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Bai, H., McColl, Julie and Moore, Christopher (2018) Hong Kong, a Gateway for Mainland China? An examination of the impact of luxury fashion retailers' ownership structures on expansion strategies. *International Journal of Retail & Distribution Management*.

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## **Title**

Hong Kong, a Gateway for Mainland China? An examination of the impact of luxury fashion retailers' ownership structures on expansion strategies

## **Abstract**

**Purpose** – This paper examines luxury fashion retailers' ownership structures at their internationalisation strategies in Hong Kong and mainland China.

**Methodology** – This study adopts a pragmatic mixed methods approach, comprising a quantitative mail survey and ten qualitative executive interviews.

**Findings** – This study found that group owned luxury fashion retailers usually encounter fewer difficulties when internationalising into mainland China than their individually owned counterparts because of parenting advantage, particularly functional and service support. However, the success of some individually owned brands has demonstrated that branding strategies, management culture, international experience, financial power and local partners' know-how are as important as parent company support and although the luxury market in mainland China has become developed, many foreign luxury fashion retailers still enter Hong Kong prior to mainland China. However, in relation to post-entry management and expansion strategies, the importance of Hong Kong has weakened because the emergence of capital cities, the growth of the middle class and fewer political restrictions.

**Research limitations** – The research findings are generated in the context of Hong Kong and mainland China, they are therefore limited in explaining luxury fashion

retailers' internationalisation strategies in other markets. Despite the challenge of the sample size, 63 out of 130 survey respondents (48.5% response rate) and ten interview participants are felt to be sufficient to represent the market.

**Practical implications** – This research can be used by practitioners when assessing appropriate entry strategies to the Chinese luxury fashion market.

**Originality/ value** – This is a pioneering study of the Chinese luxury market from the perspective of international retail strategies. It differentiates between Greater China (including Hong Kong, Macau and Taiwan) and mainland China, and examines the impact of luxury fashion retailers' ownership structures on their internationalisation strategies.

**Keywords** – Hong Kong, Internationalisation strategies, Luxury brand management, Mainland China, Parenting advantage, Post-entry expansions

**Paper type** – Research paper

## **1. Introduction**

The landscape of the international luxury fashion market has changed dramatically in recent years because of the rapid growth of emerging markets, particularly China (Shukla et al., 2015). Compared with the saturation and stagnation of many traditional key markets, such as Japan, Northern America and Western Europe, Greater China and particularly mainland China, has been one of the few luxury fashion markets to have experienced significant growth during the global economic recession (Zhan and He, 2012). Indeed, the consumption of luxury fashion products in mainland China increased sharply until 2014 (Bai, 2016). Although there has been a slowdown since 2015, the majority of foreign luxury fashion retailers remain optimistic, and believe it is a transition period, evidenced by the retailers' continuous expansion into mainland China and their increasingly sophisticated consumer base (He and Wang, 2017).

In terms of ownership structure, luxury fashion retailers can be classified as being either owned by luxury conglomerates (as parenting companies) or individually owned (Kapferer et al., 2017). In the contemporary international luxury fashion market, the effect of ownership structure is increasingly important, because increasingly luxury fashion brands are being acquired by luxury conglomerates, for example, LVMH, Kering Group (previously known as PPR Gucci Group), Richemont Group, Prada Group, Tod's Group, PVH Group, and emerging Chinese luxury fashion conglomerates such as Shandong Ruyi Group (Donze, 2017). These luxury conglomerates support their subsidiaries with various resources, and provide them

with a high degree of autonomy in decision making (Moore and Birtwistle, 2005). Nevertheless, the rapid growth of luxury conglomerates has not limited the strong performance of individually owned luxury fashion retailers because of their growing international experience and financial capacity, especially in the context of international markets, for instance, Hermes, Burberry and Giorgio Armani (Chevalier and Gutsatz, 2012).

Although luxury fashion retailers have achieved enormous success in mainland China, to date, only a limited number of studies focus on the Chinese luxury fashion market, from the perspective of international retailing (Liu et al., 2016). Most prior empirical studies of luxury brands in mainland China have focused on consumer behavior (Lu, 2011) and brand management (Bonetti et al., 2016). ‘Daigou’ (also known as foreign procurement services) and the overseas purchase of luxury fashion products have also attracted academic research interest because of the fast growth of new technology and increasing level of overseas travel (Liu, 2014). On the other hand, in the context of mainland China, the majority of studies in international retailing have focused on the experience of generic retailers, particularly large-scale multinational supermarket chains rather than luxury fashion retailers (Siebers, 2011).

Most current studies and reports do not differentiate between Greater China and mainland China, for instance, Bain (2013) and McKinsey (2012) claim that China (actually Greater China including Hong Kong, Macau and Taiwan) has surpassed

Japan as the second largest luxury market in the world in 2011. Lu (2012) argued that foreign luxury fashion retailers should regard Hong Kong as the springboard of mainland China, and individually owned brands should enter into Hong Kong prior to mainland China because of the lack of parenting advantage. Moreover, there are significant differences exist between Greater China (including Hong Kong, Macau and Taiwan) and Mainland China in terms of policy, economy, culture, society and retail market infrastructure (Bai et al., 2017). Therefore, in view of the gap in the current literature, the aim of this research is to evaluate the importance of Hong Kong as a springboard for foreign luxury fashion retailers' entering mainland China and to examine the impact of parenting advantage on both entry and operational strategies.

