An Examination of Parenting Advantages of Emerging Market Multinationals in Luxury Fashion Retailing

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Abstract

From an international retailing perspective, this empirical study examines the parenting advantages offered by EMNCs in luxury fashion retail sector. Through a case study of Shandong Ruyi Group, the qualitative data was collected via ten semi-structured executive interviews. It is a win-win situation for the EMNCs of being parent groups of Western luxury fashion retailers. The EMNCs can access critical assets including advanced brand management expertise, retailing know-how, and the services skills for higher income consumers. The subsidiary retailers benefit from a high degree of autonomy, intra-group resource utilization, a competitive brand portfolio, and most importantly economies of scales in the value chain, particularly in production. The perceived risks of EMNCs ownership include potentially restricted autonomy and the uncertainty over corporate development activities in the future, as well as the risks of diluting brand image caused by the inconsistency between country of origin and country of ownership.

Keywords: International retailing; EMNCs; Luxury fashion brands

Track: International Marketing & Marketing in Emerging Countries

1. Introduction

The landscape of international luxury fashion market had been changed because of rapid growing multi-brand luxury fashion groups, including LVMH, Kering, Richemont, as well as medium sized groups such as Prada, PVH and Tod's (Bai, McColl & Moore, 2018). Similar to other economic sectors, these established Western luxury fashion conglomerates have been recently challenged by emerging market multinationals (EMNCs) due to their aggressive international expansion and increasingly competitive international luxury fashion brand portfolios. Four EMNCs were ranked in the Bloomberg's top 20 global luxury groups in terms of revenue (2018). The existing literature in international luxury fashion marketing had focused on luxury fashion retailers and groups originated from developed countries, rather than emerging markets (Bai, He, Shi, McColl & Moore, 2020). Therefore, this paper aims to examine the parenting advantage offered by the EMNCs in luxury fashion retail sector.

2. Theoretical Framework

2.1 Parenting advantages in luxury fashion retailing

The term parenting advantage was defined by Goold, Campbell and Alexander (1994) from the perspective of business strategy as "*to influence the decisions and strategies of its business units, while standing between these businesses and those who provide capital for their use*" (p.12). Based upon Goold and Campbell (2002), Moore and Birtwistle (2005) examined parenting advantage in luxury fashion retailing through a case study of the PPR Gucci Group (current Kering Group), and demonstrated how subsidiary luxury fashion retailers can benefit from four kinds of parenting advantage:

- *Stand-alone influence*: the PPR Gucci regards all subsidiary retailers as stand-alone profit units in order to maximize the group's profits. These retailers thus are able to control their brands and business activities, such as product design, merchandise and distribution, through a high degree of autonomy
- *Linkage influence*: subsidiary retailers benefit from intra-group supply and resource utilization because of ownership advantage. For instance, Gucci and Sergio Rossi supplied leather accessories and footwear to (Yves) Saint Laurent;
- *Functional and services influence*: the subsidiary retailers are able to achieve the economies of scale by reducing costs and perceived risks through their PPR Gucci's centralized administration, finance, information, management talent, standardized management and supply chain;
- *Corporate development activities*: PPR Gucci can create value via developing and optimizing portfolios of products and brands through multi-brands strategies, which help to avoid diluting the exclusive brand image of a single brand due to over-extension.

As increasing numbers of EMNCs have become luxury fashion groups through their international expansion, researchers need now to consider their international context and internationalization strategies when examining the parenting advantages offered by the EMNCs in luxury fashion retailing.

2.2 Emerging market multinationals (EMNCs)

It is well agreed that accelerated internationalization and considerable worldwide success of EMNCs have challenged the conventional international business wisdom which primarily concentrated on traditional MNCs, such as the Eclectic Paradigm and the Uppsala Model (Mohr & Batsakis, 2018). EMNCs are defined by Luo and Tung (2007) as those who are "*international companies that originated from emerging markets and are engaged in outward FDI, where they exercise effective control and undertake value-adding activities in one or more foreign countries*" (p.482). Bai et al. (2020) identified a series of significant differences between traditional MNCs and EMNCs in luxury fashion retailing, including: Conditions of country of origin, especially policies influence;

- Background and ownership structure, especially state ownership;
- Internationalization motives: market and efficiency seeking *v.s.* critical asset-seeking;
- Internationalization direction: developed markets and less developed markets;
- Internationalization strategies: low-cost and control *v.s.* high-cost and control;
- Host market entry mode: low-risk and gradual process *v.s.* high-risk and aggressive.

Most of current studies have contributed to understanding the characteristics of EMNCs in generic sectors rather than luxury fashion retailing. Understanding of the business development of EMNCs in luxury fashion retailing, especially as a parent company of developed market luxury fashion retailers, still remains under developed. Therefore, the research questions of this study will be:

RQ1: How can EMNCs in luxury fashion retailing benefit from being a parent group?

RQ2: How can subsidiary luxury fashion retailers benefit from the parenting advantage offered by EMNCs?

RQ3: What are the perceived risks of being a subsidiary of EMNCs?

