PALGRAVE STUDIES IN PRACTICE: GLOBAL FASHION BRAND MANAGEMENT

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FASHION BRAND INTERNATIONALIZATION

Opportunities and Challenges

Edited by
Byoungho Jin and
Elena Cedrola

Palgrave Studies in Practice: Global Fashion Brand Management

Series Editors

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Branding and internationalization are critical aspects of any business, and the fashion industry is especially global in nature. Very few apparel items are entirely produced within one country, and it is relatively easier for fashion brands to enter international markets because little financial investment is required, small-scale retail space is possible, and economies of scale can be maximized. Accordingly, there are more successful internationalization cases in the fashion industry than any other sector, yet no one text handles these critical topics (i.e., branding and internationalization) in one book, particularly in case study format. This series will focus on fashion brand cases that have been successful in global marketplaces. By examining their strategies in diverse aspects such as internationalization, innovation, branding and communication, and retail management, these books will help students, scholars, and practitioners grasp lesser-known yet effective international marketing strategies.

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To my Lord: without him, I am nothing
BJ & EC
To Andrew and Lauren, love and inspiration of my life
BJ
To the great men in my life: Raffaele, Umberto, Niccolò and Giuseppe
EC

Preface

Internationalization is critical for any business, and especially so for global-by-nature fashion brands. Of the many industry sectors, fashion is probably one of the most active in terms of internationalization. Compared with other industry sectors, it is generally easier for fashion brands to enter international markets because little financial investment is required, small-scale retail space is possible, and economies of scale can be maximized. Moreover, the dynamic global market, widespread supplier networks and supply chains strengthen the fashion industry's advantage in internationalization. As a result, there are more successful internationalization cases in the fashion industry than in any other sector.

A majority of global fashion brands operate beyond their home countries and a significant number of these brands make more than half of their revenues from international operations. For example, revenues from international operation are as high as 95% for H&M, 80% for Inditex, S.A., and 68% for Nike. Leading luxury fashion group LVMH earns 88% of its retail sales from 76 different countries.

Despite the unprecedented scale of fashion brands' internationalization in recent decades, not much is known about its specific features. The global fashion industry is intrinsically complex and cooperative, so analysis of its multiple layers provides profound insights into the industry and its management. Case study analysis also helps answer questions about what is happening, why and how. Nonetheless, case studies are a rarity within the literature.

This book presents a collection of case studies of fashion companies of various sizes and cultural backgrounds. Each case is written by author(s) from the brand's country of origin and based on original documents and interviews with key informants, some of which have previously been unavailable in English. These case studies therefore provide a higher level of detailed and accurate information and practical insights into the industry's competitive landscape and its future.

The book is a useful read for undergraduate as well as graduate students with an interest in the fashion industry, retailing, branding and international business. It will be an excellent resource for scholars researching fashion brand internationalization thanks to its review of the literature and its insights into fashion brands' internationalization strategies. Professionals in the fashion and apparel industry will also find it worth reading because globalization issues are critical to their business survival.

This volume consists of five chapters combining theory with practice. The first chapter reviews the characteristics of the fashion industry and its products, traditional internationalization models and entry mode choices, and the main differences between manufacturing internationalization and retailing internationalization. Major emerging trends in fashion brand internationalization are then examined, including the increase in Asian apparel brand internationalization, the rise of international out-shopping both online and offline, the acquisition of leading global fashion brands by companies from developing countries, and China's influence on the expansion of fashion brands. An understanding of these trends will provide global fashion brand companies with insights as to the challenges and opportunities presented by these new shifts.

The book discusses four global fashion brand cases that are carefully selected to reflect the diverse aspects and trends of their internationalization endeavors. The first case (Chap. 2) demonstrates how Zegna, a fourth-generation family-owned Italian business, evolved from a producer of high-quality fabrics into a global luxury fashion brand. It emphasizes the importance of local community and family values in brands' international outlook. Despite the delocalization of some production plants from Italy to Switzerland, Spain, Turkey and Mexico, the company demonstrates how strong brand reputation and company values together with cohesive vertical integration choices can sustain business growth both locally and globally.

Case two (Chap. 3), Diesel, is a relatively small and more recently established Italian company targeting younger consumers. The founder succeeded in reinventing denim fabric in a mature market characterized by fierce competition and the leading presence of American multinationals. Innovation, creativity and non-conformist choices are the fundamentals of the company. The Diesel case also demonstrates how the company achieved sustained growth in both national and international markets by repositioning a mature product from medium to high quality and from medium to high price.

Cases three and four illustrate two Asian brands: Bossini from Hong Kong (Chap. 4) and Beaucre Merchandising from South Korea (Chap. 5). These two cases, unlike Italian Zegna and Diesel, are rather small and target mid-to-high-priced markets, providing unique knowledge and insights into the contemporary fashion business. Internationalization is a relatively new phenomenon for Asian brands, and there were fewer examples for Bossini and Beaucre Merchandising to rely on. Moreover, without a strong brand or country image the two brands encountered more challenges despite expanding into psychically close neighboring Asian countries first. For instance, Korean Beaucre Merchandising entered the Chinese market at a very early stage, enjoyed first-mover advantage, but had to find creative solutions to a number of challenges. The two Asian cases prove that fashion brands with less powerful brand and country images can still find ways to compete in the global marketplace. Rome was not built in a day, nor is a global fashion brand. The four global fashion brand cases in this volume are thus put together in the hope that their examples and internationalization stories will inspire more fashion brands to success in global marketplaces.

Our first and deepest gratitude goes to two chairmen, Paolo Zegna at Zegna group and Man Joong Lee at Beaucre Merchandising, who took time from their busy schedules to share their stories and unique experiences with us and to review earlier drafts. Their insights and vision will inspire business executives to come. Special thanks go to authors of each chapter for providing insightful cases incorporating information and sources not readily available to many readers. The information is of particular value since their observation of the history of each brand in their home country and their own experiences as consumers are embedded in their analyses. We were fortunate to be supported by many former and current research assistants. Particular thanks are due to Hee Soon Yang, Junghwa Son, Hongjoo Woo, Hisu-Chun (Wendy) Chou and Naeun (Lauren) Kim for finding information for the books and designing and revising many figures and tables. We also thank Lavinia Caini and Letizia Trabaldo Togna for finding information and supporting bibliometric analysis.

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CHAPTER 1

Overview of Fashion Brand Internationalization: Theories and Trends

Byoungho Jin and Elena Cedrola

Abstract Fashion is one of retailing's most actively internationalizing sectors. Relatively little is known about the diverse aspects of fashion brand internationalization, despite unprecedented levels of activity in this area for the past two decades. This introductory chapter reviews the characteristics of the fashion industry, the main differences between manufacturing internationalization and retailing internationalization, and traditional approaches to internationalization. Major trends in fashion brand internationalization are also introduced, including: the increased internationalization of Asian apparel brands; the increase in international outshopping both online and offline; the acquisition of leading global fashion brands by companies in developing countries; and Chinese influences on fashion brand development. The opportunities and challenges for global apparel brand companies created by this changing environment are discussed.

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Introduction

Most people who visit foreign countries are likely to encounter familiar fashion brand stores that they have seen in their home country. Many global fashion brands are operating in many international markets, resulting in a significant proportion of their revenues being generated outside their home markets. Twenty-four fashion-related groups or companies are included in the top 250 global retailers by retail sales (Table 1.1). The majority of global fashion brands operate beyond their home countries, and a significant number of those brands earn more than half of their revenue from international operations. For example, revenues from international operations are 95% for H&M, 80% for Inditex, S.A., and 68% for Nike. Three leading luxury fashion groups—LVMH, Prada Group and Kering, S.A.—made 88%, 84% and 68%, respectively, of their retail sales outside their home country. In addition, they are active in operating in many countries. Prada Group markets in 90 different countries, and LVMH has a presence in 76 different countries.

The fashion industry is one of the most actively internationalizing sectors in retailing. One of the reasons may be that, compared to other sectors such as food and home improvements, fashion requires small-scale retail space, entailing little financial investment and low management set-up costs, so that economies of replication can be maximized in the international market (Dawson, 1993).

International activity by fashion brands is not a new phenomenon. High-end fashion brands began to internationalize early on. Hermès, for instance, started to sell their saddles to elite clients worldwide in 1880, and Burberry opened their first store in Paris in 1909. Later, mass-market brands such as Levi's and Nike as well as fast-fashion brands such as H&M started internationalization: H&M first entered international markets in 1964, Levi Strauss in 1965, Nike in 1972, Ralph Lauren in 1981, Gap in 1987 and Zara in 1988. Internationalization by fashion brand retailers has, however, reached unprecedented levels over the past two decades, with fast-fashion retailers in particular showing phenomenal rates of internationalization. Zara is currently operating in 88[1] countries and H&M in 59 countries.[2]

The internationalization activities of fashion brands are significant for society. They contribute not only to the growth of individual businesses

Table 1.1 International revenues and number of countries entered, selected global fashion retailers

Retail sales ranking in top 250 global retailers	*Company name*	*Company origin*	*Retail revenue in 2014 US$M*	*International revenue in 2014/ % of international revenue in total retail revenue*	*Number of countries entered*
41	LVMH	France	$36,039.2	$31,775.7 (88.2%)	76
44	Inditex S.A.	Spain	$23,717	$18,864.5 (79.5%)	89
49	H & M Hennes & Mauritz AB	Sweden	$21,935	$20,873.3 (95.2%)	54
60	Marks and Spencer Group	UK	$16,625.3	n/a	48
61	The Gap Inc.	USA	$16,228	$3556 (21.9%)	54
76	Fast Retailing Co. Inc.	Japan	$13,605.5	$5059.5 (37.2%)	30
93	L Brands Inc.	USA	$11,454	$1349 (11.8%)	58
109	C&A Europe	Belgium/ Germany	$9733	n/a n/a	21
143	Kering S.A.	France	$13,323.4	$9139.2 (68.6%)	90
144	Associated British Foods plc/Primark	UK	$6673	n/a	8
147	Foot Locker Inc.	USA	$7151	$2175 (43.7 %)	30
162	Belle International Holdings Ltd.	HK	$6465.1	$58.2 (0.9%)	3
163	Nextplc.	UK	$6552.9	$576.4 (8.8%)	74
170	Nike, Inc.	USA	$30,601	$16,861 (68.3%)	49
180	Shimamura Co. Inc.	Japan	$6015.2[a]	$45.8 (0.8%)[a]	3
186	E. Land World Ltd.	S. Korea	n/a	n/a	15
190	Ascena Retail Group Inc.	USA	n/a	n/a	3
209	Coach, Inc.	USA	$4191.6	$1724.1 (69.9%)	17
219	Abercrombie & Fitch Co.	USA	$3744	$1335.6 (39.7%)	22
224	Forever 21, Inc.	USA	$4000	n/a	39
225	PRADA Group	Italy	$4599.6	$3875.1 (84.2%)	42
228	Groupe Vivarte	France	$884.7	n/a	64
244	Tiffany & Co.	USA	$4249.9	$2216.4 (50.5%)	25
245	Ralph Lauren Corporation	USA	$7620	$2543 (33.4%)	47

Source: Summarized by authors based on the report "Top 250 Global Retailers, 2013" by National Retail Federation 2015 available from https://nrf.com/2015/global250-table

Retail revenue and international revenue are based on OneSource Global Business 2014

[a]This number was based on OneSource Global Business 2013 data

but also to employment and economic growth. With multiple retail stores in almost every country where they operate, fashion brands create jobs for host countries and transfer aspects of their business model such as retail format, operational techniques, and consumer values and expectations to the host country (Dawson, 2007). Most fashion brands are small and medium-sized enterprises (SMEs) employing less than 300 people. In Italy, a leader in the internationalization of global fashion brands, only 0.12% of firms that produce clothing and shoes employ more than 250 people (CensStat, 2015). Many well-known Italian global fashion brands, such as Benetton, Stefanel, Miss Sixty, Geox, Diesel and Max Mara, were relatively small when they first began to expand internationally.

This chapter focuses on the internationalization of fashion brands from the retailer's perspective. A fashion brand can be a manufacturer's brand or a retailer's brand or both. North Face, for example, is a manufacturer that sells to retailers even though it also sells directly to consumers. J. Crew is a retail brand; they develop, produce and retail. Gap, Inc. operates in about 40 countries and sells apparel products to consumers in more than 90 countries worldwide through 3700 stores and e-commerce sites without owning any factories at all (Bhasin, 2014). Irrespective of their core function as either manufacturer or retailer, most fashion brands that go international pursue both production and retailing. However, the objectives are different for production and for retailing. Fashion brands seek low costs when manufacturing internationally (cost reduction) and larger markets when retailing internationally (firm growth) (Dawson & Mukoyama, 2006; Dawson, 2007). The highly labor-intensive nature of apparel production may lead apparel firms to outsource the manufacturing process globally (Gereffi, 1994). Moreover, international production or global sourcing has been liberalized since the abolition of the Multi Fiber Arrangement (MFA) in 2005, which completely eliminated restrictions on the quota developing countries were allowed to export to developed countries. On the other hand, managing brands in the global market requires more highly skilled marketing, innovation, distribution, service and investment than international production (Kumar & Steenkamp, 2013). Production and retailing business models are thus totally dissimilar, even for a vertically integrated company that is involved in both production and retailing, such as Zegna. Production and retailing internationalization activities cannot be adequately explained if the two are considered in combination. This chapter therefore focuses on the internationalization aspects of fashion brand retailing, and not on the internationalization of its production.

Retail internationalization has largely been explained using existing internationalization theories, which in turn were largely conceptualized from the perspective of large corporate manufacturing production (Dawson, 2007). Different retail sectors have diverse structures and characteristics shaping their internationalization processes (Dawson, 1994), so existing internationalization theories may not necessarily be directly applicable to the retail sector in general and to fashion retailers in particular. We therefore begin this chapter by exploring the characteristics of the fashion industry and its products, together with the nature of fashion brand internationalization. Existing internationalization theories and approaches will be illustrated subsequently. The choice of these two areas is based on a bibliometric analysis of the literature. A Scopus database search was conducted with the keywords fashion, clothing and apparel, internationalization, international trade, foreign markets, international marketing and market entry. The three principal themes identified were: (1) theories explaining the international expansion of fashion firms; (2) methods chosen by fashion firms seeking entry into foreign markets; and (3) strategic decisions on standardization and marketing adaptation. General aspects of the first and the second themes are discussed in this introduction, while the third topic is illustrated through four case studies in subsequent chapters. This chapter concludes with a discussion of new trends in the internationalization of fashion brands that are helping shape challenges and opportunities for global fashion brands in the future.

Characteristics of the Fashion Industry and its Products

The management and development of fashion products are a great deal more complicated than those of other consumer goods. The biggest difference between a fashion brand company and other consumer goods companies may be the number of SKUs (Stock-keeping units)[3] managed in a year. A fashion brand company creates an entire collection in a season, not one or two models a year. As the products are worn by consumers, the phrase “one size doesn’t fit all” truly applies. Unlike cell phones or computers that are available in at most a couple of sizes, there is an enormous range of sizes within a single style in fashion products. In the USA, a pair of pants, for example, can be offered in sizes from 00 to 14 (00, 0, 2, 4, 6, 8, 10, 12, 14). The range can be doubled or tripled with the addition of petite and plus sizes, resulting in a large number of SKUs per season.

An apparel company typically develops 15,000 SKUs in its collection (Abernathy, Dunlop, Hammond, & Weil, 1999). The concept of economies of scale is therefore less relevant in fashion production. Managing the vast number of apparel items produced for one season requires a sophisticated stock management system. One study revealed that a quarter of customers left stores empty-handed because specific items they wanted to buy were out of stock (Fisher, 1997). Increased stock levels, however, may result in a high volume of unsold stock. Stock management is a critical challenge in the fashion industry.

The second distinctive characteristic of the fashion industry is demand unpredictability. It is extremely difficult to produce accurate forecasts of consumer demand to size level. Unlike other consumer goods, fashion products do not need to be purchased regularly. By its very nature, fashion changes along with the seasons, adding to unpredictable levels of demand. Once the season is over, fashion products will not sell even when heavily marked down, in stark contrast to other consumer goods: unsold cell phone or cars may not be such a big issue. Increasingly rapid product introduction and shortened product cycles these days make the situation worse. This demand unpredictability makes stock and supply chain management even more complex.

The third characteristic of fashion products is their symbolic meanings. Clothing has social and psychological functions. Clothing brands are a way of publicly defining one's group membership (Evans, 1989), so brand names are more relevant in fashion than in any other goods. Consumers can judge the quality of other consumer goods such as electronics or cars relatively easily since there are specific evaluation criteria, such as CPU or RAM for computers and fuel consumption for cars, enabling consumers to judge the quality of the products without even using them. In contrast, the evaluation of fashion products is quite subjective. Good design or style largely depends on personal taste (Jin, 2004); thus it is the brand name that primarily drives the evaluation of fashion products. Kumar and Steenkamp (2013) suggest a spectrum of product categories ranging from product driven to brand driven. They categorized electronics and cars as product-driven products, packaged goods in the middle, and clothes, alcohol and cosmetics as brand-driven products. This implies that the quality of cosmetics is the hardest to judge, closely followed by clothes. In clothing and cosmetics product quality depends entirely on brand image; thus, the symbolic meanings created by brand image play a bigger role in evaluating fashion products than their functionality.

The Nature of Fashion Brand Internationalization

The term "internationalization" denotes the expansion of a firm across national borders into different global regions or markets (Johanson & Wiedersheim-Paul, 1975). For fashion brand firms, cross-border activities create critical management issues that are unique to retailers. This section discusses the major differences between retailers and manufacturers in their pursuit of internationalization.

Understanding Local Culture is Critical Due to High Level of Consumer Contact

One fundamental difference between retailing and manufacturing is the end consumer: manufacturers sell to retailers and retailers sell to consumers, so the level of contact with customers differs significantly. Manufacturers do not need to meet their consumers since their main function ends when they sell to retailers. In contrast, retailers do meet consumers, both physically and online. Internationalization adds greater complexity: retailers need to understand consumers from other cultures, which is less critical for manufacturers. Sales assistants' interactions with customers, for example, may need to be customized according to the culture of the host country. Consumers in high power-distance cultures, for example, expect more of a master–servant relationship in the retail setting than consumers in low power-distance cultures. Zara's initial practice of sending Spanish managers to foreign countries to replicate the management procedure employed in Spain (Fabrega, 2004), for example, turned out to be unsuccessful in countries like Mexico and France (Bonache & Cerviño, 1996); Zara now recruits employees locally to gain a better understanding of local market preferences (Martinez, 1997). Since retailing in fashion requires closer contact with customers than, for example, in food, cultural responsiveness is critical when doing business in other countries.

The Implications of Multi-Establishment Retailing

Retailers need outlets to offer products and services to consumers, unlike manufacturers who typically need factories for production. Manufacturers of high-tech or consumer products, for example, computers, shampoo or ketchup, sell through retailers and therefore do not need to manage their own retail stores. With the exception of micro-firms (often known as mom and pop stores), most retailers have multiple stores that are spatially dispersed. This multi-establishment form of retailing has several implications.

First, retailers need to secure the best location wherever they operate, an additional cost that manufacturers do not have to bear. Having a store in a prime location is critical in the fashion business because the store's location and atmosphere itself conveys the brand image. The importance of location is even more critical for high-end fashion brands, with many of the flagship stores of high-end boutiques vying for a prime location in major fashion capitals such as New York, Paris and Milan, even though the prohibitive cost of a prime location may mean that they cannot make a profit at their flagship stores (Moore, Fernie, & Burt, 2000).

Second, this multi-establishment geographical spread requires high levels of coordination, especially in the fashion business where a consistent brand image is extremely critical. Maintaining well-coordinated operations across all retail outlets and conveying consistent messages to consumers requires strong communication both from head/regional office to local units and within individual retail stores as well training of sales assistants. H&M has 3600 stores spread across 59 markets worldwide and Tod's S.p.A. has 251 directly operated stores and 93 franchised stores.[4] Not only are there differences in language, time, currency and culture across this many stores, but product assortment, price and promotion may also differ. However, they still need to convey the same messages to their consumers in order to maintain a consistent brand image, arguably the greatest asset for a fashion brand. For this reason, Tod's S.p.A., for example, employs an image and training director for Asia to coordinate their brand image and brand values. Consistent operation of multiple retail stores across the globe can be a competitive advantage for a fashion retailer.

Third, geographically scattered multi-establishment requires products to be localized to cater for the needs of local people. Consumer cultures and tastes are not the same even within a single country; thus a thorough understanding of taste and the local culture of consumption is necessary even at local store level. In China, the world's most populous country with 1.3 billion people, for instance, regional differences and economic disparities are extreme. The first tier of Chinese cities, Beijing and Shanghai, are almost equivalent to developed countries in terms of GDP per capita. However, China's third-tier cities are comparable to developing countries. As we do not assume the same consumer tastes and consumption between developed and developing countries, it would be a mistake to treat the whole of China as one country. Product assortment, styles, sizes, and so on should be customized according to local needs. Manufacturers also do localize, but not to the same extent as retailers. In this respect, retailing is a purely local business (Dawson, 2007).

Trade Secrets can be Easily Copied, so Differentiation Becomes More Critical

The third major difference between the internationalization activities of manufacturers and retailers relates to protecting their trade secrets. A retail store is often considered a public space that anyone may enter and leave at will. In fact, more traffic into a store is encouraged, because the more consumers enter a store, the higher the sales volume will be. This is strikingly different from a factory, where permission to enter is generally required. Consequently, product assortment, price, store layout, window display and even store format is exposed to competitors who can easily copy them if they wish so. Moreover, unlike manufacturing products which enjoy the protection of patent and copyright regulation, retailers' trade secrets such as store format and store atmosphere are in no way protected. These aspects of retailing create a more competitive situation than manufacturing. Thus intangible assets (or transaction-based advantages) such as customer service, brand image and stock management systems, rather than tangible assets (or asset-based advantages), become more critical differentiation factors.

Because manufacturing internationalization and retail internationalization are substantially different as outlined above, internationalization of fashion brand should be analyzed considering the differences and the characteristics of fashion products and industry. Next we consider traditional internationalization theories largely developed from a manufacturing perspective.

Internationalization Models

Major internationalization theories discussed below include the internationalization process model (Johanson & Vahlne, 1977), Dunning's eclectic paradigm (Dunning, 1977, 1988) and transaction cost analysis (Anderson & Gatignon, 1986). Frequently discussed theories in the fashion brand internationalization literature are the internationalization process model and the "born global" model.

The Internationalization Process Model

The internationalization process model is also referred to as the Uppsala model or U model after a group of scholars at Uppsala University in Sweden who proposed it. The Uppsala model takes a behavior-based learning approach, positing internationalization as the product of an accumulation of learning and knowledge. The main assumption of the model is that lack of international market knowledge hinders internationalization; thus, firms start their business in the domestic market and then gradually internationalize as their market knowledge, learning and experience increase. Risk minimization is key to their decision making since the model also assumes that internationalization entails uncertainty. Accordingly, the model posits incremental commitment in terms of involvement, control and investment to minimize the risks associated with international operations. That is, a firm begins with export (the lowest level of resource commitment) and then progressively increases its commitment to licensing/franchising, joint ventures and then finally to direct investment, that is, wholly owned subsidiary (the highest level of resource commitment) as its experiential learning increases. This model is also known as the stages model as it posits the stages a firm follows as outlined above. Choice of markets for entry is also viewed as gradual, minimizing the risk by starting with the market that is psychically close before moving on to more psychically distant countries. This model has received a great deal of attention because of its simplicity; the internationalization process is explained using two variables (market knowledge and market commitment).

A major drawback of the model is its view of successive internationalization as too deterministic (Forsgren, 2002); it cannot explain the recent emergence of "born global" (BG)[5] firms that internationalize rapidly at or near their inception to the world's leading multiple markets such as the USA and Europe. BGs are widely in evidence in small technology- or knowledge-intensive industries. Recently, Johanson and Vahlne (2009), the same scholars who proposed the Uppsala model, proposed a business network internationalization model, extending their original work to incorporate the network approach. In this model, internationalization is viewed as "a multilateral network development process" (Johanson & Vahlne, 2009, p. 1415) and the obstacles to international development are access to, and inclusiveness in, business relationships at home and in host countries that help identify and exploit opportunities, along with lack of market knowledge. This model attempts to be more comprehensive. However, its application to the internationalization of fashion brands has not yet received scholarly attention.

Since the Uppsala model was developed by observing Swedish small and medium-sized manufacturers' export activities, it does not take account of retail and branding concepts. Therefore, the model alone may not fully explain the rapid internationalization of fashion brands. Analysis of specific fashion brand cases produces mixed results. Tiffany & Co. and Polo Ralph Lauren, for example, chose Japan as their first Asian market to enter and have had a presence there since the 1970s. Both brands initially entered Japan with a low resource commitment model; for their initial entry mode, Tiffany chose export (1972–1993) and Polo Ralph Lauren chose licensing (1978–2002). Each subsequently chose joint venture and then wholly owned subsidiary, showing a pattern of gradual resource commitment (Cho & Jin, 2012) (see Fig. 1.1). However, a study that analyzed fast-fashion brands concluded with partial support for the Uppsala model. That is, while fast-fashion brands initially show a gradual pattern in entering international markets and choose psychically close countries, their expansion then accelerates, with no incremental patterns observed thereafter (Childs & Jin, 2014). Two Asian brands, Uniqlo and Giordano, revealed a similar pattern (Woo & Jin, 2014).

The four case studies in this book reveal that the first market to be entered is a psychically close country in most cases; Ermenegildo Zegna chose France for its first ready-to-wear collections, Hong Kong brand Bossini chose Singapore and Korean brand on & on chose China, while Diesel chose Europe. However, the time taken to enter the international market varied. It took thirteen years for Ermenegildo Zegna to start expanding to international markets, but only eight years for Korea's on & on brand to

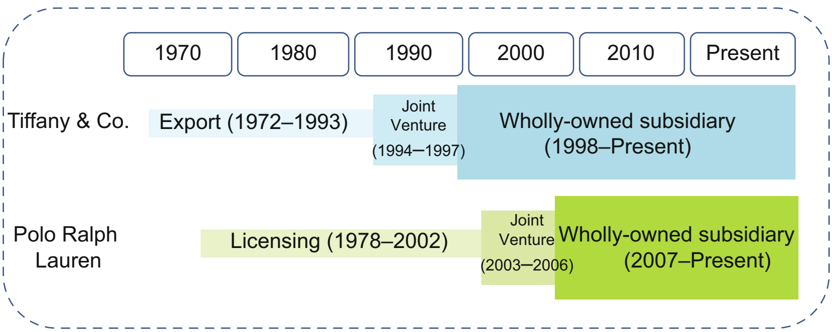

Fig. 1.1 Incremental resource commitment of Tiffany & Co and Polo Ralph Laruen in Japan. *Source*: Developed based on Cho and Jin (2012)

enter China, its first international market, and four years for Diesel to enter several European countries. Hong Kong brand Bossini entered Singapore in 1987, the year it was established. While it is premature to draw conclusions from the small number of cases above, we can conclude that the Uppsala model alone may not fully explain fashion brands' internationalization.

Dunning's Eclectic Paradigm

Building on various international production approaches, Dunning's (1977, 1988) eclectic paradigm assumes that international production via foreign direct investment will occur if three sets of advantages (ownership advantages, locational advantages and internalization advantages) exist. It is considered a paradigm rather than a theory because of its holistic nature. The eclectic paradigm is also known as the OLI framework, after the initials of ownership (O), location (L) and internalization (I). A firm's ownership advantages refer to some forms of advantage that give the firm market power, comprising its asset-based advantages (e.g., patents, copyright, unique products, etc.) and transaction-based advantages (e.g., customer service, process innovation, etc.). Locational advantages are related to the overall attractiveness of the host country in terms of production. Government intervention in a host country and high operational costs reverse the locational advantages. Pellegrini 1991) related three locational advantages from the retailers' perspective: *cultural proximity* to the home country; large *market size*; and *first-mover advantage* or *competitor's move* if competitors have not yet entered the country. A firm with greater ownership assets will be most likely to keep them inside the firm. Internalization advantages describe the extent to which keeping trade secrets inside the firm creates advantages for the firm. The higher the firm's ownership advantages, the more likely it is to expand to international markets with direct investment, to avoid sharing information with franchising or joint-venture partners. The main criticism of OLI as a model is that it is too holistic and static, and provides little scope for the dynamic nature of firms' internationalization (Alexander & Doherty, 2009).

