THE IMPACT OF RETAIL INTERNATIONALIZATION ON MAKE OR BUY DECISIONS AND BUYER-SUPPLIER RELATIONSHIPS. EVIDENCE FROM THE ITALIAN FASHION INDUSTRY

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ABSTRACT

The aim of the paper is to examine the impact of retail internationalization on the choice of in-house operations versus outsourced activities, and effects on buyer-supplier relationships in the context of the Italian fashion industry. In recent years, many fashion manufacturers are pursuing downstream integration through directly operated stores, concentrating their efforts on the downstream side of the supply chain more than on the upstream one, in order to increase their control over the sales network and get in direct contact with final customers. The opening of stores is also part of the international expansion of these firms, in the form of directly operated stores (DOS) or third-parties operated store (TPOS), namely with business partners in foreign markets. Specific aim of the paper is to investigate to which extent the international expansion of retail operations by manufacturing firms impact on make or buy decisions and buyer-supplier relationships, specifically relationships with suppliers of fabrics and manufacturing services. Make or buy decisions concern the choice of performing internally some strategic activities previously outsourced, in order to cope with the demands of retail outlets in domestic and foreign markets, with consequences on the business network in which the firm is embedded. The topic is addressed using the methodology of case analysis. We propose three cases of vertically integrated firms in the fashion supply chain, that produce and sell total-look women/men clothing in their own mono-brand stores both in Italy and abroad. The analysis points out the main changes in the network of relationships of the firms and the critical decision of in-house development of activities in response to retail internationalization.

Keywords: buyer-supplier relationships, retail stores openings, make-or-buy, fashion industry

Paper type: Competitive paper

1. INTRODUCTION

The aim of the paper is to examine the impact of internationalization through stores openings abroad by manufacturing firms on the choice of in-house operations versus outsourced activities, and effects on buyer-supplier relationships in the context of the Italian fashion industry. The international expansion of manufacturing firms through the opening of retail outlets in foreign countries is a phenomenon that seems to be under-investigated in the academic literature.

Much attention has been given to the internationalization of retail companies (Dawson, 1994; Vida and Fairhurst, 1998; Alexander and Myers, 2000; Alexander and Doherty, 2009), rather than to manufacturing firms going abroad through stores openings as market entry mode. The empirical research, in particular in the Italian fashion system, carried on by the authors and other researchers in the field, has shown that the opening of stores falls deeper and deeper into the practices of manufacturing firms: in this sense, there is a gap between the business practice and the literature on the topic, and this makes the phenomenon of stores opening significant and worthy of investigation.

Within the literature on retail internationalization, earlier work tended to emphasize the internationalization of food retailers and the larger formats, but the late 1990s witnessed the emergence of research on fashion retailer, consistently recognized as the most prolific of international retailers (Fernie et al., 1997; Doherty, 2000; Moore et al., 2000; Wigley and Moore, 2007). The interest in this area has increased lately, mainly due to the growing complexity within this dynamic context where the competition is fierce, especially within the retail environment (Newman and Cullen, 2002). The shift in scale and power of major retail chains in the market, the advent of own brands retail networks, the nature of sourcing and supply chain (SC) decisions which are increasingly global in nature, are just some of the issues that have contributed to this complexity. The distribution functions and management of the processes involved in the network of stores have acquired a more central role in the textile-apparel pipeline. This points to the potential rise of retailing competences as a factor of competitive advantage within the pipeline (Guercini and Runfola, 2004).

Opening stores seems to be the result of a deliberate strategy, but emerging issues can be important. These include make-or-buy issues and the relationship with suppliers. In the fashion context, coordination of activities between actors along the textile-apparel pipeline is a crucial issue, together with the fact that many fashion manufacturers are pursuing downstream integration through direct operated retail networks or partnership. There is a growing need, among manufacturing companies, for being closer to final markets and the opening of stores (through direct investment or partnerships), but at the same time, with the willingness to maintain industrial competencies (design and sourcing/producing). In this sense, there is a large number of manufacturing companies who develop a significant presence in retail, and invest in stores opening as a means of establishing the brand image both nationally and internationally. Stores can be mainly of two types: fully owned and directly managed by the company (directly operated stores, DOS), or can be the result of agreements – such as franchising, licensing or other contractual forms – that involve the relationship with a local partners (third parties operated stores, TPOS).

It appears therefore a need for integration (Thompson 1967) both from the side of the actors of the retail, which perceive the need for control over the actors of manufacturing context, and the opposite case in which manufacturing firms experience a need for control over retail functions. This need for coordination and control result, not surprisingly, in factors that lead to the vertical integration in the textile-apparel distribution chain.

The forms taken of the integration process may not always be that of full vertical integration (Grossman and Hart 1986). In some case there is a form of "partial" integration, where for example the manufacturing actor gradually assumes some features that may be typical of the retailer, or, conversely, where the retailer integrates functions of the industrial company, assuming the characters typical of the "industrial retailer" (Guercini, 2004). Guercini (2004) represents different kinds of integration processes between manufacturing and retailing in which one may find situations that involve integration from upstream to downstream and/or forms of external rather than internal growth.

Starting from this scenario, the paper aims to examine the impact of the opening of retail stores abroad by manufacturing firms, on the choice of in-house operations versus outsourced upstream activities, and effects on buyer-supplier relationships in the context of the Italian fashion industry. Given that the expansion to foreign countries through the opening of retail outlets also concern manufacturing firms, the paper is concerned with assessing whether and how the international expansion of manufacturing firms through the opening of retail outlets in foreign countries affect the decision to outsource or internalize upstream activities and the adaptation/changes of the business network in which firms are embedded. Specifically, this paper debates the following two research questions: i) what are the effects of retail expansion by manufacturing firms on make or buy decisions? ii) What are the consequences on buyer-supplier relationships and business network changes?