## **2. Theoretical Frameworks**

### **2.1 Defining Luxury Fashion Retailers**

The philosophy of 'Luxury' that indicates extravagant living and the indulgence of sense, regardless of cost, was originally adopted by ancient aristocrats to build up a timeless, exclusive image and to create and recreate hierarchies in a society by using methods such as Sumptuary Laws, which were set by ancient monarchs to limit the consumption of the commonalty (Kapferer and Bastien, 2012). Despite luxury strategies existing many business sectors, scholars have not yet developed a universally accepted definition of the 'Luxury Brand', which identifies the value and value-creation processes of luxury, and differentiates the luxury brand from other types of brand (Rigaud-Lacresse and Pini, 2017). Chevalier and Mazzalovo (2012)

argue that the luxury brand is difficult to define because of subjectivity, cultural and social influences, and the dynamic dimensions involved. For instance, a luxury brand would no longer be perceived as luxury if there were changes to crucial parameters, such as dilution of brand image, over stretching of the brand and/or product, or changes in place of production (Kapferer et al., 2017).

Because of its global success, researchers have paid considerable attention to luxury fashion retailing from the early 1990s onwards, particularly from a marketing perspective (Shukla et al., 2016). For example, the nature and definitions of luxury brands (Kapferer and Valette-Florence, 2016), brand extension strategies (Dall' Olmo Riley et al., 2015), comparisons between traditional luxury brands and masstige luxury brands (Parguel et al., 2016), consumer behaviour (Shukla et al., 2015), the threat of counterfeiting to luxury brand image (Chen et al., 2015), E-marketing (Okonkwo, 2010), and marketing strategies in emerging markets (Liu et al., 2016). Fionda and Moore (2009) drew on previous studies to conduct an empirical study of multiple luxury fashion retailers, identifying nine critical factors of luxury fashion brands: heritage, exclusivity, premium price, design signature, product integrity, marketing communication, clear brand identity, culture, environment and service. They argued these components are co-dependent and interrelated, and therefore must be consistently managed when creating and maintaining a luxury fashion brand's market position. Moreover, this study adopts an international retailing perspective. Luxury fashion retailers are therefore defined as those who

*'distribute clothing, accessories and other lifestyle products which are: exclusively designed and/ or manufactured by/ or for the retailer; exclusively branded with a recognised insignia, design handwriting or some other identifying device; perceived to be of a superior design, quality and craftsmanship; priced significantly higher than the market norm; sold within prestigious retail settings'* (p.278, Moore and Doherty, 2007).

In terms of ownership structure, luxury fashion retailers can be classified as either group owned subsidiaries or individual brands (Rigaud-Lacresse and Pini, 2017). The following section discusses the ownership structure of luxury fashion retailers.

## 2.2 Ownership structure of Luxury Fashion Retailers

From the 1970s, fast growing luxury conglomerates have been playing an increasingly important role in the international luxury fashion market (Seo et al., 2015). In addition to a number of small and/or medium sized luxury fashion groups, there are four dominant luxury conglomerates worldwide, LVMH (Moët Hennessy • Louis Vuitton), Kering Group, Richemont Group, and Prada Group (Donze, 2017). Each of them comprises a multinational brand portfolio and has a different focused market, for instance, luxury ready-to-wear fashion from the Kering Group, luxury leather accessories from the Prada Group, and high-end jewellery and watches from the Richemont Group (Chevalier and Gutsatz, 2012). However, these companies are constantly expanding into new territory, for example, the Richemont Group's expansion into fashion through the acquisition of the British brand Alfred Dunhill and e-commerce expansion through the acquisition of the Yoox Net-a-Porter Group (BOF,

2018). According to Table 1, one of the most important differences between the two types of luxury fashion retailer is parenting advantage.

*Place Table 1 Here*

Through parenting advantage, companies support their subsidiaries with various resources, creating economies of scale, knowledge transfer and therefore greater efficiencies within the subsidiary company (Goold et al., 1998). Building on the work of Goold et al. (1994), Moore and Britwistle (2005) identify four parenting advantage approaches for luxury conglomerates to adopt in order to create value for subsidiaries:

- Stand-alone influence - conglomerates influence the strategies and performance of subsidiaries by respecting each as a stand-alone profit unit in its own right
- Linkage influence - conglomerates create internal synergies in terms of intra-group supply and resource utilisation
- Functional and services influence - conglomerates centrally support subsidiaries in the areas of communication, image, finance and infrastructure facilities
- Corporate development activities - conglomerates can change the number of businesses in its portfolio by buying or selling own brands

Therefore, group owned luxury fashion retailers can benefit from parenting advantage in several ways. Firstly, luxury conglomerates support subsidiaries with various resources, such as finance, information, management talent, economies of scale in

management and operation, and standardised supply chain, a benefit which is particularly important for emerging brands (Rigaud-Lacresse and Pini, 2017). Therefore, individually owned counterparts are more likely to seek local partnerships because of the lack of financial capacity and/or international experiences. Secondly, group owned luxury fashion retailers can achieve the economies of scale by reducing costs and perceived risk through the parenting companies' standardised management and operational processes, which may have a significant economic impact in international markets (Hutchinson and Quinn, 2011). This is one of the most significant disadvantages of individual ownership. Thirdly, subsidiary companies can also benefit from intra-group supply and resource utilisation, for instance, Gucci and Sergio Rossi supply leather accessories and footwear for (Yves) Saint Laurent (Moore and Birtwistle, 2005). Finally, conglomerates create product and/or brand portfolios through multiple brand strategies, in order to avoid diluting the exclusive brand image of a single brand, due to over-extension, which is another significant disadvantage of individual ownership (Ijaouane and Kapferer, 2012).

