Factors influencing international fashion retailers' entry mode choice

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Abstract:

Purpose- The purpose of this paper is to provide a theory‐based framework that informs a fashion retailer's entry mode choice into a foreign market.

Design/methodology/approach- Aspects of transaction cost, bargaining, resource based, and internationalization theories were integrated to develop a conceptual framework for fashion retailers determining the best entry mode to foreign markets. Propositions were developed, which serve as bridge laws, bridging the gap between the theories and the investigation of fashion retailers' entry mode choice. A case study was used to demonstrate applicability of the developed propositions.

Findings- Three groups of factors were identified that influence entry mode choice in the fashion retail market: firm‐specific factors of asset specificity, brand equity, financial capacity, and international experience; country‐specific factors of country risk, cultural distance, and government restrictions; and market‐specific factors of market potential and market competition. Nine propositions were generated, positing how each of the factors may influence a fashion retailer's entry mode choice.

Research limitations/implications- The conceptual model and propositions require further empirical investigation. Future research also needs to systematically explore the interactions or trade‐offs between different determinate factors.

Practical implications- A fashion retailer can use the framework and propositions to systematically evaluate the company's case to justify an entry mode decision for a specific foreign market.

Originality/value- This is the first paper to describe the integration of theories to help explain factors affecting fashion retailers' entry mode choice.

Keywords: fashion industry | retailers | market entry | globalization

Article:

Introduction

In the past two decades, international activity has become a crucial dimension for the growth of fashion retailers, who have been aggressively expanding to foreign markets (Wigley and Moore, 2007). When fashion retailers attempt to establish a presence in a foreign market, they face a critical decision in choosing the most appropriate entry mode, which is the institutional arrangements that a firm develops for transferring its products, technology, staff, and other resources to a foreign country (Hill et al., 1990). More specifically, entry mode choice in the fashion retail market refers to the mechanism that a fashion retailer chooses to enter, develop, and distribute its brands in a foreign market (e.g. by export, franchising, joint venture or wholly‐owned subsidiary) (Picot‐Coupey, 2006).

Entry mode choice is a pivotal aspect of fashion retailers' internationalization process; however, limited research has been devoted to fashion retailers' entry mode choice despite an increasing number of fashion firms operating abroad (Doherty, 2000). Several gaps are identified in the literature of entry mode choice for fashion retailing. Although several entry mode theories have been tested in the manufacturing and service industries (Agarwal and Ramaswami, 1992; Blomstermo et al., 2006), the application of these theories are largely ignored in the fashion retailing sector, with few exceptions, such as Doherty (2007). Researchers have suggested that entry mode research in the fashion retail market often lacks a unified theoretical framework although it holds great promise for theoretical advancement (Dawson, 1994; Park and Sternquist, 2008). Furthermore, although some studies discussed the entry mode choice for retailing in general (Doherty, 1999; Gripsrud and Benito, 2005; Park and Sternquist, 2008), contributions to understanding entry mode choice practices of fashion retailers are limited. For instance, Doherty (1999) discussed international retailers' entry mode choice using examples from various sectors (e.g. electronics, beauty product), but did not focus on fashion retailing.

The purpose of the present study was to address the above literature gap and identify factors that are likely to influence fashion retailers' entry mode choice. First, the present study applied established theories of entry mode choice to a fashion retailing context. Various theories have been used to examine entry mode choice in manufacturing industries (Chen and Mujtaba, 2007). These theories were integrated to generate a series of propositions, positing how different factors may influence a fashion retailer's entry mode choice. A conceptual framework was then developed to help fashion retailers choose among different types of entry modes in order to be successful in a foreign market. Finally, a case study of an Italian fashion retailer's entry into the Chinese fashion market was presented to demonstrate application of the developed propositions.

