

International Market Entry Strategies in the Fashion Industry: A Comparative Analysis of Three Entry Models

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Abstract. Amidst global supply chain realignments and intensifying competition in the fashion industry, international market entry has become imperative for brands seeking expansion beyond domestic saturation. Considering fashion companies' unmatched desire to find fitting globalization strategies, this paper classifies and compares common patterns for garment companies to enter new foreign markets. This study adopts literature research and case study methodologies to analyze the entry methods that famous international fashion brands applied and categorize common entry strategies from existing research. As a result, three models are classified based on the principal company's autonomy and control over the offshore business. The greenfield investment model enables the company the greatest flexibility and control with the greatest risk and potential return. The third-party model compromises slight autonomy and gains assistance from local intermediaries. The fusion model shares portions of the subsidiary's ownership with the partners, lowering the control and risk exposure simultaneously. This classification is oversimplified but provides several classic alternatives, allowing fashion companies to reflect on and tailor a strategy based on the three models.

Keywords: fashion company, literature research method, case study method, global market entry strategy

1. Introduction

In an era defined by unprecedented economic integration and cultural exchange worldwide, plenty of companies are keen to expand their market scale and explore growth internationally. Especially in the garment industry, where companies seek broad and diverse customers, globalization becomes imminent. However, as an emerging trend, most of the companies are unfamiliar with the fundamental principles and strategies of developing and marketing offshore. Besides linguistic barriers, disparate sustainability regulations and, more importantly, profound cultural differences in aesthetic preferences frequently transform planned launches into costly missteps. Therefore, a number of apparel brands are searching for efficient and cost-saving models for cross-border exploration.

Currently, scholars have extensively examined internationalization through the lenses of transaction cost economics, the Uppsala model, and resource-based views, yet these frameworks were largely developed for manufacturing or technology sectors, paying insufficient attention to

fashion's unique considerations of cultural preferences and supply-chain agility. Although some research analyzes specified tactics that have been successfully employed by multinational fashion brands, there is no systematic classification of common strategies to analyze the pros and cons of each mode. It's difficult for fashion brands to compare various strategies and choose a suitable one tailored for their situations. Concerning that, this paper concentrates on recognizing, organizing, and analyzing the three most commonly applied means of entering and rooting in the global market for clothing companies.

Existing literature has researched various international market entry modes, and this paper integrates these modes into a three-model framework for analysis and comparison, which is constituted by the greenfield investment model, third-party model, and fusion model. The classification is based on the principal company's ownership control over the subsidiary's brand and operational control over the business section abroad, as shown in Figure 1. The greenfield investment model is characterized by full ownership and high operational control. The third-party model has features of full ownership and low operational control. The fusion model is characterized by shared ownership and medium operational control. Not only the comparison between each model, but also the applicable scenarios and company features would be disclosed in the analysis of the three models.

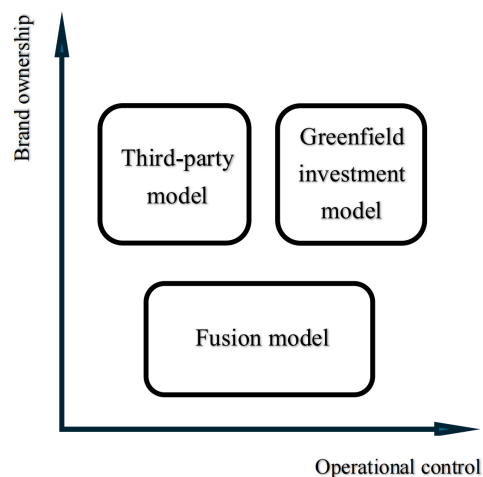


Figure 1. Three entry-and-rooting models

2. Methodology

This paper adopts literature research and case study methodologies. The author reviewed both primary and secondary data from academic literature, industry reports, and companies' financial reports over a range of multinational fashion companies to identify the most prevalent cross-border market entry models for clothing brands. Rather than using regression analysis, the approach applied is exploratory and appropriate for investigating complicated, context-sensitive phenomena. It's infeasible to carry out numerical data analysis and controlled experiments for investigating unstructured information under diverse environments.