Nevertheless, because the portfolio of products that they offer are presented under multiple brands, the conglomerates cannot always achieve intra-brand synergies, and intra-conflict is therefore highly likely (Magnoni and Roux, 2012). When compared with individually owned counterparts, the autonomy of subsidiaries is relatively restricted. They are controlled by the need to generate profit for their parent groups and by the pressure from stock markets/ investors, for example, Helmet Lang and Jil

Sander were sold because they were not able to generate satisfactory profits for Prada Group (Moore and Doyle, 2010). Furthermore, the value of subsidiaries risks being destroyed because of divergence from their core products in order to follow the strategies of the conglomerates (Ijaouane and Kapferer, 2012). Consequently, inevitable risks are associated with group owned ownership, and group owned ownership is not absolutely better than individual ownership (Kapferer et al., 2017).

The following section will develop the research propositions of this study based upon the effect of luxury fashion retailers' ownership structure towards their international expansion strategies in mainland China.

### 2.3 The Development of Research Proportions

Because of geographic location, a high degree of urbanisation, relaxed foreign investment policies, cultural proximity, a developed economy and an advanced market infrastructure, Hong Kong has long been regarded as one of the most important international markets for multinational companies' internationalisation strategies, particularly financial service providers and fashion retailers (Tse and Wigley, 2014). According to prior empirical studies, as the gateway for mainland China, Hong Kong is important for luxury fashion retailers' internationalisation strategies in mainland China in six aspects. Firstly, Hong Kong has been the most important cross-border shopping destination for the Chinese customers for many years (Zhang and Wang, 2010). As well as geographical proximity, lower prices and a

larger choice of products and brands, Chinese customers' cross-border shopping in Hong Kong is also driven by 'Mianzi' and the consumption of status, particularly prior to 1997 when travelling to Hong Kong was not as common as it is today (Liu, 2014). The abolition of visa restrictions after July 1997, when the Chinese government regained Hong Kong, further accelerated the scale of Chinese mainland customers' tourism and cross-border shopping there (Lu, 2011). Chinese mainland consumers' consumption of electronic devices, baby food and luxury fashion products is still strong even though there is still conflict between Hong Kong and China because of legal restrictions imposed by China (Zeng et al., 2017). Therefore, the first research proposition is:

**Hong Kong is a significant destination for Chinese customers' cross-border shopping for luxury products**

Secondly, the retail market infrastructure in Hong Kong is as developed as that of Western markets (Lu, 2012). As well as luxury malls, the department stores are well established, particularly high-end department stores such as Lane Crawford and Harvey Nichols. They provide opportunities for luxury brands, particularly smaller luxury brands, to test the market using relatively low cost methods while they are at the early stages of internationalisation, methods such as exporting, concessions, wholesaling and franchising (Bai et al. 2017). Moreover, prior to entering to the Chinese mainland market, most foreign luxury fashion retailers had expanded their operations into Hong Kong as early as the 1970s and 1980s, when foreign investment

was not yet allowed in mainland China (Fetscherin et al., 2010). Thereafter, the experience gained from Hong Kong encouraged luxury fashion retailers to expand into the Chinese market because their past involvement had helped them to understand Chinese consumers (Nordman and Tolstoy, 2014). Therefore, the second research proposition is:

**The experience gained from Hong Kong helps to build understanding of mainland consumers**

Thirdly, international sourcing is one of the most important dimensions of retailer internationalisation (Siebers, 2011). As the second largest export market for textile and clothing in the world in 2001, Hong Kong is vital for the international sourcing of products and raw materials for many fashion retailers and luxury fashion retailers (Bai, 2016). Moore and Burt (2007) acknowledge that many international fashion brands have established buying offices or buying networks in Hong Kong in order to source products directly or indirectly, not only for the Chinese market but also for global markets (Chevalier and Lu, 2009). Therefore, the third research proposition is:

**Hong Kong is an important intermediate market for international sourcing**

Fourthly, Chadha and Husband (2007) have suggested that Hong Kong can be regarded as a bridge in terms of culture, connecting the Western world to China and the Eastern world, because of its history as a colony of the United Kingdom. From the perspective of the theory of psychic distance, companies are willing to

internationalise into the markets which are psychically close to their home country prior to psychically distant markets (Ojala, 2015). Although empirical studies argued that luxury fashion retailers encounter fewer difficulties in terms of culture, it is evidenced that many luxury fashion retailers initially expand into the markets which are either psychically and/or geographically close markets (Bai et al., 2017).