Literature review

Features of international fashion retailing and entry mode choice

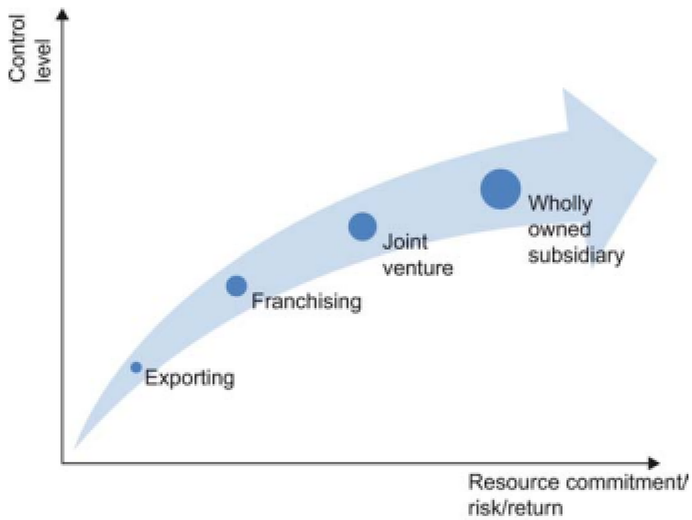
International fashion retailing in the present paper refers to fashion retailers' operations in which they sell fashion brands and/or operate stores in more than one country (Dawson, 1994). Fashion retailers can select from a variety of entry modes when entering a foreign market, such as export of their products, participation in franchising agreements, involvement in joint ventures (JV) and operational alliances, or establishment of wholly owned subsidiaries (WOS). A fashion retailer may use more than one entry mode type for its operations in different countries. For example, Marks and Spencer uses franchising in Portugal, Greece, and Hungary, and WOS in France and The Netherlands (Doherty, 1999). The various entry modes can be considered as a continuum (Sternquist, 1998), ranging from low control (e.g. export) to high control (e.g. WOS), which vary in the degree of investment risks, resource commitment and financial returns. As illustrated by the continuum in Figure 1, high control entry modes demand greater resource commitments abroad, and the foreign operation is exposed to a higher degree of uncertainties. Low control modes require a more limited resource commitment, thus reducing investment risk, but the fashion retail firm has little power over foreign operations, which could result in reduced financial returns (Hill et al., 1990).

Previous studies have identified several factors that may influence fashion retailers' entry mode choice (Doherty, 2000, 2007; Park and Sternquist, 2008). For example, international fashion retailing is influenced by cultural differences in terms of consumers, employees, and business practices in a market (Dawson, 1994). Alexander and Doherty (2004) and Doherty (2000) suggested that a fashion retailer needs to select an entry mode matching its international experiences and the cultural disparity of a foreign market in order to best cope with the cultural challenges in the foreign market. Gripsrud and Benito (2005) argued that fashion retailers rely heavily on the attractiveness of the foreign market as a lucrative business prospect and on the ease of conducting business in the country, which suggests that entry mode choice depends on market‑related factors such as competition, and factors related to a foreign country's political and economic stability (Maharajh and Heitmeyer, 2005). In addition, operational characteristics of international fashion retailers such as company size and available financial and human resources play a role in the entry mode choice (Jernigan and Easterling, 1990; Picot‑Coupey, 2006).

Moore and Burt (2007) identified two factors that are fundamental to successful foreign market expansion by a fashion brand. The first is specific assets, which refer to the skills and managerial know‑how that are unique to a fashion retailer and used by the retailer to establish a competitive brand. Previous studies have identified retail environment and format, product offering and assortment, distribution and supply chain management and marketing mix as some of fashion retailers' specific assets (Dawson, 1994; Picot‑Coupey, 2006; Park and Sternquist, 2008). These assets may either facilitate or complicate introduction of fashion brands overseas (Dawson, 1994; Doherty, 1999; Moore and Burt, 2007). The second factor is brand equity, which denotes the value that a brand adds to the firm in terms of product differentiation and consumer recognition (Keller, 2003). Given the competitive advantages associated with and the necessity of sustaining brand equity in international markets, this factor has an impact on fashion retailers' entry mode choice (Doherty, 2000; Moore and Burt, 2007; Park and Sternquist, 2008).

Whereas extant research has identified a number of factors relevant to the entry mode choice of fashion retailers, an integrated approach to entry mode choice for fashion retailers is lacking, which results in “an incomplete understanding of the factors” (Doherty, 2000, p. 227). In addition, Doherty (1999) argued that research on fashion retailers' entry mode choice remains under theorized. For example, theories such as transaction cost theory (Erramilli and Rao, 1993), resource based theory (Sharma and Erramilli, 2004), internationalization theory (Blomstermo et al., 2006), and bargaining power theory (Taylor et al., 2000) have been frequently used in explaining firms' entry mode choices in other industries, yet their potential application in the international fashion retail context has not been fully explored (Moore and Fernie, 2004). The present study incorporated the aforementioned theories to introduce a holistic and theory‐based framework that systematically explains fashion retailers' entry mode choice.

Figure 1. Entry modes characteristics



Source: Adapted from Sternquist (2007)

Entry mode theories

Transaction cost theory concentrates on the relative efficiency of different organizational structures to minimize transaction costs associated with doing business across borders, such as information search costs and opportunism costs (Palenzuela and Bobillo, 1999). The latter arises when a partner organization takes advantage of the entrant firm's dependency by using the entrant firm's assets (e.g. technology, brand) for purposes other than those originally granted (Madhoka, 1997). To mitigate the threat of opportunistic behaviors, entrant firms are likely to use entry modes with higher levels of control. According to the theory, firms should select the most efficient type of entry mode in terms of economizing transaction costs and reducing resource commitments when operating in a foreign market (Brouthers et al., 2000). For example, establishing a WOS may reduce transaction costs by lowering opportunistic threat, yet the savings might be offset by higher bureaucratic costs associated with managing a WOS; in that case, a lower control level entry mode such as franchising might be a better option (Chen and Mujtaba, 2007).

