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INTERNATIONALIZATION STRATEGIES
OF LUXURY FIRMS IN CHINA:
THE ROLE OF DESIGN AND MARKETING CAPABILITIES

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Internationalization strategies of luxury firms in China: the role of design and marketing capabilities

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Abstract

Studies on emerging markets depicted the economic, social and institutional peculiarities of those markets by emphasizing opportunities and threats for Western companies. China in particular offers growing market chances, even for luxury firms. On the one hand, studies emphasize the global approach to markets in luxury. On the other hand, the uncertainty and cultural distance characterizing the Chinese market increase the risks of a firm's standardized strategy. The paper aims at investigating internationalization strategies of luxury firms in China by exploring the role of design and marketing capabilities, based on the case study of an Italian company – Bisazza. Results highlight the success of a global design-driven brand strategy, but also the need of adapting the distribution and product management to cope with the Chinese context.

Introduction

Emerging markets (EMs) are assuming an increasing importance in the world economy. Their main characteristics (i.e. high levels of growth, high development potential) increase their attractiveness as potential destination of firms' strategies of internationalization (Arnold and Quelch, 1998). Studies on China have depicted this country as an emerging competitor – together with India – of advanced countries and Western multinational companies (e.g. Khanna, 2007). As far as the Chinese market is concerned, recent literature and reports highlight the transformation in the structure of the Chinese society, opening new market opportunities also for firms offering high-end products (Zhan and He, 2011).

Research on internationalization strategies specifically focused on luxury has depicted an orientation toward global strategies of luxury firms. Firms in luxury invest in brands promoting a unique brand identity globally, where the role of communication and distribution standardized approach is important to sustain new market entrances (e.g. Fionda and Moore, 2009). Despite the advantages that the Chinese market can offer to such firms, it should be further investigated how this global strategy can couple with the specificities of this emerging market, in terms of culture and uncertainty (Shukla and Purani, 2011). In our view robust design and marketing capabilities of a luxury firm positively influence the performance in the Chinese market and may offer the opportunity for an adaptation of the global strategy at the national – Chinese – level even in the case of luxury offering. In order to confirm this position we explore the role of design and marketing capabilities through the analysis of the case study of an Italian company specializing in luxury home products.

1. Business internationalization in emerging markets: theoretical premises

Several definitions of EMs have been proposed. They differ for the approach of analysis and the consequent criteria used to classify countries. Many definitions share the economic perspective of analysis (e.g., the World Bank classified countries, based on gross national income per capita, adjusted for currency fluctuations); others highlight other dimensions of social development (e.g., the United Nations identified four categories of countries, based on their score on the human development index) (Burgess *et al.*, 2006). In management studies the more frequently used criteria for defining EMs refer to three main categories of observation: poverty (low or middle-income country, low leverage living standards, not industrialized), capital markets (low market capitalization relative to GDP, low stock market turnover and few listed stocks, low sovereign debt ratings) and economic development (economic liberalization, open to foreign investment, recent economic growth) (Cavusgil *et al.*, 2012).

Despite of nuances and actual differences between definitions of EMs, many scholars agree on the importance to identify differences existing between advanced and emerging markets. Arnold and Quelch (1998) highlighted that foreign firms that enter into EMs have to confront to a range of “unfamiliar conditions and problems” (p. 8), such as the absence of basic marketing infrastructures and the specificity of consumer behaviour. Khanna and Palepu (2010) suggested going forward the more visible characteristics of these countries, to identify their most distinguishing attributes. They argued that EMs are better identified looking at their institution development (institutional voids). Nevertheless, institutional voids are not necessary negative, because they could be potential business opportunities for entrepreneurs.

Emerging markets are also characterized by high level of entrepreneurship, where scholars observed the rise of a new wave of firms able to affirm their business proposal at the international levels. Those “emerging giants” as defined by Khanna and Palepu (2006) are firms born and developed in the specific institutional context of the emerging markets that are able to compete globally. Compared to Western countries, such firms benefit from a higher

knowledge about the structural characteristics of the emerging markets in which they are based and can capitalize on them to define their value propositions. EMs have been described in fact as very different from the traditional advanced markets due to their peculiar institutional, cultural as well as consumer behaviour characteristics. Moreover, they also show internal differences and therefore a product, process or organizational solution developed for one country may not necessarily be replicated in another one. Hence, firms interested in addressing those markets have to cope with high uncertainty that requires a proactive firm's approach toward internationalization and dynamic capabilities to face a dynamic competitive environment (Teece et al., 1997). Furthermore, the complexity of these EMs is increased by the high geographical, cultural and institutional distance of these areas from the domestic markets, where Western companies are used to operate (Meyer *et al.*, 2009). Hence, the marked differences between EMs and advanced economies often force Western firms to develop new strategies and capabilities (Arnold and Quelch, 1998).

