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HOW WESTERN MARKETERS RESPOND TO THE NEW MIDDLE CLASS IN EMERGING MARKET CITIES: THE CASE OF ITALIAN FASHION MARKETERS

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Abstract

This paper deals with Italian Fashion Marketers (IFMs) expanding internationally through the opening of retail stores. Its main contributions are twofold. Firstly, an explanation is proposed for the reasons that IFMs decide to go international. In particular, it appears they are driven by the search for new customers, specifically among the middle class in emerging markets, where they have the advantage of being able to capitalize on brand equity, such as the Italian origin of their offerings. Secondly, the paper reveals some discernible patterns in new retail store internationalization, pointing out trends and choices in terms of the specific international markets targeted. In this regard, the main countries and cities where IFMs establish and cultivate a retail presence are identified, and comparisons made between emerging vs. developed countries as target markets.

Some major implications of the findings are then discussed. In particular, the paper proposes an analysis that aims to contribute to filling a significant theoretical gap in the literature − the rising role of the middle class in urban areas and the potential response of western companies. Some managerial implications for companies engaged in expansion abroad are moreover addressed and six formal research propositions advanced.

Keywords: middle class, emerging markets, retail stores, cities, western marketers, Italian fashion

Introduction

The aim of this paper is to analyze the opening of retail stores abroad as an internationalization strategy firms are adopting in response to new opportunities afforded by international markets (Arnold and Quelch 1998; Hoskisson et al. 2000; London and Hart 2004) with specific reference to the case of Italian Fashion Marketers (IFMs). The new opportunities inherent in international markets are addressed mostly with regard to the increasingly significant role of the middle classes and the potential markets represented by the concentration of consumers with disposable income in cities and urbanized settings (Khanna et al. 2005; Asian Development Bank 2010; Shet 2011; Dobbs et al. 2011).

The main focus is on the growth of Foreign Direct Investments (FDIs) in the form of retail operations by Italian enterprises in the fashion industry. The empirical setting chosen is a particularly significant one, both in general, given that the fashion industry has always been conspicuously international, as well as for the specific case of Italy, a country with a well-established international standing in the fashion industry by virtue of the variety and sheer number of enterprises operating in this sector, as well as the sector's commercial and productive importance in Italy's overall economy.

The paper shall specifically address the following two gaps in current research studies: a) How do IFMs respond to the new opportunities created by the growing middle class in international markets? b) How do they set up foreign retail stores in cities in emerging markets and developed nations?

We present new evidence which addresses such lacks from various perspectives. The literature on the subject of the international development of fashion enterprises has focused mainly on studying the foreign growth of international mass market retailers or luxury-positioned enterprises (Bruce et al. 2004, Moore et al. 2010). In the case of the Italian fashion system, evidence is presented that the primary target for retail store openings has been in highly visible retail locations in the major foreign markets (such as the top urban "fashion streets" worldwide) (Aiello and Guercini 2010; Cushman & Wakefield, 2014; Runfola and Guercini 2013), the main objectives being to foster brand awareness and maintain the impression that the enterprise caters mostly to a high-class, affluent international clientele. In this regard, considering, for instance, the specific nature of Italy's fashion offering and positioning in terms of production costs and image, IFMs' customer portfolios have always included affluent customers. What is however new is that, due to their increasing purchasing power, middle-class consumers in emerging markets have now joined the ranks of such IFMs' clients.

The relation between the growth of the middle class and the international expansion of actors such as IFMs thus represents an area of theoretical investigation that seems to have received scarce attention in the literature. While increasing numbers of contributions can be found that focus particularly on the importance of the concept of middle class (Kharas 2010, Cavusgil and Kardes 2013, Cavusgil and Guercini 2014) in formulating a new conceptual model for international management and marketing studies on the growth of emerging markets, there are still few studies that attempt to link such theoretical construct to specific development strategies such as that of the opening of retail stores, specifically addressed herein. Moreover, enterprise expansion through FDIs in opening sales outlets is a means for foreign development that has received less attention among the strategies for foreign growth adopted by actors such as IFMs. In fact, such strategies have, as a rule, come to be associated with the growth of large international retail chains (Hines and Bruce 2007), often in the groceries business, rather than predominantly manufacturing firms such as IFMs. As a development strategy, retail store openings abroad have in fact garnered scarce attention, particularly when adopted by manufacturing enterprises, many of which, as in the case of IFMs, are small-to-medium-size firms.

In addition, we present evidence that points to emerging cities as the new targets for IFM international expansion. There is a considerable body of existing literature (often the results of marketing consultancies) that highlights the importance of the polarization of the middle class in urbanized settings (Dobbs et al. 2012), particularly in emerging markets, as a powerful enabling factor for the foreign development of enterprises in all sectors. However, in this regard, there have been few academic contributions aimed at providing concrete evidence to support the importance of the cities, above and beyond the country to which they belong, as new poles of attraction and targets for investment. Perusal of the international management literature, in fact, reveals that there is still a need for close theoretical examination and study of paths to expansion other than the country − specifically the cities −, with the purpose of understanding the best choices for enterprise foreign development.

In conclusion, we intend to fill the foregoing gaps in current research by proposing and examining the connection between the growth of the middle class at the international level, the importance of the cities as poles of attraction for FDI, and the foreign expansion of IFMs through a specific strategy − development in retail.

Consequently, the contributions to be made herein regard the following aspects.

Firstly, we explain IFMs' foreign market expansion by looking at their rationales, modes and any discernible patterns. In particular, we assume that the underlying reason for the IFMs' retail expansion abroad is precisely this new middle class arising in emerging markets, particularly in the cities.

Secondly, we present and discuss the rationale for adopting cities as the unit of analysis. As will be seen, the manners and modes of IFM internationalization processes abroad are not limited to countries alone, but involve specific cities as well.

To these ends, the paper is organized as follows. The next section presents a brief review of the literature relevant to developing the conceptual framework adopted herein. In particular, three research streams are traced, as they represent the different rationales for IFM foreign retail expansion. We then describe the methodology adopted for the compilation and analysis of a database on the IFMs that have undertaken retail operations in foreign countries. The following sections then discuss the main findings uncovered by such analysis and the main implications of our study. The paper ends with some tentative conclusions through the development of six research propositions, limitations and indications for future research.

Literature review and conceptual framework

In analyzing IFMs' international expansion we focus on three main research streams. Their growth abroad through store openings can be interpreted in light of theoretical considerations based on the OLI paradigm, the literature highlighting the role of the middle class at a global level and the stream that regards cities as poles of attraction for and the concentration of consumer classes at an international level, and therefore as new targets for enterprise marketing policies.

OLI paradigm and IFM expansion

International expansion through the opening of retail stores abroad finds explanation within existing theory, in particular Dunning's eclectic paradigm, or the OLI model (1980; 1988). Although this well-established framework originated in the study of multinational enterprises with specific regard to production, in subsequent studies it has also found widespread application (Pan and Tse 2000) to the internationalization of both multinationals as well as SMEs (Laufs and Schwens, 2014). In fact, although the eclectic paradigm was originally formulated as a theory of international production (Dunning 1980), its scope has been extended by dynamizing the paradigm and widening it to embrace other forms of FDI other than production activities in the narrow sense (Dunning 1988). Some years later the same author proposed an extension of the eclectic paradigm to functional settings other than production alone, likening the theory to an "envelope" able to encompass different areas of multinational enterprise operations (Dunning 2000).

It is well known that the OLI framework comprises three components or sub-paradigms. The first examines ownership specific advantage (O), by which, the greater the competitive advantage of the foreign investor over other enterprises (especially local firms, or "incumbents", in the country targeted for investment), the easier it will be for the foreign firm to enter and/or increase their operations in the targeted country. The second sub-paradigm looks at the locational attractions (L) of the destination countries, which is to say, how attractive different alternative locations, in terms of country, region or, potentially, cities, are. Lastly, the third sub-paradigm (I) considers aspects already highlighted by internalization theory (Buckley and Casson 1976; 1998; Rugman 1982; 1996), in particular the potential benefits deriving from internalizing cross-border intermediate product markets.

