

International Business LCMB7014

Mickael Kors Internationalisation in CHINA



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Introduction

The global competitive, demanding, and the dynamic market has forced businesses of all sizes to think about internationalisation to survive in the market. They operate within a fast-changing and challenging global marketplace, not an isolated market (Wood, 2013). Companies need to cope with the diverse requirements of stakeholders such as consumers, suppliers, shareholders, and governments while working on their own agendas. Globalisation and the firm's internationalisation have changed the business world. Business growth is not an option today, and it is a need for survival. Companies need growth to survive and compete effectively. Therefore, internationalisation is a strategic choice for firms in the global marketplace. Michael Kors (MK) is a global luxury lifestyle and renowned brand producing a wide range of apparel products. The company started its operation in the world marketplace about two decades ago. MK has its retail stores in different markets such as the USA, UK and many European countries. This report theoretically and strategically reviews how MK has gone about increasing its footprints in the fast-growing Chinese market. It discusses and explains MK's internationalisation strategy in China using a variety of analytical frameworks.

Background Analysis

Company Background

Michael Kors is more known as an American brand, but actually, their executive offices are in London, is headquartered in New York, and they manufacture their products in China due to the cheap labour and costs. Michael Kors, it's a self-titled business by its founder Mr Michael Kors. This multinational fashion organisation was established in 1981 and enlighten its customers with different types of apparel, footwear, handbags, accessories and other products. Their products are positioned like a bridge between luxury and high street brands. Michael Kors bought Jimmy Choo Kors in 2017 for \$1.2 billion and Versace for \$2.1 billion in September 2018 in the most publicized mergers of 2017 and 2018 and as part of its action plan to become a luxury fashion conglomerate. Also on 2 January 2019, Michael Kors, also known as Michael Kors Holding Ltd, become known as Capri Holdings Ltd and the name was also changed on the stock market (Vogue, 2019). Michael Kors has around 15000 employees at the moment and is currently positioned on 8th among its top 10 competitors. Michael Kors (MK) the SBU studied in this report accounted for approximately 86% of the total group revenue in 2019 and includes worldwide sales of MK products through 853 retail stores (including

concessions) and e-commerce sites, through 3,202 wholesale doors, as well as through product and geographic licensing arrangements (Capri Holdings, 2019).

Only in 2016, MK(SBU) opened 142 new stores, 47 in the Americas and 95 worldwide. In 2017, it opened 159 net new stores openings, which includes 111 outlets related to the acquisition of the earlier licensed operation in Greater China. Also, the company stated that it would continue with the expansion drive in Asia and also believes it has a \$1-billion opportunity in the long term (Zacks, 2018). Furthermore, MK has a strategic plan under the form of project Runway 2020, which focuses on product innovation, brand engagement and customer experience. The strategic efforts taken by the company has helped the stock to outperform industry since 2018.

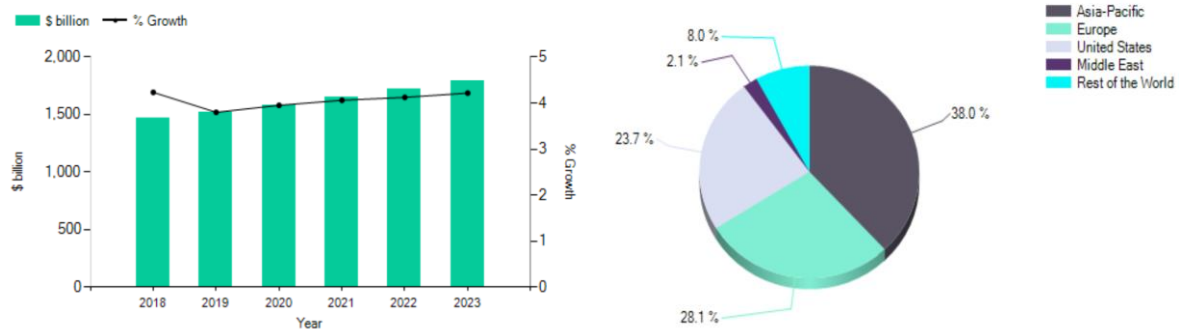
External Analysis

External analysis is a framework used in different industries in order that an entity understands how key factors like rapid changes, industry growth, and competition environment affect its business and deals efficiently with the opportunities and threats (Appa Rao et al., 2011). Three tools will be used for a better understanding of the MK external business environment. These are PESTEL analysis, industry life cycle, Porter's five forces analysis. The PESTEL will be applied for the origin country the USA and China the country for the intended investment.

Global Apparel Industry Analysis

Industry structure analysis is very important for all companies as they can get a useful starting point for their strategic analysis. The retail apparel market includes women, men, baby and toddler clothing and casual wear, essentials, formalwear, formalwear-occasion, and outerwear for men, women, boys and girls. The global market consists of North America, South America, Europe, Asia-Pacific, Middle East and South Africa. The global apparel retail industry had moderate growth, a surge which is expected to continue for the coming years. The Asia-Pacific region accounts for 38% of the total value followed by the USA, with 23.7% of the global industry. A number of countries in the Asia-Pacific encountered a period of rapid urbanization in recent years, with the growth of the middle class and rising incomes becoming a more dominant force in the apparel retail industry and economic growth. As shown in figure 1, based on the forecasts, in 2023, the global apparel retail industry will have a value of \$1,788.2 billion, which mean an increase of 21.8% since 2018, with an annual growth rate of 4%. Also, in terms of demographics, Asia-Pacific has 38% of the market, followed by Europe with 28.1% while the USA accounts only for 23.7%.

Figure 1: The Global Apparel Market Growth and Value



(Source: Market Line, 2020)

USA Macro Environment

The USA is a country located in North America. The North American apparel retail industry has experienced weak growth in the past year following the recession in 2008, a tendency which is expected to continue. In following PESTEL analysis will be applied to have a better understanding of USA macro environment.