Transaction Cost Analysis

Drawing on Williamson's (1985) transaction cost economics, transaction cost analysis (TCA) posits that a firm chooses its international entry mode by assessing the transaction costs associated with economic exchange such as information-searching costs, monitoring costs, etc. (Anderson & Gatignon, 1986). TCA takes two assumptions from transaction cost economics: bounded rationality and opportunism. Simply put, a transaction cost occurs in business exchanges first, because of a decision maker's limited rationality due to their cognitive capabilities, insufficient information and time (bounded rationality), and second, human nature's "self-interests seeking with guile" (opportunism) (Williamson, 1985, p. 47). Based on these assumptions, the TCA posits that a firm chooses its entry mode by evaluating the level of transaction cost. When the transaction cost outweighs the benefits, a firm internalizes its investment and management control via foreign direct investment. If transaction costs are assessed as low, contractual models such as licensing can be more efficient options for a firm. As with many other theories and models, TCA is not without its weaknesses: the principal one is the difficulty of measuring transaction costs before entering international markets (Andersen, 1997).

In addition to the above classical internationalization models, which were developed mainly from production perspectives, some scholars attempted to classify international retailers in the late 1980s. Such typologies of international retailers include Treadgold (1988), and Salmon and Tordjman (1989) (see details in Alexander & Doherty, 2009). Further, Sternquist's (1997) SIRE (strategic international retail expansion) model and Vida, Reardon, and Fairhurst's (2000) international retail involvement model attempted to explain internationalization of US retailers by combining diverse theories and concepts.

Choice of Entry Mode

Fashion brand companies have five choices, collectively known as entry modes, when entering international markets. In order of resource commitment these are: export, licensing, franchising, joint venture and wholly owned subsidiary (i.e., directly managed stores). Entry modes can be changed later within the host country as shown by the aforementioned cases of Tiffany and Polo Ralph Lauren in Japan.

Export means selling products via intermediaries such as wholesalers in either home countries or host countries. To test international markets or minimize risks, many fashion companies take part in shows in major fashion capitals such as Milan, Paris and New York, where fashion buyers from department stores or speciality stores all over the world come and select products for their stores (Moore et al., 2000). Korea's Beaucre

Merchandising (see Chap. 5) attempts to sell products to Europe and the USA through this export mode via wholesalers (i.e., fashion buyers). Up-and-coming fashion designers often choose this mode to create awareness of their brands.

The next entry mode is licensing, which means lending the brand name to other manufacturers to use in exchange for a licensing fee. Licensing is popular among accessories of many high-end designer brands such as Gucci sunglasses, Prada perfume, Salvatore Ferragamo eyewear, watches and fragrances etc. Zegna (see Chap. 2) also has multiple licensing agreements for its accessories. Zegna has an exclusive licensing agreement with Marcolini Group for sunglasses and optical frames and with Estée Lauder for exclusive global rights to develop and market new fragrances and grooming lines under the Zegna brand. Licensing may be the fastest way to make profits but it offers the lowest level of management control. The brand image, if it is heavily used, may be diluted or not maintain its consistency. Pierre Cardin is probably the world's most extensive licensor: it has more than 900 licensing agreements ranging from clothes, perfume, sunglasses, jewelry, time pieces and underwear to luggage, cigarettes, baseball, wine, chocolates, and even frying pans, floor tiles, toilet seats and hospital mattresses. This may confuse global consumers about the identity of Pierre Cardin (Okonkwo, 2007).

The next commitment level among entry mode choices is franchising, which offers franchisees a proven way of operating stores using product and training know-how ranging from stock control and customer service to store design, recruitment, and so on. For this, the franchisee pays an initial fee and a royalty percentage of total sales to the franchisor. This entry mode is popularly used among fashion brands such as Benetton, and Marks and Spencer (Burt, Mellahi, Jackson, & Sparks, 2002; Doherty & Quinn, 1999; Vignali, Schmidt, & Davies, 1993). Franchising is often preferred because fashion brands can internationalize rapidly using a relatively small amount of investment capital and with little cultural understanding of host countries, minimizing risk. For example, Zegna was the first luxury brand to enter Nigeria in 2013, partnering with local franchisees (Ben-Shabat, Moriarty, Kassack, & Torres, 2015a). The disadvantage is that franchisees may not faithfully deliver the consistent brand image in host countries.

A joint venture is formed when two or more retailers come together to create a new firm. In many emerging countries, foreign direct investment is banned, so a local (joint-venture) partner is required. Korea's on &

on worked with a local partner when it initially entered China because the Chinese government regulates wholly owned subsidiaries. Finding the right partner is a challenge in many cases, and on & on had this issue. Wholly owned subsidiaries or directly managed stores constitute the highest level of resource commitment as well as management control. While it requires a considerable amount of financial resources and market knowledge, many high-end luxury brands prefer to choose this entry mode to give them maximum control over their brand image. In addition to the five entry mode choices described above, fashion brands can enter international markets by acquiring existing fashion brands. This emerging trend will be examined next.

It should be noted that many companies combine different entry modes for strategic reasons and because of regulation by the host government. For instance, while Zara owns the majority of its stores in Spain, it has adopted three different entry modes for its internationalization drive (Lopez & Fan, 2009). Own subsidiary was chosen for most European and South American countries that were perceived as high growth and low risk (Flavian & Polo, 2000). Joint venture was chosen for entry into large, competitive markets where it was difficult to acquire retail outlet property or where there were other obstacles to cooperating with local companies. Zara entered Germany in a joint venture with Otto Versand, Italy with Gruppo Percassi and Japan with Biti. Franchising is chosen for high-risk countries that are culturally distant or have small markets with low sales forecast such as Saudi Arabia, Kuwait, Andorra or Malaysia (Flavian & Polo, 2000; Castellano, 2002). In an analysis of UK fashion retailers, Doherty (2000, p. 237) concludes that entry mode strategies emerge over time "as a result of combination of historical, experiential, financial, opportunistic, strategic and company-specific factors such as changes in management structure".

New Trends in Fashion Brand Internationalization

The most distinctive change in the world's economy impacting the internationalization of fashion brands is the rise of emerging markets such as the BRICs (Brazil, Russia, India and China).[6] "Emerging markets" refers to countries in the process of rapid growth and industrialization. There have been emerging countries throughout history. However, emerging countries these days are fairly powerful not just because of their economic potential but because of their number of consumers. The world's largest and second-largest populations, China and India respectively, happen to be emerging countries at the same time. The four BRIC countries combined account for more than a quarter of the world's land area and more than 42% of the world's population. Such a huge population implies a gigantic consumer demand for fashion goods, largely because of the growing middle class and their buying power which comes from the explosive growth of the emerging economy. This has changed their view of fashion, which now becomes something they can afford and enjoy, not a luxury they need to eschew and sacrifice.

The emergence of populous developing countries explains much of the global growth in the apparel business, which is expected to reach double figures between now and 2020 (Keller, Magnus, Hedrich, Nava, & Tochtermann, 2014). Just over half of mid-market apparel sales (55%) will come from emerging markets in 2025, up from 25% in 2004 (Keller et al., 2014). About 30% of the global luxury market is composed of emerging markets (Ben-Shabat et al., 2015a).

The economic and purchasing power of emerging markets is so great that they are shaping the most emerging trends, including the increased internationalization of Asian apparel brands, increased international outshopping both online and offline, the acquisition of leading global fashion brands by companies in developing countries, and China's influence on fashion brand development. In the last part of this chapter, we discuss these new trends and provide insights as to the opportunities and challenges that these new shifts will create for global apparel companies. It should be noted that there are other trends in the global apparel industry—the ageing population, sustainability, the increasing use of social media and the convergence of omni-channel retailing—that are not discussed here. Below we focus on emerging trends of significant relevance to fashion brand internationalization.

Increased Internationalization of Asian Apparel Brands

Most existing retail internationalization models, including the Uppsala model, are developed from Western perspectives and focus on multinational companies. Similarly, most existing cases of retail internationalization are by Western multinational retailers. Discussion of fashion brand internationalization in the academic literature is no different. A brief review of literature on the internationalization of fashion brands revealed that only a handful of Western fashion brands are examined: for example, Levi's (Vrontis & Vronti, 2004), Marks and Spencer (Jackson & Sparks, 2005) and Zara (Lopez & Fan, 2009). The only exception is Woo and Jin (2014), who examined the internationalization strategies of two Asian casual brands, Japan's Uniqlo and Hong Kong's Giordano. There are reasons why Asian brands have received little attention from academia.

Asia has been producing apparel for export to world markets since World War II. Beginning with Japan in the 1950s, most Asian countries started their economic development with apparel production, as illustrated by the Asian Dragons (Korea, Taiwan and Hong Kong) in the 1960s and 1970s, China in the 1980s, India in the 1990s and Vietnam and Southeast Asia (Bangladesh, Pakistan, Sri Lanka and Laos) in the 2000s. Each of these countries produced apparel items under OEM (original equipment manufacturing). This shift in the pattern of economic development around apparel production is well explained in Akamatsu's (1962) flying geese model. Apparel production in most Asian countries serves as a starter industry because it is largely labor intensive and requires low capital and little training compared to other industrial sectors. This means that OEM apparel production is not viable once a country's labor cost is no longer competitive.

Fashion brand development requires a certain level of marketing and management capabilities in addition to knowledge of apparel products; thus, brand concepts in the apparel industry have evolved mostly since apparel production for export has waned (see case studies of Korea and India in Jin, Kendagal, and Jung, 2013). That is, as regards the consumption of branded apparel goods, an emerging country, where brand concept is non-existent, typically starts to import them from overseas, and then gradually develops its own national brands. The internationalization of fashion brands occurs only after a country's own national brands have emerged and a certain level of economic development has been achieved (Jin et al., 2013). This explains why Asian fashion brands have started to internationalize relatively recently, compared to Western fashion brands.

Table 1.2 summarizes the internationalization activities of the four most active Asian apparel brands (Muji, Giordano, Uniqlo and Bossini). As the evolution of fashion brand internationalization discussed above shows, Asian brands started to internationalize in the 1980s, first of all to neighboring Asian countries. These brands can currently be found in most Asian countries. It was not until the 2000s that Asian brands became visible in Western markets. Giordano, for instance, entered the US and Canadian market in 2007 after a series of expansions to Asian countries.

Table 1.2 Leading Asian apparel retailers active in internationalization

Brand name	*Country of brand origin*	*Established*	*Year of 1st foreign market entry*	*1st foreign market entered*	*Number of countries entered*	*Continents entered (number of continents entered)*
Muji	Japan	1979	1991	UK	25	Asia, Europe & North America (3)
Giordano	Hong Kong	1981	1981	Taiwan	40	Africa, Asia, Europe & North America (4)
Uniqlo	Japan	1984	2002	China	17	Australia, Asia, Europe & North America (4)
Bossini	Hong Kong	1987	1987	Singapore	40	Africa, Asia, Europe, North America & South America (5)

Source: Giordano—http://en.wikipedia.org/wiki/Giordano_%28store%29; http://www.giordano-me.com/aboutus.htm; Bossini—http://corp.bossini.com/corp/en/shop-locator; Muji—http://en.wikipedia.org/wiki/Muji, http://www.muji.com/storelocator/; Uniqlo—http://www.uniqlo.com/us/stores.html, http://en.wikipedia.org/wiki/Uniqlo

Uniqlo also opened global flagship stores in major fashion capitals to boost its fashion image in the 2000s. Uniqlo has eight flagship stores in New York (two stores), London, Paris, Shanghai, Osaka, Seoul and Taipei.

The internationalization activities of these Asian brands have been successful. In the case of Giordano, approximately 70% of its total sales are from international sales (Giordano Interim Report, 2013) and the sales of Uniqlo International are twice as high as domestic sales (Uniqlo Annual Report, 2013). To reflect this trend, this book selects two Asian apparel brands for case study, Hong Kong's Bossini and Korea's Beaucre Merchandising.

Increase in International Outshopping Both Online and Offline

Retail internationalization refers to the cross-border activities of retailers moving goods and/or stores to international locations. Traditionally, retail internationalization efforts have targeted consumers within an international market and have not taken consumers' purchases outside the home market much into account. However, increased cross-border shopping or outshopping (defined as shopping outside their local market) by global consumers has started to account for a significant proportion of a retailer's revenue and should therefore be now considered in a fashion brand's internationalization strategy.

The cross-border shopping phenomenon is more noticeable in the luxury goods industry, particularly among consumers in emerging markets. A large numbers of Chinese and Brazilian consumers, for example, travel to Paris and New York to shop for apparel and handbags. It is anticipated that foreign spending by Asia-Pacific residents outside their home countries will be triple by 2020. Chinese consumers alone will account for 75 % of all luxury sales, and more than half of those will come from outside China (Keller et al., 2014). Approximately 80 % of luxury goods purchases by Brazilians were outside Brazil as well (Mazza, 2014, October). Brazilians are travelling to major cities in the USA such as New York city and Florida with the sole purpose of shopping and are reported to be Florida's biggest overseas shoppers (Lyons & Trevisani, 2011). The main reason for this cross-border shopping is price. The price of luxury goods in China, for example, is almost double that in the origin country, though the price gap has reduced to 40 % recently (Gu, 2014, August 21). The price differential between home market and international destination is sufficient to cover their travel expenses. Consumers from the Middle East are also well known as big spenders in luxury goods beyond their home countries. They used to outshop in Paris and London, but Paris seems to have lost its attraction since France banned the wearing of the full face veil or *niqab* in 2011. They now flock to Munich, Germany because, along with its array of luxury boutiques, the city is attractive for its famed availability of a wide spectrum of medical clinics (Webb & Weiss, 2015, April 27).

This pattern of outshopping has started to occur in the virtual world as well. Thanks to the continuous growth of online retailing, online has become a new way of entering international markets for pure e-tailers such as amazon.com as well as pure offline speciality stores. Amazon.com has separate retail websites for the UK, France, Canada, Germany, Italy, Spain, the Netherlands, Australia, Brazil, Japan, China, India and Mexico, and ships to certain international countries for some of its products. US upscale houseware retailer William Sonoma has entered more than 100 countries over the past two years trading online, and e-tailing from international markets accounts for 44 % of its sales. The UK clothing retailer Marks and Spencer also is expanding to many countries online (Ben-Shabat, Moriarty, Nilforoushan, & Yuen, 2015b). German-based online retailer Zalando expanded to fifteen European countries in just six years after its establishment in 2008, offering free shipping and no-hassle returns (Keller et al., 2014).

It is misleading to assume that the expansion of e-commerce to international markets prevails only in economically advanced countries. Chinese e-tailers are exceptionally active in selling to international consumers as well as attracting international retailers to sell to Chinese consumers. China's leading e-commerce Alibaba Group launched AliExpress. com in 2010 as its overseas platform. AliExpress shows rapid growth in emerging markets with 700,000 registered users in Russia alone (Gu, 2013, December 19). Alibaba.com also helps foreign retailers sell to Chinese consumers through its B2C (business-to-consumer) website Tmall (Chan, Carsten, & Ruwitch, 2015, January 16). UK clothing retailer New Look sells in China through Chinese e-tailer Tmall (Ben-Shabat et al., 2015b). US retailer Costco has also partnered with Tmall to enter the Chinese online market (Ben-Shabat et al., 2015a). UK fashion retailer Topshop entered China through another e-tailer, Shangpin.com (Ben-Shabat et al., 2015a).

Such cross-border e-tailers are very attractive for global consumers because brands and products not available or too expensive in their home markets become available and much more affordable. This new deal was not possible a few years ago. In addition, global consumers are able to purchase unique products not readily available in their home markets. The two principal concerns associated with international online outshopping are lengthy delivery times and high shipping costs. The reputation of international e-tailers is also a concern, so multi-brand e-tailers are preferred to independent SME e-tailers (Forrester Consulting, 2014).

This trend towards international online outshopping is found in many different countries. It is not uncommon to see Chinese consumers buying from US e-tailing giant amazon.com and American consumers buying from AliExpress. com. Belgian consumers shop online at Germany's Otto Group and Amazon's French website, and approximately half of Mexico's online shopping is transacted on foreign websites such as Amazon and Walmart (Ben-Shabat et al., 2015b).

Apparel is by far the most popular item purchased by global consumers online, and the USA, China and the UK are the top three exporters of online purchases, according to a recent survey (Forrester Consulting, 2014). This implies that cross-border e-commerce can be a major revenue opportunity for global fashion brand companies, especially for small and medium-sized fashion companies. It not only opens up opportunities to global marketplaces with a significantly lower financial commitment but also generates higher profits than the home market. Leading Chinese e-tailer Jingdong Corp., for example, is making 40–50% gross profit, compared to the overall 15–20% of Chinese e-tailers in China (Gu, 2013, December 19). SMEs that do not have a wide reputation and logistics structure need to focus on their unique items and work with a logistics company and trusted multi-brand e-tailers to leverage shipping and logistics expertise and to enhance their reputation (Forrester Consulting, 2014).

Increased international outshopping both online and offline has changed the speed, scope and scale of internationalization, resulting in a need to revisit existing internationalization theories. The core assumptions of risk minimization and gradual learning in the Uppsala model are less applicable now since any entrepreneurial fashion brand company can easily test international sales online and then aggressively sell online to international consumers across the globe. The locational advantage of the OLI model is also less applicable, as retailers may not need to have retail space in other countries.

Acquisition of Leading Global Fashion Brands by Companies in Developing Countries

The next notable emerging trend is the acquisition of leading global fashion brands by companies in developing countries. Acquisition is the purchase of one business or company by another company or other business entity. It usually refers to a large firm's purchase of a smaller firm, or firms in developed countries acquiring competitors or less strong firms within their own sectors to grow larger and to leverage efficiencies of scale. In the same way, historically, companies in developed countries (i.e., larger ones) took over brands and firms from smaller or weaker developing countries.

However, the opposite is now occurring. Over the past decade, a great many companies or brands in developed countries have been taken over by companies in developing countries. The trend is very clear in the automobile industry: Swedish Volvo and Saab were acquired by a Chinese firm in 2010 and 2011, respectively, and British Jaguar by India's Tata Group in 2008. The trend continues in the computer and the food sector. IBM was acquired by Chinese Lenovo in 2004. The British Tetley Group was acquired by Tata Group in 2000. Godiva Chocolatier of Belgium (established in 1926) was purchased by the Turkish Yıldız Holding, owner of the Ülker Group, the largest consumer goods manufacturer in the Turkish food industry, in 2008.

Table 1.3 Selected acquisitions of global leading fashion brands/stores

Acquired country of brand origin	*Established*	*Country of acquirer*	*Acquirer*	*Year of acquisition*	*Amount ($)*
Escada (Germany)	1978	India	Mittal	2009	Unavailable
Cerruti (France)	1967	Hong Kong	Trinity Ltd	2010	70 million
Harrods (UK)	1834	Qatar	Qatar	2010	1.5 billion
Pringle of Scotland (UK)	1815	Hong Kong	Fang & Sons	2000	8.8 million
Aquascutum (UK)	1851	China	YGM Trading	2012	24 million
Gieves & Hawkes (UK)	1771	Hong Kong	Trinity Ltd	2012	51.7 million
Valentino (Italy)	1960	Qatar	Qatar	2012	858 million

Source: Edited and revised by authors based on Kumar and Steenkamp (2013), pp. 95–96

All these acquisitions by developing countries have happened since 2000, and the same pattern is also emerging in the fashion industry.

Table 1.3 summarizes recent acquisition of global fashion brands by companies in atypical Western developed countries. The upmarket UK department store Harrods (Photo 1.1), established in 1834, is now owned by Qatar. Also in the UK, one of the oldest men's menswear and tailoring companies, Gieves & Hawkes (established in 1771 and holders of royal warrants) (Photo 1.2), was taken over by a Hong Kong company in 2012. Pringle of Scotland (established in 1815), a luxury knitwear manufacturer and importer, was also acquired by Hong Kong's Fang & Sons in 2000.

So what is the motivation behind these acquisitions by developing countries? Acquisition is not just buying a brand. The brand's unique capabilities such as global reputation, store locations and networks, marketing, management and innovation skills, distribution networks and even customers come with it. Acquisition is regarded as the fastest way of establishing a global presence because it takes less time than establishing a global brand from the very beginning.

What are the implications of this trend for the internationalization drive of global fashion brand companies in developed countries? Does it present opportunities or challenges? Global fashion brands are highly regarded especially in emerging countries because of the symbolic values associ-

Photo 1.1 Façade of Harrods Department Store, London (Photographed by Byoungho Jin, July 2011)

ated with the brands. They are perceived as distinctive and associated with images of Western lifestyles admired by consumers in emerging countries. As stated earlier, it takes some time for an emerging country to develop its own national brands since it requires certain levels of marketing and management skills. Now that more and more emerging countries are investing in acquiring leading global fashion brands, the learning is being accelerated. It will be interesting to see how the acquired brands perform since most acquisitions by developing countries have happened in the last five years or so. More studies are needed to assess the impacts of such trends on the global apparel industry, once meaningful consequences are observable.

China's Influence on Fashion Brand Development: Luxury Taker to Taste Makers

With the phenomenal growth of the Chinese economy and the growing purchasing power of the country's middle-income consumers, China's consumers have become significant influences on the landscape of global

Photo 1.2 Gieves & Hawkes store, London (Photographed by Byoungho Jin, July 2011)

fashion brands. One noteworthy trend is the creation of brands by major global fashion companies mainly for Chinese consumers: an example is dENiZEN, launched by Levi Strauss in 2010 targeting young Chinese consumers aged 18–28 at affordable prices. The brand later expanded to South Korea, India and Singapore, Pakistan, although it withdrew to the USA and Mexico in 2014. Bossini developed the Sparkle brand in 2002 for young adults, Bossinistyle in 2006 and b.style de flyblue in 2011 to target middle- to upper-income consumers in China.

This is a new phenomenon. The previous norm in the global apparel industry was for a Western brand to enter international markets with the same brand name, making few changes to accommodate local tastes. Standardization has been the norm in the fashion industry, with appealing global images and in most cases, minimal adaptation (or localization) simply reflecting local preferences for colors and styles and modifying sizes to accommodate the physique of local consumers. The development of a new brand specifically for the Chinese market shows the significance of China in the global apparel industry.

Changes in Chinese consumers' appreciation of imported brands or luxury brands are powerful. Ever since the luxury goods market started in China in the early 1990s, it has been growing fast to become one of the key growth drivers in the global luxury goods market. France's Cerruti and Italy's Ermenegildo Zegna were the early movers, entering China in 1986 and 1991, respectively. An imported label or logo carried significance when first introduced; however, today's savvy Chinese consumers are not so interested in the logo and well-known brands themselves are no longer appealing (Lui et al., 2011). They are now looking for novelty and less ostentatious luxury (Ben-Shabat et al., 2015a); luxury brands such as Louis Vuitton adjust their product assortment to carry items bearing a less prominent logo. The rapid growth of luxury markets in China seems to have halted, as shown by the closure of seven under-performing Hugo Boss stores, six Zegna stores and four Burberry stores (Ben-Shabat et al., 2015a).

Instead of merely accepting and consuming Western luxury brands, China has a strong interest in developing luxury brands of its own. To this end, global luxury conglomerates have provided support and have even acquired Chinese brands. Shang Xia, founded in 2008, was inspired by the finest Chinese design and crafts and is backed by French Hermès. The brand positions extremely upmarket furniture, apparel and home décor in China and is expanding to France (Armoudom, 2012; Godart & Zhao, 2014). Qeelin, founded in France in 2004 by a Chinese designer, is another example; it was acquired by French luxury conglomerate Kering Group in 2013 (previously known as PPR) (Godart & Zhao, 2014). Shanghai Tang, founded in 1994 in Hong Kong, was acquired by Swiss luxury conglomerate Richmond Group (Armoudom, 2012). While home-grown upmarket brands encounter some resistance among Chinese consumers, luxury brands supported by global luxury conglomerates seem to be an exception (Booker, 2013, January 15). While the success of Chinese luxury brands is yet to be proved, it is important to note the changes that China has occasioned in the global fashion industry. Such changes will serve as opportunities and challenges for many global fashion brands in the future. It cannot be overemphasized that only companies equipped with appropriate understanding can seize these opportunities.

Notes

1. https://www.inditex.com/ (Accessed August 28, 2015).
2. http://about.hm.com/it/About/facts-about-hm/fashion-for-all/sales-markets.html (Accessed August 28, 2015).
3. SKU is a code system that identifies specific products by manufacturer, color, fabric, style and size.

4. 2015/08/06 Financial Release in http://www.todsgroup.com/en/financial-data/financial-release/ (August 29, 2015).
5. Also known as international new ventures (McDougall, Shane, & Oviatt, 1994) and early internationalizing firms (Rialp, Rialp, & Knight, 2005).
6. The acronym BRIC was first coined by Goldman Sachs' Jim O'Neill in 2001 and has been frequently used to refer to emerging markets ever since.

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CHAPTER 2

Ermenegildo Zegna: When Family Values Guide Global Expansion in the Luxury Industry

Elena Cedrola and Ksenia Silchenko

Abstract Ermenegildo Zegna is one of the most prominent examples of an Italian family business becoming a world leader in the luxury fashion industry. Four generations of Zegna family entrepreneurs turned the company from a small woollen mill in northern Italy into an international supplier of premium fabrics and luxury apparel. The company makes more than €1.20 billion in annual revenues, operates 555 international store locations and owns production facilities all over the world. Despite delocalization of production, the company demonstrates how strong brand reputation and company values together with cohesive vertical integration choices can sustain business growth both locally and globally. This case shows how a successful global expansion strategy in the luxury industry can be based on the logic of family values, such as a commitment to excellence, innovation, employees' wellbeing, community welfare and respect for the environment.

Keywords Family business • Vertical integration • Social responsibility • Product innovation • Raw materials control

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Introduction

The Ermenegildo Zegna Group is one of the most illustrious examples of a family enterprise that has become a world leader in the luxury fashion industry. The case of this Italian company demonstrates how traditional family values can guide a successful expansion strategy in a very competitive and exacting international marketplace.

Zegna's annual turnover reached €1.26 billion in 2015 with 90% of the revenues coming from exports, and its products are sold in strategic locations all over the world. China is regarded as the most important market for Zegna. Yet the company has a well-established historic presence in Europe, especially Italy, Germany, and the UK, and in the Americas, and is growing rapidly in Hong Kong, Macao, the Middle East, and international tourist destinations in Europe and the Americas.

Zegna's success is due in large part to the family's "business gene": Gildo Zegna (CEO), Paolo Zegna (Group Chairman), Anna Zegna (Group Image Director and Fondazione Zegna President), Benedetta Zegna (Talent Manager), Laura Zegna (Head of the Oasi Zegna) and Renata Zegna (on the Board of Directors of the Group) are the fourth generation of shrewd entrepreneurs responsible for guiding the group's global expansion today. Together they confirm and promote the values that have created Zegna's unique identity: commitment to excellence, innovation, pioneering strategies and an ability to merge tradition with modernity. The nature of the family business provides them with many advantages, the most important of which is probably flexible and speedy strategic decision making (Colli & Merlo, 2007; Jacobs, 2010, October 22; Raghavendra, 2008).

In its pursuit of excellence, the Zegna company's continuous innovation in terms of raw materials, fabrics and product designs has been guided by Zegna family values. As a result, the company offering extends to exclusive luxury products and services, such as made-to-measure personalized clothing and luxury accessories, including leather bags, footwear, small leather items, high-end timepieces, fragrances, eyewear, etc. The cultural values of the Zegna family influence both intellectual and ethical aspects of business decisions (Blache, 2013), leading Zegna to focus on the importance of social and environmental responsibility. Business decisions based on family values have ultimately provided Zegna with a unique competitive advantage in the global luxury marketplace.

The company's evolution can be described as follows. In its first stage, until the 1950s, the company was a fabric manufacturer that developed a policy of marketing products of high quality to professional tailors. In the second phase, from the 1950s to 1970s, the company started producing knitwear, formal menswear and clothing accessories.

Since the 1980s, the company has been investing in the development of its own retail network internationally. Today, it is one of the biggest world producers of fine luxury clothing (80% of company revenues) and high-quality fabrics (20% of revenues).

The company's international policy is based on two main strategies:

- First, progressive launch of retail locations
- Second, investment in manufacturing facilities in other countries to better serve high-priority markets with either locally produced items, or better logistics or process organization.

Nowadays, the company produces in five global locations with a completely integrated supply chain, managing every step from raw material to finished goods and retail distribution.

