities (tier-3) in North, East and South. Indeed, due to rapid economic growth and fast urbanisation during the past decade, various regions, especially Pearl River Delta (South) and Yangtze River Delta (East), have become lucrative target markets. However,

because the market infrastructure of these secondary cities is not as developed as capital cities, for example a lack of luxury malls, the retailers were compromised by local conditions and started to adopt concessions and standalone stores. Furthermore, not all of seven participant retailers followed a stepwise approach to reach the final stage. Three of them had achieved countrywide operations directly from their initial market entry. All of the three were private design houses, who entered China through local partnerships. Finally, as e-commerce has become increasingly important, participant retailers have start to strengthen their online performance through either multi-channel or omni-channel strategies (Bai, 2018).

4.2 The Criteria for Assessing Local Markets

Alexander and Doherty (2009) identified a series of determinants which retailers adopt to assess foreign markets, including geographic and cultural proximity, similar economic development and social conditions, and similar or different market infrastructure. However, as suggested by this study, a different set of criteria should be considered for post-entry expansion, especially in China where considerable regional differences exist. Compared with supermarket chains, luxury fashion retailers have employed more complicated and inter-related criteria to assess local markets for post-entry expansion of retail operations.

Firstly, location, strategic importance and market coverage (number of non-capital cities could be commercially covered) of a city are deemed top priority. This can be evidenced from indications that regional capital cities, such as Shenyang in Northeast and Zhengzhou in Central, all hosted expansion by large numbers of luxury fashion retailers. The benefits

offered by these regional capital cities include solid economic growth, high levels of

urbanisation, popular tourism spots, regional culture, and extensive market coverage. Indeed,

all participant retailers in this study, especially those who adopted cautious and regional

expansion patterns, have extended their retail operations to these regional capital cities

directly after their initial market entry. For instance, participant retailer H (a Spanish group

owned design house, entered China in 2001 through a standalone store in Shanghai)

highlighted such importance, and proposed:

"We must maintain our highly exclusive brand image through difficult accessibility in not only expensive price, but also limited distribution… We believe a city's location and strategic importance, such as market coverage, is one of the most factors used to assess potential market for physical stores, that is why we are running only three stores in West (Chengdu and Chongqing for Southwest, and Xi'an for Northwest)".

Secondly, similar to other types of retailers, luxury fashion retailers regard economic factors

as important criteria to assess the potential of a target local market in China. The major

indicators include current and potential economic growth and residents' disposable income,

and their willingness to pay. Indeed, in terms of the differences in economic development,

over half of participant retailers prioritised tier-3 secondary cities in some wealthy regions to

provincial capital cities in other less wealthy regions. Indeed, participant retailer G (a group

owned Italian design house, entered China in 1993 through a franchised standalone store in

Beijing) justified the importance of economic factors:

"Economy is paramount when we choose a local market in China, in Japan, everywhere... Besides the current economy and customers' disposable income right now, we do value more potential growth and consumers' willingness to buy in the future".

Participant retailer A (a private French design house, entered China from Beijing in 1996 through a wholly owned standalone store) heavily relies on its customer relationship management system to measure consumer willingness to pay. The factors applied to assess willingness to pay include actual needs of local consumers, regional economic development, fashion trends, perceived product quality and value, as well as highly exclusive brand image.

The Retail Operations Director stated that:

"*We have developed a very good customer relationship management system, which helps us to obtain depth understanding of their real needs… Other factors considered (for willingness to pay) include brand image, perceived product quality and value, economic development, and fashion trend etc.*".

Thirdly, due to the desire to strengthen brand awareness and raise brand loyalty through in-store experiences, all of the participant retailers believed that their focus on post-entry expansion in China was still mainly about expanding retail stores during the past two decades. Therefore, from the perspective of retail store operation, appropriate store location and good quality staff are also important considerations. Additionally, the competition between luxury fashion retailers in order to obtain a good store location has led to increased costs, which is especially challenging for small-scaled private design house and/or new comers. This was confirmed by five out of seven participant retailers who adopted countrywide expansion strategies. For instance, participant retailer F (a private Italian design house, entered China in 1995 through a franchised standalone store in Beijing) explained:

"*It is undoubtedly the case that national and regional capital cities (in China) have become mature markets. However, there is totally different story in some tier-2 and the majority of*

tier-3 cities, because of under developed market infrastructure and the challenge of recruiting good quality staff…. Gaining a good store location has become increasingly difficult in recent years. You know, customers will not regard your brand as a luxury brand if you do not have a store in ground floor of a prestigious mall".

