POLITECNICO DI TORINO

Facoltà di Ingegneria

Corso di Laurea Magistrale in Engineering and Management

Tesi di Laurea Magistrale

Multinational investment by luxury brands

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Academic Year 2021-2022

Content

Abstract

In the past year, with the development of productivity and the prosperity of culture, luxury brands have gradually transformed from a small workshop production model to a group operation. The transformation of this pattern is inseparable from the international investment of luxury brands. Looking back at the development history of luxury brands, we can find that every peak of the luxury industry's development is accompanied by the rise of an emerging economy. At the same time, the development of the luxury industry has been accompanied by an absolute high-end to a gradual "Democratization”. Based on the particularity of luxury goods, how do luxury brands formulate strategies and allocate their international investments to promote the process of globalization? How do luxury brands choose their establishment location depending on characteristic also on their own strategy? This paper will take Hermès, Burberry, and Ferragamo as examples. According to the annual reports of these three luxury brands from different countries, this paper will analyze specific strategies and financial data qualitatively and get the conclusions about multinational investment by luxury brands.

Chapter 1 Introduction to luxury Industry

1.1 What is luxury?

The understanding of luxury is multi-faceted because it is not only a commodity, but also a social and cultural symbol. Since the birth of human society, luxury has always existed (even in different forms), and luxury has always been associated with social stratification, wealth distribution and other issues.

From the function of goods: luxury goods often represent high quality, almost all luxury goods leave a good impression of quality, and many top European luxury brands are famous for the exquisite artisanship of handmade production and the consumption of luxury goods is usually accompanied by people-oriented service, for example, In the Gucci flagship store in Milan, customers can accord to their own preferences to mix and match colors and accessories freely of people's favorite Dionysus bags.

In addition, the "functional value" of luxury goods is relatively low in its price, while the practical value is only a part of it. What is more important is to satisfy people's emotional pleasure, and to provide people with aesthetic enjoyment with its highly aesthetic design as the carrier of art.

From the perspective of social significance, luxury goods become a commodity that reflects the superiority of social status and makes owners feel different. It greatly satisfies people's psychology of showing off their economic strength and taste with the help of external forces.

In economics, luxury goods are defined as goods with an income elasticity of demand greater than 1. This definition helps us to preliminarily understand the relationship between luxury consumption and income, and to know that luxury is a commodity with completely opposite consumption demands to daily necessities. With the increase of income, consumers will increase their spending on luxury goods to some extent. In addition, within a certain range, the price of luxury goods is positively correlated with the demand, that is, more people buy them when the price is higher, which is a kind of Veblen Good (It is also called conspicuous consumption, this commodity can satisfy human vanity and is a show of wealth and status. In economics, it is characterized by a positive relationship between demand and prices, rather than the inverse relationship of the normal law.)

1.2 Development stages of the luxury industry

We have divided the development of modern luxury industry into four stages to review one by one.

Stage 1: From the 19th century to the early 20th century, luxury goods were mainly born in Europe

In the first half of the 19th century, Europe was at the end of feudal rule, and many luxury brands were born, mainly serving the nobility. Bags, clothing, perfume, jewelry, and other brands were born in France and Italy, and clocks and watches were born in Switzerland. These brands originally served the royal and noble classes, and their founders were mostly artisans in a certain field.

From the second half of the 19th century to the First World War, when the industrial Revolution and colonialism brought great wealth, Europe was in the "belle Époque". Entrepreneurs, bankers, and other people accumulated a large amount of wealth, began to imitate the aristocratic lifestyle, and the audience of luxury goods expanded. At the same time, it was also one of the peaks of

European art development, which gave birth to many art schools, such as impressionism, fauvism, surrealism and so on. Wealth accumulation, art development and industrial technological progress contributed to the birth of several brands. Meanwhile, some luxury brands gradually expanded their business scope. For example, Cartier opened branches in London and New York in 1902. However, at this stage, most brands are still small-scale production and sales based on family units.

The notion that China is not interested in European goods is not new to the 20th century. As early as the 16th to 19th centuries, the emergence of self-sufficiency to promote the idea that China is not interested in European goods. Kenneth Pomeranz believes that China in the eighteenth century believed in the superiority of its own civilization. Before the massive import of opium, China imported a small amount of European industrial products and a large amount of silver was imported into China.[1] Although European luxury goods also came to China as royal gifts in the nineteenth and twentieth centuries, but it was until the establishment of New China in 1949，Omega watches became the world's first luxury goods to enter the Chinese market in 1976. Currently, luxury brands are targeting ordinary Chinese consumers, not the long-defunct royal class.

Stage 2: From the Second World War to the 1970s, with the rise of Western economies, luxury goods entered the stage of prosperity and development

Western economies all experienced rapid economic growth in the postwar period, as advances in transportation and industrial technology facilitated mass production and global trade. The growth of people’s income drives the increase of optional consumption demand, which contributes to the prosperity and development of the luxury industry. Many luxury brands begin to enter the American market. The United States suffered few casualties in World War II and ushered in a "baby boom" period after the war. The increase in population has brought huge demand and consumer market. At the same time, the United States developed a social welfare security system earlier, strengthening the consumption willingness of the American people and the improvement of residents' welfare benefits have also made the purchasing power of the American people increase rapidly, especially for middle-income Americans, promoting the purchase demand for non-survival necessities including luxury goods. Under the influence of the rapidly growing demand of the United States and the technology of the textile industry, except Haute Couture, In the 1950s and 1960s, ready-to-wear(ready-to-wear is the term used for clothing that's pre-manufactured to standard sizes and sold in finished condition), which was more accessible and mass-produced, was introduced by luxury brands. The prosperity and development of the industry from 1940s to 1970s gave birth to many designer brands, such as Dior, Givenchy, and Balmain. The Italian fashion industry is also on the rise (Valentino, Versace and Armani are Italian brands).