Bargaining power theory incorporates a political imperative into the entry mode decision. It fosters the view that a firm's entry mode choice depends on the relative bargaining power of the entrant firm when negotiating with the host government to gain access to the foreign market and accomplish some or all of its objectives (Luo, 2001; Taylor et al., 2000). A primary source of power for the host government in negotiations is its ability to control market access, whereas the firm's bargaining power stems from its technological proprietorship and contributions to the local economy (Taylor et al., 2000). An entrant firm should choose the entry mode that either matches or enhances its bargaining power (Palenzuela and Bobillo, 1999). For instance, when many foreign firms are seeking investment opportunity in the same market, the entrant firm often has little bargaining power and may be forced to settle for an entry mode with a lower control level (Taylor et al., 2000). To enhance its bargaining power, an entrant firm may set up a JV and utilize its local partner's strength in negotiating with the government (Tse et al., 1997).

Internationalization theory provides a dynamic view of entry mode choice. It sees internationalization as the process in which firms increase their capability of expansion in a foreign market as they gather more experiential knowledge about the market and accumulate more resources (Blomstermo et al., 2006). The theory views foreign market entry as inherently risky due to market uncertainties such as political instability or cultural differences. A firm is advised to enter a foreign market using a lower level of control, involving limited resource commitment and minimizing the risk. As the firm acquires experience in the foreign market, it has a growing inclination to use entry modes with higher control levels and resource commitments, which provide the firm with the ability to dominate the foreign market in the long run (Blomstermo et al., 2006).

Resource‑based theory explains entry mode choice from the perspective of an entrant firm's resource deployment (Brown et al., 2003). The theory considers a firm to be a unique collection of tangible and intangible resources, which allow the firm to operate in a cost efficient manner and contribute to the firm's competitive advantage (Sharma and Erramilli, 2004). According to the theory, a firm chooses the entry mode that can best exploit its existing resources, or generate new resources in the foreign market (Sharma and Erramilli, 2004). For example, when a firm possesses resources that are sufficient to exploit a new market, a high control entry mode gives the firm an enhanced ability to obtain maximum returns. In contrast, a low control entry mode is a useful vehicle for enhancing a firm's competitive advantage in a new market by relying on its partner's resources (e.g. capital, physical facilities).

Methodology

Researchers have noted that applying existing theories has a potential to explain the entry mode choice for fashion retailers (Dawson, 1994; Doherty, 2000; Moore and Fernie, 2004). For example, Dawson (1994, p. 271) suggested that researchers should “build on and adapt these ideas [generated in the manufacturing sector] and make them applicable in the retail context”. The present study integrated and applied the aforementioned theories to inform fashion retailers' entry mode choice. As a result, a total of nine factors that influence a fashion retailer's entry mode choice have been identified. The factors included: asset specificity, brand equity, financial capability, international experience, country risk, government restrictions, cultural distance, market potential, and market competition. To organize the factors for further analyses in a fashion retail context, we adapted classification schemata developed in previous research (Sarkar and Cavusgil, 1996; Pak, 2000; Chen and Mujtaba, 2007). Accordingly, the nine factors important for fashion retailers' entry mode choice were classified in three groups: firm‑specific factors; country‑specific factors; and market‑specific factors.

Based on the analysis of the nine factors that determine a fashion retailer's entry mode choice, a series of propositions were developed. As discussed in Hunt (2002), these propositions were developed in the form of bridge laws. Bridge laws are derived from fundamental laws with the purpose to bridge the gap between these fundamental laws and the specific phenomena under investigation (Hunt, 2002). Bridge laws are not directly testable, and precede derivation of research hypothesis. Research that does not state bridge laws and move directly from a theory to testable research hypotheses runs the risk of testing the hypotheses that cannot in fact be derived from the theory (Hunt, 2002). The present study is the first attempt to apply the fundamental laws of the four reviewed theories to the entry mode choice of fashion retailers; therefore, development of propositions in the form of bridge laws is a necessary step between theories and development of testable hypotheses for future empirical research.

Entry mode choice for fashion retailers

In this section, we discuss factors that influence a fashion retailer's entry mode choice and develop a series of propositions regarding appropriate level of entry mode for fashion retailers that are expanding to a foreign market. Examples of international fashion retailers are used to support the propositions.

Firm-specific factors

Firm‑specific factors are related to a firm's capacities and characteristics that influence its competitive position in a market (Agarwal and Ramaswami, 1992). In the present study, four firm‑specific factors are identified as influencing the entry mode choice of fashion retailers: asset specificity, brand equity, financial capacity and international experience.