Fourthly, this study recognised that over half of participant retailers prioritised secondary cities (tier-3) to capital cities (tier-2) in some provinces due to a higher degree of urbanisation and the popularity of tourism. This is different from multinational supermarket chains who adopt the approach from provincial capital cities to the secondary cities (Wang and Li, 2012). For instance, participant retailer A explained:

"*Qingdao is more suitable than Ji'nan because of its higher degree of urbanisation, more Western lifestyle, and greater popularity in terms of tourism, which can help us to attract new customers and even enhance the connection between us and loyal customers, so that we can provide better services in their own cities*".

Fifthly, although policies are usually regarded as one of the most important factors to assess a foreign market, they are not as significant for luxury fashion retailers' post-entry expansion in China. This study identified two voices regarding the beneficial policies and the favourable offers provided by local government and landlords. These favourable offers, such as reduced taxation and rents, are very attractive for small-scale private design houses, especially those who had entered and expanded through local partnerships. Six participant retailers thought that this may help them to obtain a good store location in some cities, where competition is not yet high. On the other hand, other participant retailers, especially group owned subsidiaries, did not believe such favourable policies and offers are sustainable enough for

their long-term business development strategies due to the risks to dilute exclusive brand image through over distribution in non-key cities. Therefore, they did not want to expand into somewhere not considered as appropriate markets for their brands whatever policies and/or offers are available. For instance, three participant retailers had withdrawn from a few tier-2 provincial capital cities, such as coal mining cities in North, because they had realised their brand image could be diluted through over expansion, and repetition of market coverage in regional capital cities and even through e-commerce. Finally, the rapid development of e-commerce and interactive direct marketing during the last decade have made a great impact on participant retailers' operation markets and brick-and-mortar store portfolios. Therefore, e-commerce has also become an important factor for assessing a target local market in China. This effect will be discussed in depth in the following section.

4.3 The Impact of E-Commerce on Post-Entry Expansion Direction

Bai (2018) argued that fast growing e- and m-commerce have made a great impact on luxury fashion retailers' internationalisation and post-entry expansion strategies. Indeed, thirteen out of the fourteen participant retailers have developed e- and m-commerce in China in recent years, through various of online channels. Moreover, this research identified two areas of impact of e- and m-commerce on luxury fashion retailers' post-entry expansion direction in terms of physical store profile and retail store operation cities.

On the one hand, four participant retailers adopted multi-channel distribution strategies, those of e- and m-commerce as additional channels to distribute. Indeed, they had adopted as many

online channels as possible, including wholly owned official online stores, social media and e-commerce platforms, as well as online luxury retailers. All of the four participants, adopted a countrywide expansion direction pattern, have penetrated further into a wider range of local markets as well as e- and m-commerce. For instance, besides rapidly expanding e-commerce through official online store, e-flagship stores at JD.com and T-mall, and m-commerce through Chinese social media, participant retailer N had increased the numbers of brick-and-mortar stores in over 50 cities, and said:

"*As a lifestyle luxury fashion brand, we aim to reach as many consumers as we can. I believe that the rapid growing e-commerce helped us to identify increasing numbers of potential cities for retail stores*".

On the other hand, nine participant retailers who had adopted omni-channel distribution strategies, regarded e- and m-commerce as a part of their holistic distribution systems. They therefore aim to achieve the most efficient and effective distribution systems through integrating both e- and m-commerce and brick-and-mortar stores. Similar to the four participants who adopted multi-channel countrywide expansion direction strategies, the participant retailers who employed omni-channel countrywide and/or (for some) regional expansion patterns were also keen to develop physical stores in more local markets, especially where e-and m-commerce are relatively developed. For instance, participant retailer C (a group owned German accessories and leather goods specialist, entered China in 1996 through a wholly owned standalone store in Beijing) explained that they have penetrated their retail stores further into more tier-3 cities in some affluent regions because of the strong performance of e- and m-commerce in those regions, particularly East and South.