This case study demonstrates how the values of the entrepreneur's family influenced company growth, first in Italy, and later all over the world. These values include a commitment to excellence, product and process innovation, and customer focus. The latter translates into both retail and relationship policies, including direct distribution for two-thirds of the brand's retail locations and an integrated CRM (customer relationship management) system. These values, which extend to employee and community welfare, and respect for the environment, are confirmed by numerous infrastructure investments in the territories where company is located and sustainable development of the supply chain.

This chapter will examine Zegna's main business activities, its historical development, market outcomes, organization and structure, and key product lines and their extensions. It will also provide a detailed overview of internationalization strategy success factors and how family values have guided various objectives set by four generations of Zegna family entrepreneurs. The study concludes with a discussion of opportunities and challenges for the company's future, and implications for researchers and managers. The study uses data from an interview with the group's chairman, Paolo Zegna in April 2015, a site visit to Zegna headquarters in Milan, Italy, store visits in Italy and China, trade and academic journals, books, corporate website, and other mass media sources in English and Italian.

Company Overview

The Ermenegildo Zegna Group is one of the most prominent examples of an Italian family business that has become synonymous with luxury menswear globally. Long-lasting family ownership has ensured continuity, with the values and the entrepreneurial mindset passed down from one generation to another. Founded as a fabric and textile business, the company has expanded into the clothing and accessories markets, wisely and strategically diversifying its offering and establishing the presence of the Ermenegildo Zegna brand all over the world. The success of this brand extension, confirming Reddy, Terblanche, Pitt, and Parent (2009), is the result of the brand's perceived premium status combined with adjacency between the product categories. Product category adjacency is "the extent to which a particular brand extension is consistent with the values embodied by the core brand" (Reddy et al., 2009).

The mission of Ermenegildo Zegna is to satisfy the needs of high-end consumers in menswear all over the world, and to become a solid market leader by valorizing the Ermenegildo Zegna brand through high-quality products and customer service, brand recognition, selective distribution, specialization and innovation strategies. The mission statement highlights the strong link between the hundred-year history of the brand and its traditions, and the commitment to constant innovation and expansion into new markets and new consumer segments (Colli & Merlo, 2007).

As stated by the Zegna Group, the company's philosophy revolves around three principles:

- Long-term objectives
- Family ownership to ensure continuity
- A sound ethical commitment enshrined in a rigorous corporate governance system (Zegna Group website, 2015).

Ermenegildo Zegna's Milan headquarters is the home of the sales and marketing business function, including showrooms, marketing and communication, PR, customer relationship development, and store development departments. The company's main production facilities are located in northern Italy. Additionally, some overseas manufacturing sites are located in Spain, Switzerland, Turkey and Mexico. The turnover of the group reached € 1.21 billion in 2014, with more than 90% of its sales obtained from export. Table 2.1 provides a detailed view of the key business indices from the company's financial statements in 2010–2014. The largest share of sales comes from mono-brand stores located all over the world (see Fig. 2.1).

The company's penetration into international markets is represented in Table 2.2. The group is largely focused on China as its primary foreign market, followed by Europe and the Americas. Italy, France and the UK account for the most sales in Europe. The fastest growing markets are Hong Kong and Macao, the Middle East, and international tourist destinations in Europe and America, fueled by an increasing flow of Chinese, Russian and Brazilian customers.

The group consists of around 70 companies, including both manufacturing and trade firms—most of them owned either wholly or with a majority share (see Table 2.3). The Swiss company headquarters manages all points of sale located in most European countries. In the USA, Mexico, Japan, China, Spain and all other countries with high market potential, the management of retail outlets is assigned to local companies (one per country). They interact with the Swiss company, which is the single intermediary for all international companies (Ranfagni, 2012).

The group owns two brands of menswear, Ermenegildo Zegna and Z Zegna, and one brand of womenswear, Agnona. The Ermenegildo Zegna

Table 2.1 Ermenegildo Zegna Group financial statements, 2010–2014

	2014	*2013*	*2012*	*2011*	*2010*
Sales (€ millions)	1210	1270	1261	1127	963
EBITDA[a] (€ millions)	185 (15.6% of sales)	256.8 (9.2% of sales)	250.2 (19.8% of sales)	233.7 (20.7% of sales)	140 (14.6% of sales)
Net profits (€ millions)	71	116	130	115	60
Export share	90%	90%	90%	90%	90%
Number of mono-brand stores	525	546	543	557	560
of which fully owned	298	312	303	311	300

Source: Ermenegildo Zegna Group press releases 2010–2014. Company website http://www.zegna-group.com (last accessed on May 19, 2015)

[a]Earnings before interest, tax, depreciation and amortization

Fig. 2.1 Global distribution of Zegna stores by country
Source: Elaborated by the authors from data published on the company's website http://www.zegnagroup.com (last accessed on May 19, 2015)

brand essentially represents an elegant, classy, sophisticated, jet-setter male consumer. It requires the best fabric and comfort for classic and formal wear (Johnston, 2013, December). The lines range from classic custom-made suits to casual clothing, leather accessories and fragrances. Z Zegna, by contrast, is young and trendy, yet chic. While high fabric quality makes it distinctive, the true brand signature is its style. The idea behind Z Zegna is to attract a younger client who will stay with the Ermenegildo Zegna brand as they grow older. It also satisfies consumer demand in some fast-paced fashion markets, particularly in Asia (Chan, 2011; Reinach, 2009). Z Zegna is sold through Ermenegildo Zegna Global boutiques, selected multi-brand stores, and shop-in-shops in top department stores. Mono-brand Z Zegna stores can be found in Europe and Asia and, as of March 2013, in North America (Los Angeles). Figure 2.2 shows the distribution of the two Zegna brands by store type around the globe.

Matching the Ermenegildo Zegna positioning, the Agnona brand of luxury womenswear specializes in fine-yarn clothing from fine Australian wools, Peruvian alpaca, Tibetan and Chinese cashmere, and Vicuña. The brand is sold in seventeen stores around the world, including ten fully owned by the group (Finn, 2002, November 7).

Table 2.2 Revenues of Ermenegildo Zegna Holding S.p.A. by geographical area (€ millions), 2003–2013

	2013	*2012*	*2011*	*2010*	*2009*	*2008*	*2007*	*2006*	*2005*	*2004*	*2003*
European Union	333.17	329.72	291.87	274.65	241.86	302.88	305.39	255.78	253.43	239.73	237.63
of which Italy	101.36	98.52	105.58	89.47	59.49	104.09	112.50	n.d.	107.26	109.09	n.d.
America	247.92	24.12	226.00	195.86	174.19	205.23	223.50	212.50	195.70	174.56	172.96
Other Countries	688.80	686.06	608.75	492.11	380.91	362.46	314.52	311.08	263.62	219.59	190.42
of which Asia	592.44	605.79	501.03	413.28	320.20	274.60	228.52	n.d.	172.92	n.d.	n.d.
of which non-EU European countries	63.75	56.76	77.70	67.11	52.91	78.08	76.41	n.d.	82.94	n.d.	n.d.
Sales	1269.88	1260.89	1126.62	962.62	796.96	870.58	843.41	779.37	712.74	633.88	601.01

Source: Company's financial statements 2003–2013

Table 2.3 List of companies in the Ermenegildo Zegna Group

Subsidiary company name	*Country*	*% direct ownership*	*% total ownership*
ASTRUM FRANCE SARL	FR	100.00	100.00
CO.TI. SERVICE S.A.	CH	100.00	100.00
E. ZEGNA TRADING HONG KONG LTD TAIWAN BRANCH	CN	100.00	100.00
ERMENEGILDO ZEGNA (CHINA) CO. LTD	CN	100.00	100.00
ERMENEGILDO ZEGNA (CHINA) ENTERPRISE MANAGEMENT CO. LTD	CN	100.00	100.00
ERMENEGILDO ZEGNA GMBH	DE	100.00	100.00
ERMENEGILDO ZEGNA HANDELSGESELLSCHAFT MBH	AT	100.00	100.00
ERMENEGILDO ZEGNA HMBH	AT	100.00	100.00
ERMENEGILDO ZEGNA HONG KONG LTD	CN	100.00	100.00
ERMENEGILDO ZEGNA KOREA CO. LTD	KR	100.00	100.00
ERMENEGILDO ZEGNA LLC	MN	100.00	100.00
ERMENEGILDO ZEGNA MACAU LTD	CN	100.00	100.00
ERMENEGILDO ZEGNA MAROC S.A.R.L.A.U	MA	100.00	100.00
ERMENEGILDO ZEGNA NEW ZEALAND LTD	NZ	100.00	100.00
ERMENELGILDO ZEGNA KOREA LTD	KR	100.00	100.00
EZESA	CO	100.00	100.00
EZESA COLOMBIA S. A.	CO	100.00	100.00
EZESA URUGUAY S.A.	RO	100.00	100.00
EZETI (PORTUGAL) PRENDAS DE VESTIR S.A.	PT	100.00	100.00
EZETI S.L.	ES	100.00	100.00
EZI S.P.A.	IT	100.00	100.00
IN.CO—INDUSTRIA CONFEZIONI S.P.A.	IT	100.00	100.00
ISMACO AMSTERDAM B.V.	NL	100.00	100.00
ITALCO S.A.	ES	100.00	100.00
SOCIÉTÉ DE TEXTILES ASTRUM-FRANCE	FR	100.00	100.00
ZEGNA JAPAN CO. LTD	JP	100.00	100.00
ZEGNA (CHINA) ENTERPRISE MANAG. CO. LTD	CN	100.00	100.00
ZEGNA LATIN AMERICA PARTICIPACOES LTDA.	BR	100.00	100.00
ZEGNA TRADING (SHANGHAI) CO. LTD	CN	100.00	100.00
ZELECO—S.P.A.	IT	100.00	100.00
ERMENEGILDO ZEGNA SIYIM SANAYI VE TIC. AS	TR	99.97	100.00
ALAN REAL ESTATE S.A.	CH	–	100.00
ALAN WASHINGTON LLC	US	–	100.00

Table 2.3 (continued)

Subsidiary company name	*Country*	*% direct ownership*	*% total ownership*
CONSITEX S.A.	CH	–	100.00
E. ZEGNA AUSTRALIA PTY LTD	AU	–	100.00
E.Z. ESA CHILE, S.A.	CL	–	100.00
EARLSFORT PARIS 50	LU	–	100.00
ERMENEGILDO ZEGNA CANADA INC	CA	–	100.00
ERMENEGILDO ZEGNA CORP	US	–	100.00
ERMENEGILDO ZEGNA FAR EAST PTE LTD	SG	–	100.00
ERMENEGILDO ZEGNA HONG KONG LTD	HK	–	100.00
ERMENEGILDO ZEGNA KOREA LTD.	KR	–	100.00
ERMENEGILDO ZEGNA, S.A. DE C.V.	MX	–	100.00
EZESA ARGENTINA S.A.	AR	–	100.00
EZESA ARUBA N.V.	AW	–	100.00
EZESA BRASIL PARTICIPACOES LTDA.	BR	–	100.00
EZESA URUGUAY S.A.	UY	–	100.00
EZETI (PORTUGAL)—PRENDAS DE VESTIR, S.A.	PT	–	100.00
LUXSO GIYIM SANAYI VE TICARET LTD. STI	TR	–	100.00
OPERADORA ROEZ, S.A. DE C.V.	MX	–	100.00
TARSA, S.A. DE C.V.	MX	–	100.00
BREZ S.P.R.L.	BE	99.99	n.d.
A.T.H. TEKSTIL SANAYI VE TICARET LTD SIRTKETI	TR	–	99.85
LUXSO GIYIM SANAYI TICARET LTD STI	TR	99.00	n.d.
ERMENEGILDO ZEGNA LIMITED	GB	WO[a]	WO
LANERIE AGNONA S.P.A.	IT	90.00	n.d.
LANIFICIO ERMENEGILDO ZEGNA E FIGLI S.P.A.	IT	90.00	n.d.
ERMENEGILDO ZEGNA MADRID S.A.	ES	–	70.00
ERMENEGILDO ZEGNA VIETNAM LLC	VN	69.81	n.d.
CONSORZIO TURISTICO OASI ZEGNA	IT	64.70	n.d.
THE ITALIAN FASHION CO. LTD	TH	64.53	n.d.
ZEGNA SOUTH ASIA PRIVATE LIMITED	IN	51.00	n.d.
FRABRI	BE	–	MO[b]
CAMEGIT FOR GARMENT MANUFACTURING SAE	EG	50.00	n.d.
PELLETTERIA ARTIGIANA—S.R.L.	IT	50.00	n.d.
SHARMOON.EZ.GARMENTS CO. LTD	CN	50.00	n.d.
XIAMENG YIJIE GARMENT CO. LTD.	CN	50.00	n.d.
E.Z. THAI HOLDING LTD	TH	49.33	n.d.
VEZE S.R.L. IN LIQUIDAZIONE	IT	30.00	n.d.

(*continued*)

Table 2.3 (continued)

Subsidiary company name	*Country*	*% direct ownership*	*% total ownership*
SOBIFILS—SOCIETA' BIELLESE PER LA FABBRICAZIONE DI FILATI SPECIALI—S.P.A.	IT	5.29	n.d.
G.A.L. MONTAGNE BIELLESI—SOCIETA' CONSORTILE A RESPONSABILITA' LIMITATA	IT	5.17	n.d.
BRUNELLO CUCINELLI S.P.A.	IT	3.00	n.d.
SOCIETA' AEROPORTO CERRIONE S.P.A. (S.A.C.E.)	IT	0.69	n.d.

Source: Company's financial statements 2014

[a]WO: Wholly Owned Private Limited Company
[b]MO: Majority Owned Private Limited Liability Company

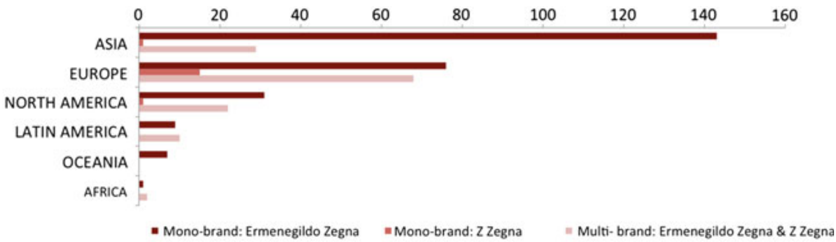


Fig. 2.2 Distribution of Ermenegildo Zegna and Z Zegna brands by store type around the world.
Source: Elaborated by the authors from data published on the company's website http://www.zegnagroup.com (last accessed on May 19, 2015)

Company History

First Generation Entrepreneur (1889–1910): The Foundation of the Company

The history of the Zegna business dates back to the late nineteenth century, when watchmaker Angelo Zegna decided to try wool weaving. The small loom facility passed to his tenth and youngest son, Ermenegildo, who set the family business on the path of becoming one of the most acclaimed global luxury brands in one of the world's most inspiring entrepreneurship stories (Fig. 2.3).

Fig. 2.3 Ermenegildo Zegna company history.
Source: Elaborated by the authors based on trade publications, the company website and other materials

Second-Generation Entrepreneur (1910–1940s): Fabric Quality, Process Innovation, Brand Recognition

The Zegna woollen mill was founded in 1910 in Trivero, at the foot of the Italian Alps in the Biella area of the Piedmont region, where many other families owned small wool related facilities. Ermenegildo Zegna's dream, or what we would define today as company vision, was to produce the best quality fabric for men's suits in the world, following three actionable principles:

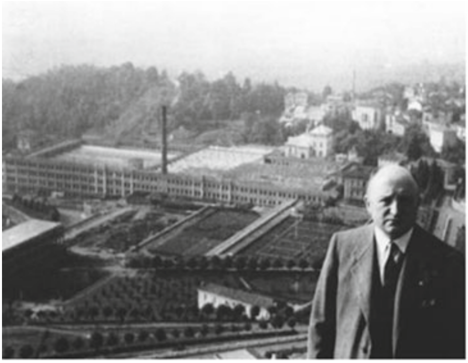
- The selection of the finest raw materials
- Product and process innovation
- The creation of own fabric recognition via branding and promotion

Some of the business objectives that we would take for granted today were rather revolutionary at the time—for example, commitment to quality, innovation, branding and corporate reputation. Consequently, the goal of achieving quality and excellence automatically required the entrepreneur to adopt an international outlook and to deal directly with top suppliers of fibers all over the world. To ensure competitive selection of the raw material suppliers, the company sponsored several annual trophies for the best wools.

Moreover, technological innovation had to become a strategic lever. For instance, the company adopted the use of weaving machinery imported from its competitor market, the UK. Finally, communication strategy had to focus on increasing product recognition and strongly connecting the product to the name. Ahead of his time, Ermenegildo Zegna started investing in advertising to make his name synonymous with his product, turning it into a real brand (the first printed advertisement dates back to 1918). Figure 2.4 shows how the woollen mill looked in Ermenegildo Zegna's time and one of the first company printed advertisement.

Ermenegildo Zegna's intuition proved effective: by the end of the 1930s the company had become the leading textile producer for both fashion market and end consumer. Although Italy was facing many difficulties, including poverty, economic sanctions and isolation, the company provided jobs for more than 1000 employees.

Ermenegildo was a wise leader and entrepreneur outside his office. He strongly believed in a positive relationship with the local context (Colli & Merlo, 2007). Consequently, environment and community welfare—not only that of employees—were necessary conditions for the company's long-term success.



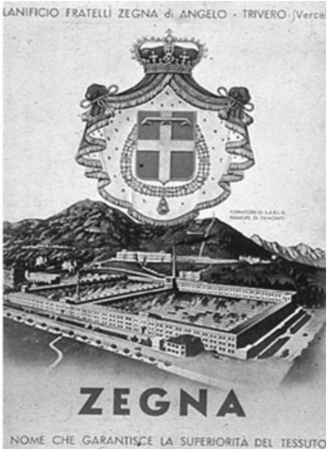


Fig. 2.4 Ermenegildo Zegna woollen mill in 1942 (*left*) and 1930s advertisement (*right*).
Source: *Ermenegildo Zegna. Cento anni di tessuti, innovazione, qualità e stile*, (2010, p. 19) and Ermenegildo Zegna company archive

As early as 1932, the Trivero headquarters opened a conference room, a public library, a gym, a cinema and a swimming pool for employee and public use. Ermenegildo Zegna also commissioned a community center with doctor's surgery, kindergarten and a maternity ward. As well as employees and the local community, the company invested in environmental and infrastructural development, acting as a sustainable business well before this became common practice. To enhance the local landscape, Ermenegildo Zegna planted thousands of trees and started building 14 km of road, named *Panoramica Zegna*, to enable people to reach the nature park and to connect Trivero to Bielmonte, a popular tourist destination in the Alps. The youngest son of Ermenegildo, Angelo Zegna, who is today Honorary Chairman of the group, comments on his father's achievements:

> I see four forces acting throughout my father's life. First of all, he was born in the right environment to develop his business aptitude. There were various small firms competing in a small area. Secondly, he was always determined to get the better of his British rivals by offering creative Italian fabrics with unbeatable quality. The third force was an exceptionally open mind, especially regarding the social welfare of the territory and redistribution of value to workers. Lastly, there was his fundamentally important

> relationship with nature, his awareness that natural resources are limited and that we must protect them. He was an ecologist long before the term even existed! (Zegna Group website, 2015)

By 1938, the company was exporting textiles to the United States where Italian immigrant tailors trusted the quality and the origin of Zegna fabrics. By 1945, Zegna products could be found in over 40 countries.

Third-Generation Entrepreneurs (1950s–1980s): Ready-to-Wear Collections, Delocalization of Production, and Internationalization of Retail Network

Ermenegildo's sons, Aldo and Angelo, learned entrepreneurial skills directly from their father by working in the company as adolescents. After finishing their education in Italy and abroad, they took up management positions in Ermenegildo Zegna & Sons.

Their decisions moved the company towards a vertical integration model and from solely manufacturing fabrics to ready-to-wear and made-to-measure menswear production. Such decisions were largely the result of market changes: a decrease in the number of professional tailors and in custom-made suits, the beginning and growth of a ready-to-wear market, and the shift from formal to informal clothing. At the same time, the brothers pursued an internationalization strategy in both production and retail and opened their own mono-brand stores in Paris in 1981 and Milan in 1985. Incremental innovation with a strong orientation towards international markets, typical of Italian medium-sized companies, allowed Zegna to successfully exploit the opportunities arising from the globalization of markets (Colli & Merlo, 2007).

In 1968, a new factory located in Novara, Italy, which began production of jackets and trousers, soon proved to be a success. As a next step, the brothers expanded into Spain and Switzerland, two markets with a high level of geographical and cultural proximity. Gradually, they moved into further and more complex global markets. In the meantime, their line also expanded into sportswear and accessories.

In 1972, a made-to-measure service was introduced. It allowed customized production of branded Zegna clothing for an individual customer, who could choose from a range of styles and fabrics at the store, have it produced to their exact measurements and delivered back to the retail location in about four weeks.

With the completion of the *Panoramica Zegna*, the company built a housing estate in Bielmonte in 1963 and a ski resort in 1965. The idea behind these investments was to improve the welfare of the company's employees and other stakeholders.

Fourth-Generation Entrepreneurs (1990s–Today) : Vertical Integration, Brand Extension, and Licensing

Following in their father's footsteps, Angelo and Aldo trained their children, Ermenegildo, Paolo, Anna, Benedetta, Laura and Renata, for managerial positions. Their mission was to drive forward the company's global expansion. At the end of the1990s, thanks to full vertical integration, line diversification, brand extension and licensing strategies, the company entered the emerging luxury markets. Zegna was the first menswear brand to open a fully owned boutique in Beijing in 1991, ensuring a first-entry and long-established advantage crucial for a foreign fashion retailer in China (Bonetti, 2014). Instead of relying on local partners, the company chose to control every aspect of retail (distribution, logistics, in-store customer service) directly. Zegna considers China its biggest market, where it has more than 70 stores, outpacing the presence of other luxury brands, such as Louis Vuitton and Gucci (Matlack & Tang, 2010, June).

As of 2015, the total number of global Zegna stores was 555 (Ermenegildo Zegna Press Release, 2015), including 311 operated directly. The rest are mono-brand stores in franchising or multi-brand stores (Zegna Group website, 2015).

The brand extension strategy included various acquisitions (e.g., Agnona, Longhi), joint ventures (e.g., Salvatore Ferragamo Group, Armani, Versace, SharMoon), and licensing agreements (e.g., YSL Beauté of L'Oreal Group, Estée Lauder, De Rigo, Marcolini Group, Perofil, Yoox Group, Girrard-Perregaux, Maserati) in luxury clothing, leather goods, underwear, eyewear, fragrance, watches and even car design. These collaborations and contracts are discussed in more detail below.

Internationalization Strategy Success Factors

Ermenegildo Zegna largely owes its success to a shrewd international strategy implemented since the earliest days of the company's operations. As much as 90% of the company's revenues come from export to such markets as China, Germany, the UK, the USA and others. Its products are produced in ten Italian and five global production facilities and sold in 555 stores in many of the world's most strategic locations.

The international success of Zegna can be attributed to a number of factors. First, the commitment to excellence and the ability to combine global and local material and non-material resources ensured successful product innovation. Second, the creation of an international brand through a series of steps from brand recognition to brand extension to brand reputation, led to a significant competitor advantage on a global level. Third, cohesive vertical integration choices guaranteed full control over quality of production, distribution, customer service and brand image internationally. Finally, the logic of family values guided corporate social responsibility activities from the earliest days of the company's existence, with investment in human and social capital that eventually helped to sustain company growth.

Product Excellence: Combination of Global and Local Resources for Product Innovation

Today Zegna is considered primarily a producer of luxury clothing. Even though fabrics account for only 20 % of its revenues, the exceptional quality of its raw materials and fabrics has greatly contributed to Zegna's international success.

Currently the Zegna woollen mill employs 460 people producing around 2 million meters of fabric a year. Most of its textiles are now reserved for its own clothing collections. Others go to some of the most acclaimed fashion designers and brands in the world. The woollen mill manages the entire production life cycle, from raw materials selection to finishing of fabrics. The company's commitment to quality, innovation and the combination of modern technology with artisanal textile-weaving traditions enables it to be successful today without losing the sight of its past or the future.

Ermenegildo Zegna's dream was to produce the best fabric in the world, a vision which has guided the Zegna company in its international search for the most sought-after and authentic raw materials. The company's continued support for and improvement of fine and superfine fibers has ensured its leadership in the luxury fabric market. In keeping with its belief that a balanced and fair relationship with the people and local and national governments is a necessary condition for a company's access to the best raw materials, the company engages in philanthropic projects such as the Peru Vicuña Project that aims to protect and safeguard the Vicuña fiber.

The establishment and promotion of the Ermenegildo Zegna natural fiber trophies are further examples of the group's commitment to recognizing the value of the origins of natural fibers and to educating consumers about their importance. Zegna was, in fact, the first brand to specifically indicate on garment labels the origin of the natural fibers used in manufacture. Instead of simply saying "Cashmere" or "Wool" Zegna labels started featuring "Inner Mongolian Cashmere" or "Superfine Australian Wool". Zegna launched the first Ermenegildo Zegna Extrafine Wool Competition in 1963 and recently celebrated the 50th anniversary of what has become a truly rewarding event for both the Zegna Group and the wool industry. The trophies have provided an incentive for wool growers to continuously improve the quality of their wool production (Fig. 2.5).[1] Over these 50 years, Zegna has also helped to set new standards for Australian superfine wools (Martin, 2013, April 24). For instance, in 2010 a new world record in wool fineness was achieved with a remarkably fine 10-micron fleece. This achievement puts wool into the same category as silk and Vicuña, both of which are 10–12 microns thin.

Another element guaranteeing Zegna products' excellence and contemporary appeal is their ability to combine craftsmanship and innovation—both in the technical aspects of fabrics production and treatments, and in the creativity of their designs (Bhasin, 2012; Larenaudie, 2008, October 7). The focus on fabric research, one of the pillars of the company, has led to the creation of "smart garments"—custom designs featured in a number of season collections for formal and informal occasions.

Elements is one example. It is a fabric used for outerwear that can regulate body temperature by opening and closing pores in the fabric, imitating a natural mechanism found in pine cones. Techmerino is an example of a natural high-performance 100% wool fabric that delivers complete thermo-regulation against both cold and heat thanks to the highly breathable, quick-drying technical characteristics of merino wool fibers. 15milmil15 is an extremely fine wool fabric suitable for business and formal wear and can be worn at any time of year. Finally, 12milmil12 is arguably one of the most luxurious fabrics in the company offering. It is also one of the most exclusive fabrics due to the rarity of the long, extra-fine wool fibers used for its extremely limited production.

Fig. 2.5 The trophies for Ermenegildo Zegna Extrafine Wool Competition
Source: Company website http://www.zegnagroup.com (last accessed on June 2, 2015).

Other examples of fabric innovation are high-performance textiles that are superfine, light and crease-proof, which allows customers to wear wool suits in summer time or travel comfortably in an elegant suit, thus changing common consumer behavior in regard to formal wear. Some of these fabrics are truly revolutionary. For example, High Performance Micronsphere fabric uses nanotechnology to create absolute resistance to stains, while High Performance Cool Effect fabric enables dark-colored suits to reflect direct sunlight and remain cool.

Zegna is also responsible for innovative combinations of clothing and technology. For instance, Z Zegna's Sport Techno Project features an Ecotech Solar Jacket (first launched in 2007) made from 100% recycled plastic that guarantees protection from wind and rain, keeps the temperature of the body constant and, additionally, has detachable solar cells on the sleeves that convert sunlight into renewable energy to charge a mobile phone, an iPod or a camera. The Icon Bluetooth-Enabled Jacket is a more recent technical jacket (2013), which enables a smartphone to be operated from the sleeve with a microphone built into the collar, all operating via Bluetooth technology, while guaranteeing rain and wind protection, full breathability and excellent stylish design.

Targeting product and raw materials excellence has therefore guided Zegna's internationalization from the company's earliest days. Striving to create the best fabric in the world has led to the continuous expansion of global supply relationships, the creation of international competition between suppliers of wools and textile innovation based on world-beating technology and authentic craftsmanship traditions.

International Brand Strategy: From Brand Recognition to Brand Extension to Global Brand Reputation

For the company's founder, the creation of a strong brand was one of the most important strategic objectives, and this was an innovation in his time. For example, in order to increase recognition of his fabric and distinguish it from the international competition, Zegna started to weave his name into the selvage[2] of his fabric bolts in 1932 as a guarantee of the fabric's highest quality.