Under the multi-case synthesis methodology, all data collected should satisfy the following pre-established rules. First, the academic papers and reports should be peer-reviewed, and the companies' financial statements should be audited. Second, all information should be published after

2016 to guarantee its timeliness, except for some distinguished concepts. Third, strategies mentioned in these reports ought to be verified and implemented already, which cannot be simulated or hypothesized.

3. Analysis of three entry-and-rooting models

Through collection and comparison, three most powerful models are detected for clothing companies to go abroad: direct subsidiary, franchising licensing and export, joint venture and M&A. Concerning that they collectively span the entire spectrum of resource commitment, brand advertisement and cultural integration, their respective performance in these three processes would be the judgmental standards for comparison. The following analysis would uncover both the advantages and disadvantages of each mode as well as the respective scope of application.

3.1. Greenfield investment model: direct ownership

As the most convenient and straightforward way, direct ownership allows companies to launch wholly owned subsidiaries (WOS) by foreign direct investment, which represents the most complete form of control over overseas operations. While this mode offers unparalleled strategic benefits, it also entails substantial resource commitments and operational risks. A balanced assessment of its advantages and disadvantages is therefore essential for fashion firms concerning full-ownership expansion.

3.1.1. Control and resource commitment

The truth is that most well-known brands like Nike and Zara opted to implement foreign direct investment and establish wholly owned subsidiaries because it's the most lucrative and ambitious way to invade the global market, despite its inherent risk attributes [1]. When Nike first entered the Asian market, such as India and China, it launched wholly owned subsidiaries, which made it challenging for Nike to manage the brand beyond national boundaries, let alone under extreme cultural shock. However, although WOS required Nike to schedule and guide everything by itself, this arrangement offered a chance to carry out its strategic blueprint without restrictions from partners or distributors. Besides, without a partnership to cut the melon, brands like Nike can gain 100% of the profits they earned, which can bring out the highest potential earnings.

Nevertheless, appreciable return is always accompanied by high-risk exposure. Foreign direct investments require substantial initial resource commitment: companies should pay for rental, staff salaries, and other daily expenditures themselves; on the other hand, they are expected to commit excessive time and effort. Compared to franchising, licensing, and joint ventures, companies should dedicate more attention to researching the new market and formulating strategies from scratch. With totally varied customer segments, foreign companies have to focus on market investigation for a relatively long period, with only cash outflows and resource depletion [2]. The significant upfront expenditure sometimes would run out of a small company's cash reserves and force it to return back to its domestic market, which explains why FDI is mostly applied by large and noted brands.

3.1.2. Cultural adaptation

There is another prominent problem in regard to tackling cultural differences. Cultural gaps exist commonly, ranging from diets and living habits to aesthetic judgments, among which aesthetic preferences are the hardest perspectives to measure and adjust. A large number of Western luxury

brands failed in entering Asian markets due to a large psychic distance and cultural shock [3]. Typically, it's troublesome for a foreign brand to discern and comprehend other national cultures and preferences rapidly. Unlike languages, religions, and diets, people's preferences are intangible, which can only be experienced rather than quantified. Therefore, it's tough to figure out what new customers desire without guidance from local partners. Nevertheless, an exception exists when a company has several segments and one fraction has already had a glimpse of their offshore customers. For instance, a Bangladeshi fashion brand named Yellow owned both textile and garment businesses, whose textile segment had already succeeded in global markets prior to the garment segment. As a result, when the apparel section was keen to develop internationally, the textile segment provided insightful instructions and guidance, which led to the success [4].

3.1.3. Marketing and brand management

Companies that possess subsidiaries can establish a global strategic layout autonomously and implement unique brand advertising aligning to their superiority. For instance, Nike prevailed among the youth and rooted in the Asian market steadily by positioning itself as the leader of sportswear, embellished with distinctive American elements [5]. Oppositely, empirical results show that collaboration with domestic companies frequently introduced conflict. When the first time some European luxury brands first entered the Japanese market, they cooperated with local partners, failed with the cooperation model, and pivoted towards dominant ownership [3].

3.1.4. Suitable company characteristics

Considering all these pros and cons, the greenfield investment model allows for the greatest flexibility in brand advertisement yet significant resource commitment and difficulties in cultural integration, which carries the highest potential gains as well as risk. Direct ownership abroad may be more suitable for large brands with enough resources and high risk-tolerance rather than small startups.