In summary, the eclectic paradigm and its three sub-paradigms predict that the enterprise's inclination to undertake FDI − not only in international production, but in other functional areas as well − will be so much the greater, the greater are the ownership specific advantages, the attractiveness of the specific foreign location, and the convenience of maintaining cross-border product markets within the organization. Herein we extend application of OLI theory to FDIs in the form of international IFM retail operations.

In general, in recent years Italian enterprises have had to face a sharp downturn in the domestic market, which has increasingly led them to turn their attention to foreign markets. Many of these enterprises have looked to foreign markets not only to realize their growth aspirations, but also for their very survival, since the internal market could no longer guarantee profitability. The problems with the domestic market were so grave as to be life-threatening for any enterprise that had not been able to successfully expand into foreign markets, given the increasing competition of foreign imports in the home fashion market itself. The problem has been particularly critical for enterprises with mid-level product positioning, while luxury brands, which had long become more internationalized, were far less vulnerable.

The eclectic paradigm finds application in this scenario on all three of its component levels. In terms of ownership advantage, IFMs enjoy technical and creative ability, quality products, and in many cases well-established, internationally recognized brands. Such ownership advantages can clearly be leveraged in other countries through FDIs in retail. With regard to the second component of the paradigm, the advantage of location, the enterprises in question have often found favorable terrain in many foreign markets, given the notoriety of and interest for Italian fashion products, particularly, though not solely, in the luxury segment. In addition, with respect to local producers, IFMs are in many cases perceived of as offering higher quality, as they generally profit from the "halo effect" of the country of origin, though specific brands may also enjoy favorable market perception in their own right. Many IFM brands are in fact quite famous and recognized for the quality of their products in global settings. Lastly, regarding the third element of the eclectic paradigm, IFMs have also shown keen interest in internalizing retail operations in order to maintain control over a key step in market access and the creation or consolidation of brand image.

Role of global middle class and IFM internationalization

The second research stream is closely linked to the *role of the global middle class*, both in developed countries and in emerging markets, and particularly to the emergence of the new middle class.

The middle class has in fact long been a characteristic feature of the economies of advanced countries, contributing for decades to their development (Ravallion 2010; Wheary 2009). The middle classes of developed countries have long sustained global demand, thereby giving rise to business models based on consumption in the advanced countries and manufacturing activities in the emerging ones.

Nowadays, the growth of the middle class in the emerging countries represents a powerful locational attraction for the manufacturing enterprises of both the developed and the emerging countries. This is also a consequence of the crisis of consumption of the middle classes in advanced countries, who are increasingly saddled with considerable private debt (Bauman 2004; Carmichael 2011; Sullivan et al. 2001).

The relation between middle class and consumerism appears particularly strong (Dobbs et al. 2012), given that the presence of a strong middle class produces a sufficiently diversified internal mass consumption, which is also sophisticated, which in turn enables enterprises to repay product innovation costs and amortize other investments (Murphy et al. 1989). This strong link with consumption is surely an important enabling factor for IFM internationalization in emerging countries. The middle class represents one of the main factors driving enterprises to attempt internationalization by opening retail stores, as tapping into consumption is clearly a key element in achieving the objectives previously sought for through FDIs in retail store openings on the part of IFMs.

The emergence of the middle class is a phenomenon that not only affects demand, but also has various antecedents and consequences (Cavusgil and Guercini 2014). As highlighted in the "Iceberg Model of Middle Class" (Cavusgil and Kardes 2013), although the middle class is most visible through its consumption behavior, there is a deeper level at which other factors come into play, in particular, various, widely recognized elements that stratify the middle class (income, education and occupation).

The importance of the middle class for the economic development of emerging markets has also been underlined recently, although there is surprisingly little research available on the consumer behavior of this social class (Kravets and Sandikci 2014). Apart from its link to *consumption* (Kharas 2010), further relations have been recognized between the growth of the new middle class and other phenomena, such as democracy, human capital, savings, entrepreneurship. The processes of consumption generated by the middle class are intertwined with these factors. The relation between the middle class and democracy has long been discussed (Banerjee and Duflo 2008; Easterly 2001) as linked to the development of human capital. This, despite some research that has found a weak, even slightly negative, link between democracy and economic growth (Barro 1996). The relation between middle-class growth and the development of human capital and savings appears equally important. In fact, the definition of middle class is linked to these essential factors for production and growth. The stock of human capital clearly depends on education levels. The growth of human capital and savings are higher in the middle class than in the poorer classes, but some research has actually found a reduction in the rate of human capital development as soon as families enter the middle class (Ravallion 2010). The relation between the growth of the middle class and entrepreneurship is still controversial, since, on the one hand, the middle class can rightfully be viewed as a suitable setting for generating entrepreneurs (Acemoglu and Zilibotti 1997; Banerjee and Duflo 2008), while, on the other hand, many middle-class owned SMEs contribute little to innovation (for example, in traditional commerce), while effective entrepreneurship may be manifested above all among the poorer, so-called "bottom of the pyramid" (Prahalad 2012).

This middle class crisis in the advanced countries has driven the enterprises of these countries, IFMs in particular, to search for new outlets for their products in the emerging countries, where the growth of middle-class demand is the focus of attention of enterprises in both the emerging and advanced countries.

Enterprises that target the middle class undertake FDI in retail wherever the middle class may emerge. This aims to accomplish at least three objectives, corresponding to as many aims of IFMs' FDIs in opening retail stores: (1) sustain IFM sales wherever the purchasing power of the emerging markets' middle classes is on the rise (*selling*); (2) increase awareness of the IFMs' brand, organization and products by increasing visibility through FDIs in retail stores and offering a setting for the brand experience for the middle classes of the emerging market (*branding*); (3) expose the IFMs to the country-specific characteristics of the specific emerging market's middle class, and thereby promote the processes of business learning in such contexts (*learning*). This leads to an "SBL" model, which though not the object of our research, can nevertheless be considered in explaining FDIs in retail by IFMs.

The middle class is of keen interest not only to IFMs with mid-range product offerings, but also to luxury enterprises, particularly those offering “democratic luxury” products, given the widespread middle class aspiration to attain the elitist consumption practices of the affluent (Nueno and Quelch 1998).

Role of international cities and IFM expansion

A third theoretical rationale for IFMs’ international retail expansion can be found in the increasingly important role of cities as targets for enterprise international marketing and as a setting for the polarization of the consuming class at a global level (Dobbs et al. 2013; Kim et al. 2014). According to recent revelations by both prime global-level consulting firms, such as for instance, McKinsey Global and Boston Consulting Group, as well as academic reports (Cavusgil and Kardes, 2013), urbanization and the concentration of the middle class in city settings may in fact represent a frontier for defining new types of linkage with international markets and therefore new opportunities for enterprises (Ovanessoff and Purdy, 2011). This is particularly relevant for the topic under investigation, as the connection between cities and fashion has long been considered of interest among scholars and professionals, as testified to by studies aimed at analyzing trends in the most expensive fashion-street retail locations (Cushman & Wakefield, 2014), the role of the cities in capturing fashion trends and the fastest growing cities for fashion in the world (Remy et al. 2014)

The body of literature addressing enterprises’ choices of international markets reveals increasing interest in the role of cities as places of concentration of spending capacity and therefore as new targets for international expansion. Some authors, in fact, stress that it is not necessarily the country or the defining of a cluster at the level of a country (Cavusgil et al. 2004) that should be considered the conceptual reference category for enterprises choosing targets for international expansion (Papadopolous and Martín Martín 2011), but that there is instead room for new interpretations of the ways to select a location or seek growth in foreign markets (Cavusgil et al. 2004). In fact, a number of works link such selection process specifically to cities and decisions regarding what world city to choose for commercial development.