3. Methodology

An interpretivist qualitative case study was regarded as the most appropriate methodology for this study, which seeks to understand the "*why*", "*how*" and "*what*" research questions for relatively new phenomena within fast-moving markets (Yin, 2018). The Shandong Ruyi Group was selected as the most appropriate case company because its corporate business strategies concentrate on premium and luxury fashion as their core business. It was ranked as 16th within the Bloomberg top 20 global luxury groups in terms of revenue (2018). According to the research questions, the primary data was collected through ten semi-structure executive interviews with ten directors, including six from head office and four from subsidiary luxury fashion retailers. These interviewees were selected by the following criteria: they must be directors in their departments/subsidiaries; they must have been employed with the company for at least five years; and must have been involved with decision-making for internationalization strategies. Since the researchers recognized the sample saturation, there were ten interviews in total which took place in two phases, from October to December 2018, and from July to October 2019.

The secondary data employed in this study was collected via internal documents, marketing reports and news published by reputable organizations. Multiple sources of information therefore allowed triangulation of data to strengthen the validity and reliability of the analysis, and to minimize researchers' and interviewees' bias. Thereafter, the qualitative data was analyzed using thematic analysis, which develops common themes (Yin, 2018).

4. Results

4.1 The Benefit for the Shandong Ruyi Group of Being a Parent Company

The group has increased its market power and created and strengthened the value for its subsidiary luxury fashion retailers in three areas, including upstream (rare material sourcing), production, and downstream (retailing).

- Upstream: Owning top quality wool and cotton thus helps to achieve competitive advantage in terms of cost focus and differentiation focus for both the group (as a parent company and a luxury fashion brand) and its subsidiary luxury fashion retailers.
- Production: The group has extended its expertise into a wider range of fabric know-how and critical assets especially intellectual property, and optimized its value chain.
- Downstream: The group has extended its operations into a wider range of business and marketing activities through the acquisitions of well-established luxury fashion retailers.

4.2 Parenting Advantages Offered by the Shandong Ruyi Group

The parenting advantages provided by the Shandong Ruyi Group as an EMNC parent company in the luxury fashion retail sector are identified by the following four aspects:

- Stand-alone influences: the group values business development of each subsidiary retailers and supports their actual needs and growth strategies respectively.
- Linkage influence: all subsidiary luxury and premium fashion retailers have benefited from intra-group resource utilization, especially in rare materials and production.
- Functional and services influences: all subsidiary retailers have benefited from the

group's centralized administration functions, such as finance and human resources, which are important to achieve economies of scale.

- Corporate development activities: not strong, because of the fact that the group is still very new in luxury fashion retailing sector. The group is still in the learning stage and therefore its corporate development activities have not yet created sufficient parenting advantages for its subsidiary luxury fashion retailers.

4.3 Perceived risks of being subsidiary of EMNCs in luxury fashion retailing

Despite various parenting advantages, four perceived risks of being subsidiaries of the Ruyi Group have been identified: the stability of stand-alone influences; the internal conflicts between emerging market parenting company and developed market subsidiaries; the uncertainty over corporate development activities; and possible dilution of brand image caused by the ownership of EMNCs.

5. Conclusion

5.1 Theoretical and managerial implications

The international luxury fashion market has long been dominated by the luxury fashion retailers and groups originated from developed markets. However, fast growing EMNCs have recently created challenges for these well-established Western multinationals, especially multi-brands luxury fashion conglomerates. Because the understanding of EMNCs in luxury fashion retailing still remains insufficient, this empirical study has contributed depth of understanding about the parent advantage offered by EMNCs as parent companies in luxury fashion retail sector in terms of stand-alone influence, linkage influence, functional and services influence, and corporate development activities. It has also enriched the EMNC literature which has mainly adopted an international business perspective by extending this understanding into luxury fashion retailing through highlighting the differences between EMNCs in luxury fashion retailing and in other sectors through recognizing the mutual benefits between the EMNCs as parenting companies and their developed market subsidiary luxury fashion retailers, and different internationalization activities. This study also offers insights to the practitioners in EMNCs who are keen to develop their own luxury fashion brand and to develop to an international luxury fashion group.

5.2 Limitations and future study direction

The limitations of this study are related to the purposive sampling technique and the small sample size. The sampling frame for this study is very limited, evidenced by the fact that very few EMNCs have dedicated into luxury fashion retailing and have achieved worldwide success to date. The Shandong Ruyi Group is regarded as the most appropriate case company for this study because it has been widely recognized as the pioneer EMNC in luxury fashion retailing (Bloomberg, 2018). Another limitation is considered to be the institutional context within the home country China, which is perceived to be of considerable psychic distance in terms of culture compared to other typical emerging markets which have been heavily influenced by colonialism, such as India and Brazil. Therefore, based upon this paper, future studies may test the parenting advantages offered by EMNCs in luxury fashion retail sector identified by this study through quantitative research with larger samples.

Qualitative studies in the future are suggested to examine the relationship and internal synergy between other EMNCs, originating from different emerging markets, and their developed market subsidiaries in luxury fashion retailing and other business sectors. Finally, the researchers may also examine the impact of ownership of EMNCs on the brand image of developed market luxury fashion retailers.

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