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Title

Examining Internationalisation Strategies of Emerging Market Multinationals in
Luxury Fashion
– The Case Study of Shandong Ruyi Technology Group

Summary

From the perspective of international retailing, this empirical study contributes to the understanding of emerging market multinationals (EM-MNCs) in luxury fashion retailing through a single case study which examines the critical success factors of internationalisation strategies of China's Shandong Ruyi Technology Group. Their international expansion is predominantly motivated by proactive factors including internal policies, vision of senior management, and the ambition to develop and control the whole value chain, from rare material sourcing and manufacturing to retailing. Their international expansion strategy includes mergers, acquisitions, and strategic alliances. In these alliances, the company holds a majority of equity which allows them to obtain a high degree of control. As a parent group, however, Ruyi regards all subsidiaries as stand-alone enterprises and operates them through decentralised and localised management strategies.

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1. Introduction

The international luxury fashion market has changed dramatically over the past two decades. In terms of market performance, the balance of power has been transferred from developed markets to emerging markets (Kapferer et al., 2017). This can be evidenced by Western luxury fashion retailers' continuous expansion in China (Bai et al., 2017). In terms of market structure, despite the strong performance of independent luxury fashion retailers, luxury fashion conglomerates have grown rapidly since the 1980s, particularly LVMH, Kering, and Richemont (Donze, 2017). However, more recently, the status quo of these established conglomerates has been challenged by emerging market multinationals due to the development of strong brand portfolios (Deloitte, 2018). Indeed, Bloomberg (2018) reported that Shandong Ruyi Technology Group, ranked as the 16th largest luxury fashion groups globally, has successfully transformed from a local textile mill to an emerging market multinational.

Luxury fashion marketing in China has become an important research topic. Many studies have focused on brand management (Liu et al., 2012) and consumer behavior, covering various topics such as cultural influence towards purchase motivation (He & Wang, 2017), 'Daigou' and e-commerce (Li & Hu, 2011), and counterfeit consumption (Chen et al., 2017). A small number have focused on international retailing (Liu et al., 2016; Bai et al., 2017, 2018). However, all of these studies concentrated on foreign luxury fashion retailers and inwards internationalisation rather than Chinese luxury fashion brands and luxury fashion conglomerates and outwards expansion. For emerging market multinational (EM-MNCs), most studies focused on manufacturers (Bouyoucef & Chung, 2015), high technology companies (Schmid & Polat, 2018), and e-commercial specialists (Yip & McKern, 2014), rather than luxury fashion retailers. Therefore, this paper, from an international retailing perspective, aims to provide understanding of EM-MNCs in luxury fashion retailing through examining the critical success factors of Ruyi's internationalisation strategies.

2. Literature Review

2.1 Emerging Market Multinationals

This section will examine and evaluate the current literature in the following topics

- Definition and characteristics of EM-MNCs
- The difference between EM-MNCs and developed country multinationals
- The characteristics of the internationalisation strategies of EM-MNCs
- The difference between EM-MNCs in business sectors, for instance, manufacturing, high technology companies and e-commercial specialists (existing literature) and in luxury fashion retailing (the gap in the literature)

2.2 International Retailing

Based upon the six-question theoretical framework of international fashion retailing (Moore and Burt, 2007), the relevant literature covers three inter-related topics.

The Motives behind Internationalisation Activities

Based upon the *Push* (reactive) & *Pull* (proactive) motives, luxury fashion retailers' international expansions are largely motivated by proactive factors (Moore et al., 2010). However, the studies, based on Western luxury fashion retailers, are difficult to explain the luxury fashion conglomerates originated from emerging markets.

Internationalisation Expansion Strategies

Luxury fashion retailers usually adopt a 'parallel' rather than 'stepwise' expansion strategy such as the Uppsala model (Moore et al., 2010). The key factors in adopting an appropriate expansion strategy include considering perceived risks, potential profits, current and predicted operational performance, and the degree of power, processes, and decision-making desired over foreign operations (Swoboda et al., 2015). From the highest to lowest degree of control and investment, foreign market entry methods adopted by luxury fashion retailers include flagship stores, organic growth, merger and acquisition, joint ventures, franchising, licensing, concession, exporting and wholesaling, pop up stores, and internet sales, or any combination of these resulting in multiple methods (Bai et al., 2017).