(1) Asset specificity. Transaction cost theory refers to asset specificity as a unique and specialized asset that generates high value and competitive advantage for the firm (Hill et al.,

1990). According to resource based theory, asset specificity contributes to a firm's resources that are available for the firm's expansion in a foreign market, thus enhancing its competitive advantage in the market and allowing the firm to select a higher control entry mode (Sharma and Erramilli, 2004). A fashion retailer's asset specificity can be built on its unique capabilities such as developing retail concepts and store environments, distribution management, inventory planning, or product innovation (Park and Sternquist, 2008). For example, a fashion retailer's competence in creating an original concept or a unique offering is an important source of competitive advantage, by catering to consumers who are inadequately served by local fashion brands (Hutchinson et al., 2007; Moore and Burt, 2007). When a fashion retailer possesses highly specialized assets or unique capabilities, the retailer is expected to exploit these assets and select a higher control entry mode.

When a fashion retailer bases competitiveness on its specialized assets/unique capabilities, an efficient replication of these capabilities across markets is imperative for the retailer to succeed in the foreign market (Doherty, 2000; Moore and Burt, 2007). According to transaction cost theory, a firm's specialized assets/unique capabilities cannot be developed instantaneously in its overseas ventures, but grows out of experiences and learning by doing business in the foreign market (Andersson and Svensson, 1994). Entry mode choice will affect the firm's abilities to utilize these assets, which will have an impact on the cost of transferring specialized assets. For example, when a firm's assets are highly specialized and intangible in nature, a WOS will be most efficient due to its high autonomy of setting priorities that draw on the specialized assets (Madhoka, 1997). Accordingly, when a fashion retailer possesses high asset specificity, the retailer would be encouraged to use a higher control entry mode to facilitate the transfer of its specialized assets across markets. For example, agility is the competitive weapon Zara uses to achieve its success: it takes less than two weeks for a skirt to get from Zara's design team in Spain to an overseas store (Jin, 2004). Achieving agility requires the retailer to oversee and have a higher control over the entire supply chain from the design center in Italy to the distribution at the local store level, which contributes to Zara's adoption of WOS as the primary operation mode for its overseas stores (Jin, 2004; Park and Sternquist, 2008).

P1. To be successful in a foreign market, a fashion retailer with high asset specificity should choose a higher control entry mode.

(2) Brand equity. Brand equity is arguably one of the most important factors in a fashion retailer's international expansion (Moore and Burt, 2007). Strong brand equity with associated value of cosmopolitanism, exclusivity, and design excellence has been identified as a key competitive advantage in the fashion market. The image of brands such as GAP, Laura Ashley, and Gucci make them appealing to consumers across the globe, alleviating some of the challenges of adapting to local market conditions (Moore and Burt, 2007). In accordance with resource‑based theory (Sharma and Erramilli, 2004), such advantages enhance a fashion retailer's capability to independently compete in the foreign market and encourage the retailer to

select an ambitious approach with higher resource commitment in their international expansions (Moore et al., 2000; Moore and Burt, 2007).

Furthermore, transaction cost theory implies that a brand is vulnerable to potential opportunistic behaviors because of the self‑interest of partners (Hill et al., 1990). In the context of international fashion retailing, there is the potential of impairing a fashion retailer's brands because of goal conflicts between the retailer (establishing long‑term brand status) and its local partners (pursuit of short‑term profits). For example, franchisees' insufficient concern for the brand image of franchisers' brands could dilute brand equity (Doherty, 2007). In an interview study, similar concerns were expressed by UK fashion retailers that their brands may be underachieving in international markets if there is a lack of control over the practices of foreign partners (Doherty, 2000). To minimize potential harm, fashion retailers with strong brands should use a higher control entry mode. For example, Laura Ashley's strong brand image and the need to ensure the consistency of this image worldwide "are obvious potential contributory reasons" for Laura Ashley to use a WOS for all their stores in the USA, Canada, and Europe (Doherty, 1999, p. 392).

P2. To be successful in a foreign market, a fashion retailer with high brand equity should choose a higher control entry mode.

(3) Financial capability. According to resource‑based theory, entry mode choice is contingent on a firm's assortment of available resources, including financial resources. A fashion retailer's international expansion involves a series of procedures and associated costs, such as real estate investments, recruitment management, volume buying and marketing activities (Jernigan and Easterling, 1990; Moore and Burt, 2007). It also often involves a large geographical spread and computerized management information systems to monitor and control the flow of stock and information, which further raises financial costs (Kunz and Garner, 2006). Compared to a low control entry mode, which shares these costs with local partners, operating under a WOS entry mode puts severe financial constraints on a firm. When its financial capability is limited, a fashion retailer may choose a lower control entry mode, such as franchising, when the franchisee bears the majority of the financial burden for the overseas ventures (Doherty, 2000). For example, fashion brands such as Calvin Klein and Donna Karan often choose to open their chain stores in foreign markets under franchise agreements, which are attributed to their limited resources and the desire to avoid significant start‑up costs (Moore et al., 2000).

P3. To be successful in a foreign market, a fashion retailer with low financial capability should choose a lower control entry mode.

