

Business networks and retail internationalization: a case analysis in the fashion industry*

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Abstract

The aim of the paper is to propose some evidence on the relationship between business networks and retail internationalization. Specific aim of the paper is to investigate to what extent business relationships represent opportunities/constraints in the internationalization process with particular regards to the fashion system. The paper deals with the topic of interaction and its role in the internationalization process. Different theoretical perspectives on this issue are presented. With regard to methodology, the paper considers a specific case of a vertically integrated firm in the fashion supply chain, which has implemented branding and retailing strategies in international markets. The case analysis, which is the result of a longitudinal study over several years, aims at deeply analysing the theme of the paper. The topic of the sustainability of a successful business model in the international expansion is addressed. The paper outlines the relationship between the specific business model, the international patterns followed and business relationships. The analysis points out the main opportunities and the main critical elements emerging from business relationships in supporting the business model in the process of internationalization. The paper ends with some final remarks on the relationships between business networks and retail expansion.

Keywords

Internationalization, Fashion, Retail, Interaction, Business Networks

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1. Introduction

Internationalization of firms has been studied by numerous authors and considered in a huge number of academic contributions. International literature has focused its attention, time after time, on internationalization in terms of export markets and, increasingly, with regard to internationalization of the production. Globalization of markets has pointed out the opportunities either in term of finding new selling markets or in term of finding new markets for the supply and production. The analysis of the internationalization paths of companies seems to propose different models of internationalization, different critical objectives and different opportunities/problems.

With particular reference to the fashion system, the dynamics of the sector and the potential for innovation in terms of new business models expressed by firms, outline the framework within which defining strategies and processes of internationalization. The textiles and clothing sector, which is commonly defined as "supplier dominated" in the dynamics of technological innovation (which tend to come from the suppliers of machinery and industrial goods), in recent years, seems capable to offer a particularly fertile ground for innovation in terms of approaches to the market and production management models. As an effect of these kinds of innovation, in recent years, new formulas other than those provided by the traditional dichotomy between "planned" and "pronto moda" (ready-to-wear) have emerged (Christopher, 2000). In particular, it is possible to point out the diffusion of business models in which the ability to respond fast to trends in the market (fast fashion) or to propose quickly a stylistic identity (quick fashion) are associated with a strong brand identity and a capacity to frequently offer new collections (tens of collections per year in place of two to six traditionally). These trends are linked with a growing need for being closer to final markets and the opening of stores (through direct investment or collaboration), but at the same time, with the willingness to maintain industrial competencies (design and sourcing/producing). In the Italian context, as a part of this process of innovation, one can point out the development of a variety of managerial experiments that have found positive feedback in terms of economic performance. The great majority is developed by small-medium enterprises.

The analysis of these business models need to include the study of the network of relationships that have been developed by firms and that seem to ensure, together with the originality of the proposal, the success of the company. The analysis of the literature reveals how business relationships are considered relevant (Gadde and Håkansson, 2001), to the success of the new business models. In fact, they represent a source of competitiveness, which is hardly imitable by competitors. In some cases, for example, it is possible to point out a relationship between business model, local context and processes of integration in terms of supply between textile producers, garment manufacturers and clothing retailers. The presence in an area of high concentration of textile activities (such as a district) is considered to play a role in creating the basis for contacts and fashion culture on which to

base the development of a company that wants to predict trends and suggest them to the market. In the Italian context, this aspect is considered relevant in the development of management solutions that have found a source for innovation in the local/national relational context (Burrelli, 2005).

Starting from these elements, the paper aims at providing a response to a series of questions related to the relationship between internationalization and business relationships, analysing the case of a successful firm in the Italian context which is rapidly expanding internationally. In particular, the paper analyses the way in which the relationships that have led to the success, mainly domestic, of the business model may be opportunities or constraints to the sustainability of this model in the process of internationalization. Moreover, we wonder how the growing opportunities in international markets, either in commercial terms or considering the manufacturing opportunities, can be related to the existing network of relationships. The case considered has been deeply investigated through a case analysis approach, focusing on the impact of the retail expansion to China with respect to the existing business networks.

2. Psychic distance and interaction in the internationalization process

Internationalization process and psychic distance

The internationalization process can be considered in terms of “psychic distance” between actors involved in that process. This kind of distance has been defined as the sum of the factors that regards information flows from and to the market. It is connected to such elements as differences in languages, educations, managerial practices, cultures and industrial developments (Johansson and Vahlne 1977, 24). Psychic distance is central in the firm-international market interface and it is changing over time. The approach to internationalization proposed within the School of Uppsala, considers the perspective of the single firm as a means to compare and measure psychic distance, assuming that firms tend to incrementally overcome that distance through gradual learning processes (Johanson and Wiedersheim-Paul 1975). Although this literature essentially takes into consideration the perspective of the individual firm operating abroad or trying to enter in a new market, there is no doubt that the studies cited suggest the incremental nature of the internationalization process by which an individual firm builds its experience and a path of learning and acquiring knowledge about the market. Although the concept of “psychic distance” calls for major attention to the strategy of an individual firm, the presence of interactions between players on the market considered as a network can be significant in measuring the perceived “psychic distance” between the actor and the geographic market.