The research methodology is qualitative and based on a limited number of case-studies: the empirical investigation concerns three companies in textile and apparel selected in the light of their manufacturing tradition and international profile. The three companies under examination have been pursuing an international growth through the opening of retail outlets, following first an approach aimed at outsourcing some non-core activities to local and foreign suppliers, then bringing back in-house some functions in response to the needs of their stores, with consequences on the network of relationships with suppliers and foreign partners.

The paper is structured as follows. In the next section a literature review on make or buy decisions and business networks dynamics is presented. The third section is devoted to the methodology of the study and the analysis of the three case studies in relation to the main research topic. In the fourth section the main results, conclusive remarks, further research directions and managerial implications are discussed.

2. THEORETICAL BACKGROUND

The question of make or buy is at the core of the transaction cost economics (TCE) which analyses under what situational factors an in-house hierarchy is to be preferred and vice versa when a market solution is seen as more favourable (Coase, 1937; Williamson, 1975). Williamson's (1979) argument is that in an imperfect world, where individuals have limited information-processing capacity and are subject to opportunistic bargaining, high uncertainty makes it more difficult for the buyer to evaluate the supplier's actions, and high asset specificity makes opportunistic supplier decisions particularly risky for the buyer. The problems of evaluating supplier performance under high uncertainty and of suffering potential supplier opportunism under high asset specificity are both reduced when the buyer has unilateral control over the transaction by producing the component in-house.

Make-or-buy decisions determine the firm's level of vertical integration, since each decision specifies which operations the firm will engage in and which it will contract out to a supplier. Over the past 20 years, transaction cost approach has emerged as a predominant theoretical explanation of vertical integration and boundary choices (Monteverde and Teece, 1982; Walker and Weber, 1984; Leiblein et al. 2002; Boerner and Macher, 2002). David and Han’s review of 63 empirical papers found considerable explanatory power for TCE in answering the make-or-buy decision (David and Han, 2004).

Other authors use different theoretical lenses to explain make or buy decisions, such as knowledge-based and measurement explanations (Poppo and Zenger, 1998), and a combination of TCE, neoclassical economics and firms capabilities (Parmigiani, 2007). Among others, the resource-based view of the firm (RBV) is a theoretical framework commonly used to address the make or buy issue or more often the issue of outsourcing; RBV is often used to put forward the arguments to keep core-competences in-house and to outsource and source products and services that are based on complementary competences or more simply are looked upon as standard products (Madhok, 2002; Mayer and Salomon, 2006). Thus, outsourcing is a central issue and it can be both (1) in the home nation of the firm, as well as (2) abroad, and entails an organizational restructuring of some activities. Outsourcing is a strategy that is often simultaneously analysed with offshoring, that is a restructuring the firm along another dimension, namely geography. It entails the relocation of operations from the home nation to a foreign location where the same company activities are performed under either (1) the company's own subsidiary or (2) allocated to a foreign supplier. The boundaries of many firms have therefore simultaneously shrunk organizationally and expanded geographically, while also becoming more permeable (Contractor et al., 2010).

The IMP (Industrial Marketing and Purchasing) view of market as a network of relationships (Håkansson, 1982; Håkansson and Snehota, 1995) is a framework which is used less frequently for analysing make or buy decisions. The network perspective is very critical towards the TCE rather simplistic view of a choice between market and hierarchy; instead, it stresses the importance of viewing markets as networks of relationships, where the dominant relationships between main actors often are long-run and based on interdependence of activities and resources, and of mutual trust, which is seen as an accumulative process over time. Through the lenses of the IMP perspective, interesting questions raise including how make or buy decisions and supplier selection decisions are made or are formed in a less planned fashion, over a longer- time frame and within a relatively stable relationships between customers and suppliers. Make or buy choices impact the boundaries of the firms. While several authors (e.g., Holcomb and Hitt, 2007) point out that TCA dominates as an explanation for boundary setting and outsourcing decisions, the issue of boundary setting should be viewed in a broader and dynamic context (Baraldi et al., 2014).

Since the 1980s, a large body of IMP research (Anderson et al., 1994; Ford and Håkansson, 2006; Gadde and Mattsson, 1987; Håkansson and Snehota, 1995; Håkansson et al., 2009) has shown that buying and selling is not a series of independent transactions but is rather part of a pattern of long-lasting and complex relationships that include exchange processes and especially mutual adaptations between firms (Håkansson and Snehota, 1995; Ford et al., 2002)

Håkansson and Snehota (1995) analyse business relationships by breaking them down into the three layers of activities, resources and actors forming the so called "ARA" model. The model suggests that the content of a business relationship can be described in terms of the three layers: Actor Bonds (Håkansson and Snehota 1995), Activity Links (Fredriksson and Gadde 2005; Gadde 2004; Gadde and Håkansson 2001) and Resource Ties (Håkansson and Waluszewski 2002). The model also suggests that each of these three layers are inter-connected and each affects and is affected by the constellation of resources, pattern of activities and web of actors in the wider network. The "activity layer" of the ARA model is particularly relevant for analysing the externalized or in-house activities in an interactive perspective.