Internationalisation Management Strategies

Achieving a balanced marketing strategy between standardisation and localisation has always been a challenge for internationalising firms (Liu et al., 2016). In terms of available resource, degree of control and international experience, Moore and Burt

(2007) identified three types of internationalisation strategies for luxury fashion retailers, named *International investment*, *Global strategy* (standardisation), and *Multinational strategy* (localisation).

2.3 International Luxury Fashion Market

In terms of ownership structure, luxury fashion retailers can be classified as either independent brands or group owned subsidiaries (Moore & Birtwistle, 2005). Table 1 compares two kinds of luxury fashion retailers and stresses the benefits of parenting advantage that are the key differences between them.

Table 1: Advantages and disadvantages of two types of ownership structures

	Advantages	Disadvantages
Group owned subsidiaries	<ul style="list-style-type: none"> Benefit from parenting advantage - Stand-alone influence - Linkage influence - Functional and services influence - Corporate development activities 	<ul style="list-style-type: none"> - Difficulty in achieving internal intra-brand synergies - Relatively low degree of autonomy - Pressure to generate profits for stakeholders - Danger of diluting brand image by divergence from core products
Independent brands	<ul style="list-style-type: none"> - Relatively high degree of autonomy in brand management and business practices 	<ul style="list-style-type: none"> - Lack of economies of scales - More likely to seek local partnerships - Danger of diluting brand image by over extension of products/sub-brands - Strong financial capacity and solid international experience required during international (and post-entry) expansions

Adapted from: Bai et al. (2018)

3. Research Methodology

This paper seeks to understand ‘How’ (how Ruyi have successfully transformed as an EM-MNC in luxury fashion) and ‘Why’ (why did Ruyi internationalise/ choose subsidiaries/ adopt M&A and localised & decentralised internationalisation strategies), research questions. The researchers adopt an interpretivist qualitative research

approach through the use of a single case study. Ruyi was selected for the following reasons, firstly, it is one of the few EM-MNCs in luxury fashion, and ranked as the 16th largest luxury fashion conglomerate globally by Bloomberg (2018); secondly, it has a strong global performance and proactive international expansion; and finally, it has the ambition to develop as China's LVMH by building a multi-brand portfolio, which includes merged (foreign) luxury fashion brands as well as own brands such as *Royal Ruyi*.

Ruyi was accessed by personal network. Cover letters, mailed to the head office, explained the purpose of the case study, and invited the company to participate. Primary data was collected through four in-depth semi-structured executive interviews with senior managers in various departments (Table 2), capable of providing depth of in-sight into Ruyi's internationalisation strategies.

Table 2: The Profile of the Interviewees

Interviewee	Job Title Description	Time	Location
A	Senior manager in international expansion	10/2018	Jining, Shandong
B	Senior manager in business management	11/2018	Jinan, Shandong
C	Senior manager in strategic development	10/2018	Jining, Shandong
D	Senior manager in operation	11/2018	Jining, Shandong

Because of agreements over confidentiality, interviewees were promised anonymity, and job titles have been replaced with a description of job role. Interviews, lasted between 60 to 90 minutes, and were recorded with the permission of the participants. The interview questions were sent to the interviewees prior to the interviews taking place to allow the interviewees time to prepare. Secondary data was collected through a document search and analysis, including Ruyi's internal documents, marketing reports and news published by reputable organisations. The qualitative data was analysed by NVivo through thematic analysis, including grouping, theming, deep analysis of common words.

4. Findings & Discussions

4.1 Background of Shandong Ruyi Technology Group

This section will describe and discuss the milestones (in history) and the transformation of the Shandong Ruyi Technology Group from a local textile mill to a EM-MNC in luxury fashion retailing.

4.2 Predominantly Proactive Motives

One push (reactive) motive for expansion is the higher production cost, which is caused by increasing standards for environment protection and staff welfare, especially in fabric printing and developing. This is evidenced by their direct investment in the countries in where more relaxed policies as concerns environment protection and labour costs exist, for instance Africa.