However, other participant retailers, who adopted omni-channel (for some) regional and/or cautious expansion patterns, are more likely to reduce the numbers of physical stores. One reason is the desire to protect their highly exclusive brand image from over distribution. They therefore employed e- and m-commerce as a way to strengthen commitment to consumers through more integrated services and brand experiences. They thus had increased investment in logistics and information systems and had started to offer "Click and Collect" services. The other reason was the desire to optimise their physical store profile. Then they are able to allocate resources to more efficient and effective markets. For example, in parallel to developing the official online store within an omni-channel strategy, participant retailer B had optimised distribution channels by shutting stores in some less strategically important cities but opening new stores in key cities, and explained:

"China has become a competitive market, it is necessary for us to offer a unique and seamless brand experience via an omni-channel strategy… Such a strategy has helped us to allocate resources more efficiently. For instance, we have closed a store in Taiyuan (a tier-2 provincial capital in North), and opened more stores in Beijing".

In summary, based upon the findings in this section, it is known that all national capital cities, most of regional capital cities, and increasing numbers of secondary cities in the East, North and South, especially where strong performing e- and m-commerce exist, are increasingly important markets for luxury fashion retailers' post-entry expansion of their brick-and-mortar stores within the digital era. All of the three sections of research findings presented in this chapter will be discussed further in the following chapter.

5. Discussion

Here are several important implications for the initial entry into the Chinese market. Firstly, because of the considerable perceived psychic distance and the experience gained from Hong Kong, fashion retailers are more likely to adopt the entry modes which require high and medium costs and provide high and medium levels of control, such as organic growth, franchising and licensing to seek local partnerships. This is different from the entry modes adopted to enter into traditional luxury fashion markets, where expensive flagship stores (Moore *et al*., 2010) and low cost export, wholesale and concessions (Moore *et al*., 2000) are popular. Therefore, in the context of emerging market, high cost entry modes are not necessarily associated with high risk, because these expensive strategies offer the retailers higher degree of decision-making and control over their brands and business activities abroad (Bai *et al*., 2017). Secondly, due to significant differences in terms of market infrastructure in China such as lack of high-end department stores and premium shopping districts, luxury fashion retailers are keen to adopt standalone stores in luxury malls and hotels, rather than concessions. Even in the contemporary digital era, e-commerce is still not a popular method used by luxury fashion retailers for their initial retail operations in China because in-store services, such as interpersonal communication, is a critical component of the intangible value of any luxury fashion brand (Kapferer, 2015). Thirdly, there is only one choice for initial entry into some developed markets, such as London for the UK. However, due to considerable intrinsic regional differences and even geographic location, Beijing and Shanghai and even Hong Kong are widely regarded as the entry city of (Greater) China (Bai

et al., 2018). This can be evidenced by the fact that the retailers extended their retail operations in Guangzhou and Shenzhen (regional capital cities in South).

The important implications for luxury fashion retailers' post-entry expansion direction in China include the following. Firstly, according to the scope of operation markets and physical store profiles, three kinds of post-entry expansion direction patterns have been identified, named cautious expansion, regional expansion, and countrywide expansion. This is different from in developed but small geographic markets, because the retailers have stopped further penetration beyond regional capital cities (Moore *et al*., 2000). Therefore, luxury fashion retailers can tailor their post-entry expansion in terms of number, format and location of retail stores as well as e- and m-commerce, according to their strategies regarding to branding and business development. Secondly, many luxury fashion retailers still adopt stepwise strategies (from tier-1 national capital cities to tier-2 regional and provincial capital cities and tier-3 secondary cities in any provinces) to expand further within China, which is similar as generic retailers and supermarket chains (Wang and Li, 2012). However, the tier system of China's cities has been more or less weakened, because some luxury fashion retailers have started to prioritise a few tier-3 cities in affluent provinces and regions over tier-2 capital cities in less affluent provinces and regions. Thirdly, the overall direction of luxury fashion retailers' post-entry expansion in China is from Central and South to North, and from East to West. Moreover, expansion of intra- and inter-regions can be simultaneous. Fourthly, luxury fashion retailers further expanded their retail stores in a wide range of local markets in China through their owned or local partners' resources rather than through the networks of distribution