It can be reasonably argued that the perceived “psychic distance” in the process of internationalization from the perspective of the individual actor may change due to the presence of relationships with other actors, such as suppliers, which already operate in new geographic markets. Following the distinction between “status factors” and “change factors” proposed by the School of Uppsala regarding the (incremental) processes of internationalization of the firms, the existence of relations with actors already operating in destination markets acts both at the level of "state aspects" and of "change aspects" (Johanson and Valhne 1977, 26). In fact, the presence of relationships with suppliers (for example) localized in a specific destination market towards which the firm decides to open stores, may have changed over time, through the interaction processes, the knowledge generated about the new market, with consequent reduction of the “psychic distance”. Secondly, the awareness of the existence of relationships with players already entered in the market may have an impact on the decisions about the new market. This can become important either because the firm can decide to imitate the behaviour observed or because this behaviour can lead to a minor perception of difficulties in acting with players in the new market. The knowledge obtained through business relationships with an actor already in the foreign market may lead to the development of experience and to the generation of knowledge that can be related to the concept of "experiential knowledge" that has been identified by Penrose (1959, 53) as the main way to reduce the uncertainty of the market. Consequently, current activities and commitment on the foreign market may be modified as a result of the relationships with actors already operating in a given geographic market. The organizational mechanism through which the relationship produces the formation of "experience knowledge" is essentially that of interaction. The interaction with other players already on the foreign market can generate in other words factors related both to “state aspects” and to “change aspects”, ensuring a reduction of the “psychic distance” with the new market. The perceived distance can be addressed even through the interaction with actors who can assume the role of "gatekeepers" in the new market context. The relationships developed with other actors are not just a factor that influences the degree assumed by the subjectively perceived psychic distance, but also represent the context within which organizational mechanisms (interaction) are developed.

The internationalization process and the presence on psychic distant markets lead the firm to build new interactions and to put in place new paths of learning. Following this reasoning, the “business network" takes the character of a market model which is alternative to that defined by neoclassical conception (market as a price mechanism) (Snehota 2004, 17). The business network is therefore recognized as a "market form", where a firm's market form “is comprised of those organizations whose activities it perceives: impact on its ability to create value, and it can be influenced in a deliberate manner” (Blois 2004, 38). The organizations within the network are also interdependent as a result of the activities carried out through transactions with one another (Johanson and Mattson

1992, 205). This interdependence becomes important compared to the topic of “psychic distance”, as the interdependence may allow the firm in determining the awareness of a lesser distance or in identifying the means to reduce it. In other words, interaction becomes crucial in this process.

Interaction and market as a complex behavioural system

Interaction appears as an important issue for the study of the relation between business networks and internationalization processes. The development of interactions occurs as an element capable of activating the overcoming of “psychic distance”.

Interaction occurs inside the network and one of its fundamental characteristic is that the parties are aware of each other and try to understand and influence each other (Ford et al. 1986: 28). In this sense, interaction can be seen as a “dialectic process” characterized by activities that involve more players, representing in this sense a component of social behaviour.

Interaction in terms of business exchange can therefore be seen as a dialectic process, a two-way path, which crosses organizational boundaries creating new solutions as well as ties between the two actors and where the parties can be any actor from the individual person to the entire organization (Håkansson and Prencert 2004, 77). The theme of interaction played a central position in the seminal work produced within the IMP Group (Håkansson 1982). It has been shown how marketing and purchasing occurs within relationships. Relationships are often close, complex and develop in the long term. There are interconnections between marketing and purchasing over time and both the buyer and the seller are active participants in the interactions that go beyond the acquisition of a standard product. Following this reasoning, interaction is an important element in the long-term, while goods and products sold can be defined in the interaction process and the same role of buyer and of seller can at certain times not to be predetermined and, rather, defined by interaction itself. Two companies working together, respectively, as buyer and seller for a long period, however, does not necessarily develop a relationship. The relationship requires the existence of a process of interaction in the sense first defined, and through which one can assume that the network of social relations impact the way in which the actors assume their behaviour and therefore how the economic institutions are developed (Blois 2004, 51).

The central role of interaction within the IMP framework is highly distinctive compared with other theoretical approach. In the approach defined by Mason (1939, 69), for instance, the market and its structure must be defined with reference to the position of an individual seller or buyer. The same author pointed out how the structure of a market according to a seller includes all those considerations that it takes into consideration in determining its policies and business practices. In this context, marketing is defined as a “technology” used by organizations to influence behaviours of other organizations or other individuals (Sweeney 1972, 4). On the contrary, the approach that puts

interaction as a base of the market, offers a perspective that is not simply that of the individual actor. In the interaction process, the individual actor does not determine its evaluations only in terms of individual utilities, but considers even the opportunity for the counterpart. Recurring to the negotiation theory (that of the structural model for the analysis of negotiation), the actor in the interaction process not only considers the "individual utility space" but considers even the "shared utility space" (Rumiati and Pietroni 2001).