As mentioned, placing cities on an equal footing with countries when defining international expansion strategies may thus represent one rationale for IFM expansion. This is a rather recent perspective and one that is quite widespread in the research reports of global consulting firms such as McKinsey and BCG. For instance Dobbs et al. (2011), researchers at McKinsey, have provided a classification of cities based on their contribution to global GDP. They have, for instance, compiled a list of the main 600 cities that have played and will continue to play key roles in the processes of enterprise development and that already today represent more than half the world's total GDP − about 30 trillion US dollars (Dobbs et al. 2011, p. 6). Moreover, the authors highlight the fact that not only the mega-cities (over ten million inhabitants), but also the mid-sized or even smaller cities, with populations between 150,000 and 1 million, have had, and will in the future play primary roles in development. Moreover, the authors further underline that such roles are played by both cities located in advanced markets and, especially, those in emerging markets. There is a widespread belief that these latter, above all, may fulfill a more important role, since they are certainly more numerous and moreover exhibit greater growth rates than cities in mature markets (Dobbs et al. 2011). The distribution of the cities and the marketing efforts dedicated to them have also been analyzed by other consulting firms such as BCG. Placing special emphasis on the role of cities in emerging countries, BCG researchers Jin et al. (2010) highlight how enterprises must adopt a new paradigm, that is, one of "many cities" (Jin et al. 2010, p. 4), to account for urbanization and the new cities of varying sizes that are emerging on the world scene as bearers of a new middle class. In other terms, according to the authors' reasoning, there are often great opportunities to be had in even rather small cities that are however neglected by western company managers, who are still more oriented to considering countries as a whole (such as in the case of China), rather than a particular city as a potential target for international expansion.

The rise of the city as a conceptual category to be considered in the international expansion of a company is in line with previous studies on the connection between the fashion industry and cities. Previous literature, mainly from professionals reports, points out the role played by fashion retailing within the city center. Cushman & Wakefield (2014), for example, stresses how demand for premier locations in the top international cities will remain particularly high, with new cities in emerging countries (such as South Korea) joining the traditional top locations in mature markets. The connection between the fashion industry and cities is consequently very relevant, and according to some authors the impact of urbanization in cities will be particularly important for the fashion industry as compared to other industries (Keller et al., 2014).

There is therefore a clear correspondence between IFM international development through the opening of retail stores and the increasing role of cities as targets for marketing policies. In fact, the concentration of the middle class in city locations in international markets, the emerging ones in particular, enables these enterprises to leverage policies that were widely applied, at least in their domestic markets, both to major cities as well as mid-sized ones (Aiello and Guercini 2010; Guercini and Runfola 2014). The fact that the phenomena of urbanization and the concentration of middle-class spending power in the cities have spread globally and do not concern only primary locations within a single country, as can be evinced from the aforementioned consulting firm reports, is in line with the potential expansion of IFMs not only to mega-cities, but also into smaller-sized locations within a given country. In other words, the marketing perspective of targeting individual foreign cities rather than entire countries harmonizes quite well with the conditions and assumptions that once favored the implementation of IFMs' retail development strategies at the domestic level. In this sense, the new middle-class concentrations in cities actually increase the prospects of IFMs at the international level, though the difficulties consequent to the perceived distance between the domestic and the international setting still remain.

The conceptual framework

To summarize our reasoning, figure 1 illustrates the conceptual framework developed based on the study reported on herein to investigate the research questions proposed in the introduction. Figure 1 shows the theoretical rationales that enable the implementation of a strategy aimed at growth through the opening of retail stores abroad and the potential outcomes of such strategy in terms of performance. In particular, IFM foreign development may be motivated by three of the components previously discussed in the literature review. The first component stems from the OLI paradigm and is related to the advantages that IFMs may leverage in the internationalization process through retail store openings. We assume that the three OLI subparadigms − ownership advantage, location advantage and internalizing advantage − may represent a first motivational component for foreign development of an IFM having high growth aspirations and looking to respond to a crisis in the domestic market. The second component is represented by the rising middle class in global markets. The literature review points out the strong link between the middle class and consumerism. We thus posit that the second motivational component for IFM foreign expansion can be found in the development of a middle class both in mature and, especially, newly emerging international markets. Thirdly, the theoretical review reveals the ever-increasing importance of urbanization in cities, the rising role of new cities in the global scenario and the connections between the fashion industry and cities. We therefore posit that a third motivation for IFM foreign expansion is related to the concentration of the consuming class in the cities and the need to adopt an approach emphasizing the selection of market-cities as well as market-countries.

These three components of the overall rationale, as highlighted in the theoretical part, seem to be the major factors able to explain the appeal of retail store openings by IFMs, or at least the preference for this strategy of IFMs looking to establish themselves in foreign markets over other potentially implementable policies.

Adopting such a strategy can then be evaluated in light of a series of performance indicators that can provide a measure of its effectiveness. Of the factors to be considered, the number of retail store openings certainly represents a meaningful indicator of the potentialities of this strategy for IFM international expansion. In addition, economic-financial parameters (such as ROI and ROS) can be considered crucial elements for fully revealing the effectiveness of such a strategy, as can measures of the qualitative and quantitative aspects linked to establishing or increasing brand equity. Previous literature reports have in fact revealed that retail store operations are related to performance and efficiency (Davies, 1973; Thomas et al. 1998; Kumar & Karande, 2000)

[Figure 1 goes around here]

Beginning with these considerations and the theoretical framework presented, the next section presents an empirical study that aims to analyze the internationalization of IFMs and attempts to answer the two general research questions proposed in the introduction and repeated here for convenience: a) How do IFMs respond to the new opportunities created by the middle class in international markets? b) How do they set up foreign retail stores in cities in emerging markets and developed nations?

Empirical setting, methodology and data source

The research context: the fashion industry

The aim of the analysis conducted is to shed some light on the relations between the rise of emerging middle class markets and the strategic response of IFMs. To this end, we look at the direct distribution channel-based strategies implemented by Italian enterprises operating as manufacturers in the fashion sector (Guercini and Runfola 2012).

In the following we propose some aspects regarding the research context.

In and of itself, the textile and apparel sector - the main component of the fashion system - accounts for a considerable portion of the activities of all Italian manufacturing. It is responsible for about ten percent of turnover, employees and exports, and a significant proportion of Italy's international trade surplus (Ice 2013). The current analysis does not aim to provide a study of the sector and its enterprises in general, which can be found elsewhere in the literature (Guercini 2004). We rather focus here on the issues involved in manufacturing enterprises (Taplin and Winterton, 1997) opening up retail stores abroad with the aim of intercepting the emerging middle class demand there.

In particular, we consider Italian manufacturing enterprises, focusing on those that have product brands that are produced though their own manufacturing operations (IFMs), excluding from our analysis enterprises that act solely as retailers. This is a particularly difficult distinction to make in the fashion sector, where in many cases distributors have their own manufacturing operations (design, raw and semi-worked materials acquisition, quality control). It has nonetheless been possible to identify firms that operate as pure retailers (and thus do not carry out such extended operations) and exclude them from the study.

Method and data collection

In order to investigate the research questions defined previously, we analyze findings from panel data from 2004-2013 on 300 brands representing 230 companies in 81 countries and 315 cities with 2,127 retail stores. The data gathered is based on announcements published in fashion magazines along with secondary and archive data. The database was created expressly for the purposes of this research.

The database has been compiled by examining any news contained in two specialized, highly recognized national fashion-sector publications - Fashion (FAS) and Pambianco Week (PMW) - regarding the opening of retail outlets in foreign countries by Italian firms in the decade 2004-2013.

It should be noted that creating an original database was made necessary by the lack of statistics on the phenomenon of FDIs in retail operations by manufacturing firms, particularly in the fashion industry. The focus is on manufacturing companies because the internationalization of their supply chains has already been widely studied, whereas internationalization through external direct investment in retail has not .