PESTEL Analysis USA

PESTEL is a marketing tool used in order to understand environmental macro factors that affect an organisation within a particular country (Ho, 2014). In this specific case of the fashion industry, this will be implemented. Six elements present within the framework all of which will be explored here for both USA and China

POLITICAL

- The government has the ability to encourage companies to buy fabrics locally, especially if the taxation on imports from other countries increases, for example from China where the taxes are 25%.
- Many people are buying from companies who create their clothing in the United States, as opposed to those who ship their fabrics to be sewn overseas.
- Groups like PETA boycott against companies who use real animal furs and skins.
- There is political influence on fashion trends. The first ladies have all found themselves in the spotlight for their fashion styles.

ECONOMICAL FACTORS

- The economy is still recovering from the impact of the 2008 recession, but people are finding extra money to put towards fashion and accessories
- In the USA there is an expansion of rentable clothing, both formal and casual
- COVID-19 has affected many businesses, and Michael Kors affirms that the outbreak could result in a \$100 million (£77 million) hit to his business (Retail Gazette, 2020).

SOCIAL FACTORS

- Music has a huge impact on fashion, and it's a common practice for the musician to mention brands in songs
- Fashion dictates events where People decide to wear different attire depending on the occasion (this is a pre-defined customs in the country).

TECHNOLOGICAL FACTORS

- Online shopping increased demand in the past few years
- TV shows which contribute to the growth of fashion like Project Runaway and Fashion Startup

ENVIRONMENTAL FACTORS

- Different methods of transportation release gases and smoke into the environment.
- Plastic bags which are used for clothing and chemicals from denim are not environmentally friendly

LEGAL FACTORS

- Workers' rights must be respected, but this doesn't happen when companies have their products made in foreign countries. Many fashion retailers have Asian workers sew their clothing for ridiculously cheap, and many consumers are boycotting these brands.

China Macro Environment

China is located in Eastern Asia, a country with the fastest economic growth over the last two decades. This country has strong economic fundamentals and the biggest population in the world. China has been one of the most important markets for multinationals over the last years as it is one of the largest producers and consumers of many products in the world. Manufacturing is the dominant sector in China, and they are one of the biggest textiles and

apparel producers in the world (Market Line, 2020). In following PESTEL analysis will be applied to have a better understanding of China macro environment.

PESTEL Analysis of China

POLITICAL

- The government has an "open door" economic policy since 1986.

ECONOMICAL FACTORS

- China has emerged as one of the fastest-growing economies in the world. In 2023, the Chinese apparel retail industry is predicted to have a value of \$388.4 billion, an increase of 43.5% since 2018.
- Growing FDI as foreign investor take advantage of opportunities to manufacture cheaper products and sell them in an expanding market
- In China, there is a trend of buying Western brands

SOCIAL FACTORS

- China aims to improve social security in its five years plan 2016-2020.
- Rapid urbanization and the growth of the middle class will drive growth in the apparel retail industry.
- Chinese consumers put the accent on social value brands as they often use material possessions and brand names to reinforce their social identity.

TECHNOLOGICAL FACTORS

- Online shopping increased demand in the past few years where China's internet-connected population totalled 811.99 million at the end of 2019 with 57.86% of the population using the internet
- China's entry into the World Trade Organization resulted in the liberalization of trade policy and a year-on-year increase in the number of patents received

ENVIRONMENTAL FACTORS

- Pollution as China has been ranked 177th out of 180 nations on most indicators of air pollution, including air quality

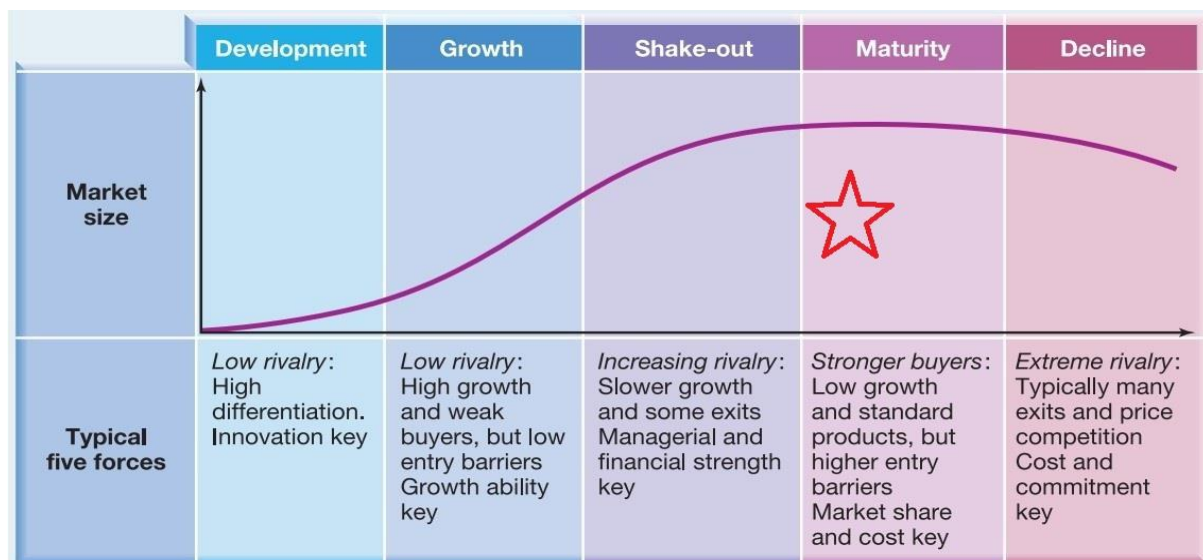
LEGAL FACTORS

- The workers are paid ridiculously cheap, and many consumers, but the government is planning to increase wages and provide more welfare benefits.
- The government has pledged to combat corruption and implement strict and broad plans to ensure faster economic growth.

Industry Life Cycle

This concept is concerned with the development stages of industries over the years. Figure 2 shows the industry evolution, where industries begin small in their development stage, before starting a period of quick growth. In time, the level of competition and barriers to entry tend to be heightened, and services or products are inclined to standardise. When the volume of a service or product in the particular industry become maximised, there will be a saturation on the market, and the decline stage will come to the effect. Consumers may become more powerful. The survival key for the players is achieved by increasing market share, providing leverage against customers and competitive advantage (Johnson et al., 2008). By considering each stage features of the fashion industry environment, it can be agreed that the industry is at the beginning of the maturity stage, as shown in the figure below.