2. Firm's capabilities and internationalization strategies of luxury firms: open issues in China

Studies on firm growth have identified the role of managerial capabilities as a fundamental driver of firm development, also in an international context (Graves and Thomas, 2006). Many studies on internationalization referred to firm's resources and capabilities to explain the internationalization paths and strategies. Dhanaraj and Beamish (2003) explained the export performance of a firm referring on the set of resources it had – managerial and organizational, entrepreneurial and technological ones. This attention on the positive relationship between capabilities and internationalization performance can be also true for firms addressing EMs, where the liability of foreignness (Zaheer, 1995) can be particularly intense due to the institutional and market constraints such countries present. In addition to managerial capabilities, firms oriented to emerging markets should also consider the relevance of appropriate marketing strategies able to align their commercial proposal to the specificities of the market and to deal with the specificities of its consumer behavior. Hooley *et al.* (2005) described the performance impact of marketing resources, underling how market orientation and market-based resources (i.e., customer linking capabilities or reputational assets such as the brand) positively influence the firm performance.

In the international business studies, adopting a resource-based view of the firm, Kotabe *et al.* (2002) linked the firm performances to its degree of multinationality, by evaluating how R&D and marketing capabilities (considered as marketing intensity – measured in terms of advertising expenditure divided by sales) influence the final performance. EMs do not necessarily follow the same steps of growth of advanced economies and the behavior of customers in EMs may differ from those of established markets (Aiello *et al.*, 2009). These differences force foreign firms to adapt their marketing strategies to the specific emerging context, given that, otherwise, the failure to adapt to the specific context could be fatal: several multinational companies achieved low profits when they adopted standard global strategies, even if it would had been appropriate to design new products (Dawar and Frost, 1999).

This trade-off between standardization and adaptation could be particularly important for firms specializing in the luxury products (from fashion, cosmetic, jewelry, to automobiles) (Shukla and Purani, 2011). Luxury can be described both in terms of psychological value, its function as status symbol and from a product perspective in terms of craft or hand-made, high quality, high price, and rarity, linked with the past and beyond functionality (e.g. Berry, 1994). Studies on luxury industry describe the global approach toward internationalization of

those companies, where the value offered is linked to high quality of luxury products as well as to the meanings attached to luxury brands (Atwal and Williams, 2009).

Research focused on luxury brands (e.g. Fionda and Moore, 2009) has in fact specifically highlighted how it is important for luxury firm's performance to develop an integrated global brand identity, by leveraging on communication and retail to reinforce the message. On the one hand luxury firms invest in creating customer experience during the product use and in the purchasing process. On the other hand, customers collaborate to co-create the meanings related to brands (Tynan et al., 2010). The role of design in nurturing the exclusivity and experience for luxury products is specifically important (e.g. Ravasi and Lojacono, 2005). From an internationalization point of view, Swan et al. 2005 showed that robust design capabilities can sustain the development of global products, not only from a technological or functional, but also aesthetical perspective (global brands). As a fundamental element of design and marketing, aesthetic is able to differentiate the product and to create intangible value for customers. According to Swan et al. (2005) research, firm's robust aesthetic capabilities are not negatively correlated with speed-to-market in high-uncertainty environments, such as those characterizing emerging markets. Nevertheless, the firm with robust design capabilities is more ready to eventually balance the trade-off between standardization and adaptation (flexible products tailed also for smaller customer niches).

Moore et al. (2010) analyzed internationalization strategies of 12 luxury companies by focusing on flagship stores as a market entry method. Luxury companies conceive international flagship stores differently from other stores in terms of scale, design, location, set-up and operating costs: flagship stores represent the brand identity and the world proposed by the company and the locations are selected not only to generate turnover, but also for prestigious goals. While the international sale networks has managed also through department stores and boutiques, luxury companies have to enter into new markets through direct investments for strategic reasons (Moore et al., 2010). Shanghai and Beijing are mentioned among the most important locations in emerging markets.

