

**INTERNATIONALIZATION THROUGH E-COMMERCE. THE CASE OF MULTI-
BRAND LUXURY RETAILERS IN THE FASHION INDUSTRY**

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Abstract

This article deals with the international development of the firm through the online channel. This issue is growing in importance but it has received limited attention within the literature on internationalization. The paper presents an analysis of an expressly developed database of 20 multi-brand luxury retailers in the online fashion market. The analysis points out the international dimension of these players and sheds some light on e-commerce as foreign market entry strategy for luxury fashion firms. The paper ends with some research propositions to be further investigated.

Keyword: luxury, online, retail, internationalization, e-commerce

Introduction

This article addresses the issue of international development through e-commerce, with special regard to the case of multi-brand retailers in the luxury fashion industry. The online sales of luxury products has experienced a growing trend in recent years, despite an international situation of economic and financial crisis. In fact, following recent researches, sales of personal luxury goods in the online market are still below 10 EUR billion in 2013, but are expected to double in the next 5 years, passing from the 4% to the 6-7% of the total luxury retail market (McKinsey 2014, p. 6).

From a theoretical point of view, the relationship between luxury and e-commerce is rather controversial. As Kapferer (2014) pointed out, in general terms, it is connected to the main problem of luxury firms, that is growth. In fact, growth poses specific challenges to luxury companies due to the risk of losing the aura of exclusivity that characterizes their value propositions. However, as stated by the same author, the opportunities of the online channel are significant, also considering

the steady growth in the purchases of luxury products from consumers in emerging and developing markets (Chen and Zhang 2011).

Consequently, this paper focuses on e-commerce as market entry strategy into international markets, considering the case of multi-brand retail players in the fashion system. Both the study of international development through the online channel and the analysis of online purchases of luxury products are still in their preliminary stage of theoretical development (Liu et al. 2013). In fact, it has been pointed out that the phenomenon of online luxury development is relatively recent and to large extent unexplored (McKinsey 2014).

The fact that the Internet is available beyond national borders does not eliminate all forms of distance and liabilities associated with the internationalization process (Johansson and Vahlne 2009; Sinkovics et al. 2013). This implies that not all the e-commerce websites are international or are international in the same way. In this paper, firstly, some methodological concerns may arise such as the following: What dimensions can indicate the degree of internationalization of a website? What dimensions can define the ways in which online stores may become entry channels into foreign markets? Considering these methodological aspects, the paper tries to consider the empirical context of luxury fashion multi-brand stores by answering the following research questions: (a) What dimensions could be considered to shed light on the international development of online luxury retailers? (b) What are the relevant dimensions in the case of online multi-brand stores? (c) Are there any differences in the degree of internationalization among the players? (d) What are the main international markets served?

To address this lack, the next section elaborates the relationship between internationalization and e-commerce in luxury to then describe the methodology adopted for the compilation and analysis of a database on the multi-brand retailers. The following sections discuss the main findings uncovered by such analysis. The paper ends with some tentative conclusions and general considerations on the study.

Internationalization and e-commerce: a brief overview

Our work on internationalization through e-commerce deals at least with two issues that are related to the online store as a form of foreign market entry: (a) the more general process of online internationalization; (b) the specific process of internationalization of the firm in the online luxury fashion industry.

Online internationalization has been defined as “the conduct of business transactions across national boundaries, where the “crossing” of national boundaries takes place in the virtual rather than the real or spatial domain” (Yamin and Sinkovics 2006, p. 359). International development through e-commerce is associated with the issue of "internationalization speed". Luo et al. (2005), for instance, point out how despite international development through e-commerce is influenced by organizational factors, micro-and macro-environmental factors, the role of firm’s resources to explain the degree of success and the speed of the internationalization process remain central (Hassouneh and Brengman 2011).