The awareness of the existence of the counterpart characterizes the interaction, which can be considered as an effort to understand the counterpart, in order to influence it. In this sense, interaction aims at not only evaluating the utility of the relation for the actor, but also for the counterpart. This possibility of understanding the other, however, is influenced by the context. A fundamental concept emerging from the sociologic literature is that of "embeddedness" formulated by Granovetter (1985). What is meant by "embeddedness" is that the economic action of individuals as well as the broader patterns of economic factors, such as the determination of prices and economic institutions, are affected significantly by the network of social relations.

This approach is coherent with an interpretation, pointed out in the traditional marketing studies, which showed the "market as a complex behavioural system", with respect to which, marketing theory "may be said to consist of making clear what we mean by behaviour, what we mean by system, and what we mean by organization, all as applied to marketing", and where it should contain principles that are "basic concepts" to which it should be given "specific form and content in relation to all of the types of organized behaviour systems that are significantly involved in the marketing process" (Alderson and Cox 1948, 148-149). In this context, actors interact assuming different roles and "marketing is the performance of business activities that direct the flow of goods and services from producer to consumer or user" (Holbaek-Hanssen 1958, 101).

These approaches seem well linked with the concept of the "market as an institution", which is considered to be close to that of market-as-network (Snehota 2004, 22), since "it is an institution in so far as it consists of a set of actors connected by exchange relationships to a network-like pattern of behaviours". In this sense, the concept of the market as an institution means that it is always specific, resulting from the interactions between individual players that form the institution, and it is the result of evolutionary processes (Snehota 2004, 22-23).

The concepts of "market as an institution" and of "a complex system of behaviours" are particularly interesting with regard to the study of firms in the fashion system. The textile-clothing sector, the main sector within the fashion system, does not show high R&D investments and can be considered within that sectors which are "supplier dominated" (Pavitt 1984), as the most important technological innovations come from suppliers of machines and man-made fibers. This aspect makes the theme of interaction particularly interesting in this industry. Moreover, within the textile and clothing, the

presence of a particularly fertile ground for innovation in terms of market approaches and production management models is achieved through complex organizational processes that typically cross the boundaries of the individual firm. Textiles and clothing consists at least of four “technology-related” sectors, within which specialized companies traditionally operate. These four sectors include the production of fibers, the production of textile semi-finished products (yarns and fabrics), the manufacturing of garments (clothing) and finally retailing (Jones 2002). Moreover, even in the textile-apparel sector (as in other industries), companies need to counter the process of "commoditization" which is commonly associated with the situation in which the customer does not perceive any value that can differentiate physical goods offered by competitors (a part from prices) (Blois 2004, 49). Nevertheless the process of commoditization regards only a part of the exchanges in the market and even considering the role of vertical integration for a better management of the supply chain, the number of firms involved and all the possible roles assumed by the actors in the market emphasize the opportunity to study “interaction” in this sector. For actors involved in the distribution of clothing, for example, sourcing strategies (interactions with suppliers) have to be consistent with retail format decision, and interaction assumes a central position (Guercini, 2008). The theme of interaction for these reasons seems particularly relevant in the textile-clothing sector and generally in the fashion system.

Path dependence and gatekeeping in business networks

The interaction with other actors leads companies to develop specific resources related to the characteristics of the actor with which they interact. The interaction has its own history and creates a path which produces self-reinforcing mechanisms that create the possibility of "closure" with the consequent effect of "path dependence". With the latter expression, we refer to the phenomenon for which, with reference to the evaluation of the success of technical innovations, “historical events cause solutions to problems to become ‘locked in’ which explains why sometimes apparently superior innovations do not manage to supplant existing but inferior ones” (Blois 2004, 45). In particular there have been identified self-reinforcing mechanisms that impede the consideration of new solutions to those already available. This is normally due to the economies achieved with the implementation of the solutions already adopted (Arthur 1994).

The existence of relationships developed with other actors in the network does not remain when the company faces the psychic distance that characterizes the process of internationalization, but it can lead to the process of internationalization. The development of interactive relationships with some actors can reduce the perceived distance of the market. Firms and their relationships can be understood in terms of dynamic network of interconnected relationships (Johanson and Mattson 1992). This interpretation creates a different approach to international marketing, within which the

focus is not on the company and its strategy, but it is on the system of relationships that include: those in the home country and abroad; those that the firm wants to establish in the new market; the effects that the development of new relationships may have on existing relationships; any other process due to the interaction of all actors in the business network.