Therefore, the fourth research proposition is:

**Hong Kong is a cultural connection between luxury brands and mainland China**

Fifthly, in order to observe the ‘One Country, Two Systems’ policy designed by the Chinese government when in the process of regaining the territory, the Chinese government did not interfere in the politics of Hong Kong or change its favorable taxation system or investment benefits after regaining Hong Kong in 1997 (Chevalier and Lu, 2009). Consequently, the relaxed foreign investment policies encouraged foreign fashion retailers and luxury fashion retailers to enter into Hong Kong prior to entering mainland China, giving them the opportunity to establish subsidiaries or dispatched senior management to the region at an early stage (Lu, 2012). These Hong Kong based subsidiaries and/or senior management do not only manage the businesses in Hong Kong but also the operations and strategies in mainland China (Liu et al., 2016). Therefore, the fifth research proposition is:

**Hong Kong is important for luxury fashion retailers’ internationalisation strategies in mainland China**

Finally, in order to reduce the risks associated with direct entry into the Chinese mainland market, Lu (2012) suggests that luxury brands (especially emerging small-scale luxury fashion retailers who do not have strong international experience and financial capacity) should seek local partnerships based in Hong Kong. These reputable local partners, such as Bluebell, Dickson Concept and the Trinity Group (previously named Li & Feng Group), are professional and experienced because they have successfully franchised many foreign luxury brands in Hong Kong and mainland China. They are therefore capable of providing in-depth local knowledge and operational know-how, and searching for appropriate local partners in the Chinese mainland market (Chevalier and Lu, 2009). Therefore, the sixth research proposition is:

**Hong Kong based local partners help to reduce the risk involved with direct control in mainland China**

The next section will discuss the details of research design according to the above six research propositions.

### **3. Methodology**

The research philosophy adopted by this study is pragmatism, as it advocates that there is no pre-determined theory or framework to shape knowledge and understanding in the social world (Creswell, 2014). Pragmatic researchers look at the ‘what’ and ‘how’ in research, and believe in both the external world independent of

the mind and that lodged in the mind (Silverman, 2015). Therefore, the researcher is free to choose research methods considered most appropriate to understanding the questions.

This study employed a two-stage mixed methods research approach, which is the most appropriate way to focus on research questions and to reveal rich details that cannot be achieved through either a quantitative research or a qualitative study alone (Plano Clark and Ivankova, 2015). Creswell (2014) suggested that researchers need to consider timing, weighting, mixing and theorising when adopting a mixed methods approach. In this study, quantitative research in the form of a mail survey, from a macro perspective was carried out first, achieving a comprehensive understanding of attitudes towards the importance of Hong Kong as a gateway for mainland China for different types of luxury fashion retailers. Because this study aims to examine luxury fashion retailers' ownership structures and the impact of parenting advantage in their internationalisation strategies, priority was given to qualitative research and qualitative data. Then, the data collected from stage one was used to identify (connecting) the research questions and the participants for qualitative data collection in stage two. Both quantitative and qualitative data collected in stage one were integrated with the qualitative data collected in stage two (integrating). Finally, there was no single, explicit theoretical perspective guiding the entire research design, however, the theory of parenting advantage identified in the literature review (Goold et al., 1994; Moore and Britwistle, 2005) was used to underpin the research.

The first research stage was conducted through a quantitative mail survey with a self-completion postal questionnaire (Appendix 1). Because this study's research topic has not been addressed previously and no database of luxury fashion retailers with a presence in the Chinese market has been established to date, the authors had to develop the database. There were two criteria for the target retailers: originating from foreign countries, and having operations in both Hong Kong and mainland China for at least two years, which because of their experience, would allow them to provide valid information. Based upon such criteria, the database was developed from three major sources. Firstly, lists of members of reputable luxury committees were employed, including Comite Colbert (France), Fondazione Altagamma (Italy), the Walpole and the British Council of Fashion (UK), and the Council of Fashion Designers of America (US). Secondly, as well as directories of the top ten luxury malls in mainland China, the directory of Peninsula Hotel Beijing was employed, since the hotel is widely regarded as the most popular location for many luxury fashion retailers' first stores in mainland China (Chevalier and Lu, 2009). Thirdly, marketing reports from established professional organisations were evaluated, including Bain & Co. (2013), McKinsey (2012), Mintel (2013) and KPMG (2013). Thereafter, 130 foreign luxury fashion retailers were identified and selected for the sample.

The questionnaire was designed by using a 5-point Likert scale with space for

additional comments, and the length was limited to 2-pages of A4 paper. Questionnaires were sent to the 130 target retailers' head offices (within home countries) and subsidiaries, regional office and/or local partners (in Hong Kong, Beijing and Shanghai). In order to encourage the response rate, the questionnaire was sent with a covering letter which explained the purpose of the survey and assured respondents of their confidentiality and anonymity.

In order to obtain greater depth of understanding about participants attitudes towards Hong Kong as a gateway for mainland China, because of the different ownership structures, and in particular parenting advantage, the second research stage employed qualitative research using executive interviews. The ten interviewees were those who had shown willingness to participate during the mail survey. In order to fulfill confidentiality agreements, all participating retailers' and interviewees' names were coded. All interviews lasted between 45 minutes and one hour. The interview questions (Appendix 2) were sent to all interviewees prior to the interviews, so that they could prepare in advance. A profile of the participating interviewees is provided in Table 2.

The interviewees outlined above were senior executives who are able to supply the necessary information on decision making about strategic direction, policy making and strategic implementation. The participating retailers were established, operating stores in Hong Kong and mainland China, thus having sufficiency of strategic and

operational experience.

*Place Table 2 Here*

The quantitative data were analysed through Independent Samples T-tests in SPSS 22 in order to compare two kinds of respondents in terms of ownership structures. Subsequently, the qualitative data were analysed by Thematic Analysis in NVIVO 10. NVIVO 10 allowed for the development of codes and references that were retained in an index system so that the data could be carefully identified and explored. The findings will be presented in the following section.

