



# How western marketers respond to the new middle class in emerging market cities: The case of Italian fashion marketers<sup>☆</sup>



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## ABSTRACT

This paper deals with Italian Fashion Marketers (IFMs) expanding internationally through the opening of retail stores. Its main contributions are twofold. Firstly, an explanation is proposed for the reasons that IFMs decide to go international. In particular, it appears they are driven by the search for new customers, specifically among the middle class in emerging markets, where they have the advantage of being able to capitalize on brand equity, such as the Italian origin of their offerings. Secondly, the paper reveals some discernible patterns in new retail store internationalization, pointing out trends and choices in terms of the specific international markets targeted. In this regard, the main countries and cities where IFMs establish and cultivate a retail presence are identified, and comparisons made between emerging vs. developed countries as target markets.

Some major implications of the findings are then discussed. In particular, the paper proposes an analysis that aims to contribute to filling a significant theoretical gap in the literature – the rising role of the middle class in urban areas and the potential response of western companies. Some managerial implications for companies engaged in expansion abroad are moreover addressed and six formal research propositions advanced.

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## 1. Introduction

The aim of this paper is to analyze the opening of retail stores abroad as an internationalization strategy firms are adopting in response to new opportunities afforded by international markets (Arnold & Quelch, 1998; Hoskisson, Eden, Lau, & Wright, 2000; London & Hart, 2004) with specific reference to the case of Italian Fashion Marketers (IFMs). The new opportunities inherent in international markets are addressed mostly with regard to the increasingly significant role of the middle classes and the potential markets represented by the concentration of consumers with disposable income in cities and urbanized settings (Asian Development Bank, 2010; Dobbs et al., 2011; Khanna, Palepu, & Sinha, 2005; Shet 2011).

The main focus is on the growth of Foreign Direct Investments (FDIs) in the form of retail operations by Italian enterprises in the fashion industry. The empirical setting chosen is a particularly

significant one, both in general, given that the fashion industry has always been conspicuously international, as well as for the specific case of Italy, a country with a well-established international standing in the fashion industry by virtue of the variety and sheer number of enterprises operating in this sector, as well as the sector's commercial and productive importance in Italy's overall economy.

The paper shall specifically address the following two gaps in current research studies: (a) How do IFMs respond to the new opportunities created by the growing middle class in international markets? (b) How do they set up foreign retail stores in cities in emerging markets and developed nations?

We present new evidence which addresses such lacks from various perspectives. The literature on the subject of the international development of fashion enterprises has focused mainly on studying the foreign growth of international mass market retailers or luxury-positioned enterprises (Bruce, Moore, & Birtwistle, 2004; Moore, Doherty, & Doyle, 2010). In the case of the Italian fashion system, evidence is presented that the primary target for retail store openings has been in highly visible retail locations in the major foreign markets (such as the top urban “fashion streets” worldwide) (Aiello & Guercini, 2010; Cushman & Wakefield, 2014; Runfola & Guercini, 2013), the main objectives

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being to foster brand awareness and maintain the impression that the enterprise caters mostly to a high-class, affluent international clientele. In this regard, considering, for instance, the specific nature of Italy's fashion offering and positioning in terms of production costs and image, IFMs' customer portfolios have always included affluent customers. What is however new is that, due to their increasing purchasing power, middle-class consumers in emerging markets have now joined the ranks of such IFMs' clients.

The relation between the growth of the middle class and the international expansion of actors such as IFMs thus represents an area of theoretical investigation that seems to have received scarce attention in the literature. While increasing numbers of contributions can be found that focus particularly on the importance of the concept of middle class (Cavusgil & Guercini, 2014; Cavusgil & Kardes, 2013; Kharas, 2010) in formulating a new conceptual model for international management and marketing studies on the growth of emerging markets, there are still few studies that attempt to link such theoretical construct to specific development strategies such as that of the opening of retail stores, specifically addressed herein. Moreover, enterprise expansion through FDIs in opening sales outlets is a means for foreign development that has received less attention among the strategies for foreign growth adopted by actors such as IFMs. In fact, such strategies have, as a rule, come to be associated with the growth of large international retail chains (Hines & Bruce, 2007), often in the groceries business, rather than predominantly manufacturing firms such as IFMs. As a development strategy, retail store openings abroad have in fact garnered scarce attention, particularly when adopted by manufacturing enterprises, many of which, as in the case of IFMs, are small-to-medium-size firms.