> We used to sell our fabrics to tailors, but at some point [in the 1930s] there was a massive migration of tailors from central and southern Italy abroad. Since they were used to Ermenegildo Zegna fabrics quality, they exported with them the memory of the product they had always used … This is how the company realized that there was a market for premium fabric and for "Made in Italy" and "Made in Italy by Ermenegildo Zegna" products.[3] (Interview with Paolo Zegna, 2015)

The company president recalls the numerous challenges faced by his grandfather, Ermenegildo, to underline the connection between "Made in Italy" and "Made by Zegna" when the brand was not yet well known. He had to compete with the "Made in England" image and convince merchants who would have preferred English fabrics. The company strategy concentrated on growing both the significance of the country of origin and the reputation of the business and the brand. Eventually, this approach resulted in a strong connection being built for Zegna's customers between Italian style, high quality and the Zegna name.

This connection helped the company to maintain its image and product perception even when some manufacturing moved away from Italy—a decision made to optimize dimensionality of productive capacity, costs structure and proximity to the markets served (Ranfagni, 2012). Zegna shirts produced outside Italy where the firm has established fully owned production facilites have labels saying "Zegna Made in Spain", "Zegna Made in Mexico" and "Zegna Made in Turkey". For the customers, in fact, the quality is guaranteed by the brand name. As observed by Cedrola and Battaglia (2013) and Cedrola, Battaglia, and Quaranta (2015) in country-of-origin research in B2B (business-to-business) sectors, when a company grows to the size of a multinational production system, the brand reputation supersedes the country-of-origin image.

However, there are some exceptions. For instance, Zegna chose to export Italian-made menswear to China, despite the large potential of this market in terms of production facilities. The decision was influenced by the peculiarities of the market, where there is a clear distinction between imported and locally produced products (Chan, 2011). For example, Zegna sells Italian-made clothing lines under its own name while Chinese-made clothing produced in collaboration with a local company, SharMoon, is sold under a different label called Piombo (Colavita, 2005). The connection between the two brands is not publicly disclosed.

The shift from fabrics to ready-to-wear clothing and competition on a global scale prompted the company to extend the brand from classic menswear into other luxury categories: from casual menswear, underwear and womenswear to fragrances, eyewear, watches and even cars. The diversification of the brand was achieved by maintaining a wise strategic consistency with the values embodied in the core brand. The brand extension strategy involved a number of acquisitions: for instance, Zegna Group acquired Agnona S.p.A.[4] woollen mills to enter the womenswear market; and in 2002, Longhi, a luxury leather apparel brand. Zegna also created joint ventures with other luxury brands: for instance, ZeFer[5] with Salvatore Ferragamo Group for joint footwear and leather goods business (Il Sole 24 Ore, 2002, February 28; Lenetz, 2002); Trimil with Armani for manufacturing and distribution of the Armani Le Collezioni menswear line; and VeZe with Versace to produce Versace Classic/Collezioni men's suits. In 2003, Zegna acquired 50% of the Chinese luxury clothing producer, SharMoon, a company owned by the Chen family, thus strengthening its presence in China (Colavita, 2005).

The company also launched fragrance, eyewear lines and men's underwear collections. Its first fragrance, Essenza di Zegna, was introduced in 2003, and distributed by YSL Beauté of L'Oreal Group. Later on, three more fragrances were launched, including Z Zegna and Zegna Colonia. On March 31, 2011, the Ermenegildo Zegna Group signed a contract with Estée Lauder (which had replaced YSL) for exclusive global rights to develop and market new fragrances and grooming lines under Zegna brands (Ermenegildo Zegna Press Release, 2011). The first Ermenegildo Zegna eyewear line was launched in 2004 in collaboration with De Rigo. In February 2014, the Zegna Group signed an exclusive licensing agreement to produce and market Zegna brand sunglasses and optical frames with the Marcolini Group[6] (Marcolin Group Press Release, 2014). To create a men's underwear collection, Zegna collaborated with Perofil brand in 2006.

In 2011, the company established two important partnerships: with Yoox Group[7] to launch its boutique online (Carr, 2013; Zargani, 2010) and with Girrard-Perregaux, a high-end Swiss watch manufacturer (Sanderson, 2011, March 25) to celebrate the heritage of watchmaker Angelo Zegna, the father of the company's founder. In April 2013, Zegna signed a three-year partnership with Italian luxury car producer Maserati for its flagship four-door saloon model known as Quattroporte. The original design was reinterpreted and personalized using colors, materials and textures inspired by Zegna's Trivero woollen mill. A catalogue insert featuring options designed by Zegna available for all Maserati models issued in 2015 (Palmieri, 2014, September 9).

Thanks to its established global brand reputation, today Zegna applies a standardization approach to its global product, retail and communication strategies. All the brand collections are ideated and designed as global, which means that there are no specific lines produced for a single local market or consumer group. Approximately 80–90% of the lines produced are sold all over the world. The remainder tends to respect color and model preferences specific to local markets. Moreover, since the Zegna customer is a jet-setter and global traveler, the company discontinued the policy of launching, for example, the winter collection in the northern hemisphere, and selling it six months later in the southern hemisphere. All Zegna customers can find the entire brand line in all international boutiques. This strategy, to the satisfaction of customers, helps accelerate the availability of new items and eliminate a time-lag between collection launches. For the management, it brings considerable advantages to production, logistics, display campaigns and communication.

The same approach based on standardization applies to Zegna's global communication strategy. According to Zegna communication policies, the message has to be the same internationally, but the medium and sometimes the photos can be adapted to the local market. The central communications office prepares a series of approved visuals that respect the spirit of the campaign as well the brand personality and the company mission, and the local markets are free to choose one that best fits their market. Nevertheless, some modifications are required for specific markets (Oswald, 2011). For instance, in China, media communication via large-scale billboards is more effective than magazine or newspaper print advertisement.

One part of the corporate communication does not involve stores or other mass channels but goes directly to individual customers. It relies on a sophisticated CRM system, developed and optimized over the past ten years (Polak, 2014). In line with CRM strategies elsewhere in the luxury industry, it relies on a sensitive and reactive database to create an exceptional experience for its key customers (Cailleux, Mignot, & Kapferer, 2009). In this way, the company creates a personalized method of communication: "for a Japanese or Chinese customer, a personal message from Italy, from a highly respected brand, contributes to strengthening the relationship with the brand and increasing brand loyalty"[8] (Interview with Paolo Zegna, 2015).

Fully Integrated Supply Chain: Forward and Backward Vertical Integration

Contrary to the widespread acceptance of outsourcing to maximize efficiency, vertical integration and direct control of all value-chain activities are quite common for Italian fashion companies (Capello & Ravasi, 2009). In the case of Zegna, however, the decision to vertically integrate the company was driven by the company values of a passion for excellence, style and constant innovation. Vertical integration allows Zegna to fully control the quality at every stage of the product life cycle from raw materials to final sale. Zegna's quality control goes far beyond factory inspections, incorporating all aspects of raw material development, including extensive testing. Additionally, as a fully vertically integrated company, Zegna controls the whole of the sales process, from sourcing of supplies to customer care at a retail location.

In the earlier stages of its internationalization, Zegna focused on forward vertical integration and the progressive launch of retail locations. Starting in the 1960s, shops and boutiques were opened outside Italy: first in Europe

(England, France, Germany, Spain), and later in the Americas and Japan. The guiding principle has always been to expand into the areas where the market potential justifies the investment. For lower-potential markets, the company has invested in establishing exclusive distribution agreements with local retailers. As of today, two-thirds of the company's sales are managed directly while the remaining one-third involves intermediaries, such as multi-brand speciality stores or mono-brand franchise stores.

Another important aspect of vertical integration via retail outlets concerns the creation of a cohesive brand image embedded in the physical spaces of company boutiques, their architecture and interior design. According to the strategic logic of luxury fashion flagship stores, they need to be established in the brand's most important revenue markets, to stand out and impress with their grand architectural scale and design quality, and finally, to serve as physical manifestations of the brand image (Moore & Doherty, 2007). Peter Marino[9] created the first Global Store concept in 2007. Since then, concept stores have opened in strategic international locations, including Milan, New York, Tokyo, Dubai, Hong Kong, Shanghai and Las Vegas. At the same time, a new global headquarters in Milan was opened in 2007. The 8000 m^2 space, designed by Antonio Citterio, embodies both Zegna's classic elegance and its cosmopolitan modernity, providing a home for the showrooms, product development, store planning, and sales and marketing departments (Fig. 2.6).

As part of a backward vertical integration strategy, Ermenegildo Zegna acquired the majority share in an Australian wool-growing facility, Achill, in July 2014 (Ermenegildo Zegna Group press release, 2014a). This farm is a leader in superfine merino wool production. The acquisition was surrounded by an aura of shared values of tradition and excellence between Zegna and Achill. Charlie Coventry, Achill's 42-year-old owner and chief executive of the newly established joint venture, is a sixth-generation woolgrower. The property is located in the center of Australian New England in New South Wales. It is famous for the production of wool of exceptional quality, durability and elasticity. Their free-range herd of 12,500 sheep and 1000 cattle are bred according to modern practices and principles of animal welfare.

This acquisition is a significant step for the group, leading to full control over the whole cycle of operations starting from the earliest stage—raw materials and wool growing—which can now be monitored and managed together with the local partner. The strategy of vertical integration and investment in the high-quality wool industry that has already proved

Fig. 2.6 Ermenegildo Zegna Milan headquarters entrance by artist Michelangelo Pistoletto (*left*) and Global Store in Shanghai by artist Mimmo Jodice (*right*) (Photographed by Elena Cedrola, April 2015 and March 2015)

beneficial for the company is re-confirmed by this acquisition. Direct participation in the wool-growing process, skills and ideas exchange with the woolgrowers are all sources of potential advantage and growth opportunities. It adds value in terms of know-how, product research, quality of fibers and continuous textile innovation. Today Zegna uses around 1.5 million kilos of the best wool from all over the world. The wool is not accepted unless each batch is carefully examined, measured and tested against various standards, including quality, thinness and durability. "It is a great honor to become a member of the wool-growing community officially", confirms Paolo Zegna, Ermenegildo Zegna Group's chairman.

> It's such a joy to finally have an opportunity to really understand how the wool-growing industry lives every day and to be able to share the culture, the philosophy, the commitment to quality and together to create value from this magnificent fiber and its technical features. The choice to acquire a wool-growing facility in Australia highlights our group's continuity in viewing

business as inseparable from the land where it comes from. It is an important part of our company's history and tradition. Moreover, thanks to this young and talented wool grower, his enthusiasm and support, we are hopefully looking into the future of this industry we wish to preserve and protect for future generations (Ermenegildo Zegna Group press release, 2014a).

Finally, thanks to four generations of family ownership, the vertical integration strategy has been implemented in a gradual and consistent manner, resulting in full control over product quality and brand image on a global scale.

Family Values and Corporate Social Responsibility

Corporate social responsibility (CSR) was implemented within the Zegna Group long before the term CSR was coined. Following Ermenegildo's dream of creating not only the best textiles, but also a better world for the company's stakeholders, the company has always relied on a commitment to the principles of sustainable production, employees' wellbeing, community welfare and respect for the environment.

True to the founder's vision, the company seeks to produce the highest-quality goods with the lowest impact on the environment. Every production process is subject to rigorous control—from raw materials selection to sales via retail networks—thanks to a fully integrated vertical organization model. Over the years Zegna's manufacturing innovations in the interests of environmental sustainability have included:

Water conservation: Zegna was one of the first companies to install a purifier to treat water used in raw materials processing.

Energy: Following the installation of two hydro-electric power stations at the company's woollen mill in northern Italy, 50 % of the energy needed for production is produced on site.

Packaging and waste: To eliminate excessive waste, Zegna substituted its ordinary boxes and wraps with eco-friendly biodegradable Forest Stewardship Council-certified packaging, made entirely out of paper and cotton. The packaging is produced from unused raw materials, eliminating more waste and lowering the environmental impact still further.

Moreover, Zegna has always been involved in a wide range of environmental development initiatives. Beginning in the 1930s, Ermenegildo Zegna invested in the cultivation both of his business and of the local environment. He planted 500,000 conifers and rhododendrons to revive the forest and commissioned a panoramic road to access a natural park. In 1933 the *Oasi Zegna*[10] environmental improvement and protection project was launched to research, sustain and develop the eastern part of the Biella Alps in northern Italy. Another goal was to attract sustainable and family-oriented eco-tourism. The project is the first Italian example of environmental protection sponsored by an enterprise. *Oasi Zegna* promotes the original Emermenegildo's green ideas and communicates with visitors using a sign system called "visual alphabet". It features animals, plants and minerals found in the area and explains local history, educating the visitors about respect for the environment. *Oasi* occupies approximately 100 km^2 and is surrounded by the *Panoramica Zegna* road.

Oasi Zegna is also a unit of Biella Eco-Museum, which preserves and teaches the public about the traditions, history and culture of the area. Just like the sponsoring company, *Oasi Zegna* has a strong international outlook, collaborating with global environmental organizations and initiatives. In 1993, the *Oasi Zegna* project established a partnership with Alp Action that encourages companies to protect the Alpine regions by developing actionable environmental recovery projects. Other collaborative projects include Turkish anti-desertification organization TEMA, the "Panda corridor" project in China with World Wide Fund for Nature, and various initiatives with Rain Forest Alliance, Moanalua Garden Foundation, American Ocean Campaign and Environmental Media Association in the USA (Oasi Zegna Website, 2015).

In addition to its environmental programs, the Zegna Group supports projects that invest in human capital. For instance, an Ermenegildo Zegna Founder's Scholarship program was launched in the academic year 2014/2015 (Ermenegildo Zegna Group press release, 2014b). The fund will give scholarships to young, gifted Italians who are willing to return to Italy after graduating abroad. The total fund amounts to €1 million a year with a maximum of €50,000 per candidate for 25 years. The initiative pays tribute to founder Ermenegildo Zegna's philanthropic work in addition to his pioneering approach to the business. This approach guarantees that the best talents come to and stay with Zegna, making it and themselves thrive (BoF—Business of Fashion, 2014). As Paolo Zegna confirms in the interview:[11]

> … the future of the companies that survive long-term is sustainability … I think that those who do not do it will seriously lag behind because today's younger consumer is much more sensitive that the one from my generation. Also, he will require it. This means that if you do not do it, you'll lag

> behind… so it is much better and smarter to start doing it early because you cannot just snap your fingers and become sustainable overnight. You need to build it one step at a time.[12] (Interview with Paolo Zegna, 2015)

One of the most recent investments with an international cultural impact is the ZegnArt project, a contemporary art platform promoted by Zegna. Its goal is to foster the intersection of business and culture, generate new ideas, establish connections with various stakeholders, and create value for the company and society. The premise of ZegnArt, in line with Zegna corporate values, is that investing in contemporary culture mean investing in a human, social and symbolic capital of knowledge, relationships, identity and recognition.

ZegnArt is divided into three areas: public; art in global stores; and special projects. Each has its mission, sphere of activities and organizational structure. This three-fold approach makes it easier to focus on specific aspects of each section and communicate ZegnArt activities to the public (ZegnArt website, 2015). Art in the global stores area, for example, is of major importance for retail strategy. It seeks to create an exclusive atmosphere in stores and communicate company values through art. Despite the seeming difference between the actions of the three areas, they are well coordinated and have a single consistent vision in terms of contemporary art and its societal impact.

Discussion and Implications

Fashion has always been synonymous with beauty and aesthetics, which elevates the product, and with the capacity to satisfy customers' desires ahead of their needs (Corbellini & Marafioti, 2013). Indeed, it is the aesthetic pleasure and intrinsic excellence that have established two key elements of "Made in Italy" (Cedrola & Battaglia, 2013). In recent years, many Italian companies have opted to delocalize production facilities in search of cost advantages, which in some cases has resulted in a decrease in product quality, welfare for the stakeholders and respect for the environment (Ranfagni, 2012).

This case study highlights not only the value of "Made in Italy" in the fashion industry, but, more importantly, demonstrates how delocalization of production can co-exist with high-quality standards, innovation and corporate social responsibility. It shows how deep-rooted company culture and values can sustain business growth both locally and globally.

Furthermore, it provides a concrete example of how economic sustainability and competitive advantage cannot disregard the social consequences and ethical aspects of company activities. This integrated vision of the company's success urges the fashion industry to return to the true meaning of the word "value". With this vision, both evolved and proactive consumers search for more than a favourable price–quality ratio, but for an integral company value proposition. Sustainability is increasingly seen as another necessary condition to achieve competitiveness, especially taking into consideration the growth of demand for goods produced by socially responsible, exploitation-free, ecologically friendly and ethical enterprises (Frenkel & Scott, 2002; Rinaldi & Testa, 2013). Following this general trend in various industrial sectors and service industries, many brands in the fashion business have built their value proposition around environmental sustainability and encouraging attention to the customer's wellbeing.

These are the companies that, just like Ermenegildo Zegna, include environmental and infrastructural development and community welfare in their company missions. To go back to the case of Zegna, from its very early days the company focused on long-term "environmental and community patronage" projects, including the creation of *Oasi Zegna*, and the construction of employee housing, community centers and the *Panoramica Zegna* road around a nature park in the 1930s. These projects created value in terms of protection of the natural environment, employees' health and happiness, community welfare, and infrastructure for both locals and tourists. Other recent projects include water conservation and purification during the wool-making process, in-house production of renewable energy and recycling of manufacturing waste to produce packaging.

The Zegna business model is also an example of complete vertical integration, which enables full control over the entire supply chain from raw materials to retail distribution. This control makes it possible to guarantee the high quality of the products and to establish a reputable brand image, even when the products are made outside Italy. In some cases, for example in opting for shirt unit and sportswear production in Turkey rather than Italy, Zegna chose delocalization to reduce costs without compromising on quality. In others, some markets with large potential require local production for logistical reasons. The labels of these products openly declare the country of production alongside the Zegna brand, transforming the mark of quality from "Made in Italy" into "Made by Zegna".

Another aspect of vertical integration demonstrated by this case is the close attention paid to raw materials selection. Zegna ensures the best quality wools by organizing annual Zegna trophies. Most recently, it even acquired the majority share in a wool-growing farm in Australia to directly control its raw materials. Equally, in order to provide the best service, the company owns two-thirds of its retail network, relying on franchisees or multi-brand retailers only in the early stages of market entry or in markets with low potential.

Penetration into international markets was fast, yet it followed a progressive strategy: only fabrics at first, and later on ready-made clothing and accessories. In the past few years, Zegna has secured a number of licensing agreements and partnerships with market leaders in the luxury fashion industry for brand extensions, which have proved particularly fruitful because they are consistent with the values embodied by the core brand.

When Ermenegildo Zegna became a renowned international brand, its marketing strategy became global. Local adaptations of single elements of the marketing mix and communication system were reduced significantly. Product-wise, to preserve its signature style in every international market, the company preferred to switch to a global catalogue and to a worldwide launch of new collections regardless of the time of year. This choice was guided by the company's desire to make their new designs available simultaneously to all customers all over the world. The brand and the company values are communicated globally through retail locations, their architecture, atmosphere, and the art displayed inside boutiques.

In conclusion, we need to go back to our title, "When family values guide global expansion in the luxury industry". This case study demonstrates how core values transmitted from the woollen mill founder Ermenegildo to succeeding generations of company owners ensured a common thread and strategic cohesiveness that have led to the company's uniqueness and global success to this day. Even in the most difficult years of world economic recession and crises in individual markets, such as in Russia in 2014 (Zargani, 2015), the strong foundations of the company's strategy guaranteed a high level of revenues. New luxury goods markets, such as China, are in fact more culturally susceptible to such values as tradition, reputation, excellence, and, above all, brand reputation. It is precisely that brand reputation that has been the subject of continuous attention from all members of the Zegna family, generation after generation.

Notes

1. Ermenegildo Zegna group have been awarding trophies for top-quality achievements in raw materials production for almost 50 years. These prizes are sought after by producers of natural fibers and are a powerful incentive driving superior production quality. To take part in the Ermenegildo Zegna trophies (Ermenegildo Zegna Extrafine Wool Trophy, Ermenegildo Zegna Vellus Aureum Trophy, Ermenegildo Zegna Cashmere Trophy, Mohair Trophy) wool growers must choose a fleece and submit it to a panel of independent judges. The main criterion is fineness. However, the fibers are also assessed according to other parameters, such as cleanness, regularity, appearance, style, length, etc. At the end of each annual competition, Ermenegildo Zegna buys all the raw materials submitted, thus securing the world's finest fleeces.
2. A selvage is a self-finished edge of fabric. The selvages keep the fabric from unravelling or fraying.
3. Translation from Italian by the authors
4. Agnona S.p.A. was founded in 1953 in Borgosesia (Piedmont, Italy) and initially supplied textiles to fashion designers all over the world. In 2000 Ermenegildo Zegna Group took over full operational control of the company giving it a second life in ready-to-wear apparel for women.
5. Today fully owned.
6. Marcolin is a leader in eyewear market, particularly in the high-end segment. It is distinguished by high-quality production, attention to detail and exclusive distribution. In 2012 the company sold about 700 models and 5.5 million pairs of glasses. Its licensing portfolio includes such brands as Tom Ford, Balenciaga, Montblanc, Roberto Cavalli, Tod's, Swarovski, DSquared2, Diesel, 55DSL, Just Cavalli, Cover Girl, Kenneth Cole New York, Kenneth Cole Reaction and Timberland. In December 2013 it acquired Viva Optique, the second-biggest American eyewear company, which allowed the brand to strengthen its brand portfolio and distribution network, especially in the United States.
7. YOOX Group is an Italian internet retailer of men's and women's high-end multibrand clothing and accessories, serving more than 100 countries worldwide. In addition to its website, the company operates the full-price online stores of high-end and luxury fashion houses such as Emporio Armani (starting from 2007), Diesel (starting from 2007), Valentino S.p.A. (starting from 2008), Miss Sixty (starting from 2008), Costume National (starting from 2008), Emilio Pucci (starting from 2008), Dolce & Gabbana (2009), Moschino (starting from 2009), Jil Sander (starting from 2009), DSquared² (starting from 2009), Bally Shoe (starting from 2009), Roberto Cavalli (starting from 2009), Napapijri (starting from 2010), Coccinelle

(2010), Ermenegildo Zegna (2010), Brunello Cucinelli and Dirk Bikkembergs (starting from 2011) etc.

8. Translation from Italian by the authors.
9. Peter Marino is a famous American architect from Queens, New York City. His retail work includes stores for Christian Dior, Fendi and Louis Vuitton.
10. *Oasi* in Italian means oasis, which fully represents the identity of the *Oasi Zegna* project, a freely accessible nature park covering around 100 km^2 in the Biella Alps.
11. Translation from Italian by the authors.
12. Translation from Italian by the authors.

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CHAPTER 3

Diesel: An Unconventional, Innovative, International-Lifestyle, Italian Company

Donata Vianelli, Giovanna Pegan, and Manuela Valta

Abstract Diesel is an example of a successful Italian company in the fashion industry. This international lifestyle company founded in the 1970s has succeeded in creating and developing denim fabric in a mature market where the competition, led by American multinationals, is strong. Innovation, creativity and nonconformist choices are the fundamental roots of the company. The engine of the company's success is its founder, Renzo Rosso. Rosso managed to merge the philosophy of Diesel with the challenges of the market. Thanks to his marketing strategy, the company reaches young consumers across the globe. The marketing mix is based on an intense knowledge of the business and on Rosso's personal intuition. These characteristics made Rosso a pioneer of many trends that later came to be established in the market. This case study examines the company's internationalization process, the development of its brand identity, and the structural, cultural and human resource variables that favor innovation.

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It also considers how the company succeeded in repositioning a mature product in such a way as to experience continued growth in national and international markets.

Keywords Diesel • Fashion • Made in Italy • Innovation • Communication • Positioning

We believe there is a modern, unconventional group of savvy individuals
who want to express their identity and lifestyle through what they wear.

(OTB Mission and Philosophy, 2015)

Introduction

Not many people know that Diesel is an Italian company. Founded in the late 1970s (more precisely on October 25, 1978) in northeastern Italy, the company loves to call itself an innovative international lifestyle company. From its earliest days, Diesel aimed at developing an ambitious project across international markets, with foreign sales starting in 1982 (Forlin, 2012), and has invested substantially in product innovation and in the creation of a solid, creative and original brand. Within a few years of its inception, the brand became very well known; it displayed a wide collection of jeans, clothing and accessories, and established its international niche as premium casual wear. In 1989, Diesel was already present in over 40 countries, with foreign sales accounting for about US$130 million. The Diesel brand has stood for creativity, nonconformism and natural instinct. In the beginning, however, the company faced great challenges in entering a mature denim market. Strong competition from famous and international brands such as Levi's, Wrangler and Lee was a critical issue in the company's quest to become a successful international brand.

Due to the necessity of creating a distinctive brand image across multiple markets (see Table 3.1 for the characteristics of its brand personality), Diesel started to develop innovative advertising campaigns. While these were characterized by a rebellious spirit, they embraced the brand personality of the company. As a result, the brand created a new philosophy around its advertising campaigns, and began to attract big

Table 3.1 Brand Portfolio of OTB holding

Company	*Products*	*Brands*	*Brand personality*	*Target markets*
Diesel S.p.A.	Premium casual wear: jeans, clothing and accessories, home furniture, farm products, hotel	Diesel, Diesel Black Gold, 55DSL, Diesel Kids, Successful Living from Diesel, Diesel Lifestyle, Diesel Farm, Pelican Hotel by Diesel	Passion, irreverence towards established rules, individuality and self-expression	Worldwide; For Diesel Farm sales are limited to European markets, USA and Japan
Diesel S.p.A.	Haute couture, ready-to-wear clothing for men and women, and MM6 accessories, fine jewelry, fragrances and interior design	Maison Margiela	Iconoclast and irreverent, mysterious and unconventional, non-standard elegance, classic yet visionary, daring yet ambiguous	France, United Kingdom, Italy, Germany, Belgium, USA, Japan, Thailand, Taiwan, Singapore, Kuwait, Korea, Hong Kong, China
Marni Holding S.p.A.	Ready-to-wear clothing and accessories for women, distinguished by colors, exclusive prints and textures	Marni	Emotion, creativity, artisanal, authentic, sophisticated and understated	Worldwide
Viktor & Rolf B.V.	Menswear collections, luxurious accessories and fragrances	Viktor & Rolf	Provocative, unconventional, sophisticated, ironic, elegant	Worldwide

Source: Author's elaboration based on information from OTB Group Profile (2015) and brand web pages communities of enthusiasts who were eager to live the brand lifestyle. The Diesel community now participates in online and offline events, speaks the brand language and spreads the brand philosophy all around the globe. The diffusion of its brand values has been much enhanced by the company's distribution strategy. For example, Diesel chose to enter international markets through innovative distribution channels, such as the Diesel Planet stores. These stores contributed to the success of the Diesel spirit and strengthened its appeal to transnational consumers who shared the same premium dynamic lifestyle (Business Case Studies, 2015).

This case study has been chosen as an example of a small enterprise that succeeded in growing not just in international markets, but also in a mature industry. Diesel is also a good example of product repositioning, having transformed a basic product, denim, into a premium product within the fashion industry. Thanks to an entrepreneurial marketing strategy, which moved the company in the direction of international market growth, it adopted a marketing mix at the global level. Diesel's marketing strategy has always been characterized by nonconformist choices, guided by personal intuition and great passion.

The case study starts by presenting the main characteristics of the company and of the group Only The Brave (OTB), of which Diesel is a part. The product portfolio analysis of the group and of Diesel underlines the positioning of the group's various brands and the foreign target markets of its operations. The characteristics of Diesel's target consumers also emerge from this analysis. The discussion then moves on to the history of the company, underlining the key milestones of Diesel's growth in international markets, as well as its process of diversification, which started in 2000. While the analysis of the industry presents the characteristics of the fashion and jeans sectors, the analysis of the company's marketing mix also shows the development of the company at both the national and international levels. The case analysis concludes with an explanation of the elements that have led the company to success. The discussion highlights the main opportunities and major challenges that Diesel could face in the near future. This case study is based on secondary data analysis, using sources such as books, websites and trade journals.

Company Overview

Diesel is an Italian company that sells jeans, casual clothing and accessories. Diesel is part of the holding company OTB S.p.A. The headquarters are based on the beautiful hillside of Molvena, a little town near Vicenza in northeastern Italy. Diesel was co-founded in 1978 and one of the founders, Renzo Rosso, took complete control of the company in 1985. Today Rosso owns 90% of the holding company, while his sons, Andrea and Stefano Rosso, own the remaining 10% (Zampollo, 2013, February 27).

