

Retail Branding for Foreign Company Competing in the Fashion Industry

— A comparative study on house branding in Chinese market —

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Abstract : Since China's entry into WTO, more and more multinational enterprises have been entered Chinese market. Fashion industries, for instance, led by European and American apparel retailer, many Japanese companies have begun to pay attention to Chinese market. It is embodied in various formats of retailing outlets with international expansions. This research note, the first stage of research, focuses on the conceptual level which is discussing the purpose and direction of the research. The research intends to investigate an innovation of retail operations, which is called house branding, with two case studies of multinational fashion retailers in the current Shanghai apparel market. It indicates the characteristics of house branding, and the barriers of retailing in China for foreign companies. The findings clarify the developing process and innovation of house branding as a new retail outlet and an expansion strategy.

Keywords : international expansion, retail operation, fashion retail, house brand

1. Introduction

In fashion industry, retail internationalization is becoming important and be the central topic of competition (Newman and Cullen (2002), Lavin, Marilyn (2009)). We can see the changes of retailing and branding by retailers which are not only to expand retail channels but also becoming to establish their own brands by SC network and specialist retail stores (Olsen, N. Veflen and Sallis, James E. (2010)). Meanwhile branding is no more focused on design and operations of producing; it shifted to how to build an efficient SC and retail store with high loyalty (Faultrier, Boulay, Feenstra and Muzellec (2014), Kremer and Viot (2012)).

Multinational retailers are becoming stronger with their retail operations, which give more attention to product development by themselves and strengthening of specialty store format and logistics systems. So that the great apparel retailers are succeed in expanding their brand of specialty store to product brand, such as GAP, H&M,

ZARA, UNIQLO. Many researches have started to investigate the production and marketing of fashion industry. Some of them presented a special supply chain management (SCM), agile supply chain, which forms a quick response chain on reducing inventory cost and increasing the revenue of the supply chain (Fernie and Nobukazu (2004), Christopher and Robert (2004), Morash and Steven (2001), Minam, Kenichi and John (2012)).

With developing of retailing, many retailers intend to grow faster and benefit by building a large value chain across borders. They wish to enter global markets and create global network, despite the extent of internationalization does not have a significant effect on retailers' revenue growth rates or their profit margins (Corstjens, M. and Lal, R. (2012)).

The pressure from local market and benefits of globalization caused many retailers to venture overseas, which are considered as a quest for greater economies of scale and scope, a desire to attract fresh talent, create new opportunities for existing leaders,

etc. (Corstjens, M. and Lal, R. (2012)). However, there still exist all kinds of barriers for entering foreign markets, such as estate cost, entrenched competition, the lack of suitable sites and information about new markets. Otherwise, Corstjens, M. and Lal, R. (2012) mentioned that the high expectations of consumers, unfair competition with local retailers by laws protecting are also potentially damaging to international retailers' interests.

For these problems of international expansion, Wigley, S. and Moore, C. (2007) indicates that a successful international retailing requires the coherent expression of the brand, attractive products, efficient distribution and retail operations by comparing two fashion retailers in USA and UK. It highlights that the internationalizing fashion retailer must retain control over the information flows between every component parts. It shows that the controlling information is the priority in retail operations.

2. Literature review: retail brand in China

Since 1990s, China has positioned the top of apparel production in the world with a lack of design ability but the comparative advantage of low cost labor (Li, J., Wang and Cassill (2004)). After the accession to the WTO, most Chinese companies had to face the intense competition, as international companies entering Chinese market.

In the course of such changes, China's apparel industry has begun to shift to build their own brands and specialty stores by developing operations of producing and retailing (Li, Xue (2010), Miao (2015)). It reflected in the birth of many retail brands and varied formats of retailing outlets in the current Chinese apparel market. We can see a lot of changes are taking place, such as shopping malls in multiple price ranges, upscale shopping centers for high income and high levels of taste of apparel consumption, and flagship stores which are wholly-owned by manufacturers in China now (Li, J., Wang and Cassill (2004)). Especially, building an own flagship store by vertical integration has been seen as an efficient approach for apparel manufacturers

to establish their own retail network and expend their product brand to retail brand (Miao (2013), Li, J., Wang and Cassill (2004)).

