

Retail stores openings as a market entry strategy for SMEs. Empirical evidence in the Italian fashion industry

Simone Guercini

*Full Professor, Department of Economic and Business Science, University of Florence, Italy
e-mail: simone.guercini@unifi.it, Corresponding author*

Andrea Runfolà

*Assistant Professor, Department of Economics, University of Perugia, Italy
e-mail: andrea.runfolà@unipg.it.*

The aim of this paper is to present some reflections on a phenomenon that seems to be unexplored in the international management literature: the international expansion of manufacturing small and medium sized enterprises (SMEs) through the opening of retail outlets in foreign countries. The literature on international management has often examined the exportation of SMEs' products as an important phenomenon in international marketing, also in consideration of the major role this type of enterprise plays in many advanced economies (Ruzzier et al., 2006). Traditionally, such work concerns mainly the setting up of operations or, in any case, direct investment abroad (such as establishing retail outlets) with particular reference to large-scale and multinational enterprises (Calvet, 1981). The subject of the present paper concerns a more general theoretical framework aiming to analyze the relations between firm size and the processes of internationalization. This theme has enjoyed widespread study in the literature, where it has previously been shown that good performance in international markets is not necessarily the exclusive prerogative of large enterprise. To the contrary, SMEs can operate effectively in international markets, even though there are differences between SMEs and large enterprises that are not entirely attributable to size, but rather to a series of peculiar characters of the SMEs themselves (Bonaccorsi, 1992).

In the following we shall attempt to delve into a specific aspect of the relation between firm size and internationalization that seems to have had garnered less attention in the literature, in particular the retail growth of manufacturing SMEs. Indeed, despite the by-now many years of literature contributions aiming to shed light on various aspects of the internationalization of SMEs, little attention has been focused on the retail development of small and medium enterprises, especially with regard to the manufacturing sector. As underscored by Hutchinson et al. (2009), of the literature that has dealt with the internationalization of retail businesses, most studies have focused mainly on the foreign development of large, rather than small, retailers.

Thus, the research questions we intend to pose and advance some reflections on in terms of theoretical implications and research are the following:

- a) does the expansion to foreign countries through the opening of retail outlets also concern SMEs?

- b) if so, what are the reasons that prompt manufacturing SMEs to internationalize through retailing?
- c) what are the conditions that enable this type of enterprise to operate effectively?

These research questions stem from empirical observations of the expansion into foreign markets of SMEs (primarily in apparel) in the Italian fashion sector (Runfola, Guercini, 2013; Aiello, Guercini, 2010; Guercini, Runfola, 2010). Such internationalization process has already been studied by the authors, resulting in findings that highlight the advisability of formulating a theoretical framework for this phenomenon, which seems to have attracted little attention in the international business literature, where the garment making industry is considered rather traditional (Child, Hsieh, 2014; Jones, 2002). For instance, in a recent paper on SMEs and internationalization processes in terms of decision-making and knowledge use, Child and Hsieh (2014) categorize clothing manufacturers as so-called traditional SMEs. Indeed, according to the authors, garment makers “adopt a reactive approach to deciding on internationalization”, where “the trigger may be a critical incident such as the decision by a major customer to internationalize or a major order from abroad, developments to which they feel obliged to respond” (Child, Hsieh, 2014). The assumed correspondence between a “small” enterprise and “reactive” enterprise underlying such perspective seems to be a matter for substantial debate. Actually, the phenomenon of internationalization of garment makers in the Italian fashion system seems to involve a decision-making process with regards to internationalization that is not merely “reactive” to a trigger, but that stems from a deliberate choice to expand to foreign markets (Mintzberg, 1985). Such empirical evidence raises some interesting research questions with regard to both the manner of foreign expansion (retail), as well as the sector in which such decisions to expand are made (fashion system), and that seem to outline a different, and peculiar, approach to internationalization.

Regarding the first research question—namely a) does the expansion to foreign countries through retail outlets also concern SMEs?—, the analysis reveals that not only large, but also small manufacturing enterprises can pursue growth through the establishment of a sales network in international markets.

With reference to the second research question – that is, if so, what are the reasons that prompt manufacturing SMEs to internationalize through retailing? – as highlighted in the literature, SMEs suffer from a lack of a whole series of both managerial and operational resources; such lack would surely render the implementation of internationalization initiatives such as those observed more complex. For SMEs, establishing a retail presence in fact requires overcoming considerable operational, managerial and financial obstacles. However, lacking any case study analysis and/or survey of a sample of small enterprises, the findings of this paper do not allow for understanding in detail the reasons underlying the decisions of SMEs to enter foreign markets through this sort of strategy. This said, it is nonetheless possible to furnish some theoretical reflections stemming from the empirical evidence, which seems to point to a widespread ongoing process of internationalization of the Italian fashion industry, especially considering the number of enterprises and brands involved. It seems that such a finding may be attributed to an attempt on the part of enterprises in this sector to respond to a structural crisis in the national system. The opening of retail outlets thus seems to represent a new way for enterprises to establish a presence in the foreign markets deemed suitable during this crisis stage in the fashion industry and western markets in general. The search for greater proximity to the final consumer provides for a greater capacity to disseminate the business brand, even when it does not enjoy the high level positioning characteristic of luxury goods. Contrary to appearances, the opening of retail outlets may thus be

a way for enterprises to break into new markets, despite their being culturally and geographically distant, as are the emerging markets, for instance. This may be linked to the possibilities that establishing a retail presence abroad offers in terms of knowledge and skills acquisition. This is a particularly ambitious growth strategy the part of small and medium enterprises, as it involves the need not only to acquire new skills, in distribution, for example, but also to operate in a new, unfamiliar geographical and cultural setting.

With reference to the third research question – i.e., c) what are the conditions that enable this type of enterprise to operate effectively? – although the analysis carried out fails to furnish any specific indications, it is nevertheless possible to formulate some hypotheses. Firstly, it seems safe to assume that small and medium enterprises choose carefully the countries where they intend to open stores, given that the costs involved with each single choice are quite high and it is impossible to make investments according to solely long-term considerations. This seems to explain SMEs' predilection for more mature markets and their scarce regard for at least some of the emerging markets.

The study presented herein points to the opening of retail stores as a new means by which small manufacturing enterprises seek to pursue a policy of internationalization. It will be interesting to see, in today's competitive global context, whether such strategy can represent a previously unexplored way to guarantee an alternative form of success in foreign markets and gain potentially important advantages in the competition between SMEs and large manufacturing enterprises on the international scene.

Keywords: *Retail stores openings; market entry strategy; SMEs; Italian fashion industry*

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