The holding company owns various companies across the globe (see Fig. 3.1). The main company of the OTB Group is Diesel S.p.A., while Marni Holding S.p.A. and Viktor & Rolf B.V. are acquiring growing importance. The group owns a company called Staff International, which is responsible for the development, production and distribution of some of the most iconic and influential brands in the fashion industry. In addition to OTB's brands, Staff International manages other brands, working on a license agreement for external brands of the group, such as Dsquared2, Vivienne Westwood, Marc Jacobs and Just Cavalli. Diesel and Marni own many subsidiaries across the world, most of them wholly controlled by the mother companies, which makes OTB a global group.

OTB ended 2014 with a turnover of €1.559 billion, in line with the previous year (€1.572 billion). Geographically, Asian markets make up 25% of OTB's sales, with an increasing value every year; 20% of sales are made in the Americas and 55% in the rest of the world, while Italy represented 12% of its total turnover (Muret, 2015, May 4).

Product manufacturing is mainly outsourced from suppliers, typically small and medium-sized enterprises (SMEs). However, the OTB group owns some production facilities. For example, Brave Kid S.R.L. is the company producing the Kids' product line for Diesel (OTB Group Profile, 2015). The company's haute-couture suppliers are based in Italy. Casual wear, which includes Diesel jeans, is manufactured in Italy and in other countries such as Tunisia, Morocco, Romania and Eastern European countries. Accessories, such as eyewear, fragrances, jewelry and watches, are managed with license agreements.

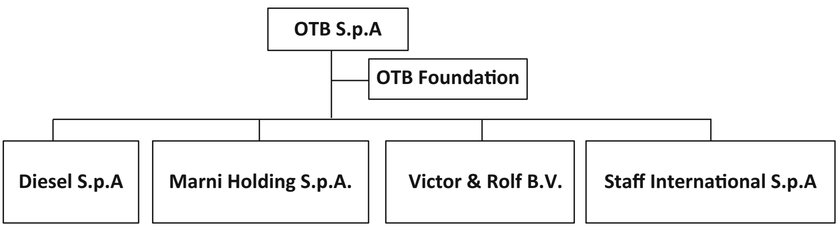

Fig. 3.1 Organization of the OTB Group

Diesel represents 65% of the total turnover of the OTB group (Pambianco, 2015, May 4), but in the last two years it has faced a significant decrease in sales. The main reasons for this are the fast-fashion trend, with retailers offering mass-produced denim at very low prices, and new competitive brands like Rag & Bone, Phillip Lim and Alexander Wang that, together with a wide range of rising premium denim specialists, like Acne, Nudie and J Brand, have eroded the premium positioning of Diesel (Kansara, 2014).

Diesel S.p.A. has been grown internationally mainly with direct investments. Diesel directly owns and controls a large number of stores, with a presence in 80 countries around the world, from Italy to the United States and Japan to Canada. In Europe, Diesel has almost 5000 multi-brand stores, 400 concessions in department stores, and 370 brand stores, of which 120 are directly operated. At present, OTB's exports amount to 87% of the company's total turnover, whereas Diesel's exports represent 75%. The group's main international market is Japan, accounting for more than 20% of its sales. Diesel's second-largest market is the United States, with a little less than 20% of its revenues. Other important markets are France, the United Kingdom, Germany and Australia. In South America, Brazil is considered by Diesel (as well as by many other Italian fashion companies) to be a very attractive market, with the middle-income customer appearing on the scene. A growing market is China, where the company currently has fifteen stores and plans to open 50 more in the next five years (Albamonte, 2013; Zargani, 2015, March 16). China is considered to be a big potential market, because clothes with a strong fashion component are very highly regarded by Chinese consumers, especially the young. "The Chinese are simple and humble, but also beautiful and happy, and they want to have fun," said Renzo Rosso on the occasion of the opening of the Diesel stores in Shanghai and Beijing (Zargani, 2005, August 12).

The activities of the holding company are not only commercial; it has a strong involvement in activities that support talent in fashion or are related to social responsibility. Renzo Rosso has always accorded great importance to initiatives supporting opportunities for international young designers. These activities are highly visible sponsored events, such as the award of fashion prizes or provision of job opportunities to youngsters with a talent for fashion, accessories, jewelry and design in general. The holding company is also committed to social responsibility activities. The Only the Brave

Foundation was born as a non-profit organization to fight against social inequalities and to sustain development in the poorest areas of the world.

Brand Portfolio

The main brand of OTB is Diesel (see Table 3.1), which comprises the following collections: men's and women's, denim, underwear and beachwear, purses, shoes, belts, wallets, eyewear, watches and fragrances. The company has diversified into agricultural products (wine and olive oil) sold under the Diesel brand, and the hotel industry. Diesel operates with many sub-brands. Diesel Black Gold is the luxury line for men's and women's, purses, shoes, belts and wallets collections. 55DSL is a sportswear line for men and women. Diesel Kids is the line for children's wear, including jeans, fashion and accessories; it is divided into two categories: Baby (0–36 months) and Junior (4–16 years). Diesel's new entry brands are Successful Living, comprising home product line Diesel Living (Sloan, 2010, May 24), with accessories, textiles, lighting and interior design (supplied by Scavolini, Foscarini, Moroso and Zucchi), and Diesel Lifestyle, which includes helmets, headphones and bicycles (supplied by the Trevigian company Cicli Pinarello).

Diesel's target consumers are men and women aged between 20 and 35, young adults, workers and students who live in big cities and urban areas; they are well educated and fashion conscious. The target market is represented by people who love having fun, being young, energetic and a little rebellious. Target consumers have a good level of income, and care about comfort and good quality. They are sophisticated and look for superior and personalized experiences during their shopping visits to the store (Zargani, 2015, March 16), they have adopted new technologies and are accustomed to interactive communication; this has opened channels through which Diesel can connect with its consumers.

The Diesel Kids line is designed for children who do not want to be treated like children and offers lively, colorful and fashionable collections, while the target market for Diesel Black Gold, which is twice the price of Diesel products, occupies the premium segment and caters for the most exclusive customers who are interested in luxury and fashion. These customers represent an emerging market, even in the most complex and culturally different countries, such as China, where consumers are discovering the value of upscale casual products.

Diesel is highly diversified, encompassing the breadth of the fashion industry with an extension to the food and hospitality industries. Renzo Rosso has been able to extend the values of its fashion products to products such as wine, olive oil and hotels. The company developed the Diesel Farm project in 1994, producing 15,000 bottles of wine per year and very high-quality organic products. At Diesel Farm, located 300 km from the coast and 300 m above sea level in the foothills of the Alps, there are grapevines, olive trees and animals. As Rosso points out, "producing wine is just like designing the best haute couture dress: you need passion, energy, attention to detail, and creativity" (Ruggeri, 2014). At Diesel Farm, Rosso produces three kinds of wine: the Bianco di Rosso Chardonnay, a mixture of Merlot and Cabernet Sauvignon called Rosso di Rosso and the Nero di Rosso Pinot. Diesel Farm is also known for its Olio di Rosso (olive oil by Renzo Rosso) and Grappa di Rosso (a grape-based alcoholic drink). These products are sold in Italy and abroad. The role played by the entrepreneur is evident in each of these products: its founder represents the brand, as evidenced by product names playing on the name Rosso, which means red in Italian. In line with Diesel's positioning, the luxurious packaging with its wax-sealed corks and old-fashioned labels is also an important aspect of the brand (Ruggeri, 2014).

Another product of the Diesel portfolio is the Pelican Hotel, which opened in 1994 in the heart of South Beach, Florida, USA. The hotel clearly conveys the Diesel philosophy and has become a hit with the fashion, music and publishing communities. The 25 rooms, designed by the Swedish interior decorator Magnus Ehrland, have different names—from "Psychedelic(ate) Girl" to "Big Bamboo". The most famous room in the hotel, Room 215, is named the "Best Whorehouse" and looks like a brothel. In fact, all the rooms look completely different from one another, furnished according to their themes and fully equipped with state-of-the-art, high-tech features (Pelican Hotel History, 2015).

Diesel S.p.A also owns the brand Maison Margiela, which is a trademark of Neuf, a company in which Diesel is a majority shareholder. Fashion house Maison Margiela was founded in Paris in 1988 and entered the OTB group in 2002.

Victor & Rolf and Marni became part of the OTB group in 2008 and 2012, respectively, with OTB acquiring the majority of the shares. Although the various brands have different personalities (see Table 3.1), they all occupy a premium position in the fashion market. All of them are growing in international markets as well.

Company History

The story of Diesel is closely connected to the story of its founder and president, Renzo Rosso. Rosso, a very passionate man in the world of fashion, attended the Institute for Technical Textiles, where, at the age of fifteen, he designed and tailored his first pair of jeans. The two phases of Diesel's history and its key milestones are described below and reported in Table 3.2.

The Origins of the Company: Renzo Rosso Co-founds the Diesel Brand (1978–1985)

After working as a product manager in a local textile company, Rosso started his own company. In 1978, the 23-year-old Rosso co-founded Genius Group together with several other Venetian textile entrepreneurs. Diesel was one of the brands launched by the group. Invented during the years of the oil crisis, the brand was called Diesel because it represented a source of alternative energy, the essence of which the brand aimed to symbolize. Moreover, in light of the company's international ambitions, "diesel" is one of the few words that is pronounced in the same way in all the languages spoken in the world. This suggests the openness of the com-

Table 3.2 Key milestones of OTB group and Diesel S.p.A

1978	Rosso co-founds Genius Group. Diesel is one of the brands
1982	The company starts to sell in international markets
1985	Rosso acquires 100% control of the company
1989	International sales growing (company operates in over 40 foreign markets)
1991	Diesel starts a global marketing campaign in different international markets
1996	The company opens the first Diesel flagship stores in New York, Rome and London
1997	First online store created
2000	Rosso acquires Staff International
2002	The OTB group was created
2002	Maison Margiela included in the brand portfolio as a trademark of Neuf, a company in which Diesel becomes a majority shareholder
2008	Victor & Rolf B.V. becomes part of the group, with OTB acquiring the majority of the shares
2008	Only The Brave Foundation created
2012	Marni becomes part of the group, with OTB acquiring the majority of the shares

Source: Author's elaboration

pany towards the internationalization process (Cossalter, 2014), which started with the first foreign sales in 1982 (Forlin, 2012). In 1985, seven years after the foundation of the company, Renzo Rosso acquired 100% control of the company, giving rise to the second phase in the life of the company.

The Growth Strategy Transforms Diesel from a Local to a Global Company (1985–2015)

In this second phase of growth and increasing internationalization, the denim process was the main focus, followed by experimentation in scouring the blue textile with various stones. Towards the end of the 1980s, a select group of designers were working in the company. These years saw the beginning of a great period of growth and expansion for Diesel, driven by a strategy that aimed to reposition the denim product in a mature market as well as differentiating the Diesel brand from the competition of multinational groups such as Levi Strauss. Meanwhile, Diesel consolidated its internationalization process, targeting an international premium casual-wear niche. In 1989, Diesel was already present in over 40 countries, with foreign sales accounting for about US$130 million. Exporting its products through sales agents, Diesel entered European countries first, but the company started to consider other regions such as the USA, Japan and the Middle East (Forlin, 2012). Diesel entered the United States in 1991 with Soho Price Co., a local partner charged with the distribution of the Diesel brands in the retail market.

In 1991, Diesel launched its global marketing campaign "Guides for Successful Living", which influenced the company's communication plan for the next ten years. This campaign received important awards, including Advertiser of the Year at the prestigious Cannes International Advertising Festival. In 1994, the company created the 55DSL brand, which was initially established to design snowboarding clothes. 55DSL soon developed a wide range of sportswear under the Diesel name and style. 55DSL was initially an experimental line of products, with its first collection comprising 55 products. After five years, the brand became an independent business unit offering men's and women's sportswear, under creative director Andrea Rosso, son of Diesel's founder. In the same year, the company began to undertake license agreements. The first license was assigned to the Safilo Group, a leader in the eyewear industry, following which Diesel Shade was launched. The eyewear collection was very successful. This led the company to undertake several other license agreements and further develop the brand across other categories; for example, watches were manufactured under a license agreement with Fossil in 1999, and perfumes with L'Oréal in 2006.

In 1995, the company built its first website, which two years later became an online store—one of the first within the fashion industry. In 1996, Diesel opened its first flagship store in New York, right in front of a Levi's store. During these years, the company developed a consistent retail strategy and opened mono-brand stores in some of the world's most famous cities, from Milan to Tokyo and Shanghai.

To develop its product line, Diesel engaged in a growing process of product diversification. Over the years, the company diversified its portfolio to include accessories, home products, fragrances and children's wear. In 2008, the company entered into an important collaboration with Adidas and designed a special collection, called Adidas Original Denim by Diesel, which was sold exclusively in the Adidas Original Store. Collaborations with other famous Italian brands led Rosso to develop the company's first home collection, called Diesel for Successful Living. The company embraced luxury interior design companies, such as Moroso, Foscarini, Zucchi, Seletti and Scavolini. Together with these companies, it developed unique collections of sofas, armchairs, lamps and other textiles for the home, which offered luxury, great design and high quality.

When the contract with Safilo ended in 2010, Diesel entered into a license agreement with Marcolin for the production of eyewear. In 2011, Diesel and Ducati collaborated to launch the Ducati Monster 1100 EVO by Diesel and a fashion line called Diesel Together with Ducati. The company also entered into some other important license agreements, such as with AGV for helmets, Pinarello for bikes, Monster for headphones and Bugaboo for strollers.

The Industry Background in the Home Country

Italy is one of the main countries for fashion products. During the 1970s, the ready-to-wear (*prêt-à-porter*) sector faced a very important challenge, with artisans moving from being the creators of handmade fashion to industrial actors. In this scenario, Italian companies maintained their creativity and innovative centers, important drivers for the internationalization of Italian brands. Maintaining high quality and attention to detail, Italian fashion companies continued to be recognized as pioneers of trend and style. It was during those years that designers like Armani became important actors in the transition whereby the role of haute couture was increasingly being replaced by that of industrial production. Fashion companies started to open mono-brand stores to create stronger brand positioning. In addition, activities aimed at enhancing a company's brand image became pivotal strategies in the internationalization and communication process.

The size of the Italian apparel industry was reduced between 2009 and 2013, according to MarketLine Industry Profile (2015) and Euromonitor International (2015). Forecasts for the future are negative, and the crisis is expected to continue until 2018, with the compound annual rate of change (CARC) predicted to be –0.3%. In 2013, the Italian apparel industry had total revenues of US$ 62.2 billion, with a CARC of –1.1% in the last four years; by contrast, the French and German apparel industries grew by 0.2% and 1.4% in 2013 to reach total revenues of US$ 47.8 billion and US$ 76.5 billion, respectively. Womenswear is the largest segment of the apparel retail industry in Italy, at 53% of the total value. Menswear and children's wear follow with 34.2% and 12.8%, respectively. In the European context, Italy accounts for 14.5% of the retail industry value, second to Germany (17.8%), and followed by the United Kingdom (13.3%) and France (11.1%).

As regards the specific core business of Diesel, which is denim, today's total value of the Italian market is US$ 1.7 billion. In 2014, Italy registered a decline of 6%, and forecasts are not positive. However, there is emerging polarization between consumers in the low-price and high-price segments. While the former seek low prices, the latter seek lifestyle-brand products. In fact, super-premium jeans was the product category that saw the strongest performance in 2014, thanks to high-status brands such as G-Star RAW, Cycle and Diesel, which offered innovative and distinctive designs to high-income consumers.

Distressed jeans were a star performer in men's jeans, particularly among super-premium brands, such as Diesel and G-Star RAW. The best performers in women's jeans were embellished designer jeans and skinny jeans.

In a highly competitive industry such as fashion, it is clear that the jeans product category is most at risk in times of financial crisis. The current leader of the denim market in Italy is Levi Strauss Italia. With a market share of 11% and strong positioning in the premium market, Levi's is Diesel's main competitor. The average price for a pair of Levi's jeans in

Italy is about US$120. VF Corporation, with its Wrangler and Lee brands, is the second-biggest company in the market with a market share of 9%. This company is also strong in the premium segment. Diesel, with a market share of 0.5%, has a particular niche in the Italian market, with a brand personality that reveals passion, irreverence towards established rules and individualism (Table 3.1), and a premium brand that in recent years has shifted to a more luxurious image with a price that is higher than Levi's (at least US$150). The premium segment of the fashion industry is characterized by a very elastic demand on brand and advertising, high levels of marketing expertise, and financial resources to invest in intensive marketing campaigns. On the other hand, consumers who are seeking basic products are drawn to low prices and price promotions. It is also very important to mention the role of substitutive products; for women, leggings compete both on price and ease of use, especially due to the rising incidence of obesity among Italian women.

The shrinking of the Italian market during the recent economic downturn and fierce market competition are related to the necessary growth of the international market share within the apparel retail industry. In fact, as the development of the marketing mix shows, Diesel has targeted a global segment since its establishment which is showing significant growth, especially in non-European countries.

Targeting a Global Segment: Marketing Mix Strategies in the Global Market Arena

Growing in a mature denim market where competition with other global brands has always been high represents a challenge that only few companies, especially SMEs, can afford. Diesel owes its success to its founder, Renzo Rosso. In the development of its global marketing strategy, Diesel helped to pioneer the space between mass-market apparel and high-fashion brands through product innovation and creativity (Kansara, 2014). With Renzo Rosso, denim started to be regarded as a casual luxury premium fashion product. To strengthen the position of the Diesel brand in the premium segment, he not only innovated using high price positioning, but also invested in the development of a strong and distinctive brand identity and communicated a unique lifestyle and philosophy to consumers all over the world. Innovation and creativity throughout the marketing mix have been favored not only by the personality of Rosso, but also by the company culture, with designers who are capable of capturing cultural trends at a global level. This global approach clearly leads to a standardization of the marketing mix strategy that is projected to develop a strong global brand in the premium casual wear niche.

Product

The main strategies of Diesel have always been to focus on products and the formation of a strong brand identity. As Renzo Rosso highlighted, referring to the growth of the brand in international markets, "A strong brand is a must. If you don't have it, you don't go anywhere" (Zargani, 2010, November 11). From Diesel's earliest years, Rosso aimed at creating a global product inspired by universal ideas and values that can easily be worn by anybody. Therefore, Diesel focused on denim right from the start. Since the 1980s, the company's expansion has come from its successful transformation of denim into an elegant and refined fabric. This is an example of how something that was considered a basic product was recreated as a premium product. The transformation strengthened Diesel's premium sector, enabling it to proceed to manufacture other casual products. Within a few years, the company had succeeded in diversifying its products in an industry that is filled with famous brands, such as Levi's, Wrangler and Lee (Career, 1996). Even today, in a difficult market environment for denim, the company has the same aim: "To reinvent and completely restudy the presentation of denim for the customer's experience", as well as to push the brand "to be the coolest and the biggest" (Zargani, 2015, March 16). The result of this strategy is that products with special treatments, such as scouring the blue textile with various stones, are the most expensive, but they are also the ones that sell the most.

Diesel's nonconformist and innovative approach has characterized its products since the company's origins, when Rosso was the first entrepreneur in Italy to design and sell a new collection of jeans that looked used. In fact, some items from this collection were brought back to the store because consumers thought they were flawed. On the contrary, they were the results of very expensive scouring techniques, probably invented by American companies such as Jeans Company Edwin and Great Western Garment (Style2designer, 2015). However, Rosso's strategy focused on selling these jeans at a high price. He built brand value in a highly competitive international context where used jeans textile was associated with secondhand clothing.

In the development of the products, Rosso has always recognized the great value of stylists and designers. He believes that stylists from diverse cultures can help create a global product and attract young, cosmopolitan people. International, unusual and innovative designers willing to express their creativity by experimenting with new cuts and fabrics are among the main people responsible for Diesel's product innovation.

Mode of Entry and Distribution

Diesel is distributed internationally through its multi-brand and mono-brand stores. The modes of entry vary from country to country. In some countries, the company exports its products to local distributors that have in-depth market knowledge to develop the business and are in contact with multi-brand retailers. In other countries, typically those with a higher market potential or opportunities for future growth, the company has invested more, using franchising as a contractual mode of entry or opening a branch with foreign direct investment that guarantees maximum control of the retail networks and the image of the company.

During the early years of internationalization, Diesel products were distributed mainly through multi-brand stores carefully selected by the company. For example, the first store in the USA to stock Diesel pants was Fred Segal, the upscale Los Angeles boutique. Important stores in Boston, Seattle and New York followed: at that time, the agreement was that if there were no sales, Rosso would buy back the clothes or pay for the retail square footage used (O'Connor, 2013, March 6). Mono-brand stores came soon after. From the beginning, the company's strategy aimed at developing stores with a strong personality and unique style. This choice has also been implemented through numerous collaborations with famous designers.

Diesel has several kinds of retail store that differ in terms of location and purpose (Sambri & Pegan, 2003). The flagship stores, known as Diesel Planet, are located only in big international cities, and present "high-experience content". The role of these stores is to strengthen the brand identity and to enhance the Diesel philosophy and lifestyle. The Diesel stores, on the other hand, are primarily focused on the company's product lines; they are located in big malls and are owned by a direct branch, a Diesel distributor or a franchisee. The Diesel concession stores use the shop-in-shop concept; they are located in malls, which have the advantage of allowing a high sell-out rate, but also necessitate higher costs due to limited storage and long opening hours. The famous London department store Harrods recently opened the Denim Gallery, displaying jackets and jeans under the title "Exclusively for Harrods by Diesel". Among products in the Denim Gallery is the Jogg Jean, invented by Diesel, a low-waisted hybrid of slim-line joggers and jeans, with a drawstring on the waist to adjust the fit (Connor, 2015, May 11). The Diesel Corner stores are located in department stores with smaller retail space, and are owned by third parties. Finally, Diesel has the Diesel Factory Outlet Store, where consumers can find discounted items from past seasons, samples and seconds.

In today's retail landscape, it is well established that a store's atmosphere can enhance the brand equity (Dolbec & Chebat, 2013; Verhoef et al., 2009) and strengthen brand loyalty (Swoboda, Berg, & Schramm-Klein, 2013). Since 2014, the company has closed many points of sale, especially in Europe and the USA, because they were not consistent with Diesel brand image. The big focus for retailing is the "cool" factor: "we're obsessed with coolness," says the CEO Alessandro Bogliolo, and stores that are not able to convey a strong, elevated and personalized experience have to be closed or refurbished (Jennings, 2015, March 16).

Diesel has carried out refurbishments of its stores that reflect the development of technology changing customer requirements. First of all, technological innovations have driven the evolution of the retail stores. As the brand's artistic director, Nicola Formichetti, highlights, the objective is to "interact within a space that merges retail with media, and art with a lounge space, rather than to experience a static store for traditional commercial exchange" (Karr, 2014). Second, big stores have been replaced by more personalized stores, with a smaller setting promoting one-to-one customer service. These store refurbishments are also connected to the company's strategy of enhancing its core denim business. The specific focus is on the position of the Diesel brand, which excels in denim. For this reason, the new retail concept aims at creating a Diesel "denim temple" (Tran, 2015, March 30), that is, an area devoted to denim products where the Diesel brand is celebrated. The company has always focused strongly on the alignment between its retail strategy and its store management. In fact, Rosso considers his retail networks as "Diesel's window to the world" (Sambri & Pegan, 2003).

Finally, several stores have been relocated due to changes in the local context. For example, the famous flagship store opened in 1996 on Lexington Avenue in New York was located among dozens of big entry-price stores such as H&M necessitating its relocation to a super-prime area on Madison Street where target consumers seek high-quality and exclusive products.

The decision to close, refurbish or relocate Diesel stores has had a negative impact on revenues with a contraction of around 20% in sales. This, however, shows the long-term vision of the Diesel brand: decisions are not merely financially based but are actually more focused on its brand value.

Rosso is a pioneer of the online channel. In 1995, he developed a website for e-commerce and entered the technology environment in the United States. In recent years, Diesel has entered into online retail partnerships with multiple partners in the United States, including eBay Enterprise, a branch of the US e-commerce giant, and SapientNitro, an international interactive marketing, creative design and technology service agency specializing in storytelling. The aim was to distribute the brand experience through digital, retail, social, mobile and commercial media. These partnerships have had a strong impact on Diesel stores in the United States because the company has integrated online and bricks-and-mortar units. Customers can order an item online and pick it up in a store, or they can book the item online, have it home delivered and return it to the store for exchange or fitting.

Pricing

Diesel's pricing strategies are aligned with its distribution strategies and aim to underline the premium value of the brand. In Italy as well as abroad, prices have always been higher than competitors'. For example, in the United States, the home of denim, Diesel's prices have always been upwards of US$100. However, very few consumers buy jeans at this price, preferring instead more expensive pairs that cost up to US$400. Rosso says, "I have been called crazy when I decided to sell the jeans at triple the price in the United States; [but] I have been called crazy in Europe as well." As he points out, "This was 1986, when the most expensive pair in the U.S. was Ralph Lauren, at $52" (O'Connor, 2013, March 6). "However, I was sure that at some point people would have recognized and liked the high quality of the jeans. We buy the best textures, produced in the long loom as 50 years ago, and the texture is dyed six to 12 times. The scouring is done with water and stones, without chlorine, and lasts from three to six hours. The buttons are not subject to wear and tear, and the belt loops are double for small and big belts." (Sambri & Pegan, 2003, p. 224) For all these reasons, Rosso was convinced that, for a pair of Diesel jeans, consumers would be prepared to pay a price that was three times the average. This price positioning is standardized at an international level, and has always impacted the company's distribution strategies. For example, in the United States, Diesel has completely dropped stores such as Macy's because consumers do not go there to pay US$180 for a pair of jeans. Such positioning has also been developed for other products in Diesel's portfolio: sunglasses at US$280, watches made by Fossil at about US$250, and shoes reach US$350 (Malone, 2005, February 10).

Promotion

Central to the company's communication strategy is the image of Renzo Rosso, who has created a creative, original and rebellious image on multiple occasions. A memorable event occurred in 1998 when the founder received the Advertiser of the Year Award, one of the most highly prized advertising awards. Rosso astonished the committee by jumping on stage with four colleagues to pick up the award. Each of them wore a Rosso mask, symbolizing that every member of the team had worked for it.

During the 1990s, Diesel was still a small and little known Italian company, whose efforts were geared toward the product. However, in the years that followed, Diesel understood the importance of increasing its brand awareness, especially in international markets. Communication began with the group's collaboration with its external advertising agency, which enabled it to integrate brand knowledge and company philosophy, and move toward a more harmonious communication plan. The plan was to promote a consistent brand image across international markets. The advertising campaigns are ironic and transgressive, embracing a satirical advertising style. One of these campaigns is "Diesel for Successful Living", created around the concept of happy consumerism. Here, Diesel develops an ironic and absurd paradise of consumption. Other Diesel advertisements show pigs celebrating at a lavish table, or old, wrinkled people in the sun. These commercials form an intentional contrast with the common image of beautiful and charming models (Sambri & Pegan, 2003). People will remember the famous "Be Stupid" advertising campaign, which tries to go against conventional thinking by demonstrating that stupidity, rather than intelligence, can be really smart (Gianatasio, 2010, January 19). Some of the slogans that made the Diesel advertising campaign famous include: "Smart have the brains, but stupid have the balls"; "Smart critiques, stupid creates"; "Smart may have the answers, but stupid have all the interesting questions"; "Smart listens to the head, stupid listens to the heart"; and "If we didn't have stupid thoughts, we'd have no interesting thoughts at all" (Diesel: Be Stupid Advertising & Creative Ad Awards, 2015).

The company uses strong in-store communication, and develops point-of-purchase (POP) materials. These materials have different aims, depending on the campaigns. When the main objective is to develop a strong brand image, Diesel's POP materials are in line with the theme of the advertising campaign. Other POP materials are designed to leverage sales (Grigorian & Chandon, 2004).

In recent years, Diesel has invested to increase its presence across social media (Karr, 2014, August 11) with a campaign aimed at creating superior customer experience through innovation. For example, Diesel introduced an interactive system, Diesel Cam, that allows shoppers to photograph themselves as they try on clothes and post pictures immediately to their Facebook profiles, asking their Facebook friends for advice about which garments they should buy. This is not only fun for shoppers, but it is also advertising for the company because the photos come complete with a Diesel logo in the corner (O'Neill, 2010, May 10).

Discussion and Implications

With Italy as its country of origin, Diesel has benefited from all those factors that have driven the internationalization of Italian companies: creativity, innovation, high quality and attention to detail, and the recognition of Italian companies as pioneers of trend and style.