(4) International experience. A fashion retailer's international experience is critical for the retailer to recognize and cope with the complexities of operating in foreign markets, such as

cultural differences in terms of consumers, employees, and business practices (Doherty, 2000). From a resource-based perspective, international experience is an important intangible resource (Luo, 2001). When a fashion retailer does not possess international experience necessary for operating in a foreign market, forming a strategic alliance is a useful vehicle for the retailer to enhance its expertise by relying on the knowledge of local partners (Madhoka, 1997). A common reason for fashion retailers to choose franchising is to overcome limited international experience by matching the local market knowledge of franchisees with their own brand advantages (Doherty, 1999). For example, the leading American maternity apparel retailer, Mothers Work, described its international expansion into the Middle East through a franchising agreement as "the strength of brands and merchandise, combined with the local partner's deep retail experience and local knowledge" (Mothers Work, 2009).

Internationalization theory posits that a firm's lack of experience in a foreign market creates uncertainty and the firm should limit its resource commitment in the market (Blomstermo et al., 2006). Accordingly, fashion retail firms with limited or no foreign market expertise should choose a lower control level entry mode. The theory views foreign market entry as an incremental learning and knowledge accumulation process (Brown et al., 2003), which implies that firms should move gradually into higher control entry modes. A good example of a fashion retailer that has evolved its presence in an international market is Benetton, which first entered the Indian market in early 1980s through a license. As their familiarity and comfort with the market grew, Benetton transitioned into a joint-venture in 1991, and took over their Indian businesses completely in 2004 (Dutta and Saxena, 2009).

P4. To be successful in a foreign market, a fashion retailer with high international experience should choose a higher control entry mode.

Country-specific factors

Country-specific factors refer to the investing environment in a foreign country in terms of the country's economy, legislation, politics, institutions, and culture. Three factors are commonly identified in the entry mode literature: country risk, cultural distance, and government restrictions (Chen and Mujtaba, 2007; Huang and Sternquist, 2007).

(5) Country risk. Country risk refers to the uncertainty related to the economic and political environment, which is critical to the survival and profitability of a firm operating in that country (Agarwal and Ramaswami, 1992). Uncertainties in a foreign market, such as current economic health, inflation, unemployment rates, disposable income, and political stability have a significant influence on a fashion retailer's sales, ease of operations, or exit costs in that market (Sternquist, 1998). According to transaction cost theory, when macro-environment uncertainties are high in foreign markets, fashion retailers should limit resource commitment and avoid higher control entry modes, which are associated with low flexibility and high exit-cost when necessary (Hill et al., 1990).

P5. To be successful in a foreign market, a fashion retailer should choose a lower control entry mode when country risk is high.

(6) Cultural distance. Cultural distance refers to cultural differences between the host and a foreign country (Agarwal and Ramaswami, 1992). The impact of cultural distance is likely to be particularly strong in retailing (Moore and Fernie, 2004). Fashion retailers may feel intense pressure to serve customers who differ culturally from those with whom they have become accustomed. Examples of such differences include consumer product demands, key consumer reference groups, religious beliefs related to consumption, and consumer aesthetic preferences (Sternquist, 1998). For instance, the potential for success of American Apparel in China is questioned because its products do not have an identifying logo or signature design, which Chinese consumers desire (Goldkorn, 2008). When cultural distance is perceived to be high, resource based theory suggests that firms should overcome the deficiencies of foreign culture by seeking local partners and relying on their knowledge of local consumers, hence, selecting a lower control entry mode (Sharma and Erramilli, 2004). In addition, Kunz and Garner (2006) pointed out that in order to successfully operate in a culturally different market, international fashion retailers must adapt to local business norms, such as in employee‐management relations and established business practices. Based on internationalization theory, which posits that adaption to a new culture is a long term and cumulative process, fashion retailers are encouraged to seek local partners to accelerate the process (Huang and Sternquist, 2007).

P6. To be successful in a foreign market, a fashion retailer should choose a lower control entry mode when cultural distance is high.

(7) Government restrictions. Local governments often adopt a series of laws and regulations to limit foreign firms' growth in the domestic fashion market in order to protect local players. Government regulations can have direct impact on the ownership of Foreign Direct Investment (FDI), which may affect entry mode choice. For instance, in 2006, when the Indian government re‐opened retail to foreign investment allowing up to 51 per cent FDI in single brand retail, many fashion retailers, such as Marks & Spencer, transitioned their existing franchising arrangements into a JV structure (Choudhary, 2009; Dutta and Saxena, 2009). At the same time, the FDI policy combined with high duty on luxury fashion brands, have been cited as main deterrents for some fashion brands entering the Indian market. Examples include Louis Vuitton and Prada that are more conservative about maintaining high control in their operations in India (Joshi, 2008). Other types of government restrictions related to fashion retail include land planning, pricing, store opening hours, and store size requirements (Huang and Sternquist, 2007). In addition, foreign countries may have restrictive media policies, which may result in the censorship of advertising campaigns. For instance, the “gritty, home porno” style of American Apparel's advertising campaign, which has been instrumental in building their brand image in the

USA, may be censored in China (Goldkorn, 2008). Based on bargaining power theory, these restrictions will reduce a fashion retailer's bargaining power when negotiating with local governments for accomplishing all or part of their objectives, which in turn discourages the retailers from selecting a higher control entry mode (Taylor et al., 2000).