The business network within which the firm is involved may be an element that promotes and enables the development of the internationalization process, but may also be a limit for the same process. For example, the development of interactions with actors in the networks may affect the access to the new market. Actors with which interactions have been developed over time, and with whom the company has developed specific resources and knowledge can reduce the perception of "psychic distance", thanks to the process of learning. But since most of the resources developed are specific, the access to international markets can be allowed only if those resources are consistent with the internationalization process. In this case, internationalization can put one or more actors in the business network in the position of "gatekeepers" (Lewin 1947). The interaction with these actors can be considered the more critical the higher is the perception of "psychic distance". The gatekeeper role is a general role of connecting contexts which are perceived as psychic distant, and it has been widely used, for example, in the study of interactive phenomena and networks of relationships that affect the management of technological innovation (Allen 1977). The process of gatekeeping is mainly related to communication and the management of information. In this more traditional sense, "gatekeeping is the process by which the billions of messages that are available in the world get cut down and transformed into the hundreds of messages that reach a given person on a given day" (Schoemaker 1991, 1). More recently the theory of gatekeeping has been related to business networks. As outlined, the gatekeeping role was often referred to networks created by technology, such as the Internet. Today is increasingly related to a general concept of network, overcoming the traditional view of selector of information, instead including any form of information control, which may result in decisions about the encoding of the message, the selecting, the shaping of it, the display of it, the timing and the repetition of the information itself or its components (Barzilai-Nahon 2008, 1494).

There are several reasons why companies may allow an actor to take a position of gatekeeper. The interaction with the gatekeeper highlights the double relevance that can be taken in the process of internationalization by business network in which the firm is embedded as a result of its history. On the one hand this produces an element which can help in the management of the "psychic distance", on the other hand it can be a limit and a factor of influence that can activate processes of learning and development of new interactions with a consequent evolution of the firm's business network.

3. Changing the network in the international expansion: the case of Tessilform in China

The case and the sustainability of the model in international expansion

The case considers an Italian clothing manufacturer, Tessilform Spa, and its main brand produced: Patrizia Pepe Firenze. During the last fifteen years the firm has experienced a steady grow in profit and sales. The success of the firm is strictly connected either to the innovativeness of its production management model or to the specificity of the supply network. The former, is related to quick fashion formulas linked with branding process the latter is represented by a group of suppliers (fabrics and manufacturing services) nationally located (the majority in the textile district of Prato) which have been selected during the years for their reliability, production flexibility and quality of the product.

In the following sections, firstly, we propose a brief description of the firm and the key steps in its history. Subsequently we focus on Tessilform's main brand (Patrizia Pepe Firenze), its production management model and supply chain model. Afterwards we describe and analyse the retail and production expansion to international markets, focusing in particular on the expansion towards non-EU countries, specifically to China.

The case proposes some evidence on the sustainability of the model proposed by the firm in the global context. This model, in fact, in the past has been developed mainly considering the national market for the production side and European countries for the commercial/retailing side. From a methodological point of view, the case is the results of a case analysis process (Yin 1994) with in depth interviews with managers of the firm (President and Executive Manager). The analysis is part of a longitudinal study which has been developed by the authors during the last ten years through several interviews sessions. The questions raised are mainly connected to the relational context, and how it has been changed in order to sustain the international expansion of the firm. The analysis outlines the role played by suppliers and customers who have considered by Tessilform such as "gatekeepers" capable to help the firm in reducing "psychic distance" perceived with regard to China.

A short presentation of Tessilform

The Tessilform Group is constituted by Tessilform and other controlled firms: Tessilform Vertriebs, Tessilform Scandinavia, Tessilform Netherlands, Tessilform France, Tessilform Belgique, Tessilform UK and Tessilform Asia. Tessilform, which is engaged in the creation, production and trading of garment, was born at the end of the seventies, while the other controlled firms which are involved in the trading of Tessilform's products in foreign markets, have been more recently constituted (the oldest is Tessilform Vertriebs whose foundation dates back to the year 2000).

Tessilform was set up as an outsource for manufacture of clothing, and afterwards moved into the manufacture of knitwear and garment production, selling through wholesale channels. During the 80s the firm started to create and produce fashion items sold without the support of samples to mobile retailers which purchased the items directly from the manufacturer or from wholesalers. The capacity to work with mobile retailers and the possibility to adjust rapidly to the needs of this kind of retailers, have been identified by the management as key factors, which permitted to operate with quick fashion formulas in the years after.

In fact, the origin of the current success of Tessilform dates back to the late 1992 when a radical change in Tessilform's characteristics took place. Prior to that date it had been a small firm operating in the clothing industry and oriented towards following fashion trends as these sprang from the market. The two Tuscan entrepreneurs, already owners of Tessilform, decided to set up the brand Patrizia Pepe Firenze in 1993 and to stop the production of other kinds of garment. The firm shifted towards the creation of a total look, which called for different distribution channels, due to the quick fashion formula which characterised its production management model. This led to a significant change that was the closure of the relations with wholesalers, which was completed within just a few months.