The data on store openings has been drawn nearly exclusively from sector-specific magazines due to the objective difficulty of identifying such information through other sources. Indeed, many enterprises do not include such information on their Websites, as most are SMEs. Moreover, in almost all instances, there are no sections, either on the enterprise Websites or present in external documents, dedicated to disseminating detailed information on new store openings. Naturally, such choice presents various limitations, but it offers the great advantage of being able to furnish information over a ten-year time period with accurate references. It should be noted that in some cases, specifically regarding some sales outlets on which information was lacking or doubtful, the researchers have consulted the individual enterprise's Website to check the accuracy of the available data and supplement it with any possibly lacking information. Thus, the data contains information solely on verified openings. The analysis of store openings is related to the number of new stores opened by IFMs in international markets, rather than the existing pool of stores for each country and city. Analysis of newly opened, rather than existing, stores can provide a better indication for estimating the various destinations' attractiveness, as it reveals companies' current interest in terms of location decisions. Although the decision to consider new store openings may have limits, it has the advantage of revealing recent patterns in terms of the cities and countries where IFMs' FDIs are directed.

The two magazines have been thoroughly perused in both their paper and digital versions by visually scanning through all issues published in the period in question and identifying and highlighting any news related to the opening of Italian fashion stores abroad. The following information on each of these events was then drawn from the publications: the opening date; the enterprise and/or brand involved in the operation; the country and the city location of the new store; any other information related to the operation. Announcements lacking indications on the precise location(s) (i.e. cities) and/or date of the planned opening abroad have been discarded. The database was then subjected to a series of cross-referencing queries, with the aim of eliminating any erroneous insertions (e.g., news of retail outlet closings) or duplications (i.e., news of the same event reported a number of different times). Checks were then made that the firm or branch managing the brand involved has been established in Italy or that the products could, in any event, be considered "Italian." For example, events related to brands such as Gucci were included in the database, as their products can surely be judged "Italian", even though not all firm activities are always carried out by the Italian parent company.

From the methodological point of view, the database built up based on the announcements drawn from the journals has been supplemented by data from others further sources in order to make it more complete for the analyses of the countries and enterprises involved.

Firstly, for the country-by-country analyses, the data published in the Market Potential Index (MPI) of Global Edge 2014 was added. This contains a classification of 87 countries based on the following significant parameters: market size; market intensity, market growth rate, market consumption capacity, commercial infrastructure, market receptivity, and country risk. The MPI is a useful indicator to determine the potentialities of foreign markets, with particular emphasis on emerging ones. Its formulation stems from the contributions of Cavusgil (1997) and Cavusgil et al. (2004), to which we refer the interested reader for the relevant details. Of these various parameters, the indicative market consumption capacity is particularly relevant here, as it contains two estimates of particular interest to the issues at hand, that is, consumer expenditure (arrived at starting with the data from Euromonitor International), and the income share of the middle class (from World Bank data). Herein we have taken this indicator as a proxy measure of the importance of the middle class in each single country, though specific tests have been conducted with reference to some of the other parameters of the general MPI indicator.

A second methodological aspect was to delineate the characteristics of the phenomenon from the standpoint of the profiles of the enterprises involved; we adopted the following procedures. The announcements analyzed referred to 300 brand names held by 230 enterprises, for which we then retrieved the main indices of economic and financial performance by querying the AIDA database of the Bureau Van Dijk, which contains the budget data for about 1 million capital share firms in Italy. Of the 230 enterprises identified in the news analysis, such company profile information was available for only 186. For each of these, the following data on the latest year available was then compiled: revenues; profits/losses; return on equity (ROE); return on sales (ROS); return on assets (ROA).

Findings and database analysis

Trends in retail store openings: the rising role of the middle class in emerging countries

The data acquired reveal the considerable ongoing efforts of Italian fashion enterprises to open direct channels as much in the emerging countries as in advanced ones.

In order to distinguish between “advanced”, developed countries and “emerging” ones, , we considered the European and North American countries that originally founded the OECD, plus Japan, Australia and New Zealand. Specifically, we considered the following countries as “advanced”: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Japan, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States. All the remaining countries have been considered “emerging” for the aims of the analysis.

Figure 2 shows the top 20 destination countries in decreasing order of the number of events revealed. As is evident from the list, IFMs opened sales channels in developed as well as emerging countries, the greatest number of store opening events during the study period (2004-2013) being in China, Russia, the United States, the United Arab Emirates and France.

[Figure 2 goes around here]

The opening of direct retail stores in emerging markets appears to be a widespread practice on the part of the enterprises examined. From 2004 to 2013 the emerging countries prevailed over the developed ones as the destination (Table 1). In overall during the course of the decade, openings in the emerging countries substantially doubled those in the developed ones (67% against 33% of the total).

[Table 1 goes around here]

The fact that the greatest number of sales point openings were in emerging markets can be interpreted as an indication of both the ever-increasing degree of openness of these countries to operations with foreign countries, as well as the greater attractiveness, as compared to the past, of these areas as target markets for the enterprises sampled. It should moreover be stressed that, of the most important target countries revealed by the analyses, 61 are emerging ones, while only 20 are advanced.

In no year did the emerging countries lag behind the developed ones in new openings (Figure 3). However, while the number of openings increases in both developed countries and emerging ones in the early part of the decade, from 2007 on the number of openings in developed countries no longer rises and exhibits a stable and even decreasing trend. Instead, despite the significant fall from 2008 to 2009, the trend is a substantially increasing one up to

2012. This predominance of the emerging countries grows stronger over the years.

[Figure 3 goes around here]

To gauge any linkage between the middle class in each country and the number of new openings, and thereby shed some light on any association between new store openings and the rise of the middle class, a correlation analysis was conducted between the number of retail stores opened in each country and that country's market consumption capacity indicator according to the Global Edge MPI.

The analysis shows a generally strong, significant correlation between the size of the middle class present in each country, as estimated by its market consumption capacity index, and the number of retail stores opened there by the sampled enterprises (Pearson's $r=.555$ $p< 0.01$)

The role of the cities in advanced and emerging markets as destination for retail operations

Another intriguing finding concerns the role of metropolitan areas in the emerging countries and its evolution over time with respect to the role of urban areas in the developed countries. Figure 4 shows the top 20 metropolitan areas. While 14 metropolitan areas are in emerging countries, only 6 are in advanced economies (London, Tokyo, Paris, New York, Los Angeles and Barcelona). Such a finding is a clear indication of the new weight attributed to a company presence in emerging countries.

[Figure 4 goes around here]

In order to shed light on the different evolution over time of the role of the various metropolitan areas, we divided the time period under study into three sub-periods according to their relation to the 2008-2009 global economic-financial crisis: the pre-crisis period (2004-2007); the start and spread of the crisis itself (2008-2009); and the post-crisis years

(2010-2013). The aim was to understand whether the IFMs' growth strategies underwent any reduction and/or modification in implementation during each of these periods. Table 2 show the top 20 destinations cities during the three periods in question.

The data reveal some extremely meaningful patterns. While the top 20 destinations cities during the pre-crisis years included 10 cities in emerging countries and 10 cities in the advanced ones, during the crisis itself, the cities in the emerging countries account for 14 out of the total 20, and in the post crisis-period, the number of cities in emerging countries further grows to 16 out of 20. It is moreover noteworthy that the post-crisis ranking contains not only first-tier Chinese cities, but also some second-tier ones such as Hangzhou and Chengdu and the number of IFM retail store openings in the post-crisis years are significantly higher with respect to the pre-crisis period, as was the number of cities involved in the process of foreign expansion. These elements lead us to conclude that the opening of retail stores abroad does indeed represent IFMs' way of responding to the economic crisis in mature markets, and that the main targets of such strategy have been metropolitan areas in emerging countries. Moreover, in this scenario the policies adopted seem to be directed not only to the major destinations in emerging countries, but also new cities within the variegated panorama of the developing nations.