The IMP-based theoretical frame stresses the relational nature of make or buy decisions. On one hand, the decision to outsource implies a supplier that takes over the activities externalized by the outsourcing company and engages in a business relationship wherein it jointly creates (or co-creates) value with the customer by closely coordinating its activities with the customer's (via activity links). Two important consequences of this relationship are that the supplier and the outsourcing company become more mutually dependent and their organizational boundaries become blurred (Baraldi et al., 2014). On the other hand, the choice of in-house operations might imply the closure of business relationships, especially when activities previously outsourced are brought back in-house.

In this sense, make or buy decisions can be interpreted in terms of reorganization of the set of a firm's relationships and reconfiguration of the business network, given the dynamic nature of business networks. They might imply: the creation of new/strategic relationships with suppliers and business partners to which an activity is outsourced; termination of relationships, if certain relationships are explicitly intended to be terminated in connection with or as a result of the decision to internalize what previously had been outsourced, it can clearly be done by one-sided decision, but connectedness of relationships becomes an issue and the change in focal relationships may have important network effects (Halinen et al., 1999).

The dynamic nature of business networks emerged from the work of Håkansson and Snehota (1989), in which the two authors highlight that a business is not an island and that no confining boundaries can be delineated between a company and its environment. Anderson et al. (1998) suggest that two perspectives must be adopted simultaneously when studying changes within a network: a stability dimension, focusing for example on which actors' positions disappear and which new ones appear; and a change-process dimension, looking, for instance, at the players' actions, both planned and carried out. Halinen and Törnroos (1995, 1998) suggest the importance of the time concept and the role of embeddedness, adopting a process approach to describe network dynamics. Halinen et al. (1999) have identified two main types of network change according to degree: incremental change, defined as any change that occurs in the nature and content of single relationships; and radical change, considered to be any change involving the ending of relationships or the beginning of others. According to the authors, changes in the stability of a network may be related to inertia and/or critical events arising from either the dyad or the business environment.

Looking at the potential strategies that a company may implement, Blois (2008) proposed a revised version of the Hirschman (1970) approach to the possibilities open to an actor in relational paths. Starting with the “exit”, “voice” and “loyalty” strategies in general relationships, Blois criticizes the application of this strategy scheme to the business world. Blois (2008) stresses three main points that are ignored when considering “exit” and “voice” in the industrial world: the availability of alternative suppliers, which may be limited; the financial implications of the three potential strategies; and the response of a supplier to a customer's strategy. In a certain sense, Blois views the possibility of an exit strategy as sometimes unrealistic (Blois, 2008).

Guercini and Runfola (2012) discuss the overall dynamics of a business network in terms of two paths followed by the firms in reorganizing their networks: integration or substitution. In the integration path, the firm can act by identifying leading actors in its existing business relationships and seek to interact more closely with them; the integration path can lead to business network consolidation. The alternative proposed by the authors is the substitution path, where the firm may completely change the business actors with whom it deals, by ending existing relationships and developing new ones, which can lead to business network change.

3. METHODOLOGY

In this research we have adopted a case analysis method, whose importance in both generating and testing theory (Eisenhardt and Graebner, 2007) has recently been stressed (Woodside, 2010). This methodology is particularly suitable when dealing with research questions that try to identify some behavioural aspects of companies' actions (Eisenhardt, 1989; Yin, 1994), within a research project based on exploratory objectives. The use of case studies can be justified as a research approach when: existing theory has some gaps in explaining the phenomenon under investigation; there are situations in which the context and the experience of the actors are relevant; research is exploratory (Barrat et al., 2011). Halinen and Törnroos (2005) indicated the case research method as one of the most suitable means to understand network dynamics. We use the perspective of the focal firm. In line with the idea of “macroposition” expressed by Johanson and Mattsson (1988), we describe: the role and importance of the firm in the network; the identity of the other firms with which the firm has direct relationships and indirect relationships in the network; the strength of relationships with the other firms. By using the perspective of the focal firm, we provide a description of the actor-network. We consider the perceptions of an actor, namely the entrepreneur and managers directly involved in the internationalization process of the firm, in the definition of network boundaries (Anderson et al., 1994).

The cases presented here have been given fictitious names (Alpha, Beta, Gamma) for reasons of privacy, and are based on a number of data sources: in-depth interviews; company website and annual reports; date published in fashion magazines and journals; company internal reports. This is to ensure the robustness of the data, following the so-called “triangulation” (Eisenhardt, 1989). The findings presented herein come mainly from semi-structured interviews conducted in order to collect specific information on retail internationalization, make or buy decisions and business network dynamics directly from the players involved. The cases have been selected following some criteria: firms with a long textile/clothing tradition; firms involved in a process of internationalization over the years; firms that have opened stores abroad in the last five years, both in the form of DOS and TPOS; availability/will of the entrepreneur and managers to be interviewed. Table 1 summarizes the main parameters adopted for data collection and analysis.

The empirical setting of the cases analysed is textile and apparel, which is the largest industry in fashion and accounts for a considerable portion of the activities of overall Italian manufacturing. This field is particularly interesting because of the tendency to implement vertical integration strategies downstream to gain access to distribution channels, with the opening of own-brand stores. For each case we briefly present the company profile, the internationalization process implemented, the openings of stores, the role and dynamics of business relationships for internationalization and the organization of activities.