Tessilform then opened three diffusion centres (wholesale distribution centres) for its products, in Bologna, in Milan and Florence, which were followed by a diffusion centre in Tokyo, set up following an agreement with a Japanese partner. The diffusion centres were managed by Tessilform itself, selling its own clothing directly to retailers. Tessilform then began to operate not only with quick fashion formulas but also with a planned model (since 1999/2000). The planned collections aimed at sustaining the image of the firm's production, although representing a minority share of the turnover. Tessilform's decision to build up its own brand and its own independent distribution network (wholesale distribution) was conducted coherently with certain presuppositions of the symbolic content of the brand (Guercini 2001).

At the beginning of 2000, the firm developed a retail project joining the indirect distribution channel, represented by the multi-brand independent distribution outlet clients, with a direct distribution channel adding a growing number of single brand stores (own property and franchising formula).

Today the mix of the stores is composed as follows:

- 88 single branded stores: an internal retail division aids the management of single brand shops, supplying services as visual merchandising, computer support, staff training, store concept and planning of stocks;
- More than 1000 independent multi brand stores: distribution to multi-brand shops is structured with operative wholesale show rooms where retailers can stock up each week.

These structures work in such a way as to respond and to trade requirements in terms of assortment and product consultancy in real time.

The brand Patrizia Pepe Firenze

Ever since its beginning Patrizia Pepe Firenze has positioned itself an high level in the contemporary women's clothing market. The firm has experienced a steady growth (25-30% per year) in sales turnover (figure 1).

Figure 1. Turnover, International markets and Product categories

Year	Turnover (Euro)
2004	69.000.000
2005	85.000.000
2006	101.230.000
2007	115.500.000
2008*	124.000.000

*Estimation

Selling market	% Turnover in 2007
Italy	57%
Europe	25%
China	7%
Russia	7%
Others	4%

Product categories	% Turnover in 2007
Garments	68,4%
Accessories	7%
Jeans	8%
Leather items	6,5%
Others	10,1%

The increase in sales was followed by a subsequent growth in the dimension of Tessilform. In 1993 employees were 8, but at the end of 2007 they were more than 300.

According to the management, clothes with the Patrizia Pepe Firenze label are targeted at a woman in all the phases of youth, more or less from the age of 18 to 45. The style of Patrizia Pepe Firenze expresses a deliberate minimalism with a love for detail and dresses the woman complementing her harmony, suppleness and character. In tune with this aim, Tessilform began to make fairly small-sized clothes (British sizes 32 to 36, and 38 in some foreign markets). The decision to make the smaller sizes was in part dictated by a need to act in coherence with the stylistic features of the product, which would lose much of their character and silhouette, if they were translated into larger sizes. The product categories include a wide range of accessories, from shoes to bags, to costume jewellery. Since the summer of 2005 a man collection labelled with Patrizia Pepe Firenze has been launched.

Focusing on the woman collection, currently two production management models can be identified:

- *flash model*: it involves two collections per year, with delivery at 60 days, actually a “fast” planned model. This collection are managed in a traditional way with the creation of the sample (prototypes), the presentation and the distribution of the sample, the receipt of orders by clients, the production of garments, the delivery to clients;
- *pronto model*: it involves roughly forty weekly mini-collections per year. Actually there are 15-20 new products proposed weekly. This collections are managed without the previous receipt of orders, but are directly proposed (already produced) by the firm to its clients.

The *flash model* shows the fashion trends of Patrizia Pepe Firenze, but the core business is represented by the *pronto model* which provides retailers with a constantly renewed stock and image. Today the major portion of the turnover is still achieved through the quick fashion formula, although the management intends to give rise to the sale of collections of the *flash model* in order to diminish the financial risks linked to the *pronto model* at this current stages of growth.

Activities, resources and actors: the key factors of the success of the formula

The key factors of the success of the firm can be explained recurring to the A.R.A. model, developed within the IMP framework (Håkansson and Waluszewski 2002). The activity dimension is extremely relevant in the analysis of the Tessilform case. Actually, activities links has been considered central for the specific firm as they have determined how its internal activity structure fits into the overall activity pattern. It is interesting to note how the company’s activities are dependent on the activities of the others and which has been the impact of activities interdependencies on the economic performance of Tessilform. In this paper we assume the definition of activity as “...a sequence of acts directed towards a purpose...” (Håkansson and Snehota 1995, pag. 52) and those of activity link as “...a form of coordination ...achieved by mutual adjustment of activities, i.e. adaptations...” (Håkansson and Snehota 1995, p. 54). In the last fifteen years, Tessilform succeeded in reorganizing the activity chain in which it was involved, coherently with the production management model of the new brand Patrizia Pepe Firenze. The activity chain was redesigned in order to increase flexibility, eliminate inventories and, at the same time, increase time to market. We identify the activities in the supply network, including activities related to downstream relations, in the followings:

- the supply of fabrics (weaving and finishing);
- the supply of manufacturing services (cutting, sewing, ironing and packaging);
- the distribution phase (wholesaling and retailing).