From its very beginnings, Diesel's international target was young consumers who shared the company's philosophy. These consumers seek high-quality products with a unique and nonconformist style. Diesel started its internationalization with its own brand and own designs. Both concepts were born from the creativity of multicultural designers embracing global ideas and international markets. However, Diesel's entrepreneur, Renzo Rosso, had to face some critical challenges. First, the company entered a mature market, where jeans were almost a commodity and, therefore, it was very difficult to differentiate the product. Second, the jeans industry already had famous leading companies, such as Levi's. These companies owned very well-known brands, and tangible and intangible resources that an SME like Diesel could hardly obtain (Grant, 2010). Thus, the question is: how was Renzo Rosso able to develop this successful business in international markets with foreign sales representing about 75% of the total turnover? The answer can be found in an analysis of the marketing strategy. Diesel invested heavily in the creation of tangible and intangible resources that could create a strong and durable competitive advantage not only in the domestic market but also in foreign countries such as the United States that were regarded as the homeland of jeans. First, Rosso proposed innovative product technology that led to the successful transformation of denim into an elegant and refined fabric. Second, he immediately understood the power of distribution: Diesel stores have always been a way to create brand awareness and communicate the brand value around the world. The opening of Rosso's first US store in 1996 right in front of the famous Levi's store was a symbol of the company's internationalization process which had been challenging the big companies since its inception. Pricing strategies enhanced the positioning of the brand, and enabled the association between a luxury brand and a basic product, such as denim. Finally, innovative, transgressive and ironic communication led to the uniqueness of the brand.

On a theoretical and academic level, there are two main aspects of Diesel's growth to examine. First, in the internationalization process, Diesel can be said to have followed the Uppsala model (Johanson & Vahlne, 1977, 1990), which states that firms, in entering new markets and choosing different modes of operation, gradually progress over a series of stages based on experiential learning and commitment of resources. In the case of Diesel, the company started its internationalization process in 1982, only four years after its inception, and by 1989 it was already present in 40 different markets. Diesel entered European countries first, only later starting to consider other regions such as the USA, Japan and the Middle East (Forlin, 2012). Diesel's initial involvement in export modes was followed by contractual and hierarchical entry modes. Targeting multibrand retailers in the main cities, Diesel started to export its products around the world. Only a few years later the company started to develop its internationalization with foreign direct investments, mainly by opening directly owned stores and local wholly owned subsidiaries located around the world. Meanwhile, the company invested in contractual entry modes, not only through a franchising network of Diesel stores, but also through important licensing agreements with companies operating in industries ranging from glasses to furniture, from bikes to headphones.

A second aspect of the academic discussion is the relationship between innovation and internationalization. For Diesel, the growth of international markets has always been driven by product, distribution and communication innovations. This parallelism in the innovation processes is facilitated by the presence of some distinctive internal characteristics. Following Trott (2012), who identifies the innovation variables within structural, cultural and human resource variables, several significant factors emerge. Among the structural variables, first of all innovation is positively influenced by the organic-type structure that characterizes the company, exemplified by the collaborative relations between Renzo Rosso and his designers. Second, Diesel is an organization that explicitly supports creativity in all its activities. Cultural variables are also a stimulus for the innovation process, with advertising in Diesel mirroring this culture. The Diesel philosophy accepts ambiguity, as against too much emphasis on objectivity and constraints on creativity.

Furthermore, Renzo Rosso tolerates risks, and employees are encouraged to experiment without fear of potential failure. Diversity of opinions is encouraged, stimulating the development of new ideas. Finally, Rosso has always accorded great importance to human resources. He selects new collaborators for the company, not in a traditional process, but at special events where young international designers can exhibit their creativity through new ideas and products.

For its marketing strategy, Diesel has followed a standardized policy, entering foreign markets with a homogeneous positioning strategy and a marketing mix. In the theoretical debate between standardization and adaptation (Szymanski, Bharadwaj, & Varadarajan, 1993), the company demonstrates the growth possibilities in an international segment associated with commonalities in young consumers' values, lifestyles and purchase behaviors. The focus on commonalities has the advantage of both matching consumers' needs, which is generally associated with adaptation strategies, and standardization, which in the case of Diesel has cost advantages and contributes to the development of its global brand image.

Finally, Diesel is an example of success in mature markets that has been reached through a successful repositioning strategy. Product repositioning means that the place a product occupies in consumers' minds relative to competitor products changes (Kerin, Hartley, & Rudelius, 2015). Diesel adopted a repositioning strategy with the upgrade of the denim product category: the transformation of denim from a basic to a premium product, compared to both luxury brands and less expensive products, such as leggings, as the partnership with Harrods shows. This upgrade was enabled by the company associating the brand with a hybrid country of origin. Diesel has benefitted from the "Made in Italy" symbol of quality, style, handmade products and innovation in the fashion industry. At the same time, with the Diesel brand, the company has been able to communicate a global image to its target market, competing in a context where the main competitors own the "Made in the United States" image that is positively associated with the jeans product. For this reason, the Diesel brand is seldom associated with a "Made in Italy" product.

In the future, Diesel may face many challenges and opportunities. The major opportunities are offered by emerging markets. The new middle class is strongly attracted by Western brands and lifestyles, and Diesel could be very successful in the niche of premium and young casual wear. However, in these markets the competition is constantly growing, and Diesel will need to continue investing in marketing strategies to maintain its successful brand image. The main challenge concerns the role of Renzo Rosso. It is well known that the combination of Diesel's philosophy and Rosso's image has been an inimitable source of sustainable competitive advantage. For this reason, the entrepreneur has already laid the foundations for succession, with two of his sons holding senior managerial positions. The fact that Diesel is including non-family managers in the family business will guarantee that it maintains the competitive advantages that have led the company to success.

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CHAPTER 4

The Internationalization Trajectory of Bossini: A Fashion Retailing Enterprise from Hong Kong

Hau-Ling Chan, Tsan-Ming Choi, and Ka-Yan Man

Abstract Established in 1987 and originating from Hong Kong, Bossini has established itself as a famous casual-wear international fashion retail brand. Based on information and financial data publicly available in Bossini's annual reports from 2000/2001 to 2013/2014, this chapter investigates the internationalization trajectory of Bossini. By exploring both operational and marketing models, we examine how Bossini has successfully emerged as an international fashion retailing group. We also discuss how Bossini survives and excels under conditions of market disruption, and statistically evaluate the operational performance of Bossini in its four core markets: Hong Kong, China, Taiwan and Singapore. The chapter concludes by analyzing the critical success factors for Bossini.

The data and company details reported in this chapter are mainly based on publicly available information on Bossini (from the company's annual reports, official website, etc.).

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Introduction

Bossini, a subsidiary of Bossini International Holdings Limited, is a Hong Kong-based casual-wear fashion retailer which has been established for 28 years. It mainly sells comfortable, colorful, easy-to-wear and value-for-money apparel products for men, ladies and children, and aims to offer high-quality everyday clothing to families based on a "happy living" message. Bossini is one of four Hong Kong fashion retailers headquartered in and listed on the Hong Kong stock market (Table 4.1).

Like other fashion brands whose gradual entry into international markets starts with psychically close countries, Bossini opened its first international store in Singapore in 1987. Having accumulated knowledge and experience, Bossini gradually expanded to other Asian countries in the early 1990s. At present, Bossini operates in 36 countries, making heavy use of a franchise model that provides various operational supports and consulting services to help franchisees develop their business operations. Interestingly, Bossini has far more franchise stores than directly managed stores, and the highest number of all the Hong Kong origin fashion brands such as Giordano and Crocodile (Giordano's Annual Report, 2014; Crocodile Garment's Annual Report, 2014). Going international can generate significant profits for a corporation (Pennemann, 2013). In 2014, Bossini had 267 directly managed stores in only four countries (Hong Kong, first-tier cities in China, Taiwan and Singapore) and 695

Table 4.1 Year established and gross revenues in 2013/2014 of fashion retailers headquartered in Hong Kong and listed on the Hong Kong stock market

Fashion retailer	*Established year*	*Gross profit in 2013/2014, in thousands US$*
Bossini	1987	166,800
Baleno	1981	288,300
Giordano	1981	412,100
Espirit	1971	1,558,500

Source: Compiled by the authors based on annual reports of each retailer franchised stores worldwide in about 36 different countries from Asia, the Middle East and Europe to America. Its total revenue was US$326.7 million, gross profit increased to US$166.8 million, operating profit reached US$19.9 million, while the year attributable to owners was US$16.3 million (Bossini's Annual Report, 2014). Of all geographical markets, Hong Kong was still the core market, contributing significantly to Bossini's total revenue, while the Chinese market was ranked second (see Fig. 4.1).

Over the past two decades, Bossini has overcome the challenges of several economic downturns including the serious Severe Acute Respiratory Syndrome (SARS) disease in 2003, the global financial tsunami in 2008 and the European debt crisis in 2010. The emergence of fast-fashion retailers such as Zara and H&M has further intensified competition in the casual-wear mass market, especially in Hong Kong. Nevertheless, Bossini has survived and evolved into a highly successful fashion brand and retailer. It is, therefore, interesting to examine how Bossini successfully overcame the challenges amidst this changing environment and emerged as an international fashion retailing group. This chapter begins with a brief overview of Bossini's history and philosophy before turning to its internationalization strategies. Statistical analysis is then used to evaluate the performance of international operations in each market. In conclusion, findings and implications of the study, together with insights for management, are discussed.

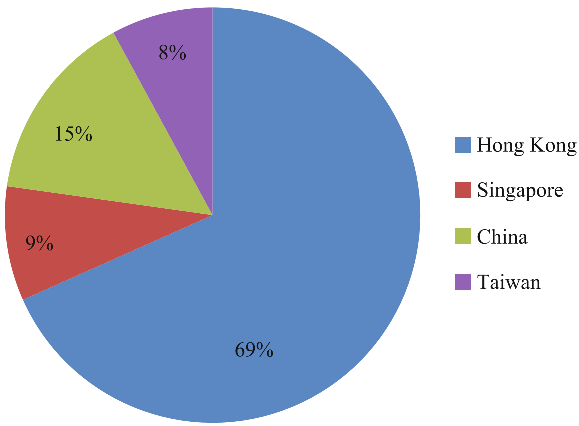

Fig. 4.1 Revenue distribution from directly managed stores in 2013/2014
Source: Compiled by authors based on Bossini's Annual Report (2014)

Company History

Bossini was established by Ting-Pong Law in 1987; its headquarters and the first retail outlet are located in Hong Kong. In 2010, Tak-Cheong Mak was appointed CEO. He is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. He joined the group in 2007 as Director of Finance, and his expertise is in consumer electronics and communications products, real estate services, food-retail chain and internet service industries. In 2014, Bossini had 962 retail outlets all over the world in 36 countries. Its business network had gradually extended from Asia to the Middle East, Europe, North Africa and Central America. The following analysis of the business development of Bossini covers three phases.

Phase 1 (1987–1995): Expansion to Chinese-speaking Asian countries via directly managed stores After opening its first retail outlet in Hong Kong in 1987, Bossini launched the first overseas retail outlet in Singapore in the same year. Gaining more operational experience from foreign markets, Bossini expanded its retail business network to Chinese-speaking Asian countries such as Taiwan and China via directly managed stores and was formally listed on the Hong Kong stock exchange in 1993.

Phase 2 (1995–2006): Expansion to China, the Middle East and Southeast Asia via franchising Because of the rapid development of consumer markets in China and the Middle East, Bossini started franchise operations in these regions in 1995. The successful franchising model gave Bossini the confidence to continue its expansion in both South and Southeast Asia, as evidenced by Bossini's franchised stores in Indonesia in 2004, Nepal and Myanmar in 2005, and India and Réunion in 2006.

The success and performance of a firm are strongly correlated with its corporate culture (Kerr & Slocum, 1987; Alexander & Doherty, 2010). In 2002, Bossini named its unique corporate culture "the Bossini way", creating a learning framework that not only focused on educating the staff about the company's vision, mission and core values, but also provided various kinds of training and knowledge-sharing programs to foster self-motivation through their well-established "Seven Habits®" and "Seven Practices®" philosophy (see Table 4.2 for specific details of "the Bossini way"). The implementation of "the Bossini way" helped streamline and provide a consistent customer service and brand image among Bossini's international retail outlets.

Table 4.2 "The Bossini way" philosophy

Mission	*Vision*	*Core values*	*7 Habits®*	*7 Practices®*
– To create appealing, competitive and quality everyday wear for happy living	– To be the most preferred everyday wear brand	– Customer oriented – Innovate to excel – Execute for success – Work with passion	– Be Proactive® – Begin with the End in Mind® – Put First Things First® – Think Win-Win® – Seek First to Understand, then to be Understood® – Synergize® – Sharpen the Saw®	– Face Reality® – Keep it Simple® – Act with the Speed of Light® – Set Stretch Goals® – Drive Quality® – Create and Sustain a Learning Organization® – Keep the A, Nurture the B, Discard the C®

Source: Adopted from Bossini's Annual Report (2004)

Initially, Bossini targeted menswear, ladieswear and children's wear, providing more basic value-for-money styles to customers. In 2002, Bossini changed its product design to be more fashionable but suffered a substantial loss. Later on, Bossini positioned itself to offer easy mix-and-match apparel products in Hong Kong. It had also strategically developed the Sparkle brand for young adults at a more affordable price in China. However, Sparkle only operated for three years, with overstocking and inefficient operations intensifying the existing financial burden of Bossini's expenditure on advertising and promotion activities.

Owing to intense market competition, in 2006 Bossini undertook a major reform called the "brand revamp program", which aimed to change brand value, brand color and store layout in all markets, introducing more family-centric elements into their apparel products (for details see Table 4.3). In addition, it created new product lines such as Maternity, Baby and Young in Hong Kong, and extended various brands such as Yb by bsn, Bossinistyle[1] and b.style de flyblue, targeting different age groups to satisfy the needs of each family member. This helped promote the brand and earn a retail place with young families, arguably a market segment with huge purchasing power and market potential.

Phase 3 (2006–2014): Expansion to Europe, North Africa and Central America via franchising Bossini extended its franchise business network

Table 4.3 Positioning of Bossini before and after launching the brand revamp in 2006

	Before launch	*After launch*
Brand icon	bossini	bossini be happy
Brand color	Blue	Green
Brand value	Color our world	Be happy
Focus	Focused on basic apparel products	Focused on family-fits products
Products launched	• Children's footwear	• Maternity, Baby and Young product lines • Co-branding products (ongoing) • Innovative products e.g., Quick-Dry Comfort Polo (ongoing)
Brand launched	• Sparkle	• Bossinistyle • Yb by bsn (ongoing) • b.style de flyblue

Source: Compiled by authors based on Bossini's annual reports, retrieved from http://corp.bossini.com/corp/en/investor-relations/annual-reports

rapidly in many more distant countries including Europe, Central America, Armenia, Cambodia, Brunei and Kenya. Bossini reported that it would continue to enlarge its franchise business network (Bossini's Annual Report, 2014).

Meanwhile, a totally new brand icon and the first formal Hong Kong flagship store was developed to present a new shopping experience and provide a better environment for customers. For example, newly implemented LED displays in the flagship store showed new arrivals in a bright, green layout. All these activities increased market coverage and promoted Bossini's brand image in Hong Kong, and this new icon and the new brand value was further applied to the international retail outlets to deliver a consistent brand image. The company history of Bossini is summarized in Fig. 4.2.

Bossini's Internationalization Strategies

Globalization generates stiff market competition which drives retail companies to go international (Dimitrova, Rosenbloom, & Andras, 2014). This section discusses the internationalization strategies of Bossini, focusing on Bossini's international market-entry and marketing strategies.

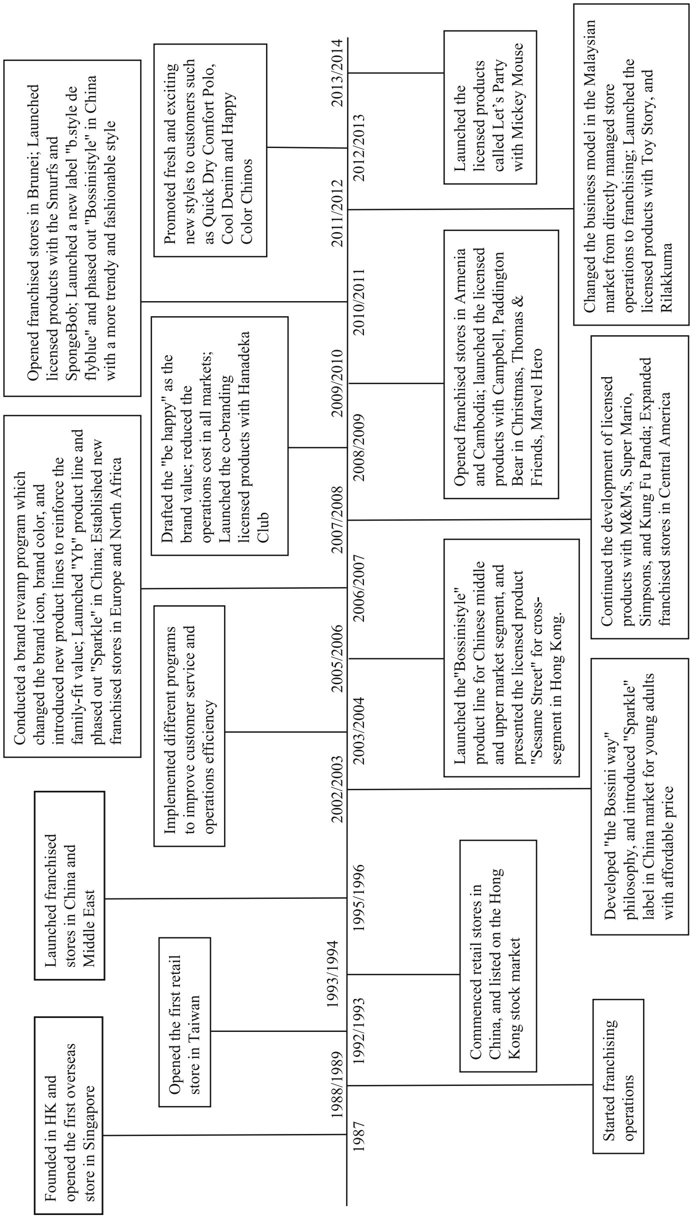

Fig. 4.2 Bossini company history.
Source: Compiled by authors based on Bossini's annual reports and website

Strategies for Entry to International Markets

Bossini operates international markets through three retail channels: operating directly managed stores, authorizing franchised stores and developing the online business.

Directly Managed Stores

Initially, Bossini chose as its entry mode managing international retail stores directly without any local partners. Operating international chain stores can undoubtedly help Bossini maintain its brand value and achieve economies of scale in production and distribution. By directly managing the international chain stores, Bossini is able to fully control all these international retail stores' operations and marketing activities. However, directly managing the store in this way may be difficult for Bossini if the company does not know the market well. Bossini chose to open its first overseas retail store in Singapore in 1987, the year of its establishment in Hong Kong. Cultural proximity is one of the reasons attributed to this first foreign market selection by Bossini. In the context of the internationalization of retail operations, cultural proximity is a crucial factor because the company can easily cope with the needs of the "international customers" (Runfola & Guercini, 2013). As the Uppsala model maintains, a higher level of cultural proximity between the host country and the home country increases the likelihood of entering the host market. It also minimizes business uncertainty; thus, the company can effectively execute competence (Dunning, 1998). Fashion companies should substantially adjust their products based on customer needs identified in host countries if there is a significant cultural difference between host and home countries (Vrontis & Vronti, 2004). Indeed, Hong Kong and Singapore have many cultural similarities due to the fact that they both experienced the colonial transition. To be specific, Singapore was ruled and governed by the British from 1819 and became self-governing in 1959, while Hong Kong was a British colony from 1841 to 1997. Hence, the cultures of Hong Kong and Singapore are deeply influenced by Western philosophy. In addition, both Singapore and Hong Kong are relatively small places and most people have Chinese-related origins. Thus, the cultures of Singapore and Hong Kong are quite close to each other, which explains why the company had its first international expansion to Singapore. Besides, in 1987, China was still developing, and there were many conditions and restrictions for Bossini expanding its retail operations.

After expanding its retail presence in Singapore, Bossini launched directly managed stores in Taiwan and various first-tier cities in China in 1992 and 1993, respectively. With a successful business performance in Singapore, Bossini opened retail outlets in Malaysia in 2005, applying the operational philosophy learned from its Singapore market experience. However, owing to a substantial continuing loss, the directly managed stores in Malaysia were closed and the operations strategy has shifted to franchising since 2011. Consistent with the findings by Dimitrova et al. (2014) that retailers achieve higher sales if they strategically focus on core markets and directly operate in fewer countries, Bossini has operated directly managed stores only in Hong Kong, China, Taiwan and Singapore, which accounted for 28 % of total worldwide Bossini retail outlets in 2013/2014.

Franchising

Apart from managing the retail stores directly, Bossini also uses the franchising strategy as its entry mode to foreign markets. Table 4.4 shows Bossini's retail stores in major Asian markets from 2000/2001 to 2013/2014. From Table 4.4, it is obvious that Hong Kong, China, Taiwan and Singapore were the core regions in which Bossini operated its retail business directly. The number of directly operated stores in Hong Kong and Singapore increased gradually to stabilize over the past eight years due to the saturation of the markets. Bearing in mind the high operations costs of a retail store, especially rental, labor and raw material costs, Bossini reallocated resources and expanded to all Western countries and second-tier cities in China through franchising. In China, directly managed stores and franchised stores co-exist because of its huge market size, which would require significant capital investment if Bossini decided to manage every single store directly. The mainland Chinese government's financial policy on cooling inflation in 2010 and sluggish economic growth have led to the closure of underperforming stores in both the directly managed and franchised categories over the past four years. The analysis of annual reports reveals that while the number of Chinese franchised stores decreased by 69.5 % from 2010/2011 to 2013/2014, the number of Bossini's franchised stores in Western countries increased by 15 %. Overall, Bossini continued its development of the franchise stores globally as a part of its business expansion.

Table 4.4 Network distribution of Bossini from 2000/2001 to 2013/2014

	2013–2014	*2012–2013*	*2011–2012*	*2010–2011*	*2009–2010*	*2008–2009*	*2007–2008*	*2006–2007*	*2005–2006*	*2004–2005*	*2003–2004*	*2002–2003*	*2001–2002*	*2000–2001*
Hong Kong														
– Directly managed stores	41	41	41	39	41	41	41	41	33	32	27	31	32	36
China														
– Directly managed stores	124	144	350	456	436	362	304	346	344	274	189	257	103	33
– Franchised stores	96	156	248	315	297	216	188	205	284	203	195	161	72	28
Taiwan														
– Directly managed stores	72	85	102	94	86	84	89	93	112	75	71	76	68	55
Singapore														
– Directly managed stores	30	30	30	29	26	31	29	33	29	28	27	28	28	24
Malaysia														
– Directly managed stores	0	0	0	21	22	20	14	11	3	0	0	0	0	0

– Franchised stores	20	18	19	0	0	0	0	0	0	0	0	0	0	0
Other countries														
Franchised stores	579	543	524	521	453	424	391	322	263	215	169	N/A	N/A	N/A[a]
Total directly managed stores	267	300	523	639	611	538	477	524	521	409	314	392	231	148
Total franchised stores	695	717	791	836	750	640	579	527	547	418	364	N/A	N/A	N/A
Franchised stores % of total stores	72.2	70.5	60.2	56.7	55.1	54.3	54.8	50.1	51.2	50.5	53.7	N/A	N/A	N/A

[a]N/A The data are unavailable from the financial reports

Source: Compiled by authors based on Bossini's annual reports

Online Business

With the rapid development of information technology, internet shopping creates considerable market opportunity and catalyzes the internationalization process, especially for the fashion industry. Many successful global fashion retailers such as Marks and Spencer, Nordstorm and Gap, have added online business and provide worldwide delivery services to their customers. By setting up an e-commerce retailing channel, brands have been able to reduce the required human effort significantly, lower transaction and operations costs dramatically, and help sell easily to the global market. Bossini has partnered with a Hong Kong-based digital agency, theOrigo, to provide its online shopping service since 2011. theOrigo developed the Bossini.com based on an e-commerce platform called IBM WebSphere Commerce, which supports international orders covering about 70 regions across the world. Like many other fashion retailers, all international orders are shipped from Hong Kong by air, with the shipping fee waived if the minimum spending requirement is met. From Bossini's perspective, this online shopping platform has helped the company deal with a huge number of customer orders, and update its products and promotion information in real time. It has also been integrated with Bossini's customer relationship management (CRM) system, warehouse system, finance system, and third-party logistics provider system so that Bossini can react and respond quickly and precisely to customer orders and plan its inventory better (the Origo, 2014), which eventually resulted in a more efficient supply chain system.

International Marketing Strategies

In this section the "Four Ps" analysis is used to gain a better understanding of the competitive advantages and market positioning of Bossini.

Product

Bossini is a casual-wear fashion brand which offers a wide variety of basic apparel products to men, ladies and children. The features of apparel products with the Bossini label are comfortable, colorful, easy to wear, and good value-for-money. Initially, Bossini sold standardized basic apparel products to all international customers. Owing to the economic booms and significant revenues generated from the Chinese market in the early 2000s, Bossini strategically launched different brands for different target customers to increase its market coverage in China. For example, Bossini created the Sparkle brand in 2002 for young adults and developed Bossinistyle in 2006 and b.style de flyblue in 2011 for the middle-to-upper segments in China. Table 4.5 summarizes Bossini's brand portfolio.

There are two major current developments in Bossini's products: co-branded products and innovative products. Bossini has created various co-branded products with renowned Disney characters, targeting every member of the family to increase public awareness of the brand, differentiate itself from competitors and maintain a fresh appeal to customers. For example, in 2007, Bossini offered Super Mario-logoed T-shirts and bright, colorful fashion accessories. Outside Hong Kong, Bossini perceived the co-branding products as a marketing synergy that helps Bossini enlarge its market popularity in China's first- and second-tier cities. To increase the family appeal, these collaboration collections were launched during holiday times, such as summer vacation, Easter and Christmas (Bossini's Annual Report, 2008). Bossini has launched almost 20 different collaborative collections with different brands. Table 4.6, which lists Bossini's collaborations since 2005, shows that Bossini collaborated with other brands (such as Angry Birds and Snoopy) or Disney characters which also shared the same brand value of "be happy" to strengthen the brand image. As for the innovative apparel products, Bossini introduced the Quick-Dry Comfort Polo, Cool Denim and Happy Color Chinos in 2013 to satisfy the needs of different customers. Bossini continued to develop along these lines, launching different collections in 2015, such as the wrinkle-resistant Ztay Dry series.

Table 4.5 Bossini's brand portfolio

Brands	*Period*	*Main target countries*	*Target customers*
Bossini	1987–present	All	Men, ladies and children
Sparkle	2002–2007	China	Young consumers; more affordable price
Bossinistyle	2006–2011	China	Middle-to-upper-market consumers; trendy business women
Yb by bsn	2007–Present	China and Hong Kong	Young consumers; more fashionable elements
b.style de flyblue	2011–2013	China	Middle-to-upper-market consumers; more fashionable mens' and ladies' lines

Source: Compiled by authors based on Bossini's annual reports

Table 4.6 Bossini's co-branding partners, 2005/2006 to 2013/2014

Period	*Collaboration partner brands*
2005/2006	Sesame Street
2006/2007	m&m's
2007/2008	Super Mario, Simpsons, Kung Fu Panda
2008/2009	Hanadeka Club
2009/2010	Thomas & Friends, Paddington Bear, Campbell, Marvel Hero, SmileyWorld
2010/2011	Smurfs, SpongeBob
2011/2012	Toy Story, Rilakkuma
2012/2013	Angry Birds, Winnie the Pooh, Walt's Disney's Cars
2013/2014	Sesame Street, Mickey Mouse collection, Ocean Park Halloween Bash

Source: Compiled by authors based on Bossini's annual reports

Table 4.7 Price range of men's polo shirt by Bossini and its competitors

Brands	*Approximate price range (US$)*
Bossini	16.5–23.1
Gap	16.5–31.9
Giordano	22.1–33.3
Uniqlo	20
Esprit	33.2–58.8

Source: Compiled by authors based on the respective fashion brands' websites

Price and Place of Distribution

Bossini's major competitors are Giordano, Gap, Esprit and Baleno (Wirtz, 2011). A comparison of the price range of Bossini men's polo shirts with major competitors reveals that Bossini offers a very competitive price (Table 4.7). Operating more than 260 directly managed stores and authorizing almost 700 franchised stores, Bossini enjoys economies of scale. The high production volume means that Bossini can lower production costs and provide value-for-money apparel products to customers. Bossini has adopted a consistent pricing strategy across all its markets so that international customers from different locations can purchase the same apparel products at the same price. This helps maintain the firm's image (Bitran, Caldentey, & Mondschein, 1998).

