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Title

The Critical Success Factors of Luxury Fashion Retailers Internationally Expanding into and within the Chinese Market

Summary

This empirical study examines the critical success factors of foreign luxury fashion retailers from an international retailing perspective in the period after 2014, when China became the second largest global luxury fashion market with an increasingly sophisticated luxury fashion consumer. Six retail case studies were selected from a variety of countries with different retail formats, key products, and ownership structures, in order to be representative of the market. The intention of this research is to explore the critical success factors which can help luxury fashion retailers and emerging brands to achieve success in the Chinese market. The results of the research suggest that critical success factors include localised marketing strategies, the adoption of omni-channel strategies in distribution and communication, and the flexibility of operational strategies to react to quickly market changes.

Track

Marketing and Retail

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1. Introduction

Due to its growing economic potential China has, in the past decade, replaced more developed economies as the dominant international luxury fashion market (Bonetti et al., 2016). Indeed, foreign luxury fashion retailers have achieved great success in the Chinese market, evidenced by their continuous expansion (both online and offline) (Bai et al., 2017). Nevertheless, because of fast moving market conditions, regional differences in the economy, culture, market structure, and consumer behaviour and preferences, retailers have had to constantly adapt their marketing strategies to achieve sustainable success in China (Liu et al., 2016).

An established body of literature exists that focuses on the Chinese luxury fashion market from the perspective of consumer behaviour (Chen et al., 2017; He & Wang, 2017), however, few have adopted an international retailing perspective (Bai et al., 2018). Most prior empirical studies in brand management and international retailing have examined critical success factors of luxury fashion brands/retailers in a global context rather than focusing on one market in particular. The critical success factors identified vary between different markets and even between different periods of time within one market (Kapferer, 2015). This study therefore, seeks to contribute to the understanding of the critical success factors for internationalising luxury fashion retailers expanding into and within mainland China after 2014, when China became the second largest global luxury fashion market, laws against corruption were introduced and more confident consumers became increasingly discerning (Bain & Co., 2018).

2. Literature Review

2.1 Defining Luxury Fashion Retailers

The concept of luxury is highly subjective and it can be difficult to provide a universally accepted definition of 'luxury brands'. The definition changes because of personal experience, finance, and social context (Kapferer et al., 2017). Having examined several valuable empirical definitions, Ko et al. (2017) attempted to redefine luxury brands from the perspective of consumer through a series of vital dimensions: *to be high quality; offer authentic value via desired benefits, whether functional or emotional; have a prestigious image within the market built on qualities such as artisanship, craftsmanship, or service quality; be worthy of commanding a premium price; and be capable of inspiring a deep connection, or resonance, with the consumer*' (p2). However, this definition can be challenged because the status and key criteria that qualify a brand as a luxury brand are dynamic and fast moving and can be affected

by issues such as dilution of brand image by over stretching of the brand and over distribution of brands (Wang et al., 2017), as well as inconsistencies between country-of-origin and country-of-production (Yu et al., 2013).

Moore & Doherty (2007) argue that fashion retailers are one of the most important adopters of luxury brand strategies, and suggested that luxury brands are defined from a more practical perspective. They propose that luxury fashion retailers are those who: *'distribute clothing, accessories and other lifestyle products which are: exclusively designed and/ or manufactured by/ or for the retailer; exclusively branded with a recognised insignia, design handwriting or some other identifying device; perceived to be of a superior design, quality and craftsmanship; priced significantly higher than the market norm; sold within prestigious retail settings'* (p.278). Because this study adopts an international retailing perspective, this is regarded as the most appropriate definition.

2.2 Critical Success Factors of Luxury Fashion Retailers

Zander et al. (2015) argued that as well as the marketing environment, building an understanding of company characteristics can help to explain the reasons for their success in foreign markets. From the perspective of international retailing, seminal studies have provided an understanding of the critical success factors as they apply to generic retailers (Alexander & Doherty, 2009), and fashion retailers (Wigley & Chiang, 2009). In parallel with the growing success of luxury fashion retailers, a number of studies have focused on the critical success factors of luxury fashion retailers (Moore et al., 2010). These include:

- A worldwide consistent brand image
- Balanced internationalisation marketing strategies
- Distinctive portfolios of products created by successful brand extensions without diluting the exclusive brand image
- Appropriate pricing strategies
- Innovative retail formats
- Standardised promotion strategies
- High quality customer service

Nevertheless, these studies focus on luxury fashion brands in a global context. In reality, the critical success factors will vary according to different foreign markets. Even in the same

markets, critical success factors may differ between periods.

2.3 The Chinese Luxury Fashion Market

The Chinese luxury fashion market developed rapidly in the period before 2014. This can be evidenced by foreign luxury fashion retailers' rapid expansion into and within China. Studies up to that period focused on the conspicuous consumption pattern, 'Guanxi' and gift giving (Lu, 2011). In 2014 anti-corruption policies were introduced to prevent bribery in business in the form of gift giving. This and an increasingly discerning and more confident consumer taking an "anti-logo" stance, led to a decline in conspicuous consumption and ultimately a slowdown in market growth. Many foreign luxury fashion retailers started to review their physical store portfolio, evidenced by withdrawal from a number of tier-2 and tier-3 local markets. These retailers started to develop their e-commerce through their official websites and e-commerce platforms (Bai et al., 2017). Foreign luxury fashion retailers have therefore had to adapt their marketing strategies in order to achieve sustainable success in China and seek critical success factors specific to that market.