Among scholars, the Internet has been recognized as a new mode of entry into international markets, different with respect to the traditional ones. It has been pointed out that it poses specific problems in terms of internationalization growth of the firm. It is usually associated with international development of small enterprises (Pezderka and Sinkovics 2011) and compared in terms of risks with the onsite presence of the company. In particular the use of the online channel seems to reduce the traditional risk factors of the international development of the company, although it has risks as well. Pezderka and Sinkovics (2011), for example, identify three main categories of risk in the internationalization through e-commerce: (a) traditional international risks, stemming from the physical environment and not related to the online presence of the firm; (b) operational risks that may affect both bricks and mortar companies as well as online firms in their domestic environment; (c) online risks relating to the use of the online channel as a form of entry.

With reference to the case of online luxury in fashion, to be more specific, previous studies mainly consider export strategies and foreign direct investment in the form of physical retail stores as relevant market entry strategies. In a recent work, for example, it has been pointed out how retail stores openings may represent a way of internationalization for fashion firms, such as in the case of Italian companies (Guercini and Runfola 2014). The issue of online distribution of fashion products is not new (Murphy 1998; Ashworth et al. 2006), but the internationalization through the online channel and the online international development of luxury fashion industry still remain unexplored. Although in the literature the relationship between the online channel and the luxury field has been the subject of growing attention (Liu et al. 2013; He and Stoel 2012), further research is needed. The supposed incompatibility between luxury brands and online experiences, which brought brands such as Versace or Prada to avoid websites until at least the middle of the past decade, seems now definitely overcome. Some assumptions may be advanced to justify this reasoning. Firstly, the improvement in both hardware technologies and software have transformed the digital environment in terms of experiences it can offer to online visitors. Secondly, new visual online merchandising techniques are available for luxury companies (Okonkwo 2009). Finally, it should be stressed a growing preference towards the online channel for the purchasing of luxury products by both new generations and consumers in emerging markets (McKinsey 2014).

Coming back to the more general issue of the internationalization through Internet, online websites may relate to national and international visitors overcoming international boundaries (Premazzi et al. 2010; Morgan-Thomas 2009). Nevertheless, the Internet potential to target international markets may vary from country to country as, for example, it may be subjected to state filtering or restrictions (Zaheer and Manrakhan 2001). In broad sense, we may identify three main types of barriers to the internationalization potential through Internet: (a) "structural" barriers, connected to the functioning of the Internet defined by the technical specifications of the server localization and the quality of the infrastructure; (b) "political" barriers related to the degree of censorship in different markets and to the limitations to access Internet websites; (c) "cultural" barriers related to

the language used, to the style of writing, to the meaning of colors used and in general to the cultural attitude towards the contents proposed within Internet websites (Guercini 2003). These barriers may correspond to different types of liabilities that must be faced with in the internationalization process through online sites. It should be noted that liabilities related to the geographical distance in logistics activities remain central as well in online internationalization (Overbye and Min 2001).

Structural and political constraints may be also related to the role of search engines and social media in facilitating the internationalization growth of the company (Jin 2012). Let us consider the case of China, where the difficulties experimented by Facebook and more recently by Google, may have strong effects on the effective accessibility of online stores that consider those websites as upstream links for their e-commerce platforms. These effects are outweighed by the actors of e-commerce through specific activities on other search engine or social media sites (Baidu in China, Yandex in Russia, etc.) but require specific knowledge. In other words, there is a spatial characterization of the awareness and the actual use of certain search engines or social media that can be relevant to access different international markets. Consequently, the search optimization of a site has a geographic dimension in the sense that from one country to another the visibility and accessibility changes, and then the traffic of potential customers is strictly related to local online consumer behavior (Molla-Descals et al. 2014). These conditions can change from one place to another even within the same country. Let us consider again the case of China, where while in Shanghai it is very easy to access to Google Hong Kong, this is not possible only a few hours driving distance from there, e.g. Hangzhou in Zhejiang.