First studies on luxury in China (e.g. Saviolo, 2006) have pointed out how luxury firms approached the Chinese. Firms such as Louis Vuitton or Ermenegildo Zegna that invested in China at the beginning of the '90s have settled the trends for other luxury companies, i.e. building the brand through localization. However, recent studies have depicted the growing internal variety of the Chinese luxury market, where Chinese customers approach luxury products with very different attitudes. According to Zhan and He (2011) China's luxury consumption is about 25% of the global share, transforming China in the second market for global luxury products, after Japan. More important, not only the upper class but also China's middle-class consumers are becoming important targets for luxury. In his book on Chinese luxury consumer behavior, Xiao Lu (2008) identified four segments of customers based on a psychographic segmentation approach (luxury intellectuals, lovers, followers and laggards). According to this research it emerges how it is fragmented and dynamic also the luxury niche, usually approached by firms through a global approach as stated before. Moreover, we can observe also the rise of Chinese offering in the luxury market, such as in the case of the company Shanghai Tang – founded in 1994 by David tang and acquired in 1998 by Richmont, the Swiss luxury group – aiming at rejuvenate the Chinese fashion.

On the one hand, design and marketing capabilities are crucial for luxury markets, but on the other hand they are also relevant for approaching emerging markets. Coupling those perspectives, in the case of dynamic and uncertain markets such as China, the firm has to develop dynamic capabilities (Teece et al., 1997) to approach those markets and the need of adaptation of the marketing variables (i.e. products) can involve also global luxury firms.

In our view robust design and marketing capabilities of a luxury firm positively influence the performance in the Chinese market and may offer the opportunity for an adaptation of the global strategy at the national – Chinese – level even in the case of luxury offering.

3. Entering and managing the luxury Chinese market: the Bisazza case study

In order to confirm this position we explore the role of design and marketing capabilities through the analysis of the case study of an Italian company – Bisazza – specializing in luxury home products. The case has been prepared basing on information gathered through different explorative methods. Primary data come from semi-structured interviews with Marketing and Public Relations Managers during 2007, 2008 and 2011 as well as direct observation of the company organization and structures (showrooms). Integrative information comes from secondary documental sources, such as specialized publications, companies' sheets, newspapers and on-line information.

Founded in 1956 in a small town in the Vicenza province (Alte – Montecchio Maggiore, in the North East part of Italy), Bisazza is now a global leader in the production of glass mosaic and high-quality covering for private and public buildings. Bisazza distinguishes itself because of its orientation to the culture of design-based products and its international vocation, by transforming its products into luxury ones (Di Maria and Paiola, 2012).

The firm is characterized by its focus on classic mosaic production (glass) and gold-leaf based mosaic. Founded in 1956 as Vetricolor, the firm changed the name into Bisazza – the name of the founder – only in 1989, to support product diversification. The upgrading transformation starts in 2000, when Piero Bisazza (the founder's son) becomes CEO. Piero Bisazza outlines a twofold strategy. On the one hand, the focus is on product extension: the mosaic should overcome the basic covering function, in order to become a fashionable product within furnishing applications. On the other hand, Bisazza's brand strategy is oriented to transform the meanings linked with the brand and move the product's positioning towards the luxury niche. To obtain such goals the firm invests in design and marketing.

In 2010 the Bisazza group have more than 1,200 employees, four factories in north-east Italy and one factory in India, 13 brand stores and its sales are managed through more than 7,000 distributors. Bisazza international organization counts 19 sales branches in Australia, Brazil, Benelux, China (Hong Kong and Shanghai), France, Germany, Netherlands, India, Japan, Korea, Mexico, Russia, Spain, UK, USA and Emirates (Dubai). Those commercial offices directly control each foreign market and have the role of supervision and management of local retailers. The turnover of the Bisazza company in 2010 reached 54 Ml Euro (about 120 Ml Euro the Bisazza group in 2009) (70% exported), with more than 130 countries served.

Bisazza strategy is oriented to position its offering on fashion and luxury, through an upgrading process that involve design and culture as key assets of the new brand strategy. Bisazza, in fact, developed collaboration with an international network of designers that reinvent the product, followed by a direct investment in internal design competences with the Bisazza Design Studio. Based on the mix of aesthetics, distribution and interaction with opinion leaders, as well as co-marketing, Bisazza wants to offer a memorable experience to their customers, interested in buying an atmosphere and quality of living instead of a simple product. Bisazza invested in commercial sales networks, also participating in the most famous design fairs. In order to design the concepts of Bisazza stores, the product collections and projects of Bisazza Space worldwide, in 2004 the company creates Bisazza Design Studio, a team of young designers coordinated by the architect Carlo Dal Bianco. All the stores are conceived and designed by Bisazza Design studio, which is in charge for the coordination of the company's identity and product collection. The whole process of brand management is internally controlled. Moreover, the Bisazza press office and external relation structure is located in Milan, the Italian city worldwide known for its fashion and creative side.