Table 1

Data collection process adopted

Data source	Secondary data	Interviews
What/Who	-Data from local entrepreneurial trade unions -Firm annual reports -Firm Websites and Fashion Magazine publications -Press articles featuring the firm	-One interview with Export Director, and Marketing and Communication Manager (Alpha) -Four interviews with the son of the founder and CEO (Beta) -Three interviews with the son of the founder and CEO (Gamma) -Each two-hour interview was supplemented with secondary data. All interviews were taped and transcribed to ensure data recording accuracy
When/Why	- Four-years period (2011-2014)	-In 2011, 2013 and 2014 for Beta,

	- Integrate interview and collected data on firm strategies, make or buy decisions and business network changes	2013 and 2014 for Gamma and in 2014 for Alpha

3.1 The case of Alpha

The company's history began around 1928 in Perugia (Umbria, Italy), introducing the use of angora yarn to produce knit garments. The Alpha garments immediately aroused the favour of buyers, both Italian and foreign, who considered them far superior to all the angora products on the market at the time. After the premature passing of the founder, in 1935, the leadership of the company was taken over by her son. In 10 years time, the company started to sell its products in international markets and to focus on the opening of retail stores.

The first Alpha store was opened in Perugia in 1940. In the following years, other stores were opened in Florence, Rome, Venice, Naples and Milan, bringing the presence of the Alpha brand to the main streets and squares of the most important Italian cities. In 1943 Alpha was recognized as the largest and most modern industry in Europe in the production of angora yarn, with 525 employees and 8,000 angora breeding farms which became 20,000 in the early fifties. The company soon became a self-sufficient community, organized and equipped with facilities such as a nursery school, afterschool, church, sports and leisure facilities. Although the project was only partially realised, it helped to strengthen the bonds between the company and its employees.

The third generation was the author of the progressive development of the company’s full potential and created the foundation of the company’s present structure: the production of the clothing line, which flanked the more traditional knitwear factory, was strengthened and the network of direct distribution throughout the national territory grew by more than 90 stores between 1965-1985.

During this period, some activities, such as finishing, dying and ironing, were outsourced to local suppliers, namely small businesses localized in the Umbrian territory.

In 1986, the fourth generation took the helm of the company and carried on a management process in order to compete with the increasing challenges due to globalization of the markets and the entrance of aggressive competitors. A new line of clothing was introduced aimed at a younger clientele, maintaining the quality and price standards of the company. At the same time, the brand was further developed in the overseas market through the opening of stores abroad and the renovation of existing stores to make them consistent with the new brand image.

To date, the company has 811 employees – 2/3 of them employed in stores, 1/3 employed in administration, production and logistics – and a turnover of 125 million euros, stable over the last 5 years. Alpha stores are 151 in Italy (146 directly operated stores and 5 factory outlets) and 53 abroad, the majority of them are located in Russia, former Sovietic Republics and Middle-East. To date, the weight of foreign markets turnover is approximately 10% (45% of this is done with the Russian market), which is a peculiar situation since for similar companies foreign weighs much more, but Alpha is trying to catch up aware of the great opportunities that foreign markets offer.

In the early 70’s Alpha had already had an important process of internationalization, with directly operated stores in the US, Canada, Germany, Holland, Japan. In addition to stores abroad, Alpha had a network of directly operated stores occupying a pioneering position in Italy in terms of direct distribution. In the 80’s for a number of reasons, mainly related to serious health problems of the President, the company decided to close the stores abroad and to focus on the Italian market. Current operations in foreign markets are totally disconnected from the past experience of internationalization. The company began to operate again in foreign markets in 2005, starting from Russia through an Italian distributor. In addition to Russia, the company is concentrating on other parts of the world, such as Eastern Europe, with local partners. Foreign operations are then handled entirely through local partners through a “retail distribution agreement”, which is different in legal terms from a franchising agreement. The contract provides direct control of the performance of the store, the definition with the partner of sales targets, the mark-up that varies depending on the market. The contracts have an initial term of five years. Alpha relies on local partners because the company is not yet able to create and manage decentralized offices with local staff in many countries.

Recently a new project in Poland has started, which includes the opening of two directly operated stores, then returning to what was the prevalent corporate culture in the 70’s. This project is line with a reorientation of the company to direct entry in high potential markets, also thanks to new managers with experiences of internationalization in other companies. The company has set up a branch in Warsaw where two pilot stores will be opened in two shopping centres. The model of Poland will help the company to acquire the expertise to replicate it in other strategic markets, with a plan in five years to double the number of stores abroad to come to have about 100 stores by 2019.

In addition to the operations in Poland, Russia and neighbouring countries, next target is the Middle East, where the company has already developed a massive presence with local partners, even in atypical areas such as Iran. As for Western Europe, three years ago a store was opened in London in franchising. Alpha plans to open a store directly, being London important not only for Europe and Anglo-Saxon countries, but also for the Middle East and Russia. Another key market is Japan, where there is the project to create a joint venture with a local partner. Finally, the American market is particularly complex. The first pilot store will be directly opened in 2016 in California. The market is very complex in terms of heterogeneity, distribution dynamics, relationships with distributors, particularly department stores that have very aggressive policies, while offering visibility and large inflows. Alpha is planning to set up a subsidiary to directly manage the market presence through stores in shopping malls.

According to the interviewees, opening stores abroad is quite easy: the problem is to run them, especially if operated by partners, both from the economic point of view and in the management of brand image. In this sense, the company and the partners must be integrated to better define the sell-in, sell-out, management of local personnel and visual merchandising.

The focus on stores openings goes along with the organization of upstream activities. The company follows the typical planned model, with two collections a year: spring-summer and autumn-winter. There is only one pre-collection of knitwear that is sold in the stores before the main collections. Each collection includes about 400 models, each model with different sizes and colours. The product does not require substantial adjustments for foreign markets (with the exception of technical adaptations such as the length of skirts and pants for the Asian markets), this is because consumer tastes seem similar products since best-selling products tend to be the same in all countries. The brand extension has gone up to perfumes, produced by a subcontractor and sold exclusively in flagship stores.