Figure 2: The Stage of Apparel Industry Life Cycle

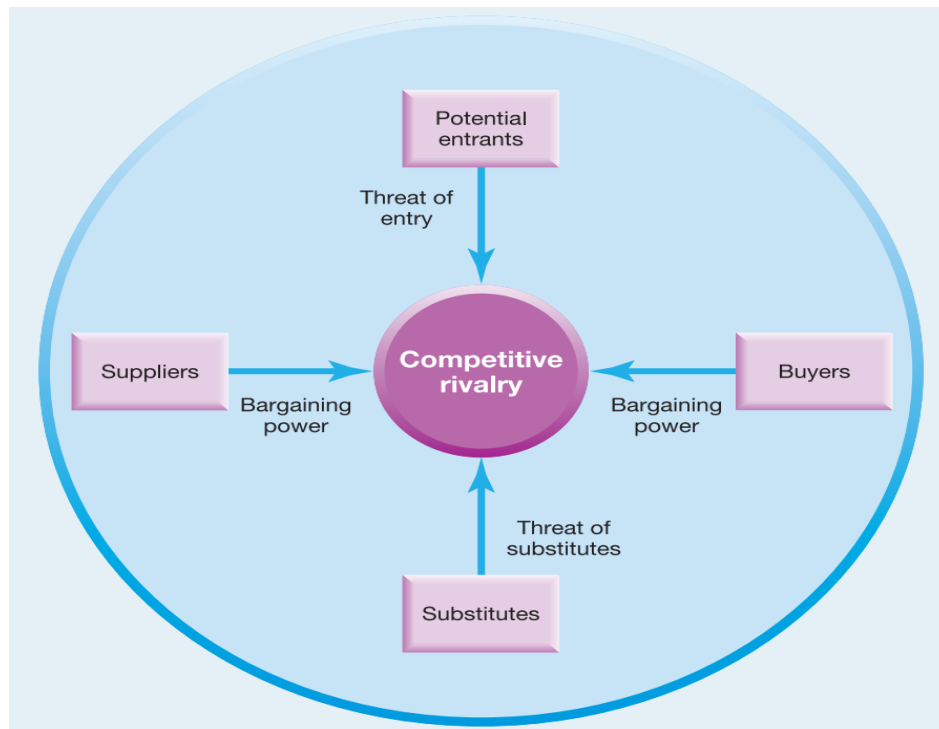


Porter's Five Forces Analysis

Porter's five forces model is a useful and strategic analysis framework that takes into account five industry forces to determine the attractiveness, intensity of competition, and profitability.

level within an industry (Jurevicius, 2013). Figure 3 shows the five forces framework, which is created by Michael Porter in 1979. These competitive forces help the company's key people to analyse industry structure and competitiveness.

Figure 3: The Five Forces Framework



(Source: Johnson *et al.*, 2008)

New Entrants Barriers to entry in this industry are not high, the capital required is low and large corporations like TJX, Inditex build brands in many outlets which give them a strong buyer power when they negotiate with suppliers. There is also a rising competition from low price competitors, but brands usually overproduce their discounted lines to make sure their stores are full. There is also the new concept of 'modest fashion' which targets the Muslim population, who have strict rules about the clothing styles. However many brands started producing special lines for this category, and these collections will encourage new entrants. Also the popularity of celebrity trends and Western Fashion have influenced customers from the Middle East, especially Saudi Arabia and few countries from Asia like China, Japan, South Korea etc. Tax regulations from different countries could also have a huge impact on retailers, and these lead to imports from low producing cost countries. Asia Pacific countries and the Middle East have the highest growth rate in this sector, although the USA has the largest apparel retail industry. This growth is due to the fast urbanization and the rising incomes of the middle class. The threat of new entrants is assessed as **strong**.

Buyer Power: Apparel is a must-have item for many consumers, but the level of choice is high in this industry, and the cost switching between brands or other products is relatively low therefore buyers can easily switch from company to company. Brand awareness in this industry is important, but buyers fidelity is not always the main factor in making a decision. There is also a huge range of non-brands apparel retails for people with lower incomes, which means fashion at an attractive price will increase buyer power. There is huge differentiation in styles and pricing, which means buyer power is weak. Also due to the fashion changes, the players are forced to offer the customers what they demand, and this strengthens the buyer power. Therefore the buyer power is **moderate**.

The threat of substitute There are not really alternative for substitutes, but there are for retail. The growth of online sales and the growing number of online stores give the opportunity to the manufacturers to sell directly and quickly to end-users without the need of retailers. The global online retail is projected to grow by 87.2% by 2022. Counterfeit clothing mostly produced in China and sold through illegal channels could pose a threat to the manufacturers. Also, second-hand brand clothing from charity shops and clothing is also a threat. The threat of substitute is assessed **as weak**.

Supplier power is decreased since the liberalization of international trade because of the high competition in the low ages regions. There is a global abundance of suppliers; however, Asia Pacific area is the most attractive area as manufacturing is much cheaper. The cost to switch suppliers is not high, but there is a risk of choosing a supplier who cannot cope with the quick industry changes. The lack of diversity weakens supplier power. The rising wages in China also made some suppliers move to other countries like India, Bangladesh, Vietnam. Large companies have their own manufacturing sites, mostly based in Asia. Suppliers who will embrace the automation of apparel manufacturing will be highly advantaged. The supplier power could be assessed as **moderate**.

Rivalry The fashion industry is formed from many similar retailers, where large companies are able to have mass production of goods and also to invest in advertising and branding and this will increase the competitive advantage. However there is still room for new entrants. Companies start using social media platforms, where the usage is high, and this is a good way for some to differentiate themselves from the competition, and this will decrease the rivalry. Also enhancing customer in-store experience is another way of differentiation. Some companies are using in stores high technologies through their ‘smart dressing

rooms'. Innovation and premium quality are also important, where lifestyle brands could be successful even with a higher price point but accessible to middle-class consumers. The years 2016 and 2017 were a retail apocalypse where huge department stores closed down in the USA around 12000 by the end of 2018. A current situation was currently occurring in the UK, with around 1300 stores closed. However the healthy growth forecasted of the industry will reduce the degree of rivalry and also population, urbanization, and the Asia-Pacific middle-class enlargement will ensure the growth of the fashion industry. The degree of rivalry is considered **moderate**.