#### **4. Findings and Discussions**

##### **4.1 General Information of the Survey Respondents**

As discussed previously, in terms of ownership structure, luxury fashion retailers can be classified as either individually owned brands or group owned subsidiaries. In this research, Table 3 shows that 34 out of 72 surveyed individually owned luxury fashion retailers replied to the survey, with a response rate of 47.2%. 29 of 58 surveyed group owned subsidiaries returned valid feedback, with a response rate of 50.0%. In total, 63 out of 130 target luxury fashion retailers replied to the questionnaire survey and provided valid feedback, with a total response rate of 48.5%.

*Place Table 3 Here*

Of the 63 survey respondents, 60 luxury fashion retailers (95.2%) had entered into Hong Kong before entering mainland China. Only three survey respondents (4.8%) had entered into mainland China at the same time as entering into Hong Kong, and all three are group owned subsidiaries. Therefore, it would appear that the majority of foreign luxury fashion retailers make the decision to internationalise into Hong Kong prior to mainland China (Lu, 2012; Liu et al., 2016).

The next section will examine the findings of the six research propositions through comparing two groups of respondents by their ownership structure.

#### 4.2 The Importance of Hong Kong as a Gateway to Mainland China by Ownership Structure

Figure 1 demonstrates the important advantages for luxury fashion retailers' using Hong Kong as a springboard when internationalising into mainland China.

*Place Figure 1 Here*

Based upon the six research propositions, the descriptive statistics data in Table 4 (first six columns) indicate the respondents' attitude towards the importance of Hong Kong as a gateway for mainland China from a macro perspective. In addition, an independent-samples t-test was conducted in order to compare the importance of

Hong Kong to luxury fashion retailers according to their ownership structure. As discussed previously, there are no pre-determined assumptions that presume group owned ownership with parent advantage is more effective than individual ownership. The statistically significant differences shown in Table 4 (last three columns) were designed as two-tailed rather than one-tailed. Four statistically significant differences between the two groups of respondents have been identified.

*Place Table 4 Here*

Firstly, customers' cross-border shopping activities in geographically proximate markets is one of the most significant dimensions of retailer internationalisation (Zentes et al., 2016). Hong Kong has long been regarded as the most important market for Chinese customers' cross-border shopping with respect to luxury fashion goods and baby food, particularly after 1997 when the immigration policies between Hong Kong and mainland China were relaxed (Li and Hu, 2011). According to Table 4, over 95% of the survey respondents regarded Hong Kong as the most important destination for Chinese customers' cross-border shopping for luxury fashion products, and the mean value was as high at 4.24.

Nevertheless, Table 4 shows that the first statistically significant difference is related to the most popular destination for Chinese consumers' cross-border shopping, in the scores for I (Mean= 4.28, S.D= 0.649) and G (Mean= 4.21, S.D= 1.122;  $t(61) = -0.296$ ,  $p = 0.05$ , two-tailed). The magnitude of the difference in the means (mean difference= 0.07, 95% CI: lower -0.543 to upper 0.403) was very small (0.001). According to the mean difference and the findings from the second research stage, it is known that the importance of Hong Kong as the most important cross-border shopping market is slightly more significant for individually owned brands than their group owned counterparts because of the lack of parenting advantage. For instance, participant retailer H (an individually owned French design house), who entered into mainland

China in 1996, stressed the importance of Hong Kong as the most important cross-border shopping market for Chinese tourists:

*‘Chinese clients’ consumption in Hong Kong is extremely important for us. We can build customers’ profiles according to their consumption records and provide better services in their home cities... More importantly, we can identify the potential market in mainland China and bring our store there’.*

On the other hand, participant retailer E (a group owned Italian design house), who entered into mainland China in 2007, regarded mainland China as a separate market because they were supported by their parent group to expand as a stand-alone brand.

The interviewee explained:

*‘We pay more attention to Chinese customers’ home cities rather than tourism hotspots... Our parent company regards our management and expansion strategy as a stand-alone brand, and supported us a lot in finance, management talent, and supply chain... It is relatively easier to gain a good (store) location, because we usually compete (for good store location) as a brand portfolio (within the same group)’.*

Secondly, because of the importance of Hong Kong as the most significant market for mainland Chinese customers’ cross-border luxury goods shopping, it is clear that the experience gained from Hong Kong is vital to understanding Chinese customers, who are largely different from their counterparts in the traditional developed markets in terms of cultural influence, consumer behavior and demographic factors such as gender and age (Chen et al., 2015). This was confirmed in the results where 81% of the respondents believe that the experience gained from Hong Kong had helped them to understand Chinese customers and encouraged their internationalisation in to the

Chinese mainland market (Mean= 3.44).