retailers, such as department stores. This is different from in developed markets, such as the UK in where luxury fashion retailers can extend from London to Edinburgh through Harvey Nichols (Chevalier and Gutsatz, 2020). Fifthly, various store formats have been adopted for post-entry expansion in China. Particularly flagship stores that have become increasingly important for post-entry expansion because they help the retailers to strengthen operations in national capital cities and other key markets as a business development strategy, rather than initial market entry in emerging markets (Bai *et al*., 2017). Finally, in order to secure sustainable success, luxury fashion retailers assess and select local markets in China through various interrelated criteria, including location and strategic importance (geographic market coverage) of a city, economic development, availability of store locations and staff, a high degree of urbanisation and tourism, debatable favourable policies and offers (offered by local government and landlords), as well as the popularity of e- and m-commerce.

The impact of e- and m-commerce on luxury fashion retailers' brick-and-mortar store profiles and local markets are different, and depend on the retailers' branding strategies, distribution strategies, and sustainable business development outlook (Beck and Rygl, 2015). Indeed, some lifestyle luxury fashion retailers are keen to adopt multi-channel distribution strategies due to their desire to reach as many consumers as possible through countrywide expansion patterns and by expanding their retail facilitates in increasing numbers of local markets. On the other hand, the retailers who possess a highly exclusive brand image and who have expanded through a cautious expansion pattern, are more likely to adopt omni-channel distribution strategies. The motives for this include the ambition to offer constant and

seamless brand experiences (Fisher *et al*., 2019), and the desire to gain the most efficient and effective performance by optimising typically reducing numbers of retail stores and less strategically important cities (Ailawadi and Farris, 2017). Furthermore, retailers who expanded further through regional expansion patterns behaved differently because they could increase or reduce the number of retail stores and operation markets through either multi- or omni-channel distribution strategies. Therefore, there is a positive relationship between the popularity of e- and m-commerce in a city and the potential of that city to be targeted as an operational market for luxury fashion retailers' brick-and-mortar stores.

6. Conclusion

From the perspective of international retailing, this study examines the direction of retailers' post-entry expansion after initial entry of a host market within the context of luxury fashion market in China. Since this topic has not been previously considered, this paper offers depth insights for the current literature in the field of international retailing. It has not only examined luxury fashion retailers' post-entry expansion direction patterns through operational details model, but has also identified the criteria used to assess a local market, and the impacts of e- and m-commerce towards retail store profile and operation markets. Moreover, the present study highlights the differences in relation to retail market infrastructures between developed and emerging markets, and stresses the importance of luxury malls and high-end hotels for luxury fashion retailers' brick-and-mortar stores. The results of this paper provide practitioners understanding to succeed in the international market through selecting appropriate entry mode, entry cities, and local market assessment

criteria for post-entry expansions. These insights are valuable for young and/or small-scale private luxury fashion retailers who are keen to internationalise into emerging markets.

The validity and reliability of this study have been strengthened through using triangulation of qualitative data. This has been achieved through multiple interviews from different senior management within the same participant retailers and marketing reports. Nevertheless, the limitations of this study are considered in two aspects. The first is relation to the marketing context. The research findings are generated from China. They are thus probably limited in value to explain luxury fashion retailers' post-entry expansion direction patterns elsewhere, where there are large differences in terms of policies, economic development, social and cultural conditions, and even geographic size exist. The second is involved to the relatively small sample size. However, thirty interviews from fourteen respondent retailers, across a wide range of retailing formats, ownership structures, country of origin and expansion strategies, are perceived to be strong enough to represent actuality in the market.

Future studies are suggested to extend this study's findings through examining other luxury fashion retailers who entered a host market and extended their operations further through e-commerce only. The researchers also may test the updated stepwise model developed in this study through quantitative studies by large numbers of samples to examine the similarities and differences across different market environment.

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