In summary, even in the online market it is possible to identify liabilities the company has to face with (Kobrin 2001). On the basis of these reflections, the virtuality of the Internet is only apparent. In fact, distances and liabilities in the processes of internationalization (Johansson and Valhne 2009) still remain central, as it has been stated in previous studies that point out the so called

“virtual trap”, namely the “online analogue” of the psychic (and physical) distance concept (Yamin and Sinkovits 2006, p. 359).

Methodology

In order to study the relation between internationalization and e-commerce, we have exploited the information contained in a database created expressly for the purposes of this research. The database has been compiled by examining a sample of online luxury multi-brand fashion retailers. The selection of online sites to be investigated took place primarily through contacts with opinion leaders in the field. Opinion leaders provided us a list of actors, similar for positioning and product assortment, to be analyzed in a comparative perspective. Such list was then integrated on the basis of personal knowledge of the authors who from about twenty years are engaged in the study of the fashion system. In view of this, our analysis included the investigation of 20 multi-brand luxury websites. The list of the companies analyzed is indicated in table 1.

Table 1. The list of online luxury multi-brand fashion retailers analyzed

1. barneys.com	2. bergdorfgoodman.com
3. bloomingdales.com	4. farfetch.com
5. lanecrawford.com	6. luisaviaroma.com
7. macys.com	8. matchesfashion.com
9. modaoperandi.com	10. mrporter.com
11. mytheresa.com	12. neimanmarcus.com
13. net-a-porter.com	14. nordstrom.com
15. oki-ni.com	16. saksfifthavenue.com
17. selfridges.com	18. thecorner.com
19. theoutnet.com	20. yoox.com

From the methodological point of view, the 20 online sites have been investigated through a secondary analysis (Stewart and Kommins 1993) aimed at building an information database on international development. This database is based on two main sources of information.

Firstly, for each site we gathered online metrics from the Alexa.com database. Alexa is an Amazon company that collects “estimates based on data from its global traffic panel, which is a sample of millions of Internet users using one of over 25,000 different browser extensions” (source Alexa.com). In particular for each multi-brand retailer’s website, the following information were collected (data updated to 1/24/2015): (a) global rank of the website; (b) the site's global reach in terms of number of visitors to the total number of Internet users; (c) the visitors’ countries of origin and the percentage of these visitors with respect to the total visitors of the website. In the absence of a specific variable (only available with a direct contact with enterprises), the latter factor was considered in this study as a proxy for the international dimension of the site. We then assume a strict relationship between website’s visitors and the website’s customers. This is certainly a limitation of our study, but we may justify it to the extent that we assume high conversion rates (between visitors and buyers) and limited differences among the various sites/online stores (roughly the same degree of conversion among the players).

The second source of information for the database has been the site of each online player. For each of the sites investigated the authors proceeded to gather information consistent with the themes of internationalization of the company. In particular, we gathered data on the following aspects: (a) number and type of languages in which the site is available; (b) number of countries where shipping is available; (c) third party players responsible for international shipping and payments; (d) policies with regard to returns; (e) companies’ investment in physical stores and location of the stores (national/international). These factors have been considered relevant to understand the internationalization policy of each multi-brand retailer. For example, the development of a new language for the site in this particular context, the luxury, requires a huge investment in dedicated resources. Same discourse regarding the shipping at international level of a luxury product, that requires different skills with respect to the case of fast moving consumer goods.

The following section proposes some findings of the empirical investigation.

Findings and discussion

The first dimension that we tried to analyze concerns the understanding of the main markets in terms of visitors to the sites. In general terms, visitors of the 20 multi-brand retailers are related to 39 international destinations.

To estimate the most relevant countries in terms of visitors and to compare different websites, we calculated a weighted average for each country. In particular, we take into account the percentage of visitors of each country for each website weighted with the relative importance of each site in terms of its global reach (i.e. the estimated percentage of Internet site visitors with respect to the total visitors of the Internet). In fact, since we had not available data on the absolute value of unique visitors to each site we tried to proceed with an analysis that took into account the relative importance of each site to estimate the main international markets involved in this analysis.