Also the resource dimension is important in the Tessilform case. It is already evident how the heterogeneous resources of the parties involved in this specific supply network have become increasingly interdependent and mutual across time; the potency of the resource collection of

Tessilform is strictly dependent on how it is tied into those of its suppliers (fabrics and manufacturing services suppliers). As resource tie we assume the concept expressed by Hakansson and Snehota (1995). The two authors propose that "...resource ties in a relationship connect some of the resources of one company to some of the resources in another company....connected ties between resource units form a resource constellation..." (Håkansson and Snehota 1995: 138). Considering specifically the *business relation (or organizational relation)* perspective, one can note in this specific case, the extreme importance of this specific kind of resource as a way to relate the other resources to each other. In the Tessilform case, business relationships are in fact considered to be the most critical resource for the process. In the Tessilform case, we can identify a relational orientation (Li and Nichols 2000) adopted by the firm regarding to the interaction with most of its suppliers (fabric and manufacturing services) considered to be extremely relevant for the success of the production management model proposed by the brand Patrizia Pepe Firenze.

Finally, considering the actor dimension, the success of Tessilform has been strictly related to the actor's relations activated. For the term actor we assume that "...companies are actors because they are attributed the identity of an actor by those who interact with the company...In this perspective bonds between actors become important as they are critical in shaping the identities of the actors" (Håkansson and Snehota: 195). Tessilform's way of operating and identity has been strictly influenced by the actor's bond developed with suppliers mainly in the domestic market.

International expansion in China: how retail expansion changes the business network in the Tessilform case

In this section we deal with the topic of Tessilform retail expansion to China in order to propose some evidence on the changing of the business network within which the firm is involved. The development in international markets represents for Tessilform a managerial challenge in terms of sustainability of the business model. The business model and the business relations, as outlined previously, were based on mainly national relationships. The commercial expansion took towards mainly European markets, which have been selected even considering the logistic proximity. Today, the commercial expansion seems to emphasize the role of non-Eu countries, and China represents the main focus of the future expansion. The growth towards new destination markets in the global context proposes emerging issues which are related to the management of the logistic proximity between selling markets and sourcing markets which have been considered relevant for the success of the formula in the past, but which seems to be a challenge for the future expansion calling for a re-shaping of business networks. In the next pages, the paper presents some reflections regarding the way in which Tessilform is changing its business relationships in order to face the international

expansion. The analysis emphasizes the relation between the retailing growth and the changing of supply relationships.

China is considered by Tessilform one of the main markets either in term of production opportunities or regarding commercial possibility. China represents roughly 20% of the firm's international non EU sourcing markets (at the beginning of 2008 the total of non-EU was 35% with a rapid growth over the last three years) and a rising percentage in terms of selling markets (7% of the total turnover at the end of 2007). Today China represents the first non-EU selling market.

As previously outlined, the entry in the Chinese market can be analysed considering supply relationships and market relationships. In both cases, Tessilform in order to reach a profitable growth has approached China leveraging existing relationships with suppliers and customers to reduce "psychic distance". In fact, the entry strategy has been realized with the support of an existing actor which was already in the Chinese market and which was already known by the firm. In doing so, Tessilform tried to take advantage of the business relationships of its supplier and of its customer. The Chinese experience is considered the way in which Tessilform can approach other international markets (as India).

In terms of selling market, the expansion to China has seen a peculiar path which dates back to fifteen years ago, immediately after the launch of the new brand Patrizia Pepe. At that time, a Chinese customer got in touch with Tessilform, in order to export the firm's products to China (mainly in the Hong Kong area). The development of the relationship was favoured by the sensibility of the Chinese market to "made in Italy" collections, and the trust developed by the two actors increased over time through interaction. After several years and considered the national expansion reached, Tessilform decided to expand its sales in the Chinese market. In order to approach the market, the management decided to take advantage of the market knowledge of its existing customer, asking it to penetrate the market with joint efforts, reaching together Chinese retailers. It is interesting to note that Tessilform considered its business relation with the Chinese customer as a strategic resource to lever in order to expand internationally and in particular in order to acquire market knowledge, either in terms of consumption culture or in terms of managerial culture to deal with Chinese retailers. Roughly three years ago Tessilform decided to direct manage the Chinese market. Consequently, it decided to open a wholesale distribution centre in Hong Kong, reshaping the relationship with the Chinese customer, which is still a customer. This decision was due to the necessity to direct control the market and to expand more rapidly. One can note a reduction in the "psychic distance" due to the role of "gatekeeper" assumed by the Chinese customer. Today in China, there are 18 mono brand retail stores (all own property) and 100 employees.

Retail internationalization towards China has lead to a major degree of internationalization in terms of sourcing relationships. The Chinese context represents the key market where the firm is

experiencing the first steps towards a global expansion in the supply side which will be focused on the research of opportunities (cost advantage and product opportunity).

Considering China in terms of sourcing market, the expansion has benefited of the existing relationship with an Italian supplier. This supplier had its own business relationships in China, and even in this case the existing business relation was considered by Tessilform as a resource to manage in order to reach sourcing opportunities in the global context. The Italian supplier, which it is still present, operates as a “gatekeeper” letting at the same time Tessilform to approach new Chinese suppliers and to generate learning. The possibility to know Chinese suppliers is relevant and it is also allowed as the quality control is partly of direct control of the firm.