The production is outsourced to sub-contractors. To date 40% of the production is made in Italy, 30% takes place in Eastern Europe, especially in Romania for knitwear, denim is produced in North Africa, especially in Tunisia, the embroidery in India, and other types of products are made in China. The quality control, considered as a core activity, is done internally: “*often when products* *return from abroad, you have to do lots of work to bring them to our quality standard, thus saving on production costs in reality is offset by the need to do further work to restore the quality of the product. The only exception is Romania, where the quality levels for knitwear are very high, and our suppliers are also involved in the process of product innovation*". In this sense, the company is planning to close some relationships with suppliers abroad, especially in China and India, and bring back to local suppliers activities such as embroidery and sewing, since the company can have more control over local suppliers. The quality and timing of production become essential elements to meet the needs of retail outlets.

Most relationships with suppliers in Italy and abroad are stable and long-lasting. There have also been cases in which local suppliers have become distribution partners for the foreign market: an example is Romania. Italian suppliers are both in Perugia, where there are small companies closely linked to the territory that form a local fashion cluster with laboratories specialized in various stages of the production process, and in other parts of Italy as Puglia, Veneto, Emilia Romagna. The activities done internally are: administration, purchasing, production planning, quality control, financial control, creative process and design, information technologies connected to the stores in order to have real-time information and manage both the assortment and exchanges between stores. The interface and coordination between stores/local partners and headquarter is critical to maintain the brand image and communication constant and consistent for all countries.

3.2 The case of Beta

Beta was founded in Florence in 1972 by a Florentine entrepreneur and his wife, and its target is a high-ranking male customer to which offer a full range of products entirely handmade in Italy with valuable raw materials. The activities of the company started with a collection of ties made with precious materials. In 1974, after the participation in the trade show Pitti Uomo, Beta, on demand of international customers, developed a collection of shirts, matching the collection of ties: this was a significant change for the company, which positioned its offerings on a segment of the textile and clothing market very different from the usual ones where usually the price of the products could not exceed a certain limit. The results of the period were beyond expectations, and it was necessary to organize, in a short time, a continued production activity, although initially small: another company for the production of shirts was founded, fully controlled, through which it became possible to strengthen the product line in the luxury segment, addressed to customers representative of the most affluent upper class in business and politics. To date, the company has 362 employees and a turnover of 133 million euros (+284% in 5 years; 96% is done in foreign markets).

The history of the company coincides with its international vocation and its development in foreign markets primarily through the sale of its products in prestigious multi-brand stores first, then through the opening of sales outlets, which now account for the main business of the company, which plans to continue with its strategy of store openings abroad, together with a strategy of business diversification. Beta has entered the field of fine furnishing fabrics with the acquisition of a historical Florentine company in 2010 in order to preserve the ancient art of silk processing. Currently the production includes a wide range of Renaissance silk damasks, brocades in silk and linen from various centuries. Continuing along the path of diversification, in 2012, the company has started a collaboration with a producer of yachts. In the last years, Beta became the holding of a group of firms totally or partially controlled.

During the years, Beta has developed its market penetration through three main channels: the multi-brand stores (exclusive agreements with historic shops, located in prestigious locations with international and loyal customers); the flagship stores, owned by the company or licensed; the department stores (Neiman Marcus, Bergdorf Goodman and Harrods). The opening of flagship stores, that is the strategy that the company is currently implementing, implies coming into direct contact with the final customer, offering also a customized product; improve the image of the product through a professional sales service; recover the margin that is assigned to the retailer; improve visibility and the luxury image of the product. The opening of new stores is the main driver of growth, as well as the objective characterizing future strategies.

During the ’80, Beta entered the U.S. market by opening a small showroom in New York, becoming the object of interest of e set of clients which included politicians and financiers, intellectuals and writers. In the early 90s, and parallel to the growth of production, the company decided to undertake retail operations, opening flagship stores directly controlled: this choice reflected the need to gain greater visibility and a stronger presence in the market, in order to establish the brand in the world and build an image of absolute elegance and good taste in clothes. The first flagship store was opened in Shanghai, China in 1993. In 1994 the presence on the North American market was further strengthened by the transfer of the showroom in New York's prestigious Fifth Avenue in Rockefeller Center. In 2000 a new boutique in Monte Carlo was opened, in 2001 a flagship store was opened on Rodeo Drive in Beverly Hills. Parallel with the constant growth of the brand in Asian countries, the second Chinese boutique was opened in 2002 in Beijing, inside the St. Regis Hotel, which is followed by the first licensed shop in the city of Cheng Du. Other boutiques opened in that period were in Porto Cervo, Italy, and in Xi An, which was the third owned flagship store in China. In the same period, a rented space inside the Hotel Principe di Savoia in Milan became the showroom that hosted all customers during sales campaigns. In 2005 the three-floor store in New York's Park Avenue became the flagship of the Group. In the same year, the fourth owned store was opened in China in Hangzhou. It was also granted to two local partners the right to open licensed flagship stores in Moscow on the prestigious Bolshaya Dmitovka, and in Paris, on Avenues des Champs-Elysees. At the end of 2011, the flagship stores in the world were 21, counting both those owned and licensed. In 2012, a new owned boutique was inaugurated in Beverly Hills, located at 270 North Rodeo Drive, managed by the subsidiary Luxury & Co. of Beverly Hills; it was also opened a new boutique in Paris at 34 Avenue Georges V, managed by the subsidiary Beta France, and a flagship store in Saint Moritz; a new licensed shop was opened in Ankara. During the same year, license contracts were signed for the opening of new boutiques in Vienna, Abu Dhabi and Shenyang (China). In 2013, other important store openings including St. Petersburg, Geneve, Dubai and Mumbai, Moscow, Beijing and Macao. In 2014 the growth of the firm has been rapid and consistent, with openings, among other, in Istanbul, Shanghai and a flagship store in Milan.