According to Table 4, a second significant difference was found in relation to the experience gained from Hong Kong and the understanding of Chinese customers, in the scores for I (Mean= 3.55, S.D= 0.827) and G (Mean= 3.35, S.D= 1.252;  $t(61) = -0.729$ ,  $p = 0.022$ , two-tailed). The magnitude of the difference in the means (mean difference= 0.2, 95% CI: lower -0.431 to upper 0.241) was moderate (0.004). The importance of experience gained from Hong Kong is more significant for individually owned brands than their group owned counterparts because of the lack of parenting advantage. For instance, participant retailer F (an individually owned American leather accessories specialist), which entered into mainland China in 2000, explained the importance of the experience gained from Hong Kong:

*'The operation in Hong Kong was really helpful for our preparation to expand into mainland China... We have a very good customer relationship management system which records the customers' purchases in any store... so that we can do even better in their home cities'.*

Similarly, participant retailer A (an individually owned British design house), which entered Hong Kong in 1987 and opened their first store in mainland China (in the capital, Beijing) in 1997, believed that expansion into mainland China was a natural direction of growth after gaining experience from Hong Kong. The interviewee confirmed:

*'The experience gained in Hong Kong is vital... Expansion into mainland China is an inevitable step after 10 years' business in Hong Kong because of the potential profit*

*to be made in that market'*

However, participant retailer B (a group owned French design house), who entered into mainland China in 1992, believed that support provided by the parent group in terms of finance, supply chain and local knowledge are more important than the experience gained in Hong Kong:

*'We entered into mainland China in 1992, when not many people knew what luxury was about, so I'd say Hong Kong was not really helpful for our expansion into the market... I do believe our parenting company gave us very solid support to overcome the difficulties in policies and local knowledge'.*

Thirdly, because of its history as a colony of the United Kingdom and the existence of a Western lifestyle, Hong Kong has long been recognised as a cultural connection between the Western world and the Eastern world, especially in mainland China (Lu, 2012). Nearly 80% of the respondents regarded Hong Kong as a market which reduced psychic distance between their companies and mainland China (Mean= 3.51).

Table 4 indicates that the third significant difference was found in cultural connection, in the scores for I (Mean= 3.59, S.D= 0.867) and G (Mean= 3.44, S.D= 1.375;  $t(61) = -0.491$ ,  $p = 0.006$ , two-tailed), the magnitude of the difference in the means (mean difference= 0.15, 95% CI: lower -0.736 to upper 0.446) was moderate (0.004). It had been confirmed from interviewee evidence in the second research stage, that group owned subsidiaries encounter fewer cultural barriers than their individually

owned counterparts due to parenting advantage in functional, service and corporate development activities, for example, through the strength that the parent company gave them in being able to recruit higher quality managers with a strong local knowledge (Evans et al., 2008). Participating retailer I (a group owned German leather accessories specialist), who entered mainland China in 1996, confirmed:

*'We did not have to encounter some of the difficulties that individually owned brands have had to deal with by themselves... the (parenting) group has supported us very efficiently, especially in terms of local knowledge, cultural issues, management talent and some operational support such as centralised finance and logistics'.*

Conversely, the role of Hong Kong as a cultural connection is vital for many individually owned foreign luxury fashion retailers, especially those who do not have international experience or the reputation to recruit management expertise. Therefore, Hong Kong does help them to reduce perceived psychic distance and the risks associated with direct entry into mainland China. For instance, participating retailer G (an individually owned Italian leather accessories specialist), who entered Mainland China in 1998, proposed:

*'Hong Kong is definitely a cultural buffer zone for us... Hong Kong helped us to understand local conditions and culture, which is the key to be succeed in China such as the importance of gift giving which influences our product portfolio'.*

Fourthly, because of its geographic location, open policies of foreign investment and taxation, its developed economy and advanced market infrastructure, Hong Kong has attracted the attention of foreign luxury fashion retailers' not just as a gateway to

mainland China but also as a gateway to the surrounding Asia Pacific areas (Kapferer, 2015). Increasing numbers of foreign luxury fashion retailers have set up regional head offices, subsidiaries and/ or have dispatched senior management into Hong Kong to operate and explore these markets (Bai, 2016). Indeed, 85% of the respondents believed that Hong Kong is strategically important to the expansion of their international businesses (Mean= 3.51).

According to Table 4, the last significant difference was found in terms of the strategic role of Hong Kong. In the scores for I (Mean= 3.41, S.D= 1.258) and G (Mean= 3.62, S.D= 0.862;  $t(61) = -0.755$ ,  $p = 0.032$ , two-tailed), the magnitude of the difference in the means (mean difference= 0.21, 95%CI: lower -0.762 to upper 0.344) was moderate (0.009). This study identifies therefore that the importance of Hong Kong in relation to the success of luxury fashion retailers' international businesses not only relates to Greater China, but also relates to the wider Asia Pacific region and the wider world markets. This is evidenced by the established regional head offices which are as important as headquarters in their home markets. For example, participating retailer C (a group owned American design house), entered Mainland China in 1997, said:

*'Our headquarters in Hong Kong controls all business in Asia Pacific region, and it is as important as the head office in New York. For example, our Honk Kong office is in charge of financial management for the entire company and therefore has a good deal of control over company operations'.*

For group owned luxury fashion retailers, the choice of location for their wholly owned overseas subsidiary or their regional head office, reflects their direct entry internationalisation strategy and the importance of that foreign market. Participating retailer I (a German group owned leather accessories specialist) acknowledged the importance of Hong Kong to their international business, because the proximity had allowed them to prioritise the Asia Pacific and Greater China areas as their most important overseas markets. The interviewee commented that:

*'Hong Kong is extremely important for our international business in whole Asia Pacific region and even for the whole world. Hong Kong was our first overseas subsidiary set up in 1989, earlier than the first operation in North America, thus giving us early market entry advantage and considerable profit over the years'.*