> P7. To be successful in a foreign market, a fashion retailer should choose a lower control entry mode when government restrictions are high.

Market-specific factors

This group of factors defines the overall market environment in a foreign country, including such characteristics as market competition, prospective growth, and expected return on investment (Agarwal and Ramaswami, 1992). In accordance with earlier entry mode studies, the present study discussed two factors critical for entry mode choice of fashion retailers: market potential and market competition (Chen and Mujtaba, 2007; Maharajh and Heitmeyer, 2005).

(8) Market potential. Market potential refers to the size and growth potential of a foreign market. Transaction cost theory argues that market potential influences the amount of resources a firm is ready to commit to a market (Brouthers et al., 2000). Profit growth is one of the most dominating motivators that drive fashion retailers' international expansions (Evans et al., 2008). When foreign fashion markets are perceived as providing favorable opportunities for growth, retailers tend to rely on a long‐term strategy and, consequently, commit a high level of resources to fully exploit the conditions. Hence, fashion retailers may select a higher control entry mode when market conditions are favorable (Park and Sternquist, 2008). Conversely, when consumer demand is perceived to be stagnant in foreign markets, fashion retailers tend to favor lower control entry modes to limit costs, in case the investment fails.

> P8. To be successful in a foreign market, a fashion retailer should choose a higher control entry mode when market potential is high.

(9) Market competition. In the context of bargaining power theory, intensity of market competition is indicated by the number of competitors in a foreign market. When foreign investment is pursued by a number of firms, the bargaining power of the local government increases and the foreign firms tend to choose low control entry modes due to their weakened bargaining power (Taylor et al., 2000). When market competition is high in a fashion retail market, local resources such as retail space, distribution channels, and prime advertising outlets may become scarce. Thus the alternatives available to a retailer decrease, which in turn weakens the bargaining power of the retailer and encourages the firm to choose a low control entry mode. Transaction cost theory also provides an explanation of fashion retailers' preference for a lower control entry mode in a high competition environment. Fashion retailers tend not to engage in operations that need substantial resource commitments due to high competition in a foreign

market, because the competition level may drive up costs, which may make the venture less profitable (Chen and Mujtaba, 2007).

P9. To be successful in a foreign market, a fashion retailer should choose a lower control entry mode when market competition is high.

By applying the entry mode theories to the fashion retail industry, the nine factors that have an impact on a fashion retailer's foreign expansion were identified. A conceptual framework was developed by integrating these factors (Figure 2). The framework represents a holistic approach to understanding the complex phenomenon of entry mode choice when fashion retailers expand to international markets. The roles of these factors in the process of entry mode choice were discussed, resulting in the nine propositions, which bridge the fundamental laws of the four entry mode theories and the specifics of the international fashion retailing's entry mode choice (Hunt, 2002). The nine factors and related propositions are summarized in Table I. An entry mode, with a corresponding control level, is suggested for fashion retailers, based on their firm‐characteristics, and country and market conditions. A fashion retailer should select the entry mode that optimizes favorable and minimizes unfavorable conditions anticipated in the foreign market to protect assets that are vital to the firm. Whereas each of the factors has a significant impact on a fashion retailer's entry mode choice, it is worth noting that the combination of factors may suggest different entry mode choices, and resolving these differences involves accepting trade‐offs (Hill et al., 1990). To choose the optimal entry mode, a fashion retailer needs to consider all the factors collectively and identify trade‐offs. Next, a case study is presented to illustrate the entry mode decision‐making process in relation to the above factors and related proposition.

Figure 2. A conceptual framework for entry mode choice in the fashion retail market