3. Methodology

Researchers here have employed an interpretivist qualitative multiple case study research approach. Primary data was collected through twelve in-depth open-ended semi-structured executive interviews with six participating luxury fashion retailers (two interviews per retailer) between August and December 2017. The six participating retailers, covered ranges of countries of origin, retail formats and ownership structures. They were recruited from members of world-leading professional luxury fashion organisations (Comité Colbert- France, Fondazione Altgamma- Italy, the Walpole and the British Fashion Council- UK, and the Council of Fashion Designers of America- US), as well as the marketing reports published by reputable organisations (such as Bain, Deloitte, KPMG, McKinsey & Mintel). To be selected, the companies had to have been established for more than two years and be running retail operations in multiple cities in China, therefore having sufficient strategic and operational experience. The cover letters, mailed to their head offices, explained the purpose of the case studies. The interviewees were senior executives who were able to supply the necessary information on decision making about strategic direction, policy making and strategic implementation. In order to fulfill the confidentiality agreements, all the participating retailers' and interviewees' names were coded. In addition, secondary data was collected through

document search and analysis. This qualitative data was analysed using NVivo through thematic analysis, including grouping, theming and deep analysis of common words.

4. Findings and Discussions

This study identified that localised marketing strategies are increasingly important, because de-centralised strategies provide the flexibility and necessary to respond to market change. This was achieved by through tailoring the marketing mix to the Chinese market.

In terms of product, all participating retailers confirmed that the product portfolio had been changed before and after 2014. For instance, participating retailer B in China adjusted their product portfolio to include more high quality leather accessories and ready-to-wear garments and has changed product their design to focus on smaller sizes and purer colours in order to focus on younger consumers, removing obvious logos to response to the recent ‘anti-logo’ consumption pattern. In addition, local knowledge, especially cultural knowledge, was reported to be increasingly important. Five participating retailers confirmed that they are working on special editions for the Chinese festivals, particularly, the Spring Festive and the Chinese Valentino’s day.

Four participating retailers have proposed that they have increased their consumer base by adjusting their pricing strategies. Indeed, during the past few years, an increasing number of foreign luxury fashion retailers have reduced their prices in China. This study identifies three main reasons behind these price adjustments, including. Firstly, to encourage more domestic consumption through reducing the price gap between mainland China and other markets, especially in Hong Kong, secondly squeezing the profit of (overseas) ‘Daigou’, and therefore, finally, creating more value for consumers and their brands.

Because of fast developing technology and increasing use of the internet, Chinese consumers’ shopping and communication activities have changed. In terms of distribution, increasing numbers of foreign luxury fashion retailers have adopted omni-channel distribution strategies, which can be evidenced by increased e-commerce and m-commerce activity. All of the participating retailers are running omni-channel distribution strategies which provide seamless brand experiences for their consumers. The reasons identified in this study include: reaching a wider range of consumers while still maintain a highly exclusive image and optimising

retailing channels. Three participating retailers have reduced brick-and-mortar stores in non-key markets, and in some markets where retail stores are operating, they are using ‘Click & Collect’ (& return) services to encourage online consumers to offline stores where they can enhance consumers’ brand experiences through high quality in-store customer service. In practice, official online stores are being built within the official website, and e-commerce platforms (*e.g.* T-mall & JD.com) are most important online channels. More recently, online social media has played an increasingly important role in omni-channel distribution strategies, particularly through Weibo and WeChat. This has been confirmed by three participating retailers. Moreover, although e-retailers were popular, their popularity and importance have been weakened by increasingly popular wholly owned operations of luxury fashion retailers.

For internationalising luxury fashion retailers’, brand value has been enhanced through omni-channel communication strategies. Indeed, all participating retailers have opened public accounts in Chinese social media platforms, especially Weibo and WeChat. Through these direct communication channels and marketing activities, they can directly engage with and understand their target consumers through feedback of in-store experiences and product reviews. As Chinese luxury consumers have become mature, they demand luxury brand experiences rather than just luxury products. Additionally, the feeling of belonging also can be strengthened through direct communication between consumers and their favourite brands on social media. In reality, the most important components in omni-channel communication strategies include physical stores especially flagship stores, and printed media such as own brand lifestyle magazines. Printed media, however, are provided with QR code to encourage people to engage with brands online. Case study companies also proposed that Chinese social media should be adopted in a global context and only inside China, because of the considerable number of overseas Chinese residents and Chinese tourism.

5. Conclusion

In the context of China, this study examines the critical success factors of foreign luxury fashion retailers from the perspective of international retailers, after 2014, when the Chinese market had become a mature luxury fashion market and Chinese luxury fashion retailers moved to become increasingly sophisticated. The findings of this study suggest that luxury fashion retailers and particularly emerging new brands may benefit from adopting critical success factors such as localised marketing strategies, omni-channel strategies in distribution and

communication, and employing flexibility in order to react rapidly to market changes.

The limitations of this study may be considered in two areas. Firstly, the findings of this study are generated from the Chinese market. The other is involved with the small sample size; however, these six case retailers come from across a wide range of countries, and have a variety of retail formats, key products, and ownership structures, thought to be varied enough to reflect the market. Subsequent studies may examine this study's findings in relation to other geographic markets and/or for other kinds of retailers (e.g. large-scale multinational grocery supermarket) using larger samples.

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