3.2. Third-party model: franchising, licensing and export

In the second model, two prevalent strategies—franchising, licensing, and export with distributors are integrated jointly, as both need cooperation with third parties. These two strategies in the third-party model are all commonly utilized. The most eminent difference is that franchising and licensing should satisfy a harsh prerequisite, which requires enough brand awareness worldwide to attract franchisees [1]. For an unknown startup, it's demanding to persuade others to franchise or license. What it can do is find a distributor who charges commissions. With the intervention of third parties, companies can share parts of responsibility outwards and only account for product development and advertising. Under this mode, what companies do in the loop of sales are only production and then transporting goods to the distributors, who will retail the clothes afterwards. The third-party model is fundamentally different from FDI and joint venture as it converts the business-to-customer model into business-to-business, where the originators disengage with confronting retail consumers.

3.2.1. Control and resource commitment

The most charming benefit of using intermediaries is the reduction of resource commitment. Companies could save money by eliminating the fixed charges such as rental, basic salaries, and expenditure in store layout. On the other hand, they can spare more time and effort to expand their

business to more countries simultaneously. Typically, FDI can be carried out one country after another, while franchising, licensing, and distributor export can be implemented on a large scale meanwhile [1]. Therefore, this mode enables brands to seize a larger global market share expeditiously. Furthermore, with a few upfront inputs, many companies would experiment with exports before establishing foreign affiliates [2]. They initially find distributors to disseminate their products and observe the feedback. If their clothes are welcomed with high demand, these brands would consider the next step of establishing WOS. If not, at least they gather lots of primary information, which can instruct them to adjust their design accordingly. Next time when they want to reenter this market, they would be more assured and ready with the prior experience.

3.2.2. Cultural adaptation

Compared to greenfield investment that companies' principals should investigate new customer segments from scratch, local intermediaries are familiar with domestic culture and preferences, so they can recommend and guide the principals to adjust their products and advertisements. This process has already been verified by lots of luxury fashion brands like Mango, Zara [6]. With the direct and timely instructions from local intermediaries, the design and production can be more flexible and efficient according to local fashion trends, keeping clothes always updated and fashionable. Besides, local parties can serve as trend spotters [6] to observe the consumption of their potential clients and the demand of the whole market, guaranteeing the principals' sensitivity and agility.

3.2.3. Marketing and brand management

According to the third parties' assistance in cultural integration, it promotes brand advertisement by localizing the publicized image and marketing slogans with indigenous elements. It truly makes brands' promotion more appreciable and affable for local consumers; however, a particular exception exists concurrently. Localized publicization is detrimental to companies with a positive country-of-origin effect, like brands from Italy and France. Lots of people are in favor of clothes from Italy not only because of their exquisite workmanship, but also because of the origin country's time-honored artistic atmosphere [7]. What these local people are pursuing is the unique story and aesthetic symbolization portrayed by the fashion brands from Italy and France. However, excessive regionalization, especially in some emerging markets, would impair the brands' upscale images, spoil the brands' premium ability, and discourage people from purchasing [8]. It actually transforms luxury and glamorous goods into civilian-oriented products, which mismatches the customer segments. Therefore, third parties' undue intervention in advertising should be avoided for those unique luxury clothes brands which are distinguished for the characteristics of their origin.

3.2.4. Suitable company characteristics

To sum up, the third-party model is suitable for those non-luxurious popular companies or startups which are experimenting in setting foot in global markets. For distinguished and luxury brands, the drawbacks would outweigh the benefits.

3.3. Fusion model: joint venture and M&A

The fusion model refers to collaborating with local companies to establish an alliance or incorporating local companies as affiliates. This model is similar to the third-party model, but what

distinguishes them is the intention of cooperation. The third-party model tries to find a downstream operator, but the fusion model looks for strategic partners, which can reduce expansion risk or improve operational efficiency.