MK's International SWOT Analysis

SWOT is an analytical method that helps an organization to evaluate its own position in the industry and how it can use different types of opportunities in combat threats (Gürel and Tat, 2017). The table below shows MK's SWOT analysis.

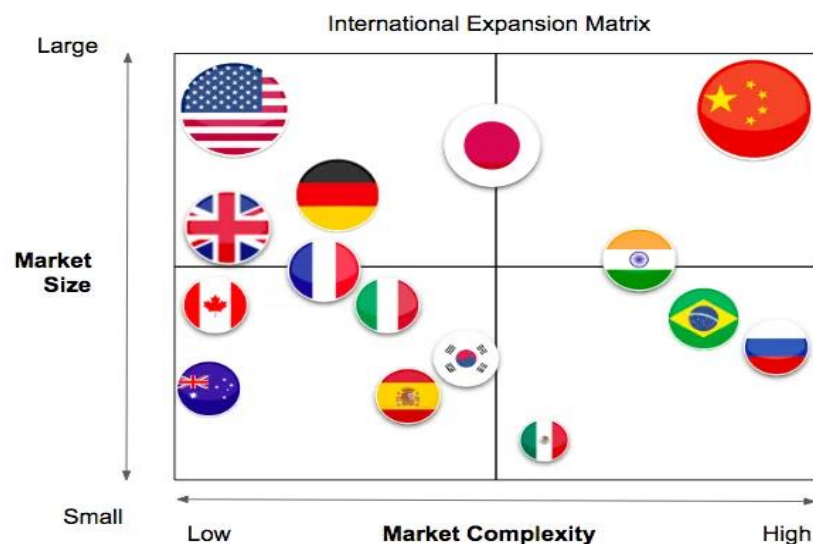
Table 1: MK's SWOT Analysis

<i>Strengths</i>	<i>Weaknesses</i>
• Michael Kors widely famous amongst women for many decades due to the progressive clothes the organisation has been able to produce (Knauer and Wohrmann, 2016) • Resilient and segmented brand • Philanthropy • High-quality goods/suppliers • Jet style and celebrities' favourite • Many celebrities opt for their brand since it is one of the torchbearers when it comes to new types of fashion trends	• Even though the brand is considered one of the best in the fashion market it has fallen prey to the recession and economic downfall due to corruption and political factors • Michael Kors is lesser-known in the global international plain in comparison to Ralph Lauren and other companies. • Not a priority for people in low economy
<i>Opportunities</i>	<i>Threats</i>
• Michael Kors has the opportunity to expand in developing countries with low price strategy to occupy higher market share • Create a more accessible sub-brand • Further, develop men's line and add children collection • Analysts of Michael Kors believe that through innovation, the organisation might be able to perform better in the coming decade (Hill <i>et al.</i>, 2014).	• The changing taste and preferences of consumers due to the advancement of time and exposure to celebrity fashion • The low-cost strategy implemented by other similar companies • US government shutdown • European debt crisis • Licences can get cancelled • Prices of materials can go up

Market Selection

When making a market selection, there are four important steps which should be considered including identifying basic appeal, assessing the target market business environment, measuring the market potential, and finally selecting the market site (Wild and Wild, 2019). The market selection is also based on both the firm-related factors and the market-related factors. Figure 4 shows an international expansion matrix based on the countries ranked in the size of their economy and the world top economy ranked by their complexity. This matrix indicates that China has the largest market size, while its complexity is relatively higher than in other markets. As will be discussed in international business risk section, this complexity can be related to different factors such as the government intervention in the market or socio-cultural issues.

Figure 4: International Expansion Matrix



(Source: Borntobeglobal, 2019)

Globalisation and Emerging Markets

“Globalization can be defined as the production and distribution of products and services of a homogeneous type and quality on a worldwide basis” (Rugman and Collinson, 2012, P.315). An emerging market could be defined as a market with low to middle per capita income. It is a market whose economy mimics that of a developed nation but does not fully meet the requirements to be classified as one yet. China is one of the emerging markets targeted by multinationals. An increasing number of companies are using FDI in Asia-Pacific, Eastern

Europe and India by acquiring local companies or factories or setting up joint ventures. American brands have envisioned designing the first American luxury conglomerate, but they also failed due to one of the most important factors as the Great Recession, which hit hard the retail sector in particular. Back in 2019, the retail apocalypse continues, but sales are growing, and the luxury segment appears rejuvenated, giving positive growth. MK is fully using this positive outcome as they continue to spotlight global expansion. The golden age of luxury apparel retail spending is, in a way, fading in capitalist societies. However, a new breed of moneyed middle-class consumers is being formed in emerging markets. Fast-growing economies in Latin America, Asia, Africa, are sustaining the growth in this industry. The globalization changed the business landscape but large international brands that have become disillusioned with their profitability in Western societies, have the opportunity to move their services and products to the new emerging markets. Also, the availability of faster transportation modes, technological innovation and new communication channels is helping this movement. Considering these facts, large innovative conglomerates such as MK, LVMH, Inditex, H&M start focusing on emerging markets (Achim, 2019).

Chinese Apparel Retail Market

The Chinese apparel retail industry accomplished a very strong growth in the past years, and the trend will continue in the forecast period, but at a steady rate. This growth is mainly driven by stronger Chinese demand from international and local consumers, and the demographic and socioeconomic shifts resulted in younger consumers purchasing more luxury goods. Accessories are still the largest and fastest-growing personal luxury goods, especially handbags and footwear. Table 2 shows the China apparel retail industry value forecast for the next years. This figure indicates that MK internationalisation in this market is the right decision, and if the company can get a good market share, will be able to generate more value for its shareholders.