[Table 2 goes around here]

Further interesting findings emerge if we then compare the cities' role with the market potential index. Figure 5 shows the top 20 emerging-market destination cities based on the number of retail stores as compared to the country's market potential. Lacking any indicator of the market potential specifically for the cities, such data nonetheless allow us to reveal some significant facts regarding the role of the cities. In particular, it can clearly be seen that Moscow, Dubai and Hong Kong, which rank high in the classification, seem to have received an high number of stores relative to their market potential. This could potentially indicate a reduced role in the future in comparison to new destinations, or destinations that still have a potentially exploitable relation of stores to market potential.

[Figure 5 goes around here]

If we look at the case of China, for instance, it can be seen that during the pre-crisis years, 2004-2007, the only Chinese cities to rank in the top 20 global destinations were Shanghai (7^{th}) and Beijing (9^{th}), while in the post-crisis period of 2010-2013 the Chinese cities in the top 20 rose to four, with the addition of Hangzhou and Chengdu, and Shanghai ranked first and Beijing fourth at the global level. It is also noteworthy that the number of Chinese cities among the top 20 in this ranking equals that of all the advanced countries put together (Table 3).

The case of China also appears remarkable in another respect. If store openings are analyzed according to the tier of the city in question (McKinsey 2013, p. 54), it appears evident that a process of wider distribution of retail stores over more destination cities is under way: such destinations now include all four first-tier cities (which account for about 50% of all openings in China), many second-tier cities (30 of China's 43 cities in this tier, which represent about 45% of the total) and even some third- and fourth-tier centers (9 cities representing 5%). The case of China therefore reveals the wide variety of urban settings involved in the growth trend, which involves many cities of varying sizes (Figure 6). In particular, third- and fourth tier cities have been projected to grow rapidly in the coming years. Thus, enterprises seem to be gradually reorienting their retail operations to follow increasing buying power wherever it may be generated.

[Figure 6 goes around here]

Retail operations and performance

Finally, further analyses were conducted with the aim of revealing any correlations between this shift of stores towards emerging markets and enterprise performance. To this end, the variables of presence abroad and enterprise size and performance were tested via the Pearson correlation coefficient r. Significant correlations were found between the number of sales outlet openings in emerging markets and profits/losses of the enterprise. A weak correlation ($r=0.69$ $p<0.05$) was also found between the number of retail stores in emerging markets and firm ROS, while no significant correlations were revealed with the other performance indicators (i.e., ROE and ROA). Table 4 shows the significant correlations. Lastly, unsurprisingly, a significant correlation was found between overall revenues and the number of retail stores opened abroad ($r=0.445$ $p<0.001$).

[Table 3 goes around here]

Facing middle class and emerging markets opportunities: some research propositions

The results of the study confirm the importance of all three elements (subparadigms) of the OLI model (ownership, localization, internalization). Possessing established, competitive production skills and an Italian brand can form a promising basis for many companies interested in opening stores abroad. The strong correlation found between middle-class spending power and the countries (and cities) chosen as locations for retail investments abroad seems to clearly confirm the particular attractiveness of locations in emerging nations where the purchasing power of the middle class is growing fastest. Finally, the large number of manufacturing brands that are opening stores abroad highlights the importance of retail internalization by IFMs.

The analysis conducted enables us to advance some considerations regarding the research questions posed in the theoretical part of the paper. To this end, some research propositions are set forth in the following.

One first element to be highlighted is that the data reveal that IFMs respond to the opportunities afforded by the new middle class consumers in a very enthusiastic manner. Their rather ambitious drive towards new store openings around the world is best explained by the disposable income now available to millions of middle-class consumers. In particular, the development of a new worldwide middle class allows IFMs to implement policies of retail store openings in a much larger potential pool of targets with ever-increasing numbers of potential consumers. The characteristics of the internationalization phenomenon in question, described in the preceding section, enable concluding that direct sales channel access to middle class consumers internationally is of considerable interest for a wide variety of enterprise types, both large and small-to-medium-sized. The database records, in fact, reveal both a great number of brands and enterprises involved in expansion abroad through retail store openings, as well as a large number of different foreign countries as targets for this expansion. We consider such findings consistent with the arguments made in the theoretical framework section, and hence advance the following propositions.

Proposition 1. The middle class is one of the main factors able to explain IFM foreign development through retail store openings

The study results highlight how locational attraction is very important as a driver for the implementation of new FDIs in retail by businesses. This is true in general, but particularly so for the new emerging countries. Moreover, the present findings indicate that the internationalization drive of IFMs is preferentially directed towards the Emerging Markets (EMs) over the Developed Countries (67% vs. 33% of the total number of stores opened). Such a phenomenon is clearly corroborated and validated by the data presented herein. In fact, despite the widespread perception of the increasingly important role of emerging markets, in part due to saturation of consumption in many of the mature markets, there is no body of literature able to provide numerical evidence of this phenomenon regarding IFMs. Instead, the present study has allowed us to delve into an unexplored phenomenon, and highlight that it is the newly formed middle classes located in emerging markets that represents a crucial enabling factor for IFMs' foreign development. In line with the considerations advanced in the theoretical section, we thus assume that:

Proposition 2. In emerging markets, the growth and concentration of new middle-class consumers represents a major driving force behind IFM foreign development.

We have moreover found ample evidence that IFMs make their store location decisions on the basis of what large individual cities offer in the way of market potential, rather than the aggregate marketing potential of entire countries. The present findings have in fact revealed that over time new cities, other than mega-cities, are undergoing considerable development in terms of IFMs' retail stores. Of course, the 20 top targets were still all large, tier-one cities (Table 2 and Figures 4 and 5), but these same figures also reveal the growing number of "other cities" (which rose from 123 during the period 2004-2007 to 224 during 2010-2013 – Table 2). Recall, for instance the case of China, which over the entire study period of 2004-2013 was the destination for the greatest number of retail store openings, which however, have not been concentrated solely in major national locations, but have instead come to be distributed over a remarkable number of average-sized (and even third-tier) cities (Figure 6). Similar considerations can be made for other emerging countries such as Russia. Indeed, the cities involved in IFM retail store openings (315) seem to be quite heterogeneous in terms of type and size. This a particularly significant finding, especially if the type and size of the enterprises involved is also considered: about 300 Italian fashion brands, which in many cases are SMEs. The data therefore seem to clearly lead to the conclusion that the choice of location has come to be focused, rather than on countries, on the level of the city, by evaluating the potential of each single location on a case-by-case basis, rather than analyzing the overall country and its spending potential in terms of consuming class. We thus formulate the following:

Proposition 3. Cities represent an important focal point in the selection of location for IFM foreign development through store openings.

It is however evident that the choice of a city (or cities) is part of an overall evaluation process that also includes the country in which the city is located. In fact, our analysis indicates that the main destination cities for investments are also those where a certain "critical mass" of middle-class consumers and/or interesting growth rates, in terms of consumption, has been reached. Thus, while it is true that urban development is one of the main elements to consider in the choice of where to set up operations abroad, the country nevertheless maintains considerable weight in such decision. In any event, the two perspectives are not mutually exclusive, but should be adopted complimentarily, whereby consideration of a given country is supplemented, side by side, by a new location factor to be weighed − that of the cities. In this sense, it is possible to hypothesize a positive relation between the choice of a city and the aggregate market potential of the country where that city is located. This suggests that IFMs do indeed perform rational decision-making in their choices. Such decision-making process includes evaluation of the potential country supported a new dimension, that is, evaluation of the potential of the individual city location. We therefore argue that:

Proposition 4. In IFM store openings abroad, a relation exists between the choice of a city (or cities) and the aggregate market potential of the country.