In addition to opening retail outlets in shopping malls or tourist shopping streets, Bossini also sells its products through its e-platform. Selling

Table 4.8 International delivery destinations of Bossini and its competitors

	Number of shipping destination in			
	Asia Pacific	*Americas*	*Europe*	*Middle East and Africa*
Bossini	17	14	26	16
Giordano	10	1	17	5
Baleno	10	2	0	0
Uniqlo	7	1	1	0
Gap	18	34	37	11

Source: Compiled by authors based on the respective fashion brands' websites

through the e-platform can help Bossini promote its products, communicate with customers and increase sales. Note that Bossini's e-store delivery service is not restricted to its core markets (Hong Kong, China, Taiwan and Singapore). Table 4.8 compares international delivery destinations of Bossini and its competitors, which indicates that Gap provides the largest number of international shipping destination followed by Bossini, Giordano, Baleno and Uniqlo.

Promotion

Bossini employs a diverse mix of promotion tools. After inviting the Hong Kong popular singer, Miss Joey Yung, to be the spokesperson for its Asia-Pacific market, the company found that its advertising campaigns had a more significant impact. Using a proper spokesperson can draw public attention to the brand and improve awareness of the products, which will lead to a higher sales performance (Swerdlow & Swerdlow, 2003). Second, the company's flagship store in Hong Kong features impressive visual merchandising and showcases product designs with the core brand value "be happy" to improve the brand equity. Like Zara and H&M (Lopez & Fan, 2009), Bossini regards the flagship store as a promotion tool to display the latest apparel products, to demonstrate how to mix and match them, and to visualize the brand's development direction. Recently, Bossini has started to employ social media platforms such as Facebook to promote events. The company can use information technology and social media to promote itself to both local and international customers at relatively low cost.

Challenges and Solutions

In order to survive and excel despite operational challenges and market disruptions, Bossini has tackled them strategically with a variety of measures.

Emergence of Fast-Fashion Retailers in Hong Kong

The business environment is forever changing. In the mid-2000s, a number of well-established, big-name fast-fashion retailers entered the Hong Kong market. Zara launched its first retail stores in Hong Kong in 2004 (Zara's Annual Report, 2004). Many other fast-fashion retailers also developed their businesses in Hong Kong, including H&M (in 2007), Cotton on (in 2008), Forever 21 (in 2012) and Topshop (in 2013). Companies use fast fashion to show the latest fashion trend presented in their current product assortment at an affordable price (Fernie, 2004). Fast-fashion products usually have a very short life cycle, with frequent changes in product variety (Cachon & Swinney, 2011). Fast-fashion retailers are able to respond quickly to highly volatile market demand, and adjust product design and assortment planning accordingly (Choi, 2013; Runfola & Guercini, 2013). This enables them to enhance supply-chain management, improve customer service and reduce the harm caused by demand uncertainty (Bergvall-Forsberg & Towers, 2007).

The emergence of many internationally renowned fast-fashion brands in the Hong Kong market poses a great threat to Bossini, with their quicker response to customers, wider assortment, internationally appealing design and image, and affordable price range targeting teenagers and young adults. Competition from these brands has led Bossini to revise its existing business practices, changing its existing marketing strategy and branding measures to compete effectively. Brown's (1987) conflictual theory proposes that a retail company seeks an institutional revision where there is competition among the retailers in the existing market. Retailers should grasp the new market opportunity, establish new operational models to improve efficiency and develop new differential characteristics to resolve the conflict. Marketing is one way of combating the competition (Greenley & Shipley, 1992).

Bossini had established links with many famous cartoon characters and had been marketing licensed products since 2005, generating a new selling opportunity for survival. To avoid direct competition with its competitors, Bossini conducted a brand revamp in 2006 re-establishing the brand's core strategy of targeting every section of the family with three more new product lines: Maternity, Baby and Young. These largely differentiated Bossini from other fast-fashion brands such as in H&M and Zara, which do not include maternity wear in Hong Kong at that time. Bossini also diverted resources to develop easy mix-and-match products with some fashion elements and increased its annual product collections from eight to twelve to maintain freshness. More importantly, Bossini also reallocated resources to invest in research and development for technical products such as the Quick-Dry Comfort Polo, Cool Denim and Happy Color Chinos ranges, which are value-added products that cannot easily be copied by competitors. As Leknes and Carr (2004) suggest, a retailer that offers differentiated products will achieve improved performance.

Market Disruptions and Unfavorable Economic Situation

Business performance is also affected by the economic situation, and adverse financial markets can result in international market exits (Jackson, Mellahi, & Sparks, 2005). Over the past decade, the economy has provided the Hong Kong retail industry with many challenges including the SARS outbreak in 2003, the global financial crisis in 2008 and the European debt crisis in 2010. These economic problems all resulted in reduced consumption, lower standards of living and higher unemployment rates. Figure 4.3 shows the financial performance of Bossini from 2000/2001 to 2013/2014. Note that in 2001/2002 and 2002/2003, Bossini recorded a negative return on equity. The environmental theory proposes that evolution is required when there is a change in economic situation, demographic distribution or technology development (Bartels, 1981). Brown (1987) proposed that transformation of the company affected future business development and survival strategy. In line with the environmental theory, Bossini implemented various strategies to overcome the difficulties presented by three different periods.

Outbreak of SARS Disease in Asian Countries (2002–2003)

SARS originated in China in November 2002 and spread quickly to many other Asian countries. The most seriously affected areas were Hong Kong, Taiwan and Singapore (Siu & Wong, 2004). In its 2003 Annual Report, Bossini reported that the outbreak of SARS had placed huge pressure on its operations (Bossini's Annual Report, 2003). The unfavorable

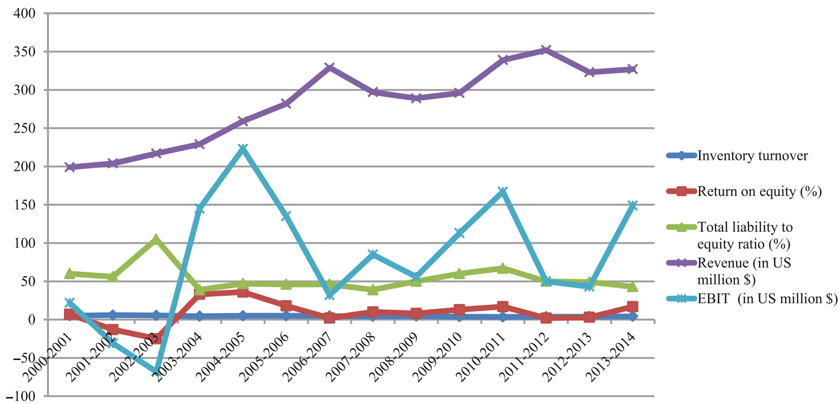

Fig. 4.3 Bossini's overall financial performance from 2000/2001 to 2013/2014 (EBIT = earnings before interest and taxes)
Source: Compiled by authors based on Bossini's annual reports

economic situation led to changes in customers' behaviors and consumption patterns. After the outbreak of SARS in Hong Kong and other Asian countries, Bossini focused more on basic apparel items than on trendy products to satisfy the needs of its core customers. In order to maintain a healthy financial performance, Bossini found ways to cut the operations costs, such as increasing the proportion of products sourced from lower-cost regions, re-organizing the number of directly managed stores, and improving planning of stock assortment and promotional offers.

Global Financial Crisis (2008–2009) and European Debt Crisis (2010–2011)

During these two recent periods of economic crisis, Bossini adjusted its international franchising strategy to diversify risks of negative revenue due to a poor economy in specific regions. Bossini developed and introduced different product lines for the Chinese market: for example Bossinistyle aimed to increase total sales from the business women who preferred stylish designs with character. Bossini not only tried out different cost-cutting measures in sales, distribution and administration, but also sought to improve overall supply-chain performance. In 2008–2009, Bossini promoted the positive and energetic "be happy" brand image to convey an upbeat message.

Bossini's International Operational Performance

Bossini's international operations performance in the Hong Kong,[2] China, Taiwan and Singapore markets was analyzed using publicly available data in Bossini's annual reports from 2000/2001 to 2013/2014. Correlation analyses were used to examine the relationship between the number of stores and their corresponding financial performance (i.e., revenue). The results are summarized in Table 4.9.

The analysis reveals that the revenue generated from the Hong Kong segment is significantly positively correlated to the number of stores[3] operated in this market ($p = 0.000$). This correlation relationship is also observed in China ($p = 0.000$), Taiwan ($p = 0.021$), Singapore ($p = 0.026$) and Malaysia ($p = 0.000$). This finding is intuitive because it indicates that

Table 4.9 Correlation coefficients between the number of directly managed stores and the corresponding revenue in each segment market

Correlation coefficient	*No. of retail stores in Hong Kong*	*No. of retail stores in China*	*No. of directly managed stores in Taiwan*	*No. of directly managed stores in Singapore*	*No. of directly managed stores in Malaysia*
Revenue from Hong Kong	0.940**	–	–	–	–
Revenue from China	–	0.837**	–	–	–
Revenue from directly managed stores in Taiwan	–	–	0.609*	–	–
Revenue from directly managed stores in Singapore	–	–	–	0.592*	–
Revenue from directly managed stores in Malaysia	–	–	–	–	0.988**

*Correlation is significant at the 0.05 level (2-tailed)

**Correlation is significant at the 0.01 level (2-tailed)

Source: Compiled by authors based on the SPSS statistical results the higher the number of retail stores operated in a market, the higher the revenue from the country.

The earning ability from daily operations in each of Bossini's international markets is explored by looking at their earnings before interest and taxes (EBIT). Table 4.10 illustrates the bivariate correlation between the number of directly managed stores and the corresponding EBIT in each market. Interestingly, while the EBIT in Hong Kong is significantly positively correlated to the number of retail outlets operated in this market ($p = 0.002$), the relationship is insignificant in China ($p = 0.170$), Taiwan ($p = 0.175$) and Singapore ($p = 0.564$). However, the number of directly managed stores in Malaysia is significantly negatively correlated with the EBIT ($p = 0.000$). This finding, together with the observations from Table 4.9, suggests that even though Bossini can generate a higher revenue when running more retail stores, it does not perform well after controlling for selling, distribution and operating expenses (e.g., payroll, logistics, advertising) in the China, Taiwan, Singapore and Malaysia segments. To some extent, Bossini may also incur higher overall operating expenses which may leading to a small increase in EBIT, or even a nega-

Table 4.10 Correlation coefficient between the number of directly managed stores and the corresponding operating profit in each segment market

	No. of retail stores in Hong Kong	*No. of retail stores in China*	*No. of directly managed stores in Taiwan*	*No. of directly managed stores in Singapore*	*No. of directly managed stores in Malaysia*
EBIT in Hong Kong	0.819**	–	–	–	–
EBIT in China	–	−0.389	–	–	–
EBIT in Taiwan	–	–	−0.384	–	–
EBIT in Singapore	–	–	–	−0.169	–
EBIT in Malaysia	–	–	–	–	−0.968**

*Correlation is significant at the 0.05 level (2-tailed)
**Correlation is significant at the 0.01 level (2-tailed)

Source: Compiled by authors based on the SPSS statistical results tive EBIT in Malaysia. This statistical analysis partly explains why Bossini shifted from directly managed stores to the franchising operations model in places like Malaysia. Fashion retailers do not necessarily make more money and perform well in every country they enter (Mollá-Descals, Frasquet-Deltoro, & Ruiz-Molina, 2011). Since these findings refer only to Bossini's major markets, the findings should be generalized to Bossini's entire internationalization endeavor only with caution. Nonetheless, this finding suggests to some extent that Bossini should carefully analyze its operations costs in determining the appropriate measures to improve operational efficiency.

Discussions, Insights for Management and Implications

This chapter illustrates the internationalization trajectory of Bossini and addresses its business strategies in a highly competitive business environment and the ever-changing economic situation. Despite being a very strong fashion retail brand with a great reputation, Bossini has faced challenges (e.g., negative returns on equity in 2001/2002 and 2002/2003) and has taken some strong measures to adapt (e.g., closed all the directly managed stores in Malaysia in 2011/2012). The chapter concludes by analyzing and discussing some of Bossini's critical successful factors.

Creating Consistent Corporate Culture in All Regions

Bossini established the "Bossini way" corporate management framework in 2002 to educate employees about the company's vision, mission, brand values, attitudes and practices, strengthen their understanding of the company and improve customer service. This corporate culture is not limited to a particular region but is spread across all its international branches, which can also enhance corporate management. Bossini's philosophy undoubtedly provides a strong mission statement and a clear direction for all staff to follow. This significantly helps the brand's development.

Developing Competitive Advantages Through R&D

Bossini has invested continuously in R&D, developing value-added products such as the Quick-Dry Comfort Polo (in 2012) and Ztay Dry Sports

Table 4.11 Innovative R&D products by Bossini and its competitors

Fashion brand	*R&D products*	*Features*
Bossini	Yes, Quick-Dry Comfort Polo and Ztay Dry Sports	Mainly on sports items with quick-dry features. Some items even have UPF 20+ sun protection
Giordano	Yes, Quick Dry	Quick-dry and wrinkle-resistant features on both basic and sports items
Baleno	No	
Uniqlo	Yes, AIRism and HEATTECH	Mainly on innerwear items. AIRism products have instantly dry features using thin material while HEATTECH products help to keep warm and are anti-odor
Gap	No	

Source: Compiled by authors based on the corresponding websites (August 2015)

(in 2015) to satisfy the needs of customers. Table 4.11 shows the innovative R&D products developed by Bossini and its competitors. Both Bossini and Uniqlo launched innovative fashion products with similar functionality: Bossini's Quick-Dry Comfort Polo and Ztay Dry Sports feature quick drying while Uniqlo developed the AIRism collection with instant-dry characteristics using thin materials. Uniqlo also considered the functionality of its products in winter when launching the HEATTECH collection. Uniqlo is famous for its innovative products where the technology is built specifically on the innerwear items. To avoid direct competition, Bossini strategically focused its R&D on sportswear products.

Diversifying Risk

Franchising is a cost-effective and low-risk international market entry mode. It can help enlarge the market portfolio and the brand's presence internationally. It also helps Bossini to diversify risk with respect to economic uncertainty in each country and market. Even though Bossini closed many directly managed stores during the economic downturn, it continued to expand franchising stores as an alternative way of increasing income and market share. Bossini also sells online to promote the brand and increase sales without tying up its capital in operational expenses (such as rent and labor costs).

Willing to Change and Adapt

In response to the competition from fast-fashion retailers emerging in Hong Kong during the mid-2000s, Bossini took several measures. In 2006, it started conducting a big brand revamp program in all markets, changing the brand value, brand color and store layout to attract customers in a competitive retail business environment. To avoid direct rivalry with the fast-fashion retailers, Bossini focused on introducing more easy-to-wear products with appropriate fashion elements. It also increased the number of collections each fiscal year to maintain its competitiveness. It re-identified the family as its target group and focused on cross-segmental selling, for example designing products with the same theme for every member of the family. It also collaborated with different brands, including Disney characters. This marketing and selling strategy, which is different from those of its competitors, such as Baleno and even the fast-fashion retailers, has established a competitive edge for the company.

Information Updating Through e-platform Selling

Selling through the e-platform not only increases sales while reducing marketing costs, but also improves stock allocation. Bossini uses market and demand information collected from the e-selling platform to further improve its stock planning. Both Bossini and Giordano operate their online shops themselves, while Baleno partners with the B2C online retailer Tmall.com. Tmall.com is run by Alibaba Group in China which may mean that Baleno is focusing particularly on the China market. Bossini's international delivery coverage is actually much more substantial than that of Giordano and Baleno. Table 4.8 shows that Bossini offers more international delivery destinations than Giordano and Baleno, especially in the Americas, the Middle East and Africa. This also implies that Bossini can collect and keep updating market information to plan both supply-chain operations and marketing campaigns.

Conclusion and Future Research Directions

This chapter has analyzed Bossini's internationalization strategy. Bossini's sales performance (revenue) and its overall operations performance (EBIT) in its four core markets (Hong Kong, parts of China, Taiwan and Singapore) were also analyzed and findings were discussed.

Bossini is planning several operational strategies for its future business development (Bossini's Annual Report, 2014). First, with the substantial growth in sales generated by franchised retail outlets, Bossini plans to reallocate more resources to the expansion of its franchising business. Second, Bossini plans a focus on the continuing development of successful children's wear products in the Hong Kong market. Last but not least, Bossini plans to work with other well-known brands and characters in the launch of new co-branding products to further improve its brand image and brand equity.

Like other, similar studies, this study is subject to the following limitations and readers should interpret the research findings with care. First, the results of the study were generated based on the publicly available secondary data (e.g., Bossini's official website and the literature) and Bossini's annual reports. Second, our statistical test only incorporated limited Bossini financial data from 2000/2001 to 2013/2014, because these were the only available data for analysis at the time of conducting the research.

Future research might involve interviews exploring how the franchising business operates between Bossini and its franchisees, and the corresponding partnerships. It appears that Bossini may face a challenge controlling its operating costs; thus, it is worth further exploring Bossini's operations model in the context of global supply-chain management and analyzing possible ways to reduce costs and increase Bossini's profit in markets such as China and Taiwan. Finally, a comparison of the internationalization strategies and financial performances of Bossini and its major competitors, such as Giordano, would also be interesting.

Notes

1. Please note that Bossini used "Bossini style" in the 2005/2006 annual report but "Bossinistyle" in the annual reports from 2006/2007 to 2010/2011. For consistency, this paper uses "Bossinistyle" to represent this brand extension of Bossini.
2. The Hong Kong operational performance represents the performance of both directly managed stores in Hong Kong and internationally franchised stores (except China). This classification is adopted by Bossini in its annual reports. The operational performance of China represents the performance of both directly managed and franchised stores in China. All stores in Taiwan and Singapore are directly managed by Bossini.

3. The number of stores operated in Hong Kong is the sum of the number of directly managed stores in Hong Kong and the number of international franchised stores (except China).

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CHAPTER 5

Beaucre Merchandising Co. Ltd: A Successfully Internationalizing Korean Apparel Company

Byoungho Jin and Jae-Eun Chung

Abstract Ever since its inception in 1991, Korean apparel company Beaucre Merchandising Co. Ltd. has been evolving into a global apparel company. In its 23-year history, it has created seven of its own brands, a sales subsidiary in Shanghai, China, and a total of 553 directly managed sales outlets across six countries with approximately 50% of their revenue generated from international business, without owning any production facilities. The company's further expansion to US and European countries was achieved via wholesale systems. The company's first and signature

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brand on & on achieved huge success in China, mainly due to timing and well-coordinated marketing strategies around a prestige brand image offering business attire for young women. The development of the Korean and Chinese apparel industries is touched on in this chapter to explain why Beaucre's entry into China in 1999 was an innovative move. Their internationalization strategies are analyzed and implications drawn from both academic and practical perspectives.

Keywords Korean apparel industry • First-mover advantages • Uppsala model • Prestige image

Introduction

South Korean (hereafter Korean) apparel company Beaucre Merchandising Co. Ltd. (hereafter Beaucre) is one of the first Korean apparel companies to start to sell its goods to international markets. Headquartered in Seoul, Korea, Beaucre was established in 1991 and operates seven brands and a sales subsidiary in Shanghai, China. At present, the company directly operates a total of 553 retail stores within leading department stores in Korea, China, USA, Russia, Singapore and Malaysia, and exports to the USA, UK, Spain, France and Italy, among others, through wholesalers. Approximately half of the company's revenue comes from international markets, China accounting for the greatest share. Following the huge success of its leading brand, on & on, in the domestic market, the company chose China as the first country to expand to in 1999. Entering China earlier than other global players presented both opportunities and challenges. The company has overcome the challenges to establish a prestige image in the women's wear market in China.

The quality of apparel goods is hard to evaluate; brand reputation and country-of-origin image are the primary drivers of consumers' perception of product quality (Kumar & Steenkamp, 2013). Unlike France, Italy and the USA, Korea is not a leader in the global fashion business, so selling Made in Korea-branded apparel goods to global consumers is a daunting task. It was an even more difficult task back in 1999 when *Hanryu*[1] was not yet completely established. Nonetheless, the company has had phenomenal success in the Chinese market, where it maintains its leading position. Beaucre's success is noteworthy in that many Korean apparel companies that entered the Chinese market failed and exited. Beaucre is one of the few Korean apparel companies that has continued to enjoy success.

The story of Beaucre's successful launch and operation in China is a rare case of an apparel brand from a country not known for fashion achieving a successful presence in global marketplaces, and it can provide us with meaningful insights that cannot be obtained from analysis of well-known global fashion brands from countries with an established place in the fashion world.

This chapter's analysis of Beaucre's international expansion to the Chinese market is based on a series of interviews with company chairman Man Joong Lee, a site visit to Beaucre headquarters in Seoul, books, websites, and various mass-media sources in English and Korean. The case study begins with an overview of the company and its history, followed by a look at the apparel industry in Korea and an analysis of Beaucre's internationalization strategies. The chapter concludes with a discussion of future opportunities and challenges the company may encounter, together with their academic and managerial implications.

Company Overview

Beaucre Merchandising Co. Ltd. was established by Man Joong Lee and Seong Kee Min in 1991. After eighteen years' experience at Kolong Global, a Korean apparel and textile manufacturing company (Fashionchannel, n.d.), Lee envisioned the creation of an apparel company that creates beauty. The company name, Beaucre, reflected his vision by combining the words "beauty" and "creation" (Beaucre Merchandising, 2011). The company's sales volume amounts to US$332 billion as of 2013 (Korea Chamber of Commerce and Industry, 2014) with approximately half coming from international operations. Sales growth is faster in international operations, which generates a higher operational profit. Beaucre employs a total of 378 people at its headquarters in Seoul (172 employees) and wholly owned sales subsidiary office in Shanghai, China (206 employees), which was established in 2005. The company mainly manufactures its products in Korea and China but does not own any production facilities.

The company has a portfolio of seven brands ranging from medium-low to high-end price, mostly targeting female and male consumers in their twenties and thirties with diverse brand images (Table 5.1). Beaucre started as apparel manufacturers and developed three brands, on & on,

Table 5.1 Brand portfolio of Beaucre Merchandising Co. Ltd.

Brands	*Est. year*	*Products*	*Price range*	*Brand image*	*Target age*	*# of stores in Korea as of 2014*
on & on	1992	Women's clothes	Medium-high to high	Modern; premium value	24–29	58
Olive des Olive	2000	Women's clothes	Medium	Romantic; feminine	21–24	57
W.[a]	2004	Women's clothes	Medium to Medium-low	Fast; trendy	23	0
Lapalette	2009	Retailer (focused on accessories)	Medium-high to high	Unique	21–23	41
Coiincos	2010	Retailer (focused on total fashion)	Medium to low	Stylish; unique	20s–30s	36
Band of Players	2010	Retailer (focused on men's accessories)	Medium to Medium-high	Urban; contemporary classic	25–35	11
Jinammi	2013	Women's accessories (focused on handbag)	High	Luxury; high-end	30–40	0

[a]W. was launched in Korea and China simultaneously but exited Korea in 2009

Source: Compiled by authors based on websites and interviews

Olive Des Olive, and W. (pronounced "double-u dot"), for young female consumers; the company's retail diversification focused on selling men's and women's accessories such as Lapalette, Coiincos and Band of Players. The company currently sells both online and offline. In fact, the three retail brands began as online specialty stores providing selected goods for their clients. Recently, with a vision of global luxury inspired by Korean cultural heritage and craftsmanship, Beaucre has created the high-end handbag brand Jinammi.

Apart from Band of Players, which is only sold in the Korean market, six brands are now selling in six different countries (Korea, China, Russia, Singapore, Malaysia and the USA) through a total of 553 stores (Table 5.2). The first and signature brand, on & on, has the highest number of stores (182), and China, not Korea, has the highest number of stores in total (336 stores in China vs. 203 stores in Korea). In addition,

Table 5.2 The Number of Stores by Brand in Each Country Entered

	on&on	*OLIVE des OLIVE*	*W.*	*Lapalette*	*Coiincos*	*Band of players*	*Jinammi*	*TOTAL*
Korea	58	57		41	36	11		203
China	125		141	11	59			336
Russia	1	1			1			3
Singapore				4				4
Malaysia				2				2
USA							1	1
Total	182	57	141	60	96	10	1	549

Source: Developed by the authors based on Beaucre Merchandising official website, available at http://www.ibeaucre.co.kr/en/global_network/distribution.asp and updated with an interview with the company chairman, Man JoongLee.

the company has been exporting products to the USA, UK, Spain, France, Italy and other European countries since 2008 under the name Morine Comte Marent as part of collections such as Who's Next in Paris and Fashion Coterie in New York.

Company History

Beaucre has experienced three phases of development in its evolution into a global fashion company since its inception in 1991. This brief summary of the three phases is based on a book published by Beaucre to celebrate their 20th anniversary (Beaucre Merchandising, 2011).

Focus on Domestic Market (1991–1998)

Beaucre's first brand, on & on, was launched in1991 with a modern and sophisticated brand image targeting women in their early twenties (Beaucre Merchandising, 2011). Soon after its launch, on & on became one of the most popular women's fashion brands in Korea, followed by other Korean apparel brands such as System and EnC (Beaucre Merchandising, 2011). This immediate success was largely ascribed to factors stimulating the growth of the apparel industry in Korea at that time. First, there was growing consumer demand for branded apparel goods immediately after the Seoul Olympic Games in 1988 (Korea Federation of Textile Industries, 2014). Second, uniforms traditionally worn, especially by women, in the workplace have gradually been phased out, which spurred the demand for women's clothing (Jin, Kendagal, & Jung, 2013). Third, compulsory school uniforms for middle- and high-school students were abolished, which naturally created a huge market for casual wear for those age groups (Beaucre Merchandising, 2011; Kim, 2012). To meet these growing consumer needs, a significant number of women's apparel brands, such as Mine, Be Art, System, Roem and Time were launched in the 1990s. Beaucre's on & on was part of the cohort of Korean national brands developed during this time.

Internationalization to China (1999–2006)
When the Korean apparel market became competitive in the late 1990s, Beaucre sensed China's market potential, launching on & on in China in 1999. At that time, most Korean apparel companies viewed China as producer, not consumer. However, with an intuitive vision of China eventually becoming a consumer market, Lee had been preparing Beaucre's expansion to the country for a long time. For the domestic market, the company developed its second brand, Olive des Olive, in collaboration with a Japanese company, Itouch Fashion System Ltd., in 2000, and the third brand, W., in 2004. The W. brand was launched in Korea and China at the same time and was later discontinued in Korea in 2009.

At the time (1999), the Chinese government did not allow foreign companies to enter China without local partners. So Beaucre began selling its merchandise at two stores within department stores in Shenzen, China, partnering with a Chinese fashion firm that had its own brand and 200 stores across China (Beaucre Merchandising, 2011). However, the partnership lasted only three months because the partner copied the on & on designs and sold them under their own brand name (Yoon, 2007, November 19).

Learning from the unhappy ending of its first partner relationship, Beaucre next partnered with Korean businesswoman Eun Sook Han who was active in the textile business in Hong Kong. With the help of the partner's networks, Beaucre was able to open a store at one of the luxury department stores in Shenzhen, making huge sales on the first day of trading (Beaucre Merchandising, 2011). Subsequent store openings at other leading department stores enabled Beaucre to achieve fame as a prestige brand in China. To effectively manage the growing business in China, Beaucre established a joint venture company with the subsidiary of a large Chinese corporation in August 2004 (Beaucre Merchandising, 2011). However, this partnership was also broken and ended with the closure of the majority of stores in China after a nine-month-long legal trial. It was mainly the partner's sole interest in making profits through aggressive expansion that had caused the loss of the prestige image and popularity among consumers.

Having learned the hard way about the importance of marketing and distribution management, Beaucre established a wholly owned sales subsidiary in 2004 in Shanghai, the first Korean apparel company to be established in China with 100% investment (Ryu, 2005, August 15). This was made possible by China's membership of the World Trade Organization (WTO) in 2001 and the subsequent lifting of trade regulations. The industry speculated that Beaucre might not regain its prestige image once it was lost. The image, however, was gradually recovered thanks to Beaucre's aggressive marketing drive.