Table 2: China's Apparel Retail Industry Forecast and Value

Year	\$ billion	CNY billion	€ billion	% Growth
2018	270.6	1,791.6	229.4	10.5%
2019	291.1	1,927.4	246.8	7.6%
2020	312.0	2,065.5	264.5	7.2%
2021	335.3	2,219.5	284.2	7.5%
2022	360.7	2,388.0	305.8	7.6%
2023	388.4	2,571.4	329.2	7.7%
CAGR: 2018–23				7.5%
SOURCE: MARKETLINE				MARKETLINE

Concentration or Diversification

Concentration strategy is a strategic approach in which the main business focus is on a single market or product. This permits the business to invest more resources in manufacturing and marketing in one area, but there is the risk of massive losses in the event of a drop in demand or increase in the level of competition. Diversification strategies are used to expand firms' operations by adding markets, products or services to the existing business. The purpose of diversification is to permit the company to enter lines of business that are different from the current ones (Businessdictionary, 2020). MK has a good revenue in the developed markets such as the US and the UK. Operational expansion in the China fast-growing market can increase the company's profitability. In addition, based on the cultural aspects outlined above, MK will have a safer choice in choosing the diversification strategy, by adding a few fashion lines to their collection tailored for the Chinese customers.

International Financial Markets

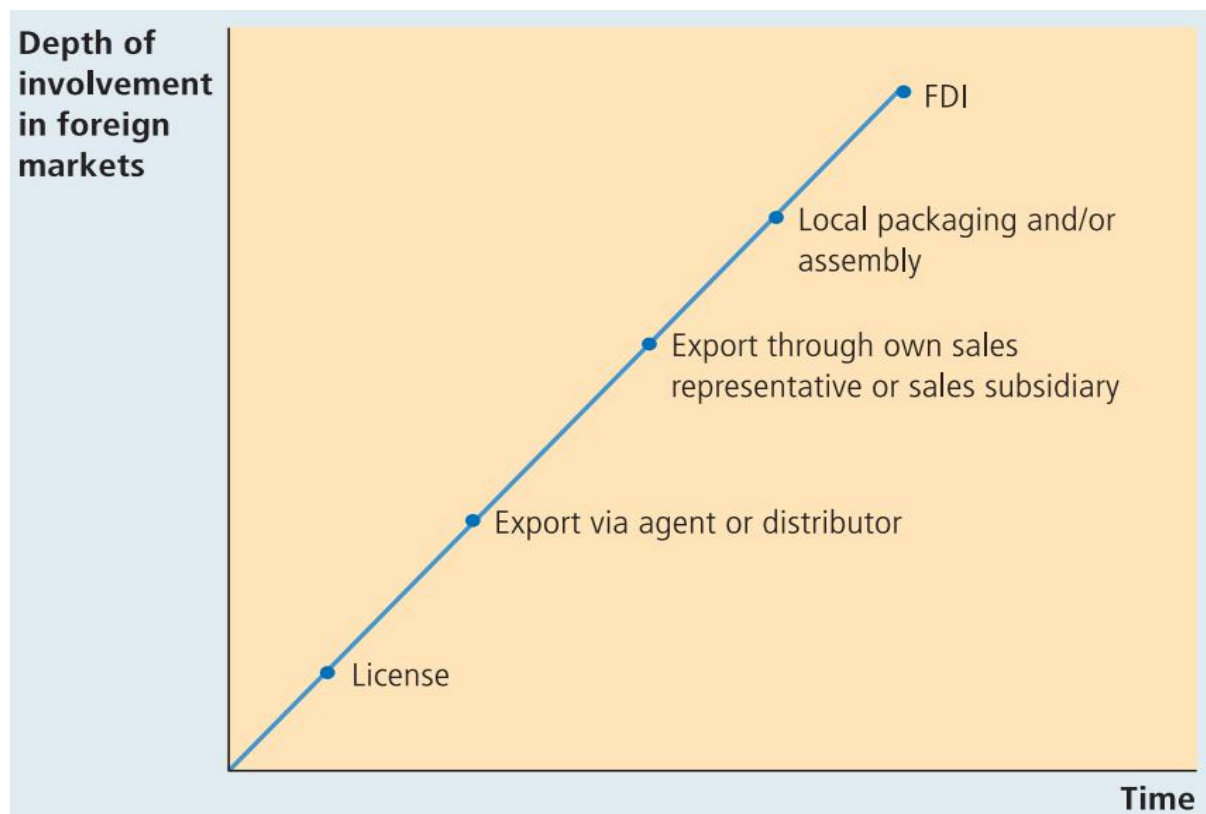
Financial markets could provide conditions that motivate acquisitions and investments. International financial markets are very important to the majority of medium to large companies, even if they will become involved or not in international business through exports or direct investment. Usually, businesses learn that borrowing abroad is more advantageous and less expensive than in their country. An important financial market used in international investments is the Foreign Exchange Market which is used for the exchange of financial instruments denominated in different currencies (Collinson et al., 2012). The main function of the foreign exchange market is conversion used to facilitate transactions, hedging which insures against potential losses from the exchange-rate sudden changes, arbitrage which is the instantaneous purchase and sale of a currency for profit and speculation a sequential purchase and sale of a currency for profit or the other way around.

In January 2020, China has improved and made easier the administrative approvals regarding foreign exchange (forex) management within its pilot free trade zones (FTZs) which is on a trial basis for the moment in their extensive efforts to further facilitate investment and trade (China Daily, 2020). Many foreign exchange market centres moved from the west to other parts of the world, and China is renowned for its skills in adapting quickly to the changes so by opening up the forex market this country will get the much-needed benefits.

Market Entry Mode Strategies

When a particular company, in this case, MK selected a national market for entry, it has to choose how to enter that market. Johnson et al., (2008) have divided the main types of entry modes into four categories including exporting; contractual arrangement through licensing and franchising, joint ventures and alliances, and foreign direct investment (FDI), which each mode of entry is associated with diverse advantages and disadvantages (see appendix A). Figure 5 shows that different types of market entry modes represent a different level of involvement in target markets. Also, as shown, FDI is the slowest type of market entry while licencing and exporting are very speedy entry modes.