In addition, we present evidence that points to emerging cities as the new targets for IFM international expansion. There is a considerable body of existing literature (often the results of marketing consultancies) that highlights the importance of the polarization of the middle class in urbanized settings (Dobbs et al., 2012), particularly in emerging markets, as a powerful enabling factor for the foreign development of enterprises in all sectors. However, in this regard, there have been few academic contributions aimed at providing concrete evidence to support the importance of the cities, above and beyond the country to which they belong, as new poles of attraction and targets for investment. Perusal of the international management literature, in fact, reveals that there is still a need for close theoretical examination and study of paths to expansion other than the country – specifically the cities – with the purpose of understanding the best choices for enterprise foreign development.

In conclusion, we intend to fill the foregoing gaps in current research by proposing and examining the connection between the growth of the middle class at the international level, the importance of the cities as poles of attraction for FDI, and the foreign expansion of IFMs through a specific strategy – development in retail.

Consequently, the contributions to be made herein regard the following aspects.

Firstly, we explain IFMs' foreign market expansion by looking at their rationales, modes and any discernible patterns. In particular, we assume that the underlying reason for the IFMs' retail expansion abroad is precisely this new middle class arising in emerging markets, particularly in the cities.

Secondly, we present and discuss the rationale for adopting cities as the unit of analysis. As will be seen, the manners and modes of IFM internationalization processes abroad are not limited to countries alone, but involve specific cities as well.

To these ends, the paper is organized as follows. The next section presents a brief review of the literature relevant to developing the conceptual framework adopted herein. In particular, three research

streams are traced, as they represent the different rationales for IFM foreign retail expansion. We then describe the methodology adopted for the compilation and analysis of a database on the IFMs that have undertaken retail operations in foreign countries. The following sections then discuss the main findings uncovered by such analysis and the main implications of our study. The paper ends with some tentative conclusions through the development of six research propositions, limitations and indications for future research.

## 2. Literature review and conceptual framework

In analyzing IFMs' international expansion we focus on three main research streams. Their growth abroad through store openings can be interpreted in light of theoretical considerations based on the OLI paradigm, the literature highlighting the role of the middle class at a global level and the stream that regards cities as poles of attraction for and the concentration of consumer classes at an international level, and therefore as new targets for enterprise marketing policies.

### 2.1. OLI paradigm and IFM expansion

International expansion through the opening of retail stores abroad finds explanation within existing theory, in particular Dunning's eclectic paradigm, or the OLI model (1980, 1988). Although this well-established framework originated in the study of multinational enterprises with specific regard to production, in subsequent studies it has also found widespread application (Pan & Tse, 2000) to the internationalization of both multinationals as well as SMEs (Laufs & Schwens, 2014). In fact, although the eclectic paradigm was originally formulated as a theory of international production (Dunning, 1980), its scope has been extended by dynamizing the paradigm and widening it to embrace other forms of FDI other than production activities in the narrow sense (Dunning, 1988). Some years later the same author proposed an extension of the eclectic paradigm to functional settings other than production alone, likening the theory to an “envelope” able to encompass different areas of multinational enterprise operations (Dunning, 2000).

It is well known that the OLI framework comprises three components or sub-paradigms. The first examines ownership specific advantage (O), by which, the greater the competitive advantage of the foreign investor over other enterprises (especially local firms, or “incumbents”, in the country targeted for investment), the easier it will be for the foreign firm to enter and/or increase their operations in the targeted country. The second sub-paradigm looks at the locational attractions (L) of the destination countries, which is to say, how attractive different alternative locations, in terms of country, region or, potentially, cities, are. Lastly, the third sub-paradigm (I) considers aspects already highlighted by internalization theory (Buckley & Casson, 1976, 1998; Rugman, 1982, 1996), in particular the potential benefits deriving from internalizing cross-border intermediate product markets.

In summary, the eclectic paradigm and its three sub-paradigms predict that the enterprise's inclination to undertake FDI – not only in international production, but in other functional areas as well – will be so much the greater, the greater are the ownership specific advantages, the attractiveness of the specific foreign location, and the convenience of maintaining cross-border product markets within the organization. Herein we extend application of OLI theory to FDIs in the form of international IFM retail operations.

In general, in recent years Italian enterprises have had to face a sharp downturn in the domestic market, which has increasingly led them to turn their attention to foreign markets. Many of these enterprises have looked to foreign markets not only to realize their

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