Diversification of Domestic Market and Internationalization Beyond China (2007–Present)

After establishing prestige and high-quality brand images in China, Beaucre internationalized beyond China. Following the W. brand's success in China, it further expanded into Taiwan and Vietnam in 2007 (Beaucre Merchandising, 2011). However, for reasons connected with the economic recession or the local business partner, W. exited both markets in 2008 despite being enthusiastically accepted by local consumers.

For its expansion into European and US markets, Beaucre created a new brand, Morine Comte Marant, and started building its brand name by taking part in major fashion exhibitions such as Who's Next in Paris and Fashion Coterie in New York (Beaucre Merchandising, 2011), receiving orders from major retailers from these exhibitions in 2008 and 2010, respectively. Orders came, among others, from Seibu department store, Hong Kong, ASOS online store, UK, and Neiman Marcus department stores in Dallas and San Francisco (Beaucre Merchandising, 2011). Currently, Morine Comte Marant has sales contracts with 70 retailers and buyers from eighteen countries (Beaucre Merchandising, 2011).

Beaucre also diversified its domestic business, creating three online retail brands, Lapalette, Coiincos and Band of Players in 2009, 2010 and

2010 respectively. These three retail brands carry a selection of styles from diverse designers, which is a new concept in Korea. Beaucre also expanded to Russia in 2011 by opening on & on and Lapalette stores in Lotte, a large popular Korean department store operating in Russia (Kim, 2012). Seeing Singapore as a gateway market to Australia and Southeast Asian countries, Beaucre launched Lapalette in Singapore in 2012 and subsequently in Malaysia in 2014 (interview with chairman Man Joong Lee, 2014). Figure 5.1 summarizes the evolution of Beaucre through the three phases described above.

Apparel Industry Background in the Home Country

The apparel industry background in Korea and China is important to an understanding of the significance of Beaucre's entry into the Chinese market in 1999. Korea's economic development began in the 1960s when apparel products were exported to international markets. At that time, it was solely based on simple assembly or OEM (original equipment manufacturing) production based on bounty cheap labor (The Korea Federation of Textile Industries, 2014). Apparel was the major export item and Korea gradually evolved into exporting more value-added goods such as chemicals, iron and steel, automobiles and electronic/electrical industries, which was a very typical economic development model in many

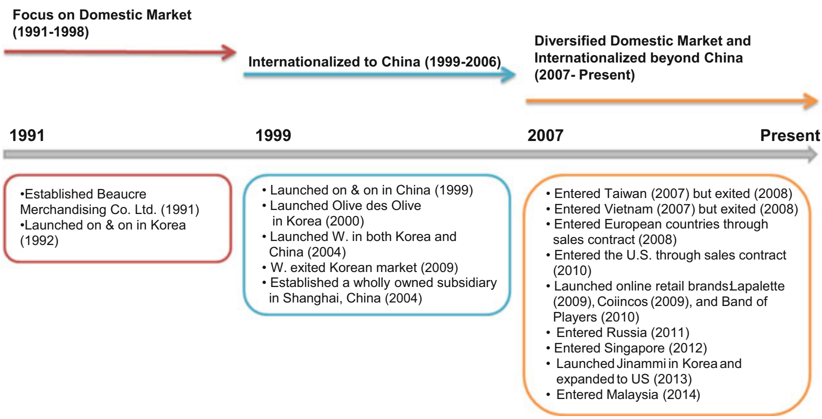

Fig. 5.1 Brief history of Beaucre Merchandising Co. Ltd.
Source: Compiled by authors based on websites and interviews

Asian countries including Japan, Taiwan and Hong Kong, according to Akamatsu's (1962) "flying geese" model.

However, OEM export gradually decreased with the increased costs of labor around the Seoul Olympic Games in 1988. Apparel exporting houses found ways to establish their own national brands as export was no longer viable. This worked well because consumer demand for branded apparel was burgeoning after the Olympics and export houses were able to supply branded apparel goods using the knowledge and experience accumulated through their participation in the global commodity chain (GCC) (Gereffi, 1994). According to Gereffi's (1994) global commodity chain framework, East Asian OEM export houses developed the ability to upgrade from OEM to OBM (original brand name manufacturing) by acquiring know-how on the apparel business and marketing from various lead US and European buyers (Jin et al., 2013). Typically, apparel brand development that requires a sophisticated level of marketing and definite branding skills (Kumar & Steenkamp, 2013) takes time, hence it tends to occur after the entry of international brands to developing countries (Jin et al., 2013). This is evidenced by Jin et al.'s (2013) study of patterns of apparel brand development, focusing on Korea and India. In both countries, apparel brands emerge in the order: international brands; national brands; and private brands. Many global players had already entered the Korean market in the mid-1970s and domestic players felt pressure to develop their own brands to protect their domestic market from the encroachment of international brands. This provided a further impetus for the emergence of national brands. Beaucre was established in 1991 when national brands mushroomed to meet ever increasing consumer demand.

The peak of national brand development occurred in the Korean apparel industry in the 1990s, and more global luxury brands such as Chanel, Dior and Louis Vuitton entered the Korean market after the Uruguay round of multinational trade negotiations in 1994. This resulted in intense competition between national brands and global brands in the late 1990s. This competition led some leading Korean apparel brands to seek opportunities in China. E-Land and Deco both expanded into China during the 1990s. Beaucre's entry into China in 1999 with on & on is the third example (Beaucre Merchandising, 2011). Following the example of these leading brands, other Korean brands increasingly entered the Chinese market during the 2000s, with no greater success than the aforementioned early movers. Figure 5.2 shows the pattern of Korean apparel brand evolution, together with Beaucre's inception, and its move into and

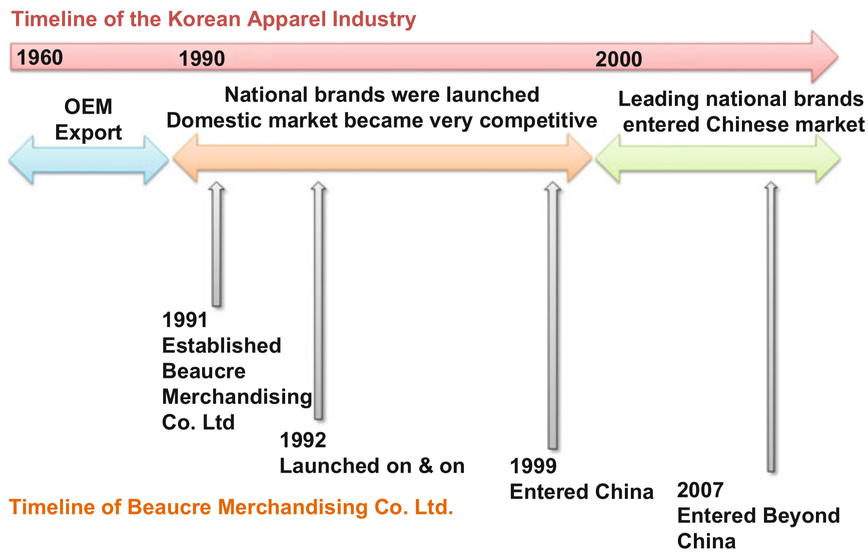

Fig. 5.2 The Beaucre timeline and the history of the Korean apparel industry.
Source: Developed by the authors

beyond China. The figure shows pioneering Beaucre always making an earlier move than its competitors: Beaucre's creation of the on & on brand in 1992 was earlier than the major competitors' development of national brands during the 1990s and its entry into China in 1999 preceded the majority of Korean brands, which did not enter China until the 2000s. While most Korean apparel brands were focusing on the Chinese market during the 2000s, Beaucre started entering international markets beyond China in 2007.

Apparel Industry Background in Host Country

To place Beaucre's 1991 entry into the Chinese apparel market in context, three phases of international brand entry into China are summarized below, based on two sources (International Brands Entering China, n.d.; Overview of Global and China Luxury Markets, 2011), and websites of major Chinese and global brands.

- 1st phase (the late 1970s and early 1980s): The international brands entering during this phase include Nike, Adidas, Lacoste, Montagut and Foxer. Global luxury brand entry was restricted by the Chinese government during this phase and Pierre Cardin was the first global luxury brand to enter China.
- 2nd phase (mid-1990s): Well-known luxury brands, such as Ermenegildo Zegna (1991), Louis Vuitton (1992), Dunhill (1993), Burberry (1993) and Hugo Boss (1994) started to enter the first-tier cities of China. Casual wear brands Giordano (Hong Kong brand) and E-land (Korean brand) entered in1992 and 1994, respectively.
- 3rd phase (late 1990s and 2000s): More global luxury brands, such as Gucci (1996), Christian Dior (1997), Hermès (1997), Armani (1998), Givenchy (1998), Escada (1998), Chanel (2000) and Versace (2000), entered the market. In the 2000s, rapid economic development in China accelerated the growth of the luxury market. To meet this increasing demand, an increasing number of global luxury brands expanded to China's second-tier cities. At the same time, more affordable casual brands, such as Esprit, Mango, Zara, H&M, Uniqlo, Muji, GUESS and Gap, Inc., entered the market. Beaucre, offering premium business attire and targeting young career women in their twenties, entered in 1999 with on & on.

As with Korea, international brands entered China well before national brands emerged, as Jin et al. (2013) suggest. The first Chinese brand was the sportswear brand Li Ning, established in 1989. Since then China has had a significant influence on the world's apparel industry (see Chap. 1). China accounted for approximately 39% of world clothing exports and 35% of textile exports in 2013 (World Trade Organization, 2014), and is the world's third-largest global luxury consumer after Europe and the USA (Overview of Global and China Luxury Markets, 2011). China's growth in and demand for fashion products are such that the country has further evolved into a luxury brand creator. Chinese luxury brands such as Qeelin (jewelry), created in 2004, and Shang Xia (apparel, furniture and home décor) in 2008 (Armoudom, 2012) have built on Chinese cultural heritage. Both are now partially owned and supported by luxury conglomerates, with Qeelin acquired by Kering Group and Shang Xia created by Hermès Group.

Back in 1999, only sixteen years ago, when Beaucre was introduced in China, the only branded apparel goods available to Chinese consumers were several global luxury brands, one national brand, Li Ning, and a couple of international casual wear brands such as Giordano and E-land. The expression of one's individuality through apparel become available only in the late 1990s as consumer wealth began to rise (Lui et al., 2011). Very few brands offering business attire for young women existed and the women's wear market was not well segmented as in the advanced economies (Kim, 2011, December 9), which explains why Beaucre received significant attention from Chinese consumers upon entry.

Beaucre's chairman, Man Joong Lee, also highlighted that the first-mover advantage was the main reason for Beaucre achieving such success in China. Being a first mover gave unbeatable opportunities but the challenges were never small. Beaucre overcame the challenges with effective marketing strategies. The following analysis of their success is based on marketing's "Four Ps".

Beaucre's Internationalization Strategies

Unlike functional products, the quality of apparel goods is hard to evaluate; thus, brand reputation and country-of-origin image are critical to ensure consumers appreciate the products (Kumar & Steenkamp, 2013). To build a prestige brand image, Beaucre effectively coordinated its efforts in every aspect of the marketing "Four Ps" in the Chinese market, offering high-quality apparel goods at premium price at high-end department stores with high-quality service.

Product Strategy

When selling products internationally, product adaptation may meet global consumers' needs better than offering the same products (i.e., standardization) but it may involve higher costs, more control and detailed management. Thus, the degree of adaptation (oftentimes referred to as customization) is an important decision in internationalization. Beaucre effectively localizes its products to meet Chinese consumers' needs. That is, about 20% of products are newly designed for Chinese consumers while the remaining 80% are the same as products in Korea. This 20% of products are designed in the Shanghai office, where local designers are employed to reflect local tastes. For example, the color red is less favored among Korean consumers. However, on & on, Olive des Olive, and W. boldly used red for Chinese consumers as red is an auspicious color that is believed to bring good luck in China. In Russia, Beaucre provides long coats and styles with long sleeves in view of the cold weather, and resizes products to take account of the physique of local consumers (Kim, 2012).

Beaucre's chairman Lee attributes the failure of many Korean companies in China to a lack of understanding of local consumers. He asserts that Korean firms fail to conduct thorough market research, assuming that China will be the same as Korea because it shares Asian culture, and adding:

> About 80% of Korean apparel brands that have entered China have failed. I think the main reason for the failure is that firms view cultural differences as wrong or bad. Having acknowledged the differences, more important is how we can assimilate to the culture. We will never reach our peak if we have a negative attitude toward other cultures. I think everybody in the company, not just people in the overseas business department, should be equipped with a global mindset.

In a huge country like China, greater diversity exists in terms of geography, body types, tastes, culture and so on. Mr. Lee emphasizes that such diversity needs to be fully understood, and Beaucre began offering free Chinese culture classes to their employees (Beaucre Merchandising, 2011), which is not common among Korean apparel firms. He also emphasizes reciprocal visits between the two countries to improve employees' cultural understanding.

In addition, Beaucre localizes production in China, increasing the proportion of in-season production in order to speedily and effectively reflect Chinese consumers' needs. Beaucre has also established effective systems to coordinate various functions from design through production to marketing. A production portfolio system, a global sourcing system and an online system checking real-time work progress are already in place.

Pricing Strategy

When Beaucre entered the Chinese market, most Chinese consumers were not interested in Korean apparel and a Korean apparel brand was unheard of. Mr. Lee stressed that with the addition of the high duties and value-added taxes imposed on imported apparel, the price of Beaucre's products can easily become 30% higher than in Korea. In Russia, total duties amount to 65%, even higher than in China, so the company's products in Russia are 1.7 times more expensive than in Korea. Naturally the main target consumers in Russia are high-earning, high social class individuals.

Because of the income disparity between China and Korea, the price of on & on was high for Chinese consumers. In 1999, Chinese GDP per capita was US$870. This means that for a sales assistant, an on & on blouse cost more than a month's salary. Mr. Lee continues,

> The price cannot be lowered as I need to make a profit. Chinese consumers asked for prices to be 70% of those in Korea. But that is not a business because the more I sell, the greater loss I will incur. Thus, I was not able to lower the price as I needed to make a profit. Instead, I decided that the other aspects such as product and service should reflect the high price they are paying.

The chairman established a premium pricing strategy in China but worked to coordinate promotion, product, service and so on to create a premium brand image that was worth the premium price. For example, for premium products, Beaucre manages all the supply-chain processes, including production planning, marketing and distribution, by sending executive-level staff from Korea out to local markets.

Promotion Strategy

Beaucre also ensures a high level of service by its sales assistants to create a perception that matches the high-end price. One real challenge Beaucre encountered was the absence of the service concept among sales assistants.

> One time I visited a store in Beijing to see how they were doing. Sales assistants did not know who I was as they were hired locally. One customer tried on a dress that was displayed on the model but it didn't fit. She asked a sales assistant for a bigger size but the assistant cut her off, saying "we haven't got it" quite unconcernedly when in fact, the size was in the stockroom. I felt like the sky was falling on me. How can I do business here with these sales assistants? They have no idea what service is! On my way back to Korea, I was in despair and spent the whole flight agonizing over how I could teach them the concept of service.
>
> I thought that service could not be effectively taught in a classroom setting. They might learn it by rote, but they can't feel it. One idea that came to me was to invite them to Korea and have them experience different levels of service in various service sectors. I invited the first batch of six head sales assistants to Korea. It was the first international trip for all of them. I intentionally had them stay at a five-star hotel, four-star hotel, three-star hotel and home stay. When we ate out, I took them to a very fine restaurant and then a very reasonable restaurant to have them feel the differences. I even took them to a high-end beauty salon that cost about US$300 for a perm. Staying one night and eating one meal is the same. Then why do people pay more for a five-star hotel and a fine restaurant? All six were deeply impressed with the level of service in Korea because it was totally new to them. At the beauty salon, coffee was offered, a magazine was given to them to read, a pillow was brought to them to support their neck, etc. while they waited for their perms. All this was very common in Korea but very new to them.
>
> On the final day, I asked them to make their customers feel the same service they had experienced and to teach the same to their own sales assistants. Since then, sales volume has increased by anything from 1.5 times to threefold. The six invited shared their good impressions and experiences in Korea with their peers and clients, which also helped them establish the positive image of Korean apparel brands. (Interview with Beaucre chairman Man Joong Lee, xxx)
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> (Interview with Beaucre chairman Man Joong Lee, 2014).

At the time of Beaucre's expansion into China, the service concept was non-existent there since the idea of socialism was still very much alive.

Sales assistants did not understand how good-quality service can increase revenue and that helping customers find what they want to buy was part of their job. Beaucre continues this service experience program once or twice a year in order to offer their customers the best service experience.

Beaucre also actively promotes its image by participating in major fashion shows and collections in China, and supporting major events (Kim, 2011, December 9). It also sponsors anchorwomen on TV shows. The chairman said that it was not their intention to sponsor them initially but anchorwomen came to Beaucre of their own accord, wanting to wear their clothes for a TV show. He explains,

> It was a benefit of entering the country early. At the time of entry, making money from advertising did not occur to them. Anchorwomen at CCTV in Beijing contacted us to lend them clothes for their show. They did not ask for clothes for free; they just borrowed them to wear for a day. Every morning, they came to us voluntarily and selected styles for the day. At today's prices it would cost millions of dollars. Through the sponsorship, on & on was well publicized and once it started gaining popularity, various magazines contacted us, asking us to feature.

Further, Beaucre effectively leverages the enthusiasm for *Hanryu* prevalent in most Asian countries. BOA, one of the most popular Korean female *Hanryu* singers, was featured as a model in advertisements for W., the second brand to be launched in China. The result of these promotion efforts was an explosion in brand awareness of W. among Chinese consumers (Beaucre Merchandising, 2011).

Beaucre enhances its own promotion by genuinely practicing corporate social responsibility (CSR) in China. Beaucre is genuinely concerned for the welfare of local Chinese. The company's generous donation to local communities during the SARS (severe acute respiratory syndrome) outbreak in Southern China in 2003 created a sensation in the country. When a great earthquake happened in Sichuan in 2008, Beaucre donated funds to help with the disaster recovery and built an on & on Hope Elementary School to replace a local primary school destroyed by the earthquake. Since then, Beaucre has visited the school every June 1st, Chinese Children's Day, to supply some of its needs. Chinese society was very moved by this act of kindness, but it was not known in Korea until eighteen months later because the chairman, believing that a good deed should be done quietly and that sincerity counts for more, did not want it publicized (Ko, 2014, March 21). Beaucre also provides arts education and funds programs that help street children in Southeast Asian countries. Genuinely promoting the welfare of local society generates good PR, increases consumers' brand awareness and enhances Beaucre's image of caring for the interests of local people.

Place of Distribution

Beaucre uses two distribution channels in its international businesses: direct export and wholesale. Apparel distribution systems differ from one country to another. In most Asian countries, including Korea, China, Singapore, Taiwan and Vietnam, apparel goods are mainly sold either in directly managed retail outlets, in franchised stores or in a section within department stores. Department stores mostly use a consignment system in which they do not buy merchandise directly from brand manufacturers as happens in the USA. In the consignment system, brand manufacturers rent space within a department store and it is the brand manufacturers who manage merchandise and provide sales assistants. In contrast, in the USA, buyers at department stores order merchandise from brand manufacturers in advance of the season by attending trade shows or through brand manufacturers' sales representatives.

Because of this difference in distribution systems, Beaucre uses two different distribution strategies. In Asian countries and Russia, Beaucre sells merchandise either in department stores or in their own retail stores while in the USA and European countries, it sells through wholesalers by taking part in fashion shows or trade exhibitions. Beaucre has not yet used licensing or franchising systems. Direct export via their own retail stores or a section within a department store allows Beaucre to have more control and generates more profit, if managed well, while the costs are higher. The wholesale system allows less control and less profit but helps Beaucre's rapid expansion to many different countries since they are not opening and managing their own stores or sections within department stores. Under the wholesale system, it is distributors (wholesalers) who select, manage and sell merchandise, therefore the wholesalers' capability is critical to success. Beaucre chooses to participate in prestigious fashion exhibitions in the USA and Europe to gain access to leading wholesalers, namely buyers at prestigious department stores. Whether through direct export or the wholesale system, Beaucre has positioned itself in high-end department stores in each country to build and maintain its prestige image.

Discussion and Implications

Beaucre Merchandising Co. Ltd. has evolved into a global apparel company within a relatively short time from its inception. In its 24-year history, it has created its own seven brands, a sales subsidiary in Shanghai and a total of 553 directly managed sales outlets across six countries with approximately 50% of its revenue generated from international business, all without owning any production facilities. The company has further expanded to the USA and European countries via wholesale systems. This chapter has focused on Beaucre's internationalization strategies, which can mainly be attributed to good timing and well-coordinated marketing strategies around a prestige brand image. The implications of the Beaucre case for global apparel retailers are as follows.

First, as the chairman Man Joong Lee highlighted, Beaucre has greatly leveraged its first-mover advantage. As very few brands, whether global or national, were providing younger women with clothing suitable for office wear when Beaucre entered China in 1999, Beaucre's on & on brand was perceived as quite new by Chinese consumers. This newness created a perception of scarcity and exclusivity, making consumers willing to pay more money. Another first-mover advantage was promotion by anchorwomen on major TV shows at virtually zero cost. This was possible because the concepts of promotion and PR were relatively under-developed.

However, entering early also meant facing challenges. Many regulations were imposed by the Chinese government, and consumers' attitudes and preferences toward Korean apparel brands were untested. At the time of entry, the Chinese government did not allow 100% investment and required a local partner for doing business in China. Finding the right partner with a similar attitude toward business and common goals was not easy. Beaucre attributes many failures among Korean firms entering China to a hasty approach not properly thought through, and emphasizes adherence to correct legal procedures even though this takes more time and effort (Beaucre Merchandising, 2011). The absence of the concept of service among sales associates was another obstacle. Beaucre, however, overcame this difficulty with an innovative approach to training sales assistants that allowed them to experience different levels of service in Korea. This approach may appear costly as it initially benefited only six sales assistants; however, all six invited returned to China and shared their positive experience with their clients, which in turn helped clients spread very positive comments about Korean apparel brands. This affirms the importance of looking at a host country through its own lens and not by the brand's own standards. Man Joong Lee immediately realized why the service concept was lacking in China and found an effective way to educate his sales force.

Another explanation for Beaucre's success is the well-integrated marketing effort around its prestige image: creating a premium product that is worth the premium price; providing highest-quality service which was non-existent in China at that time; offering the highest product quality reflecting Chinese tastes by hiring local designers; and offering merchandise at premium department stores in China. This effective coordination was possible because Beaucre managed and controlled all retail stores itself through its own subsidiary office in China.

A third factor is that Korean apparel brands' firm-specific advantages, in this case brand image, branding and marketing capabilities, are different when entering developing and developed countries (Kim, Hoskisson, & Lee, 2015). While they may be at an advantage when entering China, the opposite may be the case when expanding to advanced economies. Thus, in economically advanced markets where first-mover and firm-specific advantages are weak, Beaucre have chosen to distribute via a wholesale system, rather than directly operating retail stores. This use of a different distribution system is a significant point. The firm-specific advantages of companies from advanced economies are enormous in most countries they enter, so they may not need to vary their strategies according to particular countries' levels of economic development. However, because Beaucre is from a newly industrialized economy (NIE), its firm-specific advantages were perceived differently by different countries; thus, the company used the appropriate strategy to maximize profits and learning depending on which country they were entering. This provides a useful insight for the next level of NIEs when they come to establish internationalization strategies.

Fourth, Beaucre's case is a very early example of an apparel brand from an NIE such as Korea achieving meaningful success with its Korean identity and original designs, and internationalizing with its own brand name. Before Beaucre's entry into China under its own brand name, Korea's exports were mainly based on its abundant labor force. Beaucre's success sets an important benchmark for many Korean apparel companies that are exploring growth opportunities overseas. The case also suggests lessons for global apparel companies planning to enter a country with a socialist background, such as the many Eastern European countries that recently gained independence and are now growing as market economies. First-mover advantages can be assets but also liabilities that bring with them inherent challenges. Beaucre's well-integrated marketing efforts and innovative hands-on training of sales staff can be effectively used to overcome these challenges.

Beaucre's case also has significant academic implications. Beaucre's internationalization strategy can be partially explained by the Uppsala model. Their initial entry into a psychically close country (i.e., China) and gradual expansion into Taiwan and Vietnam appears to follow the Uppsala model. However, after the first wave of expansion to psychologically close Asian countries, the company's next market choices are inconsistent with the Uppsala model. That is, the company strategically internationalized to psychically more distant countries such as the USA and European countries in order to build their brand reputation in the global apparel markets. Subsequently, Russia, Singapore and Malaysia were chosen. The company's entry market choices are strategic because it first chose countries where its firm-specific advantages were relatively superior, thus more valued (i.e., China, Vietnam) and subsequently entered countries where these advantages were relatively low (i.e., USA and Europe), using financial resources gained from previously entered markets to build its brand reputation. The company also chose different entry modes when entering developing and developed countries. For entry into developing countries, the company used more resource-committed and more controlled modes such as directly managed retail outlets. In contrast, they use less resource-committed and less controlled modes such as indirect export via wholesalers when entering into developed countries such as the USA and European countries. The company has evolved from a more resource-committed model to a less resource-committed one; this is not in line with the Uppsala model, which assumes a gradually increasing resource commitment. This shows that the Uppsala model alone cannot explain the internationalization patterns of apparel companies, at least in the case of NIEs. This is consistent with Childs and Jin (2014), who found partial applicability of the Uppsala model among fast-fashion apparel brands.

Beaucre has pioneered the Korean apparel industry in many ways; it was the first cohort in national brand development, entry into the Chinese market and then expansion to Southeast Asian countries, the USA and Europe. Since Beaucre has been at the forefront of every step outlined above, its growth is quite well aligned with the growth of the Korean apparel industry. The unique contribution of this case to the literature is that it provides scholars with an insight into how an apparel industry has evolved and internationalized with the economic development of the country concerned. To our knowledge, the Beaucre is the first Korean apparel company case to be added in English to the literature on the country's apparel industry development. The case illustrates how an apparel company in an NIE such as Korea was able to achieve success in its internationalization endeavors despite its less well-known brand name and country image. Beaucre's success is exemplary because the company achieved success from scratch without leveraging a well-established brand name and country image. It is relatively easier, for example, for a US brand such as Gap, Inc. to enter the Chinese market because of its well-established brand name and the image of the USA as an advanced economy. This case shows how a company can build up its brand name in a country where company, brand and country of origin are all less known. This perspective will shed academic as well as practical light on brand growth strategies through internationalization.

Now that Beaucre has reached maturity in the Chinese market, it has to develop further growth strategies within the market. The potential of the Chinese apparel market is still strong. The estimated growth of China's apparel industry is 14%, almost double the nation's projected 7–8% GDP growth (He, Ling, & Li, 2013). Beaucre has considered horizontal expansion to the children's wear as well as the menswear market, because the country's apparel market is becoming more segmented, with more sophisticated consumers looking for diverse images in branded apparel goods (Lui et al., 2011). At present, the majority of global fashion companies have a presence in China. Chinese national brands are now actively developed, making for fiercer competition and mimicking the Korean apparel industry's situation in the late 1990s. *Hanryu* continues to exercise a strong influence, and its celebrities remain popular for promotions. However, the company should prepare itself for the possibility of *Hanryu*'s power eventually waning. It needs to develop more sophisticated marketing strategies that address challenges at the appropriate time. At the same time, having diversified its international markets to Southeast Asian countries, Russia, Europe and the USA, Beaucre needs to further grow in those markets.

As the leader of the Korean apparel industry, the company also envisions developing a global luxury brand with Korean cultural heritage and craftsmanship. Company chairman Man Joong Lee emphasizes that now is the time for the Korean apparel industry to be a luxury creator, not just consumers, and sees the global luxury development as sort of responsibility for Beaucre as a leading brand in the Korean apparel industry.

Notes

1. *Hanryu* literally means Korean Wave. The term epitomizes the popularity of Korean pop culture including movies, songs, soap operas, etc. in most Asian countries. *Hanryu* also extends to countries in the Middle East, Europe and the USA. The popularity is sometimes referred to as K-pop or K-beauty. "Gangnam Style", a song that made a big hit in 2012 is a good example of K-pop (https://www.youtube.com/watch?v=9bZkp7q19f0). Its influence explains to a large extent the selling of Korean products, especially cosmetics, overseas, and it attracts a significant number of tourists to Korea.

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