The expansion in terms of sourcing market has required the implementation of new competences and has changed the way in which Tessilform manages its business relationships. First of all, the production management model, as previously described, has in the past required a “delegation process”, with high degrees of responsibility to suppliers. The model has always considered the supplier “service ability” rather than the simple supply of a physical product (in other words the ability to be proactive in the relationship). The delegation process has been favoured in the past by geographical and cultural proximity. This way of operating is considered difficult to apply in the Chinese context, where managerial culture seems to be less linked with delegation. The management outlines as an example of quality control. They state that the typical Chinese supplier used to have inside the firm an external quality control (namely the quality control of the customer), consequently one can argue a minor degree of attention in the management of the operations and the necessity to reduce delegation to Chinese suppliers. This implies higher cost for Tessilform and the necessity to structure a quality control function operating globally.

Focusing the attention on the motives behind the choice of the Chinese market as a new sourcing market, one can note other interesting evidence. A part from cost advantage motives, the management outlines how this context is consistent with the concept of “proximity” between sourcing market and selling market which has granted the success of the formula in European markets. In particular, the presence of metropolitan areas as Hong Kong and Shanghai with proximity with industrial textile-clothing districts can be a relevant reason to expand sourcing in China, allowing the development of new business sourcing relations.

A separate analysis can be pointed out for the existing business relationships, considering their role in the process of internationalization. The existing relationships have represented an enabler of the expansion. But the relationships in the national markets have contributed twofold. On the one hand, the consideration of business relationships as firm’s resources has let Tessilform to reach new sourcing markets in China. On the other hand, buyer-seller relationships in the domestic market has created knowledge and learning which have allowed a better adaptation to the Chinese context.

Two main aspects are outlined by the management. First of all, the typical Italian structure of textile-clothing districts, where there is high specialization of firms in specific activities (i.e. cutting, sewing, ironing, packaging, ect...) (Becattini, 1987), from a problem to solve in terms of coordination has been considered as an opportunity to deal with the Chinese market. In fact, firm's necessity to interact with many suppliers, each of them specialized in a single activity of the supply chain today is considered an important competence to be used in the Chinese market. Tessilform in fact has acquired relevant knowledge (mainly technical) on the product (referred to each stage of the production), which is now useful either in the relation with its supplier (the gatekeeper) or in the relation with vertically integrated Chinese suppliers (which normally cover many of those activities). In fact, the firm is able to fully control the production process by having a full knowledge of the product. A second aspect which is pointed out by the managers interviewed regards a major adaptation to the Chinese culture due to the existing relationships with Chinese firms at Prato. In fact, it is interesting to note that the outsourcing of the manufacturing services in the domestic context has benefited of the opening in Prato of Chinese run small business (whose entrepreneurs have their origins in the Chinese city of Wenzhou in the region of Zhejiang) that operate in the field of cutting, sewing and ironing above all for womenwear. These suppliers have allowed Tessilform to reach high degrees of flexibility in the domestic market. At the same time, these kinds of business relationships allow Tessilform to learn about how to work with Chinese. It has not represented a potential means to enter in the Chinese sourcing market, as the Chinese suppliers in Prato, which source in mainland China, are mainly connected to suppliers which are considered not coherent with the Patrizia Pepe brand positioning. With regard to sourcing activities and other relationships in China, the firm is now involved in re-thinking the buying function. At the moment, it remains in Italy, because sourcing is considered strategic, but the management points out that in the next future a buying office in China could be opened.

Figure 2. The supply side expansion in China: leveraging existing business relations in the supply network