As shown by Figure 2, Hong Kong is also important to luxury fashion retailers' post-entry managerial strategies in mainland China. The luxury fashion retailers who adopted standardised managerial strategies, particularly group owned subsidiaries, have set up wholly-owned subsidiaries or regional head offices in Hong Kong where they can make decisions centrally and control retailers' post-entry strategies and operations in mainland China. For instance, Participating retailer D (a group owned Spanish design house), entered mainland China in 2001, confirmed:

*'Every decision about the operation and further expansion in mainland China was made by the head office in Hong Kong because at that time there was no senior management team in mainland China only operational managers. We needed the expertise from the Hong Kong office'.*

*Place Figure 2 Here*

Similarly, others who adopt localised managerial strategies in mainland China also set up senior management structures in Hong Kong, with these senior managers playing a vital role in the retailers' strategic planning. This decision exists due to visa restrictions for individual managers and a more attractive Western lifestyle that exists in Hong Kong. For instance, participating retailer J (an individually owned Italian design house), who entered mainland China in 1996, confirmed:

*'We have a management team in (mainland) China, and they can make decision in most situations. However, we also have a president based in Hong Kong, who is in charge of issues about strategies or new store opening plans'.*

Nevertheless, this study also found that the importance of Hong Kong in terms of managerial strategies has been gradually weakened by the emerging metropolises in mainland China, most notably Beijing and Shanghai. Increasing numbers of foreign luxury fashion retailers now focus on the Chinese mainland market to gain more local knowledge. For example, participating retailer D (a group owned Spanish design house), entered mainland China in 2001, confirmed that:

*'We set up our head office in Hong Kong in 2000... It is still controlling all operations in Greater China area and Asia Pacific area, but the management team for China moved to Shanghai in 2010 when mainland China became a more mature market'.*

Finally, Table 4 shows that there is no statistically significant difference between two kinds of luxury fashion retailers in international sourcing and local partnerships. The

mail survey showed that Hong Kong is important for a very limited number of the responding luxury fashion retailers' in terms of international sourcing (less than 10%).

The value of the mean was low at 1.40. However, it has been identified through the in-depth executive interviews that Hong Kong may be regarded as an important intermediate market for luxury fashion retailers who are maintaining a lifestyle brand image and extending products. For instance,

*'As a lifestyle luxury fashion brand, we cannot produce everything that we are selling... In order to maintain our brand image and craftsmanship, we only source non-key products from Hong Kong for cost saving. These are items such as standardised small accessories'*. (Participating retailer C); and

*'Sourcing from Hong Kong is important for our business in China, those products are only sold in China and not sold in our home market. We have different product portfolio in China because of localised product strategies which responding to local demand. For example, the polo shirt and chinos are still very popular in China but are not required by consumers in our home country'*. (Participating retailer A)

Most respondents in the mail survey did not think that local partnerships were important to their internationalisation strategies in mainland China (less than one third). The value of the mean was as low as 2.06, which is lower than the moderate rate (3). However, for some businesses, local knowledge, business know-how and the financial support of Hong Kong based local partners are key reasons for their success in Hong Kong and Mainland China. Participating retailer G (an individually owned Italian leather accessories specialist) confirmed that:

*'We are happy to have partners from our initial entry into Hong Kong and China. They are very experienced and professional, and can provide us with strong local*

*knowledge and financial support... It would have been impossible to expand the business so quickly by ourselves’.*

Nevertheless, because of the desire to control their business in China and gain greater profit, increasing numbers of foreign luxury fashion retailers who entered China through local partnerships have started to increase their equity share and/or withdrawn from their local partnerships, particularly where they have gained both experience and stronger financial capacity (Bai et al., 2017). Therefore, the importance of Hong Kong in terms of local partnership has been weakened in parallel to retailer expansion in the Chinese mainland market. Participating retailer C stressed that:

*‘We are still in a joint venture with a Hong Kong-based partner, but we have started to raise our equity share, and I believe we eventually will directly control our business in mainland China’.*

Therefore, from the findings outlined above, the most important part of parenting advantage is that of functional and services support such as finance, management experience and knowledge, and standardised supply chains.

## **5. Conclusion**

This study examines the importance of Hong Kong as a gateway to mainland China from the perspective of international luxury fashion retailers’ in terms of ownership structure and the influence of parenting advantage to their internationalisation strategies into the Chinese market. Generally, group owned luxury fashion retailers

encounter fewer difficulties than their individually owned counterparts when entering into mainland China because of parenting advantage. This parenting advantage is reflected in stand-alone influence, linkage influence and functional and services influence, including financial support, management talent, standardised supply chain, and the benefit of obtaining good store locations for the brand portfolio. Therefore, the importance of Hong Kong is not same for the two kinds of luxury fashion retailers, group owned subsidiaries and individual brands, in the following aspects: cross-border shopping market, experience (landing market for mainland China) and in offering a cultural buffer zone.

Moreover, there are still considerable challenges for many emerging and/or small-scaled individually owned brands who do not have a strong financial capacity, solid local knowledge and international experience. Hong Kong is still important in terms of its cultural connection to mainland China. It is the most popular destination for Chinese customers' cross-border shopping for luxury fashion products and luxury fashion retailers are able to gain understanding of their potential customers through their operations in Hong Kong prior to entering into the mainland market. Therefore, for these emerging and/or small-scaled individually owned brands, Hong Kong can still be regarded as the gateway for mainland China.