Figure 5: Entry Modes and Level of Market Involvement

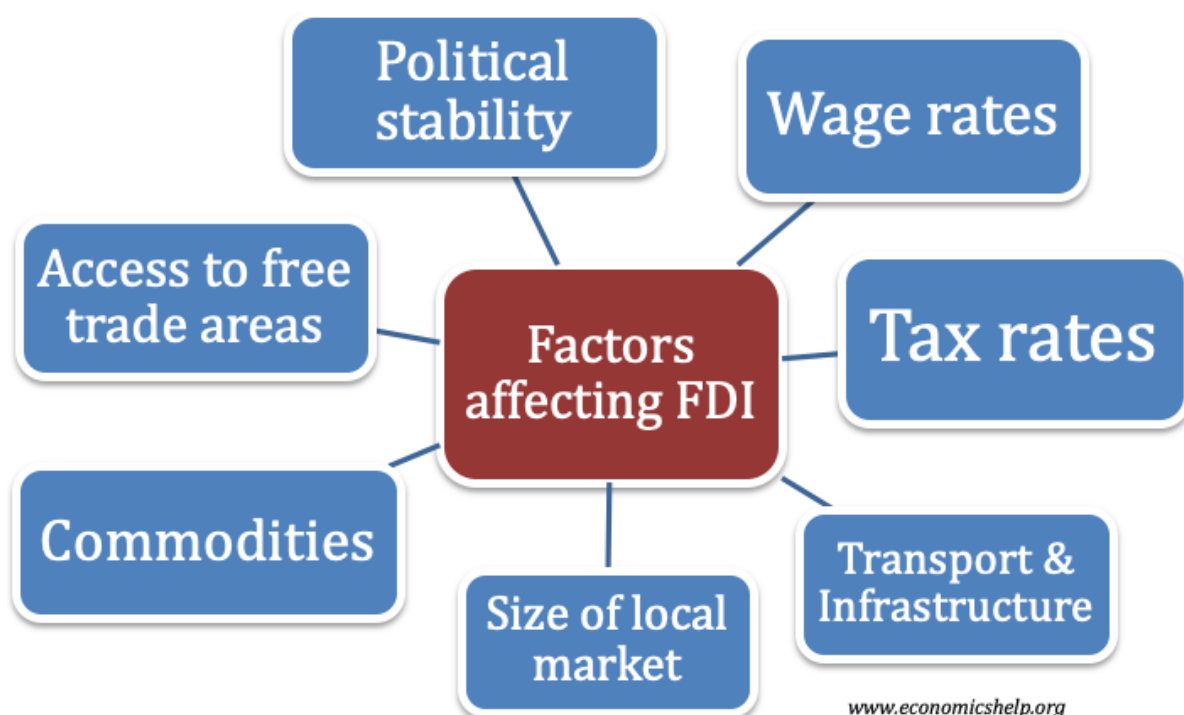


(Source: Rugman and Collinson, 2012)

FDI is equity funds invested by an organisation in other nations. FDI means companies purchase capital and invest in a foreign country (Pettinger, 2019). FDI has been one of the main drivers of international business, and many businesses use this entry mode to establish footholds in the global marketplace by either acquiring businesses in foreign markets or setting up operations there (Rugman and Collinson, 2012). MK entry mode in the Chinese market is FDI, as the company makes a wide range of its luxury products such as handbags in Guangzhou

(Li, 2018). As shown in figure 6, different factors are influencing companies FDI decisions. It also depends on the type of industry. In manufacturing case, FDI, low-cost materials and low wage costs are the most important. MK, as a well-known brand, could use this at its advantage as their finished products, they have a relatively higher cost than other similar products. Also, as their manufacture facility is in China, already transport and infrastructure will be an advantage. In the case of MK, the size of the Chinese market and low wage rates are critical factors encouraging the MK to internationalise in this market. For various world's companies, the best investment opportunities aren't necessarily located within their borders. China is at the top of the list of getting FDI with \$240.6 billion, following the United States with \$275.4 billion (see appendix B) (Desjardins, 2019).

Figure 6: Factors Affecting FDI Decisions



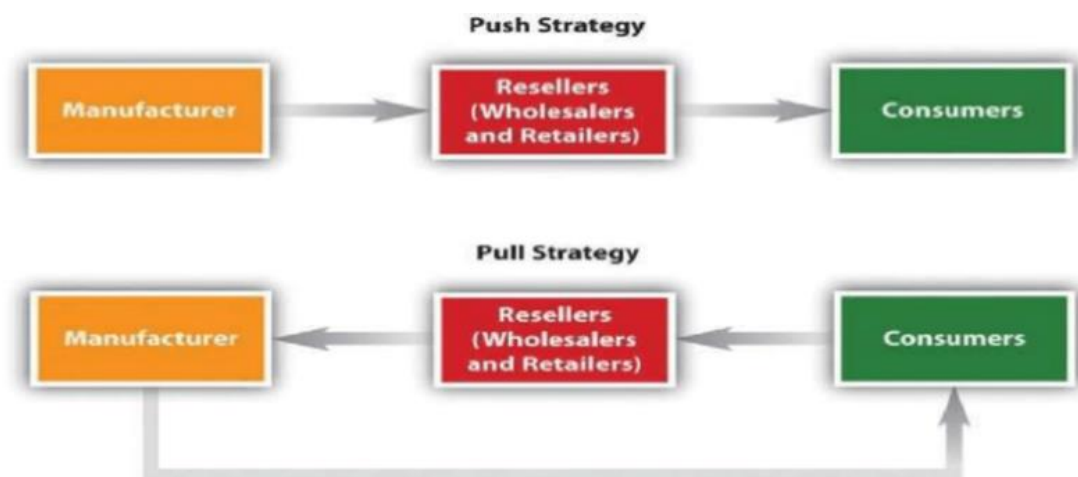
International Marketing Strategy/Approach

The international marketing applies the basic application of marketing principles to satisfy the various needs and wants of various people in more than one nation. A company trading on the international market should take in consideration the following strategies: develop product strategies, create the promotional strategy, product/promotional methods, distribution and pricing strategy (Wild and Wild, 2019). In the case of MK internationalisation, an advisable product developing strategy would be Standardize-versus-Adapt. Standardization means the company will use the same product and will try to infiltrate it on other markets. Adaptation

means the modification of a product so as to meet the local requirements. Promotions are a part of the 7P's or 4P's of the marketing mix. Promotion objectives are used to increase sales and market share, to build brand loyalty and awareness and product differentiation.

Another useful strategy to be used by MK would be Push and Pull strategy. Pull strategy is the moment when a marketer leads the communications directly to consumers to develop strong consumer demand for the product or service through different channels. Push strategy will be used to pressure distribution channel members to carry and promote a product to the final users of it. Figure 7 shows the process of these strategies.