With regard to the special case of IFMs, it is clear that the desire to maximize returns from their global brand equity has prompted them to institute aggressive internationalization drives. On the other hand, the large number of actors involved in the phenomenon is explained by the widespread aspirations for high growth that are not fulfilled by the domestic market. We have shown this thrust in our model (Figure 1) as a rationale for IFMs' interest abroad. In the age of the Internet and global social media, millions of new customers have been exposed to IFMs' brands, and this can enable enterprises, even small-to-medium ones, to assert themselves through policies such as growth through store opening in city locations perceived as distant not only geographically, but also psychologically. Moreover, it is possible to hypothesize that IFM foreign development can profit, above and beyond from a general positive attitude toward Italian fashion brands, from phenomena of imitation between enterprises, given that in general there seems to be a certain convergence toward the same major city destinations. In other terms, it can be hypothesized that large enterprises may drive a process that is then also followed by many SMEs. Apart from this, our data seems to clearly indicate that branding represents an advantage for IFMs, hence it follows that:

Proposition 5. IFM foreign development is fostered by the possibility of exploiting brand equity at an international level.

Lastly, apart from the fact that IFM foreign development has clearly been favored by the emergence of a new worldwide middle class, the analysis also seems to indicate that such development push can be interpreted as their reaction to the economic-financial crisis that struck the domestic market. Though limited in this regard, the presented findings show that in the period following the crisis that involved international markets, IFMs not only opened a greater number of retail stores in comparison to the pre-crisis period, but that such openings, especially in such post-crisis period, were in emerging markets and moreover in a wide variety of city locations. In this sense, the analysis indicates that the internal domestic crisis was one of the driving forces that prompted IFMs to set up internationally located retail stores, which as mentioned, had their potential customer base in the new middle class in the emerging markets. Thus, we lastly conclude that:

Proposition 6. A crisis in the domestic market is a factor that induces IFMs to open retail stores in new international markets.

Limitations and indications for future research

This paper has focused on the consequences of the rise of emerging markets' middle classes and the role of cities on the internationalization of IFMs. The questions addressed have yielded a number of novel elements in various regards. The main issue tackled, that is, IFMs establishing retail stores abroad to respond to the rise of a new global middle class, seems to have been largely ignored in the academic literature, especially with regard to the opening of direct sales channels in emerging foreign markets. Such a strategy instead seems to be quite widespread and important, at least in the Italian fashion industry, and deserving of in-depth study, especially given the often sizeable investment required of the enterprises embarking on such undertakings.

The analyses conducted have produced some significant results that can be summed up in at least two major points. Firstly, the study sheds light on an important phenomenon: the ongoing internationalization of IFMs through the opening of direct retail channels as the means to reach new consumers in emerging markets. Secondly, analysis of the expressly compiled database and discussion of the resulting data with specific regard to the initial research questions, which has enabled formulating six propositions that can hopefully serve both as aids in conducting future research on the topic and as the bases for comparisons with the results of further studies.

Given the ambitious research questions posed, the study suffers from a number of shortcomings that at the same time provide indications for future research directions.

The first limitation is related to the context, specifically IFMs. The paper, in fact, focus on a particular sector and moreover in a particular country. Although both are relevant to the global landscape, the study's limited scope limits the generalizability of the results, though they do provide substantial insight into an overall picture whose contours are only now beginning to take shape. Consequently, the major indication for future research is to study other sectors and other countries to provide a more comprehensive picture of the phenomena studied herein.

Secondly, the panel data regards the period 2004 to 2013 and new store openings rather than the pool of existing stores. As is evident from the study, this period enables assessing retail store openings as an effective strategy for enterprise international growth. The variations found within the period analyzed (such as those pre- and post- global economic crisis) suggest that future research should address subsequent time periods to check the extent to which such strategy is used by IFMs, and see what trends and what markets (and cities in particular) may emerge as important. Moreover, relating the number of new to pre-existing stores , although challenging in terms of data collection, could furnish a more comprehensive picture of the relative importance of the different city destinations.

A third limitation regards the performance analysis. In effect, the study considers the number of store openings as a strategy outcome. Few indications regarding other potential performance indicators have emerged. Future research should be aimed at analyzing other performance indicators, such as the longevity of the stores (accounting for store closures along with openings), the pace of development and store economic performance. Moreover, current attention to internationalization strategies involving store openings abroad outshines news of other enterprise strategies to reach the consumer classes of emerging markets. In particular, the role of online shopping as an alternative to brick-and-mortar sales channels should be studied and compared with the opening of physical stores abroad.

Lastly, this paper does not provide indications regarding the heterogeneity of the firms involved, in terms of positioning and size. Future research should be directed towards deeper analysis of such factors and how they may relate to IFM development abroad.

To conclude, beyond these limitations, the study proposes an answer to the general question of how western marketers respond to the growth of new middle classes in emerging market cities, specifically in the case of Italian Fashion Marketers. By way of reply, considering the increasingly important role of both the middle class in emerging markets and the cities in which its members have become concentrated, the paper’s findings provides evidence of the relevance of an aspect as yet poorly explored in the literature − the opening of retail stores abroad.

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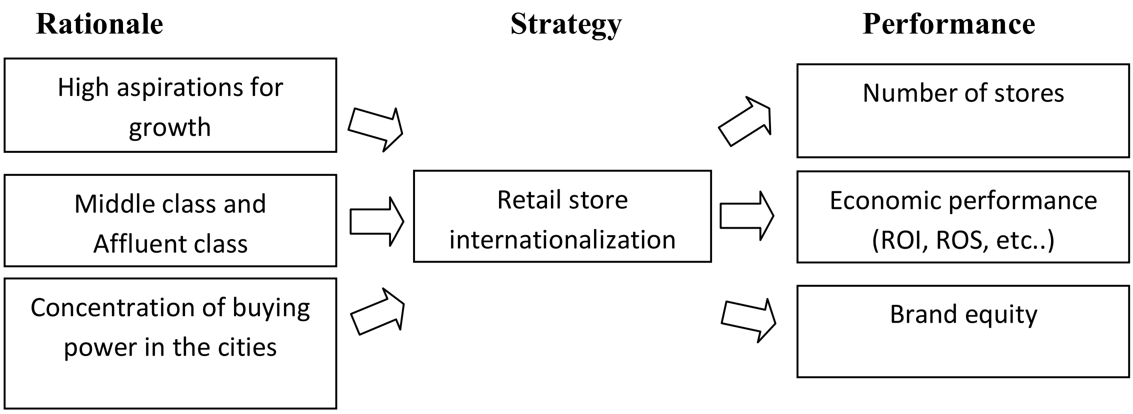
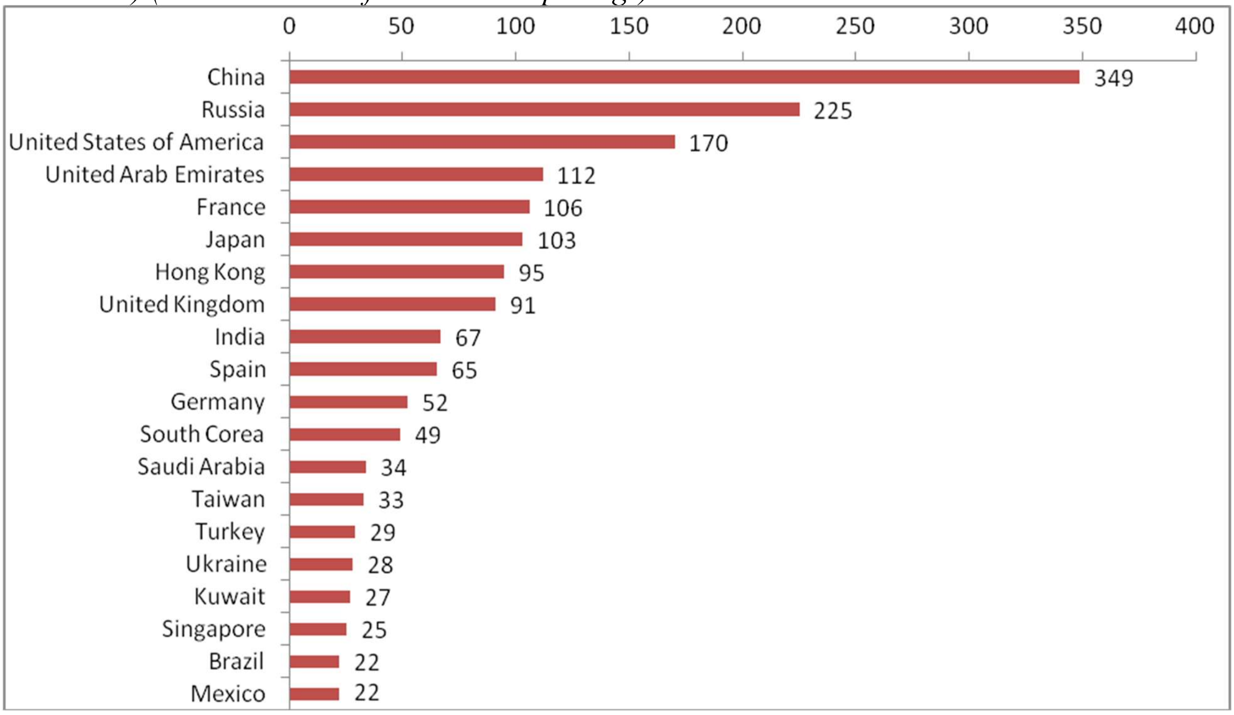
Figure 1. The theoretical framework: IFMs going abroad through retail store openings