Based on the insights of retail internationalization and retailing in China, this research focuses on the possibility of international expansion by house branding, a new format of specialty store in Chinese fashion market. House branding is considered as a retailing strategy, which aims to build a special region as a big house with distinct unique multi-brands. It succeed in keeping the identity of every brand, but combining them with a common brand concept for catering to specific fashion lovers.

In this research, the first study object, I.T Group, founded during the late 1980s in Hong Kong, is one of the representative retailer with developing house brand. Now, the idea of house branding has been adopted by other fashion retailers as a marketing approach in Chinese market, such as a Japanese fashion retailer being illustrated in this study.

3. Methodology

Research approach

Stage 1. This paper is the first stage of this research, which is to make definite purpose and significance of this research, and to review the theoretical achievements which concerned on retail internationalization and retail branding.

Stage 2. Based on the review and the background of Chinese fashion market, a new format of specialty store as an expansion strategy for retailers be mentioned, which will be called house brand. This research intends to define the new retail format, and present the developing process.

Stage 3. A comparison of two fashion retailers provide evidence for study of house branding in Chinese market with interview survey. It indicates the process and innovation of house branding as an expansion strategy for retailer while understanding the barriers of entering Chinese market for international retailer.

Stage 4. Based on the interview survey, the findings are aimed to clarify the effect and characteristic of house brand for international retailer

as entering Chinese market, and future prospects in the Chinese fashion retail market will be discussed.

4. Research objects: two fashion retailers within the international expansion

Below are two apparel retailers (Table 1) who positioned themselves as a fashion brand, have been exploring Chinese market from different historical periods. However, their international expansion strategies for Chinese market are supported by building house brand and an agile supply chain during century.

The first company, I.T Group, founded during the late 1980s in Hong Kong, offers high-end clothing for men and women. Its rapid growth is supported by distinctive retailing strategy and cooperation with varied apparel brands and designers.

In 1988, I.T established a small 200 square-foot shop featuring brands in Hong Kong, and positioned itself as a fresh and fun fashion house. I.T defined itself as a place, which is for young consumers to follow the forefront of fashion by a combination of multi-brands. As I.T entering Chinese local market during 1990s, I.T created a new retail outlets that was called house brand. It established a network with new and unknown brands for getting an opportunity to test new market. Therefore the single brand which is collected by I.T, even the one with a little-known, could have an opportunity to springboard into free-standing stores in China without connection at all. Now I.T owned a number of shops in Hong Kong, China, Taiwan, Canada, France, Japan, Philippines, Indonesia, UK¹.

The second company, Nice Claup, based in Japan in the early 1980s, offers fast fashionable clothing for

young women at middle and lower price. From 2008, it began to develop Chinese market, and established its first retail store in Shanghai. Based on interview survey, in 2012, Nice Claup learned the idea of house branding from I.T, and then built its first house brand in Shanghai's shopping mall by cooperating with other two Japanese apparel brands. So that they strengthened their brands competitiveness and succeeded in promotion sales by bundling several items which could be coordinated together among these three brands.

These two retailers targeting for different markets differed in their approaches for retail branding in Chinese market. However, we can see that developing their specialty stores in China by building house brand can be considered as a crucial component in their expansion strategy.

In the second stage of this research, it is aimed to (1) review highlights the internationalization process in retail and the dynamic capabilities approach; (2) investigate an innovation of retail operations, which is called house branding, with two case studies of multinational fashion retailers in the current Shanghai apparel market; (3) through the empirical research of Japanese fashion apparel retailer, it will emphasize the barriers of expansion in Chinese market and the implementation of dynamic capabilities with learning knowledge and local information from competitors.

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Table 1 Company profiles

Company	Year established	Year Entering China	Turnover 2015 (\$ million)	No. of stores in Mainland China (2015)	Main current formats of retailing
I.T. group*	1988	2000	925.12	449	364 (Self-managed) 85 (Franchised)
Nice Claup	1982	2008	82.24	60	14 (Self-managed) 45 (Franchised) 1 (web)

* Learning Object of Nice Claup

Resource: I.T "Annual Report 2016"; Nice Claup "Report 2016".

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- ¹ I.T "Our Group", HP: <http://www.ithk.com/eng/html/about/index.html>.