The data acquired reveals that United States is the first market for visitors in the case of online luxury multi-brand retailers. The aggregated data of the 20 players analyzed shows how this market in general terms amount for the 66.49%. The second most important market, although with a much lower aggregate data, is South Korea, whose incidence is around 4.40%, followed by Japan with a weight of around 4.13%. In total our observation found visitors from at least 39 international markets (countries of origin of visitors that can be found on the 20 e-commerce sites within the Alexa database).

Table 2. Percentage of international visitors to the 20 multi-brand retailers website (decreasing % of visitors)*

Country	%Visitors	Country	%Visitors	Country	%Visitors
United States	66.49	Spain	0.45	Saudi Arabia	0.08
South Korea	4.40	Hong Kong	0.37	Mexico	0.08
Japan	4.13	Brazil	0.29	Indonesia	0.08

mytheresa.com	4	X		X	X	X				
neimanmarcus.com	1	X								
net-a-porter.com	4	X	X	X	X					
nordstrom.com	1	X								
oki-ni.com	2	X							X	
saksfifthavenue.com	1	X								
selfridges.com	4	X	X				X			X
thecorner.com	8	X	X	X	X	X	X	X	X	
theoutnet.com	2	X	X							
yoox.com	8	X	X	X	X	X	X	X	X	
Total	-	20	6	5	5	4	4	3	3	1

The second language implemented is Chinese (6 to 20 players). It may be noted that this is related to both the importance of this market for the actors under observation (is the fourth market in terms of visitors), and the role played by this market within the more general phenomenon of luxury sales.

The Chinese language is followed in order of importance by some European languages (such as German and French). One may note that, although South Korea is one of the main markets in our analysis, none of the actors considered implements a Korean version of the site.

The number of languages provided within the website, as expected, is correlated with the incidence of visitors from the website's home market. In fact, from a correlation analysis, it results a negative correlation between the weight of the national market of the actor in terms of visitors and the number of languages implemented within the site (Pearson's $r = -.527$ $p < 0.05$). In other words, the more are the international visitors the more are the languages implemented.

We then tried to shed light on the companies' investments in physical retail operations and the location (national/international) of the retail stores for each player. The results are shown in table 4 below.

Table 4. Retail stores presence of the 20 online websites*

Site	Home country	Retail stores	Retail stores abroad	Total retail stores	Total Retail stores abroad	Countries
barneys.com	USA	X		29		

luisaviaroma.com	ITA	X		2		
bergdorfgoodman.com	USA	X		2		
bloomingdales.com	USA	X	X	51	1	UAE
lanecrawford.com	HK	X	X	9	4	China
macys.com	USA	X		790		
matchesfashion.com	UK	X		4		
modaoperandi.com	USA					
farfetch.com	USA					
mrporter.com	UK					
mytheresa.com	GER	X		1		
neimanmarcus.com	USA	X		41		
net-a-porter.com	UK					
nordstrom.com	USA	X	X	116	1	Canada
oki-ni.com	UK					
selfridges.com	UK	X		4		
thecorner.com	ITA					
theoutnet.com	USA					
yoox.com	ITA					
saksfifthavenue.com	USA	X		112		

**Data were collected from the last available 10k forms, annual reports and companies' websites*

Table 4 shows that 12 actors of the 20 analyzed have a physical presence in terms of outlets. However, most of the actors has no outlets abroad. Only 3 actors, in fact, have a limited presence in foreign markets. In 2 cases, in fact, the retail operation abroad regards countries the home market (China for an operator in Hong Kong and Canada for an America player).

In order to determine whether any differences exist between the players, an exploratory hierarchical cluster study has also been conducted using the Squared Euclidean distance and Ward's algorithm. The non-hierarchical cluster procedure, which has been used in analogous studies, is adopted when it is not possible to arrive at an a priori classification of the players involved. As no prior definition of the cluster number was available, in order to group the online retailers we utilized the percentage of visitors from the home market of each site. The analysis yielded two clusters (Table 5).