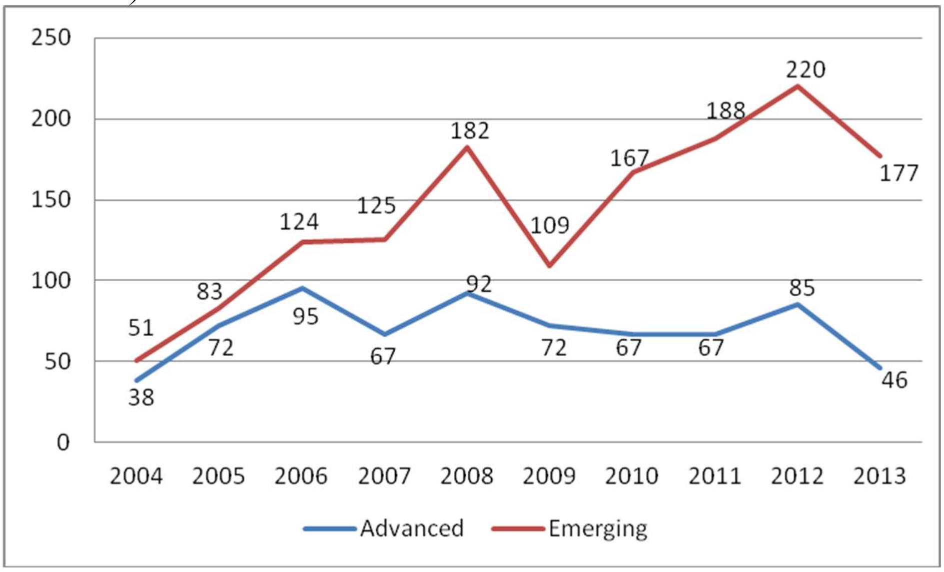
Source: authors' elaboration

Figure 2. Top 20 countries in order of decreasing number of IFM operations (period 2004-2013) (absolute value of retail store openings)



Source: authors' elaboration

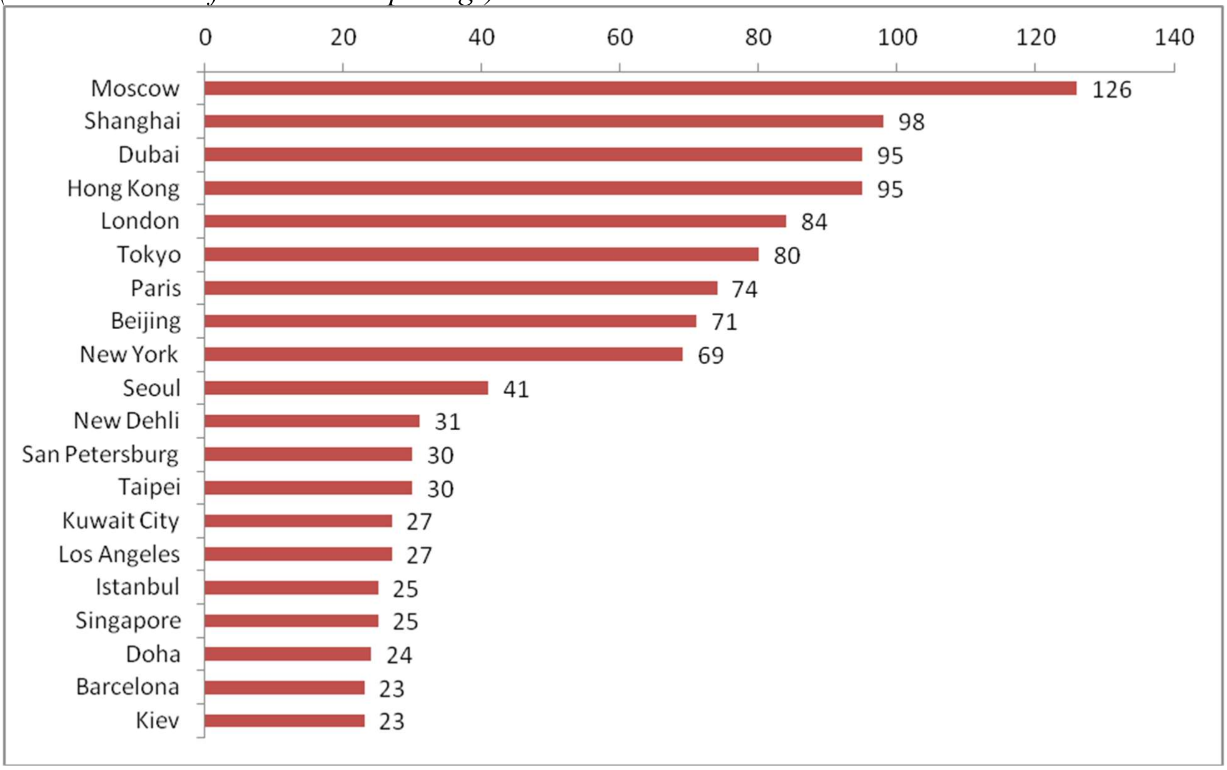
Figure 3. Trends in number of store openings by year: emerging vs. advanced countries (period 2004-2013)



Note: to distinguish between "advanced", developed countries and "emerging" ones, we considered the European and North American countries that originally founded the OECD, plus Japan, Australia and New Zealand; in particular, we considered the following countries as "advanced": Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Japan, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States. All the remaining countries have been considered "emerging" for the aims of this analysis.

