



Identifying Factors Related to Luxury Brands' International Market Selection

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Purpose: Today, luxury brands are everywhere, and are dominantly distributed in global markets. With the increase of international operation of luxury brands, the luxury market has grown on average by 7% per year during the last four years (Burberry, 2010). While the internationalization of the luxury market is increasing, very limited information is known about how and why luxury brand companies choose an international market to enter. Among several factors, economy and cultural differences are important dimensions of international market entry. The purpose of this study is to identify factors related to luxury brands' international market selection decision.

Literature Review and Hypotheses: Based on the literature review, this study posits that a country's six economic indices (i.e., GDP per capita, disposable income per household, purchasing power, GDP growth rate, population, and land size) and Hofstede's four cultural dimensions (i.e., individualism, power distance, uncertainty avoidance and masculinity) are related to luxury brands' international market selection as shown in Figure 1.

H1a: A luxury brands company will enter countries with high GDP per capita. Because luxury goods are high priced, luxury brand companies will choose a country with high GDP per capita.

H1b: A luxury brands company will enter countries with high disposable income per household. As consumers' income increases, their aspirations grow, so having more money to spend signals opportunities for luxury brands companies. Thus, disposable income per household will have a positive influence on luxury brand companies' internationalization.

H1c: A luxury brands company will enter countries with high purchasing power. Growing purchasing power is related to the consumption of hedonic and status products. Hedonic and status consumption are considered as main characteristics of luxury consumption. Hence, luxury brand companies will enter countries with high purchasing power.

H1d: A luxury brands company will enter countries with high GDP growth rates. High GDP growth rates results in a growing middle class and disposable income, which creates large and high consumer demands and sophisticated markets that may be attractive to luxury brand companies. Therefore, luxury brands companies will enter countries with high GDP growth rates.

H1e: A luxury brands company will enter countries with a large population. Population often corresponds to a potential market size of the country. In this notion, luxury brands companies will enter a country with a large population.

H1f: A luxury brands company will enter large land size countries. Land size frequently links to the population and market size of a country. Accordingly, countries with large land size are attractive to luxury brands companies due to the number of potential consumers. Thus, luxury brands companies' internationalization will be influenced by the land size of a country.

H2a: A luxury brands company will enter countries with individualist cultures. The individual society emphasizes an individual's success and achievement. Possessing luxury goods items conveys one's success in individualist countries; thus, luxury brands companies will enter countries with individualist cultures.

H2b: A luxury brands company will enter countries with cultures of strong uncertainty avoidance. People in strong uncertainty avoidance cultures do not like a new and unfamiliar

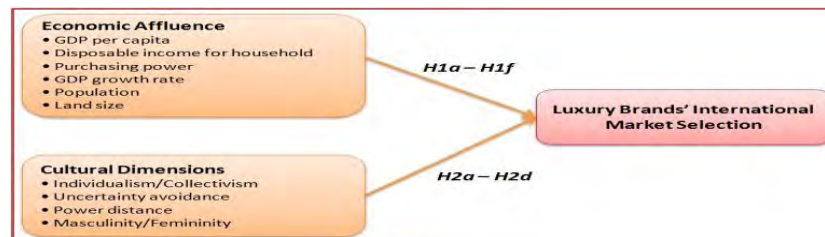


Figure 1. The framework and proposed hypotheses of the study.

product or brand; therefore, they will purchase a well-known brand and luxury brand to avoid uncertainty. Given this, luxury brand companies will enter strong uncertainty avoidance countries.

H2c: A luxury brands company will enter countries with cultures of high power distance. Consumers in high power distance cultures express power via consumption; thus, luxury goods and expensive products will be consumed in cultures of high power distance.

H2d: A luxury brands company will enter countries with masculine cultures. Masculine societies highlight success and achievement, so showing off someone's status, wealth and success may be connected to the consumption of luxury goods. Therefore, masculine cultures will have a positive relationship with luxury brand companies' market selection.

Method: Six luxury brands (i.e., Louis Vuitton, Hermes, Chanel, Gucci, Prada, and Burberry) were selected according to the most powerful luxury brands in 2012 (Fischer, 2012). By visiting six luxury brands' official websites, countries where luxury brands entered the market were chosen. Data was collected in a total of 80 countries but only data from 52 countries was analyzed because of the limited availability of secondary data for independent variables. The dependent variable (luxury brands' international market selection) was operationalized because of the number of luxury brands that entered in each country (higher luxury brand entry, meaning that the country is chosen over other countries). Data for independent variables was collected from the World Bank, the CIA World Factbook, and Hofstede's cultural dimension scores.

Findings: This study tested all hypotheses using linear regression analysis. The findings revealed that luxury brands' entry is positively related to disposable income per household ($\beta=.343$), purchasing power ($\beta=.329$), land size ($\beta=.288$), and masculinity ($\beta=.308$). That is, more luxury brands entered countries with wealth and masculine cultures.

Discussion and Implication: Based on the findings, the following suggestion can be made to the U.S. luxury brands, such as Coach, and the foreign luxury brand companies wishing to expand into international markets. Since the country's economic affluence is the important factor in determining market entry, luxury brands companies need to focus more on the host country's economy affluence level in terms of disposable income per household, purchasing power, and land size. Furthermore, among Hofstede's four cultural dimensions, masculine cultures were found to be related to luxury market entry; thus, luxury brand companies consider entering countries with highly masculine cultures. While only economic and cultural aspects were examined, this study is one of the earliest attempts to verify factors related to luxury brands' international market entry.

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