Table 5. The cluster of online multi-brand retail stores

Cluster 1 “The domestic”	Cluster 2 “The international”
barneys.com	farfetch.com
bergdorfgoodman.com	matchesfashion.com
bloomingdales.com	luisaviaroma.com
macys.com	lanecrawford.com
modaoperandi.com	mytheresa.com
neimanmarcus.com	mrporter.com
nordstrom.com	net-a-porter.com
saksfifthavenue.com	oki-ni.com
selfridges.com	theoutnet.com
	thecorner.com
	yoox.com

The first cluster, which we will call “the domestic”, is represented by nine players. The second cluster, which we will call “the international”, is represented by eleven players.

Some differences between the two clusters are shown in table 6. Cluster 1 is characterized by actors predominantly oriented to the domestic market, since about 70% of the site’s visitors are national. Differently in the cluster 2, the percentage of home markets is about 20%. This difference is statistically significant as it is shown in the analysis of the independent t-test, $t(18) = 11.535$ $p < .01$.

The number of languages that are implemented is different in the case of the two clusters. Cluster 1 has on average one language against the nearly four in cluster 2. In addition, the international vocation of cluster 2 is also highlighted by the average number of countries where shipping is available. While the firms in cluster 2 serve on average more than 155 countries, companies in cluster 1 manage shipments in roughly 89 countries.

Table 6. Mean value of number of languages, weight of home market and number of shipping countries

	Cluster 1	Cluster 2
Number of languages	1.3	3.5
Home market weight	69.3	18.29
Number of shipping countries	88.8	156.1

Another relevant aspect of difference between the clusters is the fact that actors belonging to cluster 1 (8 cases out of 9) also distribute through physical stores compared to only 4 out of 11 firms in cluster 2. Moreover, in cluster 1 shipments and international payments in 6 cases are managed through a third party portal (namely Borderfree.com).

Research propositions and final remarks

Combining literature review and the results of our exploratory empirical investigation, we propose here some preliminary answers to the research questions advanced at the beginning of the paper. Given the limits of research we offer these answers in terms of research propositions to be further addressed in future research. The data collected about online luxury fashion retail firms shows heterogeneity of the international approach in the case analyzed.

Hereafter, we describe our research propositions.

RPI. At least with reference to online luxury fashion retail, we can distinguish e-commerce actors more oriented towards internationalization and others that are more oriented to the domestic market. Our analysis shows two distinct clusters in these terms.

High degrees of internationalization through e-commerce require the overcoming of technical, political and cultural liabilities, but also a good integration into an overall internationalization

strategy of the enterprise. In this regard, e-commerce operators that apparently seem to follow the same strategy, at a detailed analysis look different. Firms are not different only in terms of international range, rather seem to have different modes of internationalization, different activities and a different degree of integration between offline and online retail operations. Consequently:

RP2. At least in the case of online multi-brand retailers, the internationalization through e-commerce may be quite different by the different combination of online stores and physical stores, the latter being both domestic and international.

Some words should be spent on the limits of the present work. Firstly, the analysis was limited to just 20 players in the online luxury fashion. Although the analysis considered leading websites, future research will be aimed at increasing the number of actors to be analyzed, including both multi-brand retailer and mono-brand store of luxury manufacturers. Consequently, differences between these two strategic groups of firms may emerge. Secondly, from the methodological point of view, the analysis must include a field work investigation with of a survey analysis of the leading operators worldwide as well as the development of in depth cases. Finally, the analysis focused on the development of e-commerce in the fashion system. Future research should analyze and compare this sector with other sectors (e.g. tourism or wine industries) in which online sales appear to have similar relevance and growing trend.

Beyond the limits pointed out, this paper has the advantage of shedding light on a understudied phenomenon in the literature, the company's online international growth emphasizing the potential role of the online channel as a new entry mode into foreign markets.

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