Proactive motives proved to be more significant than reactive motives. This study identified three main pull factors. Firstly, favourable policies provided by local authorities and central government, such as ‘*One Belt, One Road*’ which is at the heart of China’s drive to continue its rapid development, have encouraged their international expansion. Secondly, the vision of senior management is important. Although Ruyi started internationalising in 2010, senior management had been designing and planning their international strategy since the late 1980s. Thirdly, Ruyi’s internationalisation activities are driven by the ambition to develop and to control whole value chain. The evidences of upwards raw materials sourcing include **Cubbie Staion**- Australia’s largest cotton farm, **Lempriere Wool**- global wool trading and processing plant, **Larundel**- an historic fine wool plant. In manufacturing, evidence of vertical expansion is the merger with **Carloway Mill**- one of the few Scottish Harris Tweed manufacturers, and American **Invista’s Apparel & Advanced Textiles** (newly named **The Lycra Company**). The evidence of downwards retailing and branding is shown in Table 3.

Table 3: Ruyi’s International Luxury Fashion Brand Portfolio

Luxury	<ul style="list-style-type: none"> - Trinity Ltd. (Hong Kong, 2016), brands include: Gieves & Hawkes, - Kent & Curwen, D’Urban, Cerruti 1881 - Renown Inc. (Japan, 2016), brands include: Aquascutum (UK) - JAB Holding Company (Switzerland, 2018), brands include: Bally
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Premium	- SMCP (France, 2016), brands include: Sandro, Maje, Claudie Pierlot - Bagir (Israel, 2018)
Fashion	- Renown Inc. (Japan, 2010), multiple brands (high street fashion to luxury fashion)

4.3 Highly Controlled Internationalisation Expansion Strategies

Although Ruyi have started to consider joint venture in the near future, fully/highly controlled internationalisation strategies including mergers, acquisitions and strategic alliance with majority equity are important. They believe that a high degree of control is the key to obtaining long-term success in the global environment.

The reason behind such high cost and highly control internationalisation expansion strategies include the following. Firstly, wholly owned rare material sourcing (*e.g.* wool and cotton) is the foundation for achieving competitive advantage in terms of product differentiation and quality. Secondly, highly controlled manufacturing functions (*e.g.* Harris Tweed textile and Lycra textile) are the approach adopted to extend product assortment, refine textile know-how and protect intellectual property. Thirdly, wholly control luxury fashion brands can help them to gain know-how in branding and retailing for their own luxury fashion brands.

4.4 Decentralised and Localised Internationalisation Management Strategies

As a parenting group, Ruyi adopts decentralised and localised management strategies. The rationale for those management strategies includes the following. Firstly, they do not possess a full range of know-how across a wide range of areas such as material supplies, manufacturing, retailing and marketing. They regard one of the most important values of their internationalisation strategy being to obtain know-how within the various stages of the value chain. Secondly, they believe the autonomy and enthusiasm of subsidiaries is better to be encouraged by the companies own internal management style rather than the deployment of Chinese senior management. However, they do regularly audit finance, targets, and other key performance indicators of their subsidiaries. Thirdly, they believe that these decentralised management strategies could help Ruyi to achieve internal harmony between

subsidiaries. Therefore, they could allocate resources more efficiently and effectively.

5. Conclusion

From the perspective of international retailing, this paper provides an understanding of EM-MNCs in luxury fashion retailing through the examination of the critical success factors of the Ruyi Group's internationalisation strategies. Despite the presence of reactive factors such as higher standards of environment protection in China, Ruyi's international expansion is predominantly motivated by proactive factors, such as the policies and vision of senior management, and the ambition to control the entire value chain, from upwards rare materials to downwards distribution. Additionally there is a desire to obtain know-how in brand development and communication. Ruyi have started to consider joint ventures, however, their favoured means of international expansion are wholly/highly controlled strategies, particularly merger, acquisition, and strategic alliances with majority equity holding, through which they can obtain full control over whole value chain. As a parenting group, Ruyi adopts decentralised and localised management strategies, through which they regard all subsidiaries as stand-alone enterprises. Besides centralised support and administration in finance and manufacturing, each subsidiary can make their own decisions. The limitations of this study are twofold. Firstly, the findings are generated from China's EM-MNCs, and secondly, the small sample size. Therefore, subsequent studies can test this study's finding in a broader context, in different business sectors and different countries of origin.

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