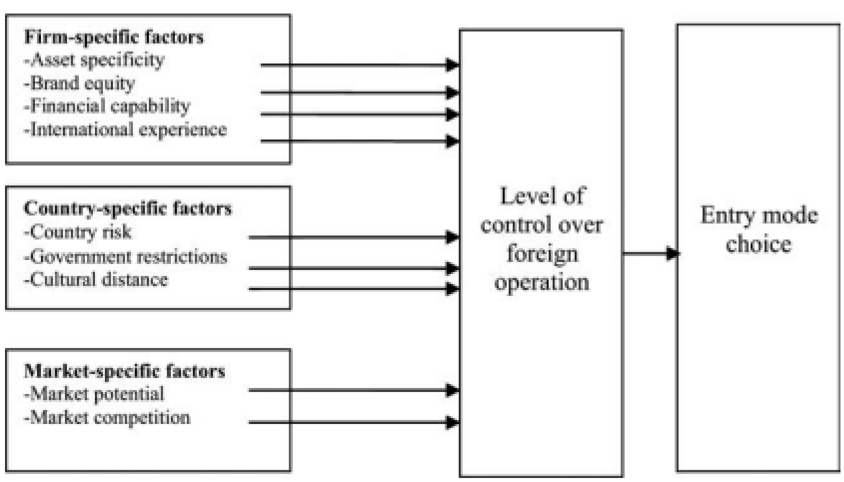


Table 1. Decision-making factors for the entry mode choice of fashion retailers

			Entry mode choice	
Group	Determinate factor and retail's characteristic		Higher control	Lower control
Firm-specific factors	Asset specificity	High	y	
		Low		y
	Brand equity	High	y	
		Low		y
	Financial capability	High	y	
		Low		y
	International experience	High	y	
		Low		y
Country-specific factors	Country risk	High		y
		Low	y	
	Cultural distance	High		y
		Low	y	
	Government restrictions	High		y
		Low	y	
Market-specific factors	Market potential	High	y	
		Low		y
	Market competition	High		y
		Low	y	

A case study of an Italian fashion firm's entry into the Chinese market

The case study is based on one of the author's work experience in the Chinese fashion market. The author was employed as an assistant brand manager for an Italian company (referred to as Company X) in 2006, when the company began the process of entering the Chinese market by introducing a new brand (referred to as A Brand). In addition to this personal experience, Company X's web site provided supplemental data. Company X is a leading Italian fashion company, which has a total of 15 brands distributed internationally. Establishing a presence in the lucrative Chinese market was an important strategic initiative for the company. The company had attempted two separate entries into the Chinese market. The first entry was at the beginning of 2005; Company X starting a JV with a local firm to distribute the company's B brand. The case study focuses on the company's second entry, where A Brand entered the Chinese market in 2006. A Brand is characterized by its reasonable price and trendy design. It has gained great popularity in Italy and is well-received in many international markets. For the brand, design and marketing are the keys to its success. An entry mode of WOS was selected by the company for distributing A Brand in the Chinese market. Company X's decision-making process and entry mode choice are analyzed below in relation to the nine factors proposed above.

Asset specificity

In comparison to its Chinese competitors, Company X had a clear advantage in specialized assets/unique managerial capabilities such as advertising, operating a quick response inventory system, and establishing a distinctive retail concept. These advantages would enable the company to distinguish itself from local competitors and compete successfully in the Chinese market, which encouraged a higher resource commitment in the market and the use of a WOS. At the same time, a WOS would be the optimal governance structure to ensure a successful replication of these specialized assets in the Chinese market. This supports P1: to be successful in a foreign market, a fashion retailer with high asset specificity should choose a higher control entry mode.

Brand equity

Brand equity was one of the most important competitive advantages associated with A Brand. Compared to a JV, establishing a WOS gave the company sufficient autonomy to protect the brand from possible local partners' opportunism, such as counterfeiting and knockoff, and to avoid potential damage to the brand image by inattentive practices of local partners. The company also benefited from the established marketing practices of the firm with high brand equity, which further facilitates the company's entry into the market (Samiee et al., 2004). This supports P2: to be successful in a foreign market, a fashion retailer with high brand equity should choose a higher control entry mode.

Financial capability

Being one of the largest fashion retailers in Italy, the company was able to provide the financial support necessary for setting up a WOS. At the same time, the company's financial commitment was consistent with its determination to establish a long-term presence in the Chinese market. P3 suggests that to be successful in a foreign market, a fashion retailer with low financial capability should choose a lower control entry mode. Accordingly, with its high level of financial capability, Company X was able to select a higher control entry mode.

International experience

Company X had accumulated considerable knowledge from its 2005 JV for B Brand. The company gained a better understanding of the Chinese market and processes of doing business with Chinese partners. Their choice was in line with P4: to be successful in a foreign market, a fashion retailer with high international experience should choose a higher control entry mode.

Country risk

Whereas caution has been raised about doing business in China, e.g. laws and regulatory systems are interpreted inconsistently and in favor of local retailers (Dickson et al., 2004), the business environment in the country has nevertheless improved for foreign investments (Zhang et al., 2002). P5 suggests that to be successful in a foreign market, a fashion retailer should choose a lower control entry mode when country risk is high. Given that country risk appeared to be increasingly alleviated in China, Company X selected a higher control entry mode, a WOS.

Cultural distance

There is significant cultural distance between China and western countries, including Italy (Pan and Tse, 1996). According to P6, to be successful in a foreign market, a fashion retailer should choose a lower control entry mode when country risk is high. Company X may have been better off selecting a lower control entry mode. However, the company's acquired experience in the Chinese market helped to reduce the risk associated with cultural distance, making it a less salient challenge. Furthermore, the benefits of WOS (as related to other factors) outweighed the concerns associated with cultural distance in this entry mode decision.