Furthermore, because of different available resources and internationalisation strategies, group owned subsidiaries are willing to set up wholly owned subsidiaries

in Hong Kong, which are important for the business not only in Greater China but also in Asia Pacific and across the world. In addition, some individually owned brands are keen to employ senior management in Hong Kong because of the advantages that it offers in terms of lifestyle and Chinese visa restrictions. However, according to the findings, in recent years the importance of Hong Kong for luxury fashion retailers has somewhat weakened because of the rapid growth in demand for luxury brands, the emergence of a burgeoning middle class and relaxed visa policies in mainland China. This has led to an increase in the number of group owned subsidiaries who have moved their head offices to the emerging metropolis in mainland China, and in particular, Beijing and Shanghai.

As an intermediate market for product sourcing, the importance of Hong Kong has not been widely recognised. However, sourcing from Hong Kong is still important for some luxury fashion retailers who are developing a lifestyle brand image and providing a wide range of products, and for those who are adopting localised strategies in China. Finally, although Hong Kong based local partners are important for many foreign luxury fashion retailers, particularly emerging brands, the importance of these local partners has been weakened for post-entry expansion into the Chinese market. This is evidenced by more wholly owned entry strategies and increasing numbers of withdrawals from local partnerships (Bai et al., 2017).

Although the mixed methods research approach using triangulation of methodologies

and data has strengthened the reliability and validity, the limitations of this study involve four aspects. This research is concentrated on luxury fashion retailers' internationalisation strategies in Hong Kong and mainland China and the findings are thus probably of limited value in explaining different sectors and/or different markets. However, this study supports in-depth understanding of the interrelation between luxury fashion retailers' internationalisation strategies and their ownership structure, which had not examined by prior empirical studies. The number of respondents and interviewees are challengeable; however, sixty-three survey respondents and ten interviewees, across a wide range of retailing formats, country of origin and ownership structures was considered to be strong enough to represent actuality in the market. In addition, the self-completion postal questionnaire was designed in English with the questions using a 5-point Likert scale. Misunderstanding caused by language barriers is inevitable, however, there was space for additional comments, and 48.5% response rate showed that language was not a major barrier. Finally, the ten executive interviews were conducted in English and Mandarin. The researcher is bilingual in both, and is capable of dealing with ambiguity. Transcripts of interviews were provided to check understanding.

Future studies may consider ownership structures and post entry expansion strategies of luxury fashion retailers within the context of different countries to test for similarities and differences across different market environment.

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## Appendix I

### **Luxury fashion retailers' ownership structure & internationalisation in Hong Kong and Mainland China**

#### **Section I**

This section aims to collect general information of your company. Please choose an appropriate option for each question.

#### **Q1. What is your company's ownership structure?**

Owned by a group	
Individually owned	

#### **Q2. Did your company enter into Hong Kong prior to mainland China?**

Yes	
No	

#### **Section II**

This section exams the importance of Hong Kong for your company's international expansion strategies in mainland China.

Questions are answered by choosing on a scale of 1-5, where:

1= of the least important

2= of slightly important

3= of moderately important

4= of highly important

5=of the most important

**Q3. The importance of Hong Kong as a gateway of mainland China**

<b>The importance of Hong Kong</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Hong Kong is the significant destination for Chinese customers' cross-border shopping of luxury products					
The experience gained from Hong Kong helps to build understanding of mainland consumers					
Hong Kong is an important intermediate market for international sourcing					
Hong Kong is a cultural connection between luxury brands and mainland China					
Hong Kong is important for luxury fashion retailers' internationalisation strategies in mainland China					
Hong Kong based local partners help to reduce the risk involved with direct control in mainland China					

Could you please make any additional comment \_\_\_\_\_

*Many thanks for your kind participation of this research. Your help is very much appreciated. Wish you all the successes in Great China!*

*Further research is planned, and it is proposed that short informal interviews will take place with a number of luxury fashion retailers. If you or your company would be willing to grant some time for this important and confidential research, please tick the box.*

*Name* \_\_\_\_\_

*Address* \_\_\_\_\_

## **Appendix II**

### **Interview Questions**

Q1. (In terms of your company's ownership structure) Do you think mainland Chinese consumers' cross-border shopping in Hong Kong is an important encouragement for your company's expansion in mainland China? With following up question: Why, if yes, or Why, if no

Q2. (In terms of your company's ownership structure) Do you believe the experiences and knowledge gained from Hong Kong are encouraging your company's expansion in mainland China? With following up question: Why, if yes, or Why, if no

Q3. (In terms of your company's ownership structure) According to your opinion and your company's experiences, is Hong Kong an important intermediate market for your company's (overseas) product sourcing strategies? With following up question: Why, if yes, or Why, if no

Q4. (In terms of your company's ownership structure) Do you believe Hong Kong is important to reduce risks and difficulties in terms of cultural issues? With following up question: Why, if yes, or Why, if no

Q5. (In terms of your company's ownership structure) Is Hong Kong important for your company's internationalisation/entry strategies to mainland China? With following up question: Why, if yes, or Why, if no

Q6. (In terms of your company's ownership structure) Are Hong Kong based luxury fashion franchising companies/ holding companies helpful in your company's internationalisation/entry strategies to mainland China? With following up question: Why, if yes, or Why, if no