Figure 7: Push and Pull Strategy



(Source: Reasearchgate, 2020)

There is several blending product and promotional strategies product/communications extension (dual extension), product adaptation/communications extension, product extension/communications adaptation, product/communications adaptation (dual adaptation) and product invention. In MK case, the best suitable strategies would be a dual extension and Product innovation, as their products are already popular on the Chinese market and also new products adapted to the local requirements would be welcomed. Distribution Channel could be defined as the physical path that a product pursues on its way to customers. As MK has already a manufacturing facility in China and has a strong global distribution network, the distribution process should be easily managed through their already established infrastructure, which could be enlarged in case of expansion. International pricing could be two types of world pricing and dual pricing. Worldwide pricing means that the brand maintains the same price in all the markets while dual pricing means that the product has a different price than the home country. It is widely known that MK practices a dual pricing policy, and in the USA, their products are slightly cheaper than the rest of the world.

International Management Approach

Many companies enter the Chinese market with different assumptions about how to manage people and how to interact with them efficiently. Many believe that their own management strategy, applied in their home country, will work in the same efficient way in China. There should be an area of concern even for MK about the ability to implement the right management strategies, and the main focus should be on adjusting the cultural differences. Human resource management (HRM) is considered a vital element of international management strategy. Multinational enterprises (MNE) like MK, should take into consideration a series of critical strategies like language training, competitive compensation, specially designed HRM program and not in the least cultural adaptation. MK in terms of HRM could also face two main challenges, and these would be the selection of qualified individuals for the overseas operation and also in terms of home-country-nationals, their repatriation and their efficient return to their workplaces (Rugman and Collinson, 2012).

On the other hand, the Chinese are highly influenced by Confucianism, where this could be described as a system of ethical philosophy and social values. Therefore the Chinese management style is based on respect for elderly and for seniors as this is built on power distance, politeness and harmony at the working place and developing relations also known as *guanxi*, with people from inside and outside their workplace. Also, in terms of management, communications are very formal and private, business negotiations are not straight forward as some meetings are more focused on building *guanxi* and usually these take place at mealtimes. A Chinese manager would also be hardworking and would rather work in a group than by himself (Brooks et al., 2011).

International Business Risks

Another key aspect of firms' internationalisation is the risk that they face in pursuing the strategy. According to Johnson et al., (2008), the risk is associated with the likelihood and consequences of the failure of a strategy. They argue that risk appraisals are incorporated into business plans and the investment assessments of significant projects such as FDI. Cavusgil et al., (2016), divided risks in international business into four broad categories. Figure 8 shows these risks that need to be critically assessed and addressed in international business decisions. These risks will be critically analysed in relation to MK's internationalisation strategy in the Chinese market.

Figure 8: The Four Risks of International Business



(Source: Cavusgil et al., 2016)

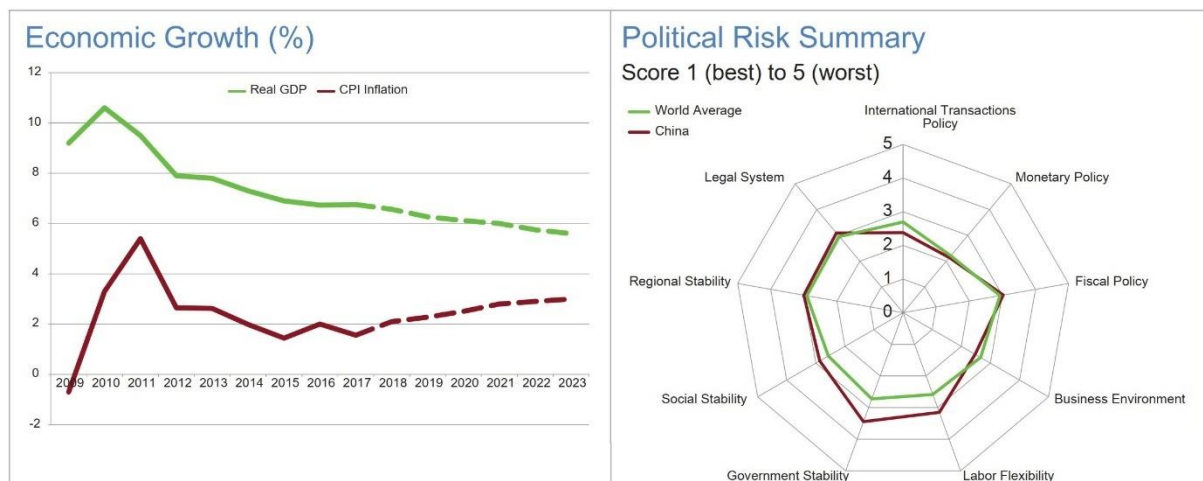
Country Risks

Country risk analysis is a situational analysis of nonmarket events such as economic, social, and political that may causing financial or strategic losses to an organisation following FDI in a specific country market. This analysis help managers and decision-makers to predict political and macroeconomic sources of change or risk that might undermine an organisation's position in a local market (Rugman and Collinson, 2012). Applied PESTEL analysis indicated that China macroenvironment is associated with different opportunities and threats for MK's internationalisation decision. For example, China is the world's most populous nation and holds a great deal of global's economic potential (BEST, 2019).

According to BEST's country risk report (2019), China has a moderate level of political risks and a low level of economic risk. However, the recent Covid-19 pandemic can significantly

influence the global economic situation, including China. As Figure 9 shows, different key factors have been considered to analyse China country risks. China has a low level of inflation, while it is the second-largest economy in the world with a high economic growth rate. China is a developing country that has a goal of ending extreme poverty in the country in the near future. The Chinese government plays an important and dominating role in the economy, which can make foreign companies such as MK vulnerable in some ways. China has a relatively stable political environment. Although removing corruption has been a top priority in China, transparency is still inadequate. For example, the Chinese government is guilty of transparency about Covid-19 pandemic.