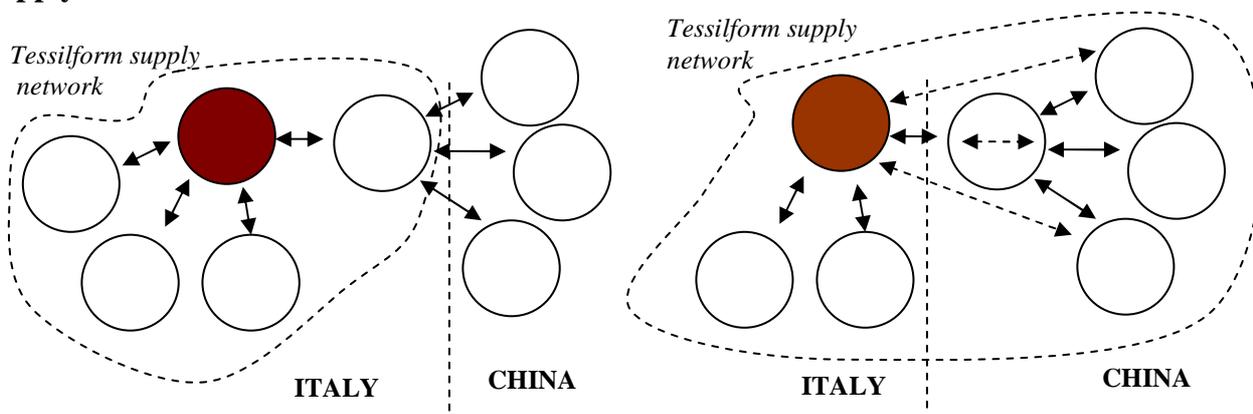
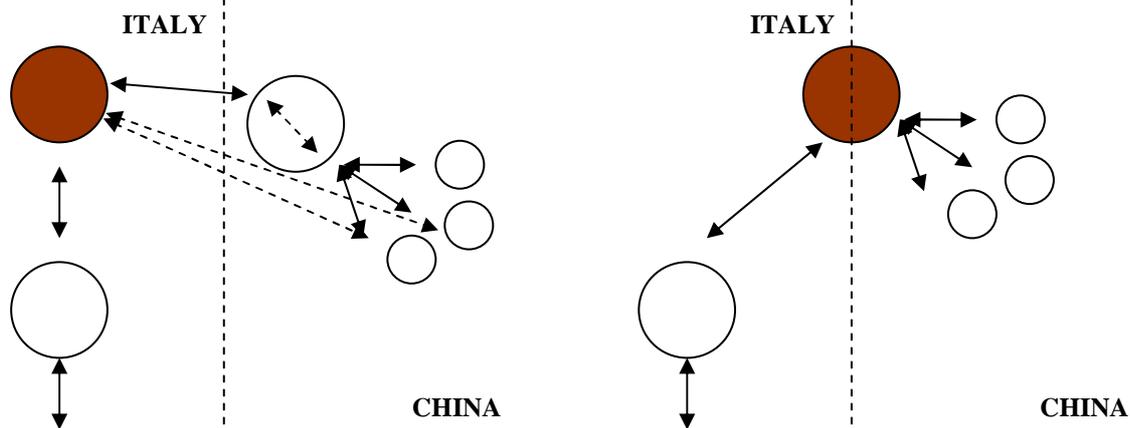


Figure 3. The commercial expansion in China: two main steps*(a) Leveraging existing business relationship**(b) Creating new relationships*

Actors involved in the internationalization process of the firm are clearly separated. Tessilform tries to avoid relationships relating with actors which can be considered at the same time suppliers and customers (in other words which are vertically integrated in the fashion supply chain). The management points out that this is related to the decision to better take advantage of the specificity of the competences (manufacturing or commercial ability) owned by different business actors. The selection related to the commercial/sourcing partners become crucial.

4. Final remarks

In conclusion, it is useful to point out some crucial aspects regarding the relationship which exists between business relationships and international expansion. On the basis of the review of the literature and considering the case analysed, it is possible to outline the following aspects:

- *The “psychic distance” in the process of internationalization remains relevant, especially in the case of medium-sized firms involved in the internationalization towards emerging markets. Globalization of markets seems to remain linked with heterogeneity and specificity in business to business relationships, leaving to “psychic distance” a central role. In order to reduce that distance, business relationships become central. The case shows how Tessilform leverages its business relationships to expand in China. The business partners have been considered as strategic resources in dealing with the Chinese market, which was perceived as “distant” with regard to the traditional firm’s markets. The case shows how business relationships can help the firm in acquiring knowledge on the market and sustain the creation and the development of new relationships. This is particularly relevant for medium sized firms which can have difficulties in dealing with emerging market by means of traditional mass marketing tools;*

- For the purposes of the internationalization process *the role of interaction is fundamental*. In particular, the analysis of the case shows how the actors' interactions in the original business network have played a significant role in the process of internationalization. These actors have played the role of "gatekeepers" in helping the firm to expand internationally. The role of "gatekeeper" has been assigned by means of interaction processes activated over the years. The case shows how the firm's capacity to perceive certain actors as gatekeepers has led to the development of new markets, in terms of either selling markets or production markets, extending the original business horizon to include new Chinese business relationships;
- *The path dependencies strongly influence the process of expansion*. The strategic choices made in the past and the business network within which the firm operates still represents a challenge to face with the sustainability of the formula as evident in the case analysed. The process of expansion calls for the closure of some relationships and the development of new interactions and business relationships, modifying the firm's business network. The case analysed shows how the firm's development to an emerging market may have an impact on the traditional way of doing the business. This represents a challenge to face with, especially in the case of a medium sized company following a path of growing.

The analysis of the case shows a deep re-thinking process activated by the firm in managing the dualities related to the international expansion either of the commercial side or the sourcing side. The case described outlines how the process of internationalization in terms of selling markets, with the opening of stores, has changed and actually is changing the network of relations within which Tessilform is engaged. Some relationships have been closed, others have been enhanced and new relationships have been developed. The trade off between growing internationally in terms of sourcing markets and growing in terms of selling markets, have been solved by giving priority to retail internationalization. In that sense, Tessilform has adapted its business network to better serve new selling markets, rather than exploiting all possible manufacturing opportunities offered by global markets adapting the stylistic/commercial side of the firm.

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