3.3.1. Control and resource commitment

In the fusion model, common strategies can roughly be classified into two types based on their principal benefits: joint venture and merger can dramatically lower the resource commitment and therefore reduce the risk exposure; acquisition enables firms to achieve economies of scale and scope to improve operational efficiency [9]. Compared to launching a WOS, part of the total cost and operational obligation can be split with partners under joint venture and merger patterns. If the partners are the suppliers or customers against the principal, the principal's operational efficiency would be fostered meanwhile. Unlike the joint venture, acquisition cannot reduce expenditure, and instead, it needs a large amount of money. What appeals to the company is the substantial long-term return and strategic advantages. After acquisition, it's common for parent company to grant the acquired unit complete autonomy and required resources for future growth [1]. It would not bother the principal excessively and extend its business to a new market. As an indigenous company, the acquiree is more familiar with local customers and market trends, so its autonomous operation would be better than the parent company's WOS and easier to succeed.

3.3.2. Cultural adaptation

Similar to the third-party model, with cooperation of native staff, cultural integration would be more smoothly and successfully. The fusion model has further strength on the basis of the third-party model by eliminating the principal-agent problem. Agency problem typically derives from employment relationship, where staff only care about their salaries and may act on the contrary to their employers' desire. Under the fusion model, however, employer-employee relationship does not exist as the partners are also the owner of the consolidated company, so they would endeavor to popularize the company's clothes among the local community. When encountering cultural conflicts like distinct garment style preference, they could intervene in the design directly and actively by hiring their local designers for the stake of the joint company.

3.3.3. Marketing and brand management

As indigenous companies, the partners can access to more resources and various channels, so they can perform better in brand advertisement. With direct linkage between the company's development and their interest, the partners would organize the advertisement as well as possible.

3.3.4. Suitable company characteristics

There are countless benefits in the fusion model, but one substantial drawback stands out, discouraging many prospective brands from applying it, mattering with profit. In the first two models, the principal company possesses the whole ownership of its brand, and although it may franchise or license the trademark outwards, those are temporarily leases. However, the fusion model abalienates portions of ownership to the partners, which denotes that part of the joint company's profit should be shared with the partners perpetually. The dilemma between choosing lower risk, easier operation and more appreciable potential profit here is similar to the financing options between debt and equity. Classically, large companies with prospective earning prefer

establishing WOS or finding intermediaries who charge commissions only, and less established or illiquid companies prioritize the fusion model [10]. Acquisition is an exception here because even though the profit belongs to the acquiree, everything in the acquiree is owned by the principal. The analysis for drawback does not take acquisition into account.

As a conclusion, the fusion model is applicable for all companies but may not be the priority for those prospective brands and companies particularly emphasize long-term return, disregarding current earnings performance.

3.4. Cross-model comparison

As concluded in Table 1, the three entry-and-rooting models represent different trade-offs among resource commitment, cultural adaptation, brand advertising control, and company suitability.

Table 1. Cross-model comparison

	Resource commitment	Culture adaptation	Brand advertisement	Suitable company
Greenfield investment model	Extremely high	Difficult and time-consuming	Flexible and entirely autonomous	Large companies with good liquidity
Third-party model	Lowest	Easy and rapid	Inflexible and difficult to control	Small companies trialing new markets
Fusion model	Moderate	Easy and rapid	Moderate and have partial control	Companies focus on short-term profit

4. Conclusion

This paper categorizes common strategies for apparel companies to enter and root in the global market into three patterns. The greenfield investment model carries the greatest risk and potential return, which mainly suitable for large companies with bright prospects. The third-party model introduces local intermediaries, fostering the brands' cultural integration but perhaps impairing prestigious companies' luxurious images, which is appropriate for developing companies as experiments in new markets.

The fusion model is the most conservative mode by cooperating with local brands, which may not be prioritized by large companies looking for whole ownership and strategic investments. While the proposed framework provides a structured analytical lens, it is necessary to address the limitations that constrain the generalizability of this study. First, the classification is subjective, without quantitative calculation and comparison. Therefore, the conclusions for each model may not be explanatory for every strategy within its category. Second, each category in this study is fixed and exclusive with each other, which oversimplifies the real circumstances and ignores hybrid methods that fuse two or three models together. Third, the conclusions are presumably contaminated by survivorship bias as the study only considers companies that are prestigious and successful. The majority of data used in the analysis is derive from the Internet where only public companies publish financial reports and distinguished brands would be researched by scholars. As a result, the conclusions may not be applicable to small startups or some underperformed brands. To sum up, in the further study and analysis, the research could attach more integrated categories and implement

quantitative indicators to complete classification. Besides, more primary data from visiting small clothes startups can be incorporated into the analysis.

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