Figure 9: China Country Risks



(Source: BEST, 2019)

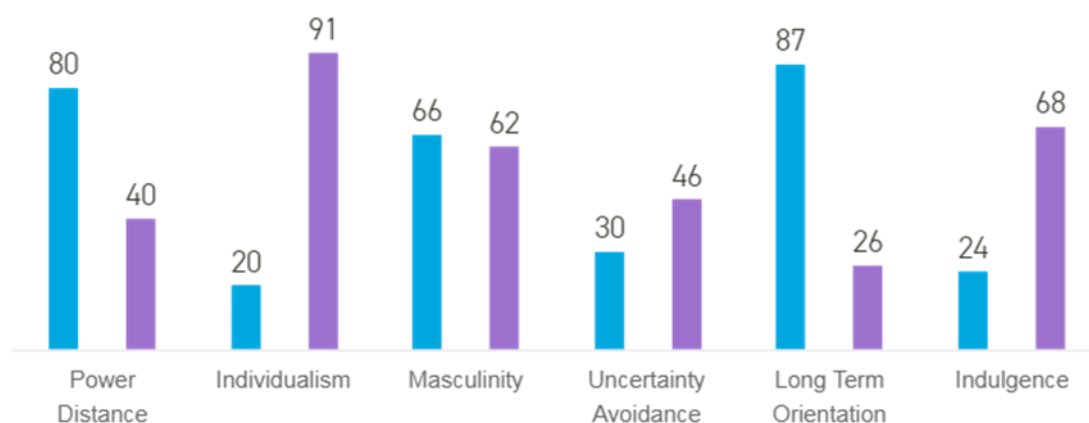
Commercial Risks

Commercial risk analysis is related to the organisation's potential failure or loss from poorly executed or developed business operations, procedures, and strategies. In the case of internationalisation, managers or decision-makers may make inappropriate decisions in such areas as the timing of market entry, pricing, promotional themes, the selection of business partners, and creation of product features. Such failures are usually more costly for multinationals, such as MK when they have committed abroad (Cavusgil et al., 2016). For example, in the case of MK's internationalisation, the company may face a potential loss from selecting a poorly performing distributor or failing to provide adequate customer service. These commercial risks harm MK's reputation and international performance.

Cross-Cultural Risks

Culture is hard to define notion, and in the course of history, there are quite a few definitions. Based on Spencer-Oatey (2012), the British anthropologist Edward Tylor defined culture as “that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society”. Considering Hofstede Insights (2020), the main cultural characteristics of China vs the USA are as shown in Figure 10. In a country like China, where power distance apply, and individualism is low, Chinese consumers perceive and seek value through material possessions like luxury brands to increase their social identity.

Figure 10: Cultural Characteristics of China vs the USA



China=blue / USA=purple

(Source: Hofstede Insights, 2020)

Colours are very important to Chinese culture as they have lucky meanings. The three main colours considered lucky in their daily life and on special occasions are red(happiness, success and good Fortune), yellow (Royalty and Power of the Throne), and green (Money and wealth) Other lucky colours would be blue, black gold and white, neutral colours are usually considered unlucky (Chinahighlights, 2020).

Financial Risk

According to BEST’s country risk report (2019), China has a moderate level of financial risks. They have strong external financial position and ample foreign exchange reserves. This country has had a very positive current account, which increases its economic power. Most importantly, credit growth has been a primary driver of this country’s quick economic expansion. As

mentioned by Rugman and Collinson (2012), exchange rate and restrictions on currency convertibility are a key financial risk for multinationals. They state that tax regulations and other rules governing business practices are complex in China; however, there is the effective management of monetary and fiscal policies.

Conclusion

Explicitly, Michael Kors fits perfectly in China and has plenty of opportunities to grow as it's less exposed than pricier labels such as D&G, Prada, Armani and Gucci. As a short conclusion after undertaking the internal and external analysis of the industry and MK, it can be noted there is an increased awareness and desire for American brands and American lifestyles in Asia especially in China, also an increase of the urbanization and the middle-class society, where MK can establish a large base of customers. As discussed, the apparel industry in China is fast growing due to change in people income and lifestyle. Also, MK mode of entry in China is FDI as the company has manufacturing facilities in China. This help the company to have full control of its resources and capabilities as well as facilitate coordination and integration of activities across Chinese national market boundaries. Also, John Idol, MK CEO reportedly affirmed, since 2016 "We believe that Asia will ultimately be a \$1 billion market" and carrying out their business there will make the company an estimated of \$1billion per year, based on the estimation that between 2012-2022, the country will add 119 million households (Bain, 2016; Michael Kors, 2020). Also, MK should implement efficiently HRM strategies taking into consideration, the cultural aspect and workforce differences. The recent Covid-19 pandemic can significantly influence the international business perspective in the future. Michael Kors has said it will donate £1.6m to hospitals, health centres and charities in New York, which can improve the brand image.

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Appendices

Appendix 1: Main Modes of Market Entry in International Business

Exporting	
Advantages ● No operational facilities needed in the host country ● Economies of scale can be exploited ● By using Internet, small/inexperienced firms can gain access to international markets	Disadvantages ● Does not allow the firm to benefit from the locational advantages of the host nation ● Limits opportunities to gain knowledge of local markets and competitors ● May create dependence on export intermediaries ● Exposure to trade barriers such as import duties ● Incurs transportation costs ● May limit the ability to respond quickly to customer demands
Joint ventures and alliances	
Advantages ● Investment risk shared with partner ● Combining of complementary resources and know-how ● May be a governmental condition for market entry	Disadvantages ● Difficulty of identifying appropriate partner and agreeing appropriate contractual terms ● Managing the relationship with the foreign partner ● Loss of competitive advantage through imitation ● Limits ability to integrate and coordinate activities across national boundaries
Licensing	
Advantages ● Contractually agreed income through sale of production and marketing rights ● Limits economic and financial exposure	Disadvantages ● Difficulty of identifying appropriate partner and agreeing contractual terms ● Loss of competitive advantage through imitation ● Limits benefits from the locational advantages of host nation
Foreign direct investment	
Advantages ● Full control of resources and capabilities ● Facilitates integration and coordination of activities across national boundaries ● Acquisitions allow rapid market entry ● Greenfield investments allow development of state-of-the-art facilities and can attract financial support from the host government	Disadvantages ● Substantial investment in and commitment to host country leading to economic and financial exposure ● Acquisition may lead to problems of integration and coordination ● Greenfield entry time consuming and less predictable in terms of cost

(Source: Johnson et al., 2008)

Appendix 2: Foreign Direct Investment by Country