Beta has now 42 stores all over the world. The weight of investment on stores on the total turnover, in 2014, is between 8% and 10% of turnover, which includes stores (renewed and new openings) and investment in production. A new building (1500 square meters) has been acquired to expand the production of leather goods, in order to meet the demands of stores in terms of quantity, quality and delivery time.

The company recognizes the strategic role of the partner to enter the market, especially in emerging markets. Once consolidated its presence in the market, however, the project of Beta is to reacquire the licensed stores to recover profitability and to have greater control over the development of the brand.

The prevailing culture of Beta is “Made in Italy”: the entire production is carried out in Italy and for some products the entire production cycle takes place within the confines of the province of

Florence. In particular, 60% of the production is done internally, the remaining 40% is outsourced to workshops in Italy, about 20, directly monitored by the company. The creative process takes place entirely inside the head quarter of Florence, by its founder, his son, and some designers and experts for each product category, which were necessary since the company began its process of growth: in a few years, in fact employees of the Group increased from 40 to 300, and the company felt the need to rely, for some functions such as personnel management, to external partners. The marketing function, whose core business is retail and communication, however, remains in the hands of the family, in particular the founder and his sons, supported by a commercial office.
The processing of some products is outsourced to market leader suppliers, with contracts in the medium/long term (typically 4 or 5 years), and the suppliers must respect the quality standards imposed by the company. All the garments are shipped to the site in Florence where the quality control takes place, and they are re-checked, packaged and shipped to individual stores or customers. The company delivers its suppliers not only designs and models, but also the raw materials and fabrics. An example of outsourcing are the coats, which are made in Fano, a town in the Marche region, while the rest of the products are made in the province of Florence, in Emilia Romagna and Basilicata regions. The entire production of fine leather footwear takes place in Florence, as well as the realization of the ties and shirts.
Relationships with suppliers are very stable and strategic, due to the required quality standards. Often the growth of suppliers has gone hand in hand with the growth of Beta, thus reinforcing the relationship between companies. Although the high level of trust, Beta doesn’t have unique suppliers for individual products or processes in order not to be overly dependent on a single supplier. At the current stage, the company is planning to acquire minority or majority shares in strategic suppliers to ensure greater control and stability in the supply processes.
Requests from the stores, especially related to customization, have implied a shift from external supply to internalization of activities by setting up a tailoring workshop of 18 people who respond quickly to the demands of stores around the world. The trend in general is to internalize as much as possible the production from now to the coming years. The link between the product, brand and territory is so strong and clear that the company has gone from the label "Made in Italy" to the label, strictly used in Italian language, "Fatto in Italia" or "Fatto a mano (handmade) in Italia” and, for some products, the label “Made in Florence”.

3.3 The case of Gamma

Gamma is a small company which now has 26 employees, a turnover just below 5 million euros and 11 stores in Italy and one in Moscow: the presence in final markets through retail outlets is a feature that distinguishes Gamma from other companies located in the textile district of Prato, that usually are focused primarily on the production of yarns and fabrics and, with rare exceptions, distant from markets finals.
Gamma was founded in 1978 with the creation of the first Gamma collection. Since the beginning, the founder perceived the opportunity of having to be present on the market with one’s own sales network and on the basis of this vision, which later proved to be far-seeing, from the mid-eighties he started opening mono-brand outlets. The Gamma brand now is strategically positioned and present in the major capital cities, on the international growing markets through multi-brand stores and in one mono-brand store in Moscow. The stores in Italy are 11, 8 of them are directly managed and 3 stores are in franchising.

The main characteristics of Gamma’s products are the high quality of raw materials, the typically handicraft experience in the production stages, and the know-how connected to the tradition of the territory, which imply cooperation with selected suppliers of high quality fabrics located in the North of Italy. Gamma provides also a “Made to Measure” service through its own tailors in order to reach a high degree of customization, in particular for formal and wedding dresses for men.

The company is a typical SME in terms of size, turnover and culture. It’s a family business that enjoys the benefits of being a SME but also the constraints, especially in internationalization. The first store Gamma was opened in Russia directly, without local partners, putting the company in a pioneering position with respect to the Italian scene at the time, when the first experiences in Russia by large Italian companies took place through local partners. The success of the first flagship store opened in Russia, in Moscow in 2006, has led the company to continue to invest in the market with the opening of other stores, particularly a second one in Moscow in 2008. The bond with Russia has resulted in other experiences, such as the supply of official uniforms to the teams from Russia and Ukraine during the Beijing Olympic Games in 2008. In 2010, the two stores in Moscow were closed to open one single larger flagship store. The main difficulty was in finding the suitable location, such as a space in a luxury shopping mall in the city centre, next to other major brand of Made in Italy. The flagship store was a success, and in 2012 the company decided to invest again in the Russian market by opening a new store, again in Moscow, which proved to be a failure mainly due to the wrong choice of the location. The location chosen was in fact in a new shopping centre under construction on a road in rebuilding that was never finished, so the store was closed at the beginning of 2014.