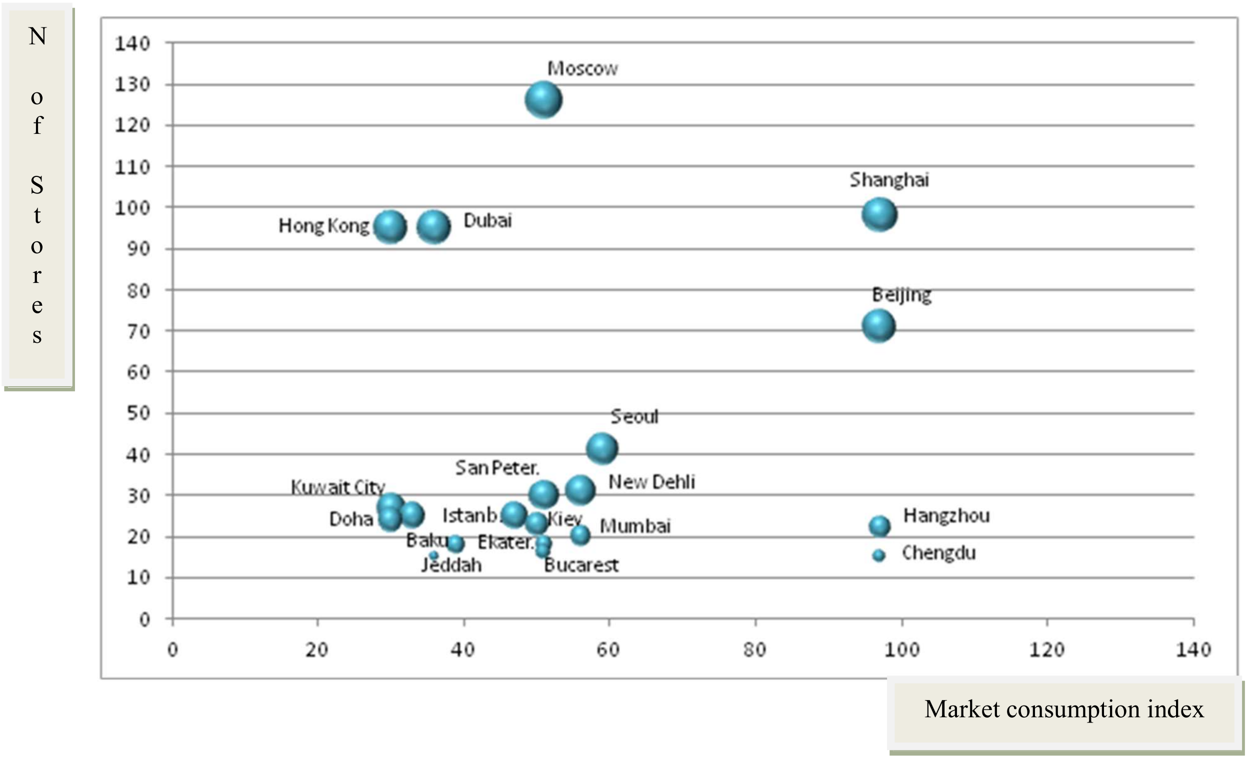
Source: authors' elaboration

Figure 4. Top 20 cities in order of decreasing number of operations (period 2004-2013) (absolute value of retail store openings)



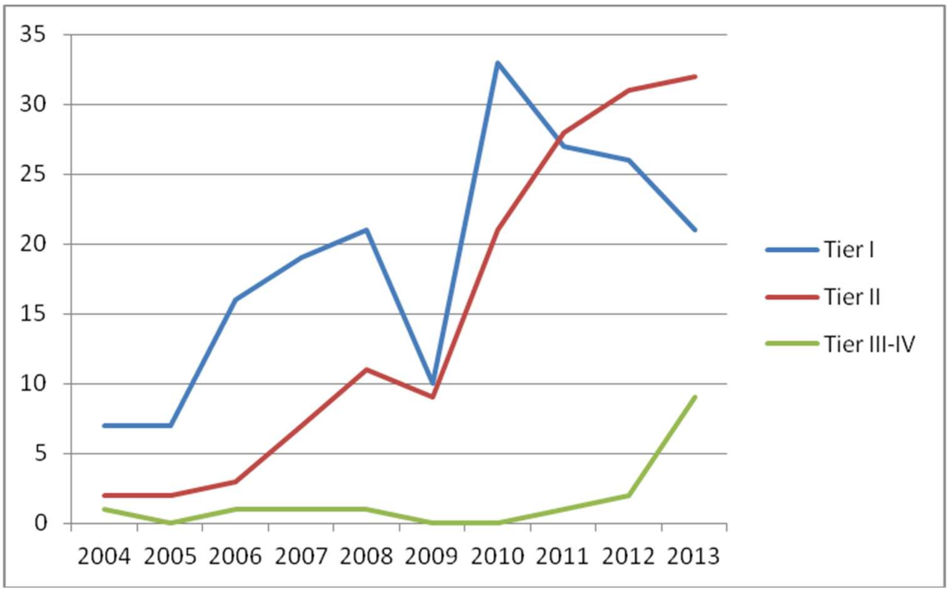
Source: authors' elaboration

Figure 5. Top 20 destination in emerging markets by market consumption index and number of stores



Note: Taipei and Beirut were excluded due to lack of data on market consumption index. The size of the sphere is proportional to the city's ranking among the top 20 destination cities.
Source. authors' elaboration

Figure 6. Trends in number of store openings by IFMs in Chinese cities by tiers.



Tiers in our database: ***Tier I*** *Guangzhou, Beijing, Shanghai, Shenzhen;* ***Tier II****: Changsha, Changzhou, Chengdu, Chongqing, Dalian, Dongguan, Fuzhou, Haerbin Quilin, Hangzhou, Harbin, Hefei, Huhehot, Jinan, Kunming, Nanjing, Nanning, Ningbo, Qingdao, Shenyang, Shijiazhuang, Suzhou, Taiyuan, Tianjin, Wenzhou, Wuhan, Wuxi, Xiamen, Xian, Yantai, Zhengzhou;* ***Tier III-IV*** *Bengbu, Canton, Changchun, Guiyang, Taichung, Takashimaya, Xining, Yiwu, Zhuzhou*

Note: The concept of tier derives from Chinese government classification system, but has since been adopted by economists and business consultants. Herein, we have followed the McKinsey classification of tier, which states that "cities in China are grouped into four tiers based on their economic development and political importance. Tier 1 cities are Beijing, Shanghai, Guangzhou, and Shenzhen; in all four … Tier 2 cities are mostly provincial capitals …" (McKinsey 2013).

Source: authors' elaboration

Table 1. International retail store openings – Advanced vs. Emerging countries (period 2004-2013)

	Number of stores	**%**
Advanced countries	701	33%
Emerging countries	1426	67%
Total	**2127**	**100,0%**

Source: authors' elaboration

Table 2. Top 20 cities in order of decreasing number of operations pre-crisis period 2004-2007) – crisis period 2008-2009 – post-crisis period 2010-2013 (absolute value of retail stores opening)

Rank	2004-2007		2008-2009		2010-2013	
	City	N. stores	City	N. stores	City	N. stores
1	*Moscow**	64	*Dubai**	25	*Shanghai**	56
2	*London*	40	*Hong Kong**	25	*Moscow**	45
3	*Hong Kong**	39	*London*	23	*Dubai**	39
4	*Tokyo*	34	*Paris*	18	*Beijing**	38
5	*New York*	32	*Moscow**	17	*Hong Kong**	31
6	*Dubai**	31	*New York*	17	*Tokyo*	30
7	*Shanghai**	30	*Beijing**	17	*Paris*	28
8	*Paris*	28	*Tokyo*	16	*Seoul**	25
9	*Beijing**	16	*New Delhi**	13	*London*	21
10	*New Delhi**	13	*Shanghai**	12	*New York*	20
11	*Barcelona*	12	*Kuwait City**	10	*Hangzhou**	17
12	*Los Angeles*	12	*Seoul**	10	*San Petersburg**	16
13	*Taipei**	12	*Doha**	9	*Kuwait City**	13
14	*Kiev**	11	*Istanbul**	9	*Taipei**	13
15	*San Petersburg**	11	*Yekaterinburg**	8	*Chengdu**	12
16	*Mumbai**	10	*Kiev**	8	*Doha**	12
17	*Madrid*	9	*Los Angeles*	8	*Istanbul**	12
18	*Athens*	8	*Bucharest**	7	*Abu Dhabi**	11
19	*Berlin*	8	*Singapore**	7	*Beirut**	11
20	*Las Vegas*	7	*Barcelona*	6	*Singapore**	11
	Other 123 cities	*228*	*Other 111 cities*	*190*	*Other 224 cities*	*556*
	Total	**655**	**Total**	**455**	**Total**	**1017**

*City in emerging market

Source: authors' elaboration

Table 3. Correlation between cumulative number of store openings in emerging markets and some firm profile variables

	ROS	***Net Profits / Losses***
Total number of stores	*.169**	*.305****

Pearsons' r significance level: ***p < 0.001 * p < 0.05

Source: authors' elaboration