Nowadays Bisazza sells more than 2 Ml square meters of mosaic each year, usually through small-scale orders. Hence the company has the need to develop a spread sales network worldwide, in order to fulfil customers' order rapidly and with the right quantity. In each of the 19 foreign branches there is a warehouse that is able to face the requests of the independent stores in each country, managed through Bisazza sales agents. Based on direct investments in those commercial branches Bisazza has supported its international expansion at the global level. The internationalization strategy has been based also on flagship stores located in the most important cities, in addition to shop-in-shop and Bisazza corners.

The Chinese market is particularly interesting for Bisazza not only because of its growth of demand for luxury products, but also for cultural reasons. Compared to other luxury products, there is a long tradition of mosaic in China for building covering and Bisazza has been favoured from this point of view. Hence, Bisazza did not face particular problems related to the cultural distance that may affect other Western products in emerging markets. Even if there are Chinese mosaic producers, they offer cheaper products not conceived for luxury and hence Bisazza did not face intense competition in its target market.

Bisazza invested in China by opening a sales branch in 2004 in Shanghai. Through communication initiatives oriented to present the Bisazza brand in the Chinese market, the company replicated its global approach to international markets by proposing the value related with the global brand identity created by the firm. Direct investments in China offer the opportunity to acquire important market information. Bisazza did not develop partnership with local firms that could have reduced the strong brand identity of the company. On the contrary, Bisazza created its sales branch and selected local dealers whose support was crucial in order to acquire key knowledge about the Chinese market and refine the marketing strategy of the firm in the country. Nevertheless, in order to sustain its brand strategy, Bisazza has selected fifteen exclusive brand dealers (such as Stepwise with its two stores in Shanghai and Beijing) that can increase the visibility of the brand.

However, this process of selection has faced higher difficulties compared to other foreign markets Bisazza was used to address. At the beginning local dealers were contacted through Bisazza's fair participation and market research of Bisazza area managers. Despite this initial effort, only through a targeted communication strategy oriented to present the product characteristics and peculiarities Bisazza was able to skim within possible dealers. In fact, interested Chinese dealers reacted to communication inputs by offering their collaboration to Bisazza and signal their intention to distribute such a luxury product in the Chinese market.

Bisazza have in fact heavily invested in communicating the Made-in-Italy origin of the product, by leveraging the country-of-origin positive effect that Italy has in the Chinese market and worldwide (Aiello et al., 2009). Marketing effort was addressed to augment the visibility of the brand through the management of relationships with key opinion leaders and influences in the Chinese market based in selected cities. In few years Bisazza has been able to increase its market share in China, by controlling directly the distribution channel (stores located in Chinese first and second-tier cities).

Initially, the Chinese customers have accepted the Bisazza product, offered as in other countries, since they appreciate its innovativeness as design-driven mosaic product (not just covering, but also a way to create experience in luxury home). After a first period of market expansion based on communication of global brand and direct sales management, Bisazza perceived the need to change its offering in order to cope with the opportunities of the Chinese market. While on the one hand, Bisazza had in its product portfolio a mosaic inspired to China ("China Birds") before its entrance into China, on the other hand, the company perceived new market chances interacting with Chinese designers and local architects for specific projects. By leveraging on its design capabilities Bisazza started to develop tailored

offering conceived for the Chinese market, in addition to the standard collection “prêt-à-porter”.

4. Implications and future research

The Bisazza case study shows how the peculiarities of the Chinese market can shape the internationalization strategy of luxury companies. On the one hand, by leveraging on its marketing capabilities related to communication and distribution management Bisazza has been able to rapidly enter into the Chinese market and modify the customers' perception of the product. On the other hand, the robust design capabilities of the firm – in terms of Bisazza design studio as well as its experience to manage international networks of designers (and projects) – support the company in exploiting new opportunities offered by the Chinese market. Based on the interaction with Chinese designers Bisazza understood the potentialities of offering bespoke products to Chinese customers, overcoming the global approach proposed in other international markets.

In our study those two sets of capabilities emerge as important in order to balance the advantages of global strategy in the luxury industry with the adaptation to the Chinese peculiarities as emerging market. Firms with robust design capabilities – in terms of internal competences and design network management – can face specific requests related to emerging markets. At the same time, firm's capabilities to launch and manage global brands support firm's entrance in difficult markets such as the Chinese one. However, this process of adaptation requires dynamic capabilities since it has to be managed by maintaining the coherence with the company's global brand identity – as one of the assets of luxury companies. Limits of this study relate to the initial stage of our empirical analysis, based on a single case study presented. Further research should explore multiple case studies and compare different industry specialization to consider the trade-off between global strategies and adaptation in the Chinese market for global companies.

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