The difficulties encountered in the Russian market were: the turnover of employees; the Russian business culture, oriented to profits in the short term. In this sense, the main obstacle has been to establish and maintain relationships and trust with Russian businessmen, because the prevailing culture is oriented to the short term and to achieve an economic benefit to the expense of the counterpart and the continuity of the relationship in medium-long term: “*when you approach a business as complex as that of fashion for a SME, it’s fundamental to build relationships and trust over time, which in our case it was not possible with Russian employees and partners*”. In light of these difficulties, the Russian branch was sold to a local partner, a well-known importer of Italian brands met by the entrepreneur during one of his visits in Russia, and the directly operated flagship store has been converted into a franchising. The experience with the Russian market has been the most intense and complex in terms of the company's commitment, investment (in 2014, 8% of turnover invested in the operation in Russia and the opening/renovation of stores in Italy), and learning from experience.

Gamma also sells in other markets such as China, South Korea, Japan, Denmark, France, Switzerland, and recently also in Brasil, through indirect export. Intermediaries are mainly large chains of multi-brand stores. Relationships with buyers are spot and change from year to year. The development of the company is aimed at the Chinese market, through a local distribution partner. To date the company has not managed to find a Chinese partner. Some elements related to the culture of Chinese business have a negative effect on the possibility of finding a partner, as the Chinese businessmen prefer a quick and secure return on investment focusing on well-known brand of Made in Italy and not in small companies that have a potential for higher growth but more in the long term. The lack of partners and the company's philosophy, which has always focused on direct stores, do favour the entrepreneur to a direct entry into the Chinese market, thus replicating the Russian experience. The project of international development therefore includes the opening of directly operated stores. This also reflects a lack of confidence of the entrepreneur to find suitable local partners, to build long-term relationships with them, but also entrust the management of its brand to local distributors, both in China and in other countries. The opening of direct stores implies therefore also organic growth of the company with specialized personnel for each market in terms of spoken language, knowledge of local regulations, taxation and propensity to international mobility. Next step will be the entry into the US market, perceived as more stable and reliable than Russia and China.

The business network of the company is represented downstream from the distribution chain through which they sell abroad, the franchise store in Russia and the flagship stores in Italy. Upstream there are suppliers of raw materials, that are strategic for the company, localized in the Prato district and in the North of Italy, and other suppliers such as garment makers, also strategic for maintaining quality standards. The strategic suppliers are therefore under 10, while all of the suppliers are dozens (150-200, no one outside of Italy, 50% in the Province of Arezzo, 20% in the industrial district of Prato and in other areas in centre-south Italy, 30% in the North). In general, relationships with all suppliers are stable because Gamma depends strongly on the quality and identity of its products that must be maintained at high levels and constant in time. Although being strategic, suppliers are not involved in the creative process. Internally, the company makes the entire creative process that led to the elaboration of the collections, including modelling and the production of prototypes. The production of the finished product is outsourced to external firms s with which the company works for decades (those located in Arezzo and Prato). With these firms, namely garment makers, there is a close relationship and spatial proximity which result in the presence of Gamma’s employees at the garment maker to control the production process. The role of garment makers is so strategic that the planned growth of Gamma includes the acquisition of one of them to secure the control of upstream activities. The research of continuity, stability and control in upstream activities is also due to the fact that some firms are closing down because of the global economic crisis.

The direct supervision of the stores means to constantly receive input from customers, both in terms of possible improvements of existing products and as demands for new products not present in existing collections. The result is the combination of the two annual collections, autumn-winter and spring-summer, according to a planned model, with small collections every two weeks or monthly in the light of the demand, current trends o as a test for future collections. This results in a model in between the traditional planned model and fast fashion: the company uses exiting suppliers filling their production capacity e demanding for fast delivery time.

4. DISCUSSION AND FINAL REMARKS

The cases presented represent companies that on the one hand maintain industrial functions related to product design, R&D, manufacturing, on the other hand, these companies leverage on the opening of stores for the international development of the brand. The use of local partners for these openings appears a path used by companies that, however, still maintain a degree of control over stores falling under the category of TPOS, through contractual forms *ad hoc*. Thus, this type of stores implies the development of business relationships with foreign partners, that allow to internationalize in distant markets, geographically and culturally, for which the knowledge of the company was poor, and in early stages of the process of international development (e.g. the opening of Beta in Shanghai and the first store of Alpha in Iran). In particular, the analysis of the cases show how the actors’ interactions in the business network have played a significant role in the process of internationalization. These actors have played the role of “gatekeepers” in helping the firm to expand internationally.

If on one hand business relationships impact positively on the possibility that the firm has to open stores, by acting as facilitators for entry into markets geographically and psychically distant, on the other hand the openings of retail outlets impact on upstream relationships with suppliers. In this sense, the process of expansion calls for the closure of some relationships and the development of new interactions and business relationships, modifying the firm’s business network. This appears to be true in general, regardless of whether the store is directly operated by the company or managed by a local partner.

The cases analysed show how the firm’s stores openings in foreign markets have an impact on the traditional way of doing the business. This is particularly relevant when connected to the format of the store, particularly when the company focuses on the flagship store for the international development of the brand, and when it is run by the company itself. Luxury flagship stores represent a strategic approach to market entry that is used within those cities that are significant to the company in terms of the revenue these generate and the status-benefit these provide for the brand. Moore, Doherty and Doyle (2010) define some of the main characteristic of flagship stores, such as architectural features, micro-level location requirements and high operating costs, and recognize that a distinctive feature of flagship stores is its impact on relationship development.