Government restrictions

Before 2005, most foreign companies had to distribute their brands only through cooperation with local partners and were not allowed to enter the Chinese market independently. However, beginning in 2005, the Chinese government implemented a series of reforms to relax these restrictions, such as simplifying application procedures and reducing company‑related requirements (Ni, 2004). As a result, by the time Company X introduced its A Brand, foreign fashion retailers were being given unprecedented freedom in terms of access to the Chinese fashion market (PriceWaterHouseCoopers, 2006). As discussed in P7, to be successful in a foreign market, a fashion retailer should choose a lower control entry mode when government restrictions are high. Therefore, perceiving a loosening of government restrictions, Company X selected a higher control entry mode.

Market potential

Due to the advantages of A Brand, such as distinctive design, reasonable price range, and well‑honed brand management skills, popularity of the brand among Chinese consumers was anticipated. Furthermore, given the ever‑increasing demand of fashion brands by Chinese consumers (Kwan et al., 2008), a promising market potential for A Brand was expected. The selection of WOS enabled the company to fully exploit the perceived market potential both short‐ and long‐term, which is in line with P8: to be successful in a foreign market, a fashion retailer should choose a higher control entry mode when market potential is high.

Market competition

With the growing presence of international fashion brands, the competition in the Chinese fashion market has become increasingly intense (Kwan et al., 2003). However, due to its competition advantages, such as its well‐built managerial competence, the marketing strength of A Brand, and great financial resources, Company X chose a high control entry mode. This illustrates an apparent conflict between the entry mode choice selected by the company and that proposed in P9: to be successful in a foreign market, a fashion retailer should choose a lower control entry mode when market competition is high. However, a high control entry mode was a logical choice given the company's competitive advantages and its fit with other entry mode factors.

In summary, high control over the foreign operation was preferred by Company X to protect its brand equity from possible damage by inappropriate operations on the part of local partners. A high control entry mode was also beneficial to the company for gaining a higher profitability during long‐term operation in the market. At the same time, the company had sound financial resources as well as the international experience necessary for operating in the Chinese market, which enabled it to select the higher control entry mode of a WOS. The case study demonstrates that a firm needs to consider trade‐offs among all of the nine factors and make an optimal choice based on the firm's priorities. For A Brand, cultural distance and market competition suggested that Company X should select a lower control entry mode, while the other seven factors indicated that a higher control entry mode would be a better choice.

The success of Company X's entry mode choice has been demonstrated by its performance in China. By the time this paper was written, the company has opened 20 stores in several locations in China, all through WOS, and is planning more locations in the future. According to a news release issued on the company's web site, the fast growth of the brand in China can be attributed to the company's strategy of employing the same brand positioning that has been used in Italy. All the stores in China have adopted a similar concept and environment as those in Italy, including product assortments, product presentations, and pricing, all of which were directly controlled by the company's headquarter in Italy. This emphasized the importance for a fashion retailer to select a higher control entry mode to ensure a successful transfer of its special assets and brand equity across markets, which are fundamental considerations in a fashion brand's foreign expansion decision (Moore and Burt, 2007).

Conclusions

Whereas abundant research has focused on entry mode choice, few studies (Doherty, 2007; Wigley and Moore, 2007) have been dedicated to the entry mode choice of fashion retailers, with even less attention given to conceptual development in the field. The present study fills this gap by integrating four theories of entry mode research to identify three groups of factors (firm‑specific, country‑specific and market‑specific) that influence entry mode choice for the fashion retail market; provide a conceptual model of entry mode choice for fashion retailers; and develop nine propositions that posit how each factor influences a fashion retailer's entry mode choice. A case study of an Italian company's entry mode choice for the Chinese market provided illustrative support to the identified factors and developed propositions.

The study has important managerial implications for industry practitioners. The developed framework and propositions may be helpful for fashion retail firms that are considering entrance into foreign markets. This study helps the firm recognize the important factors and characteristics of different entry mode alternatives. In particular, a manager may use the propositions developed in this study to systematically evaluate his/her company's case to justify an entry mode decision for a specific market. It should be noted that entry mode choice is an intrinsically complex decision that requires all of the nine factors to be considered collectively. In addition, the same factors could be perceived differently by different companies or in different circumstances. Therefore, a manager needs to make the most appropriate entry mode choice based on the best overall evaluation of his/her company's case in relation to each factor.

The developed propositions serve as bridge laws that bridge between the four reviewed entry mode theories and the investigation of a fashion retailer's entry mode choice. They are necessary for the development of directly testing hypothesis in the future empirical research. It is known that each of the determining factors have different importance when entering a foreign fashion retail market. For example, entering a fashion retail market in more developed countries versus less developed countries may result in a somewhat different set of determining factors, at least in terms of their importance for the entry mode decision. An important contribution of future research would be the identification of conditions that affect weighting of factors in entry mode decisions. Such research would effectively assist practitioners in prioritizing entry mode factors.

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