The cases show that each flagship store, , in addition to the above-mentioned characteristics, require: careful quality control; constant replenishment to avoid stock-outs; personalized services such as custom-made, especially in the case of luxury products; activities of listening in order to gather feedback and promptly satisfy the needs of customers. The combination of these factors has an impact on the way of doing business and the management of relationships with upstream suppliers. Two cases (Gamma and Alpha) show a partial change of the business model of the firms, from a traditional planned model to a model more oriented to fast fashion with capsule collections presented in stores monthly. This change has happened in response to the demand of innovativeness from customers that prefer to find new products regularly in stores, and results in the fully exploitation of the production capacity of existing suppliers and in quick delivery times.

The analysis of the cases shows a re-thinking process activated by firms in managing the international expansion and the sourcing side. The cases described outline how the process of internationalization in terms of selling markets, with the opening of stores, has changed and actually is changing the network of relations within which firms are engaged. Firms have adapted their business network to better serve new selling markets. Some relationships, for which delivery times and quality standards were not respected, have been closed (e.g. Beta and a supplier of coats that wasn’t able to ensure rapid delivery times for bespoke tailoring; Alpha and a supplier of embroidery in India).

The internationalization of the retail does not necessarily mean the internationalization of the supply chain. The cases presented in this paper show that at various times internationalization creates complexity that companies may face attributing to existing suppliers, with whom relations are stronger, more responsibility and more extensive tasks. This fact can enable the company to focus on the internationalization of retail. No wonder then that other relationships have been enhanced, in particular those of historical length and with local suppliers. The cases show a tendency to strengthen relationships with local suppliers of manufacturing services (cutting, sewing, ironing and packaging), in the industrial district or in the surrounding areas, and national suppliers of fabrics (weaving and finishing). The relationships become so strong that the company’s staff regularly

visits suppliers of manufacturing services to monitor the manufacturing process. The strengthening of these relations aims at increasing the degree of control on suppliers in order to ensure the continuous monitoring of quality standards and delivery times. Thus companies search for stable and lasting relationships that ensure the quality and control of supply rather than cost advantages. The internationalization of the retail has therefore an impact on the make-or-buy in several possible directions, including: (1) replacement of existing suppliers; (2) addition of new suppliers to the existing ones; (3) strengthening relations with existing suppliers.
The analyzed cases are examples in all three of these directions, but the most frequent in the cases discusses is the last one. As discussed in the foregoing, make or buy decisions are directly connected to the allocation of activities, organizationally (outsourcing) and geographically (offshoring). Following this line of reasoning, the organization of activities and location of suppliers in the internationalization of retail could generate new episodes in various areas of combination of outsourcing-offshoring, as shown in table 2.

Table 2

Outsourcing-offshoring consequences of retail internationalization

		Outsourcing: Yes	Outsourcing: No
Offshoring	Yes	Retail internationalization associated to increasing offshoring activities from national suppliers	Retail internationalization associated to increasing offshoring activities from foreign suppliers
	No	Retail internationalization associated to country of origin activities from the national suppliers	Retail internationalization associated to increasing customer's country of origin activities from foreign suppliers

Moreover, while the supply chains of Beta and Gamma are entirely in Italy, Alpha is bringing back in Italy some phases of the supply chain in order to monitor the quality standards. This phenomenon is called re-shoring, namely the tendency to bring manufacturing back to suppliers in the country of origin of the firm, and could be an interesting future development of research with reference to the relationship between retail and supply chain for textile-apparel firms. The need for control can reach such levels that firms prefer to bring back in-house some strategic activities of the supply chain that had been outsourced. In the cases analyzed firms implement vertical integration strategies through external growth (e.g. the acquisition of garment makers by Gamma and Beta and the acquisition of a supplier of fabrics by Beta) and internal growth (e.g. the endowment of a department of 18 people for the production of tailored suits). The result is a complex organizational structure vertically integrated that combines retailing and manufacturing activities. In this sense, the opening of stores abroad has an impact on "make or buy" decision.
In summary, the process of internationalization in terms of selling markets, with the opening of stores implies an adaptation of the business network and changes in the network of relationships in which firms are embedded in terms of:

- development of new relationships: from the supplier side, in terms of new relationships with suppliers in the home country (outsourcing) and in foreign countries (outsourcing/offshoring); with business partners in foreign markets (TPOS);
- closure of existing relationships: with suppliers that don't meet the standards imposed by retail stores, particularly flagship stores;
- enhancement and stabilisation of existing relationships with strategic suppliers;
- vertical integration through organic growth - opening of fully owned and directly operated stores; endowment of new departments within the company - or external growth by acquisitions of existing suppliers.

The findings of this study have several implications for international marketing managers. The study confirms that the opening of stores in foreign markets is a pervasive phenomenon that should not just be the preserve of large companies, but that should be taken into consideration by entrepreneurs and managers of SMEs in the fashion industry. The experience of the companies under study suggests the need to rely on local partners for entry into foreign markets, especially emerging ones. Managers should consider, however, after entry, the possibility to continue the growth in the target market directly, by directly operated stores, which imply a higher investments but also ensure a high degree of control in order to gain experience to reuse in other markets and maintain high levels of quality and a globally consistent brand image. The findings of the current study suggest that if firms prioritize long-term strategic effectiveness, a greater degree of commitment to and control over the foreign operation is important.

Finally, entrepreneurs and managers should seek stability in the supply chain by strengthening interactions with strategic suppliers and closing relationships with suppliers that are not able to maintain high quality standards. In contrast with the past trend to outsource stages of production to local and foreign suppliers, companies should reconsider to bring in-house some activities in order to better respond to the needs expressed by retail stores and ensure alignment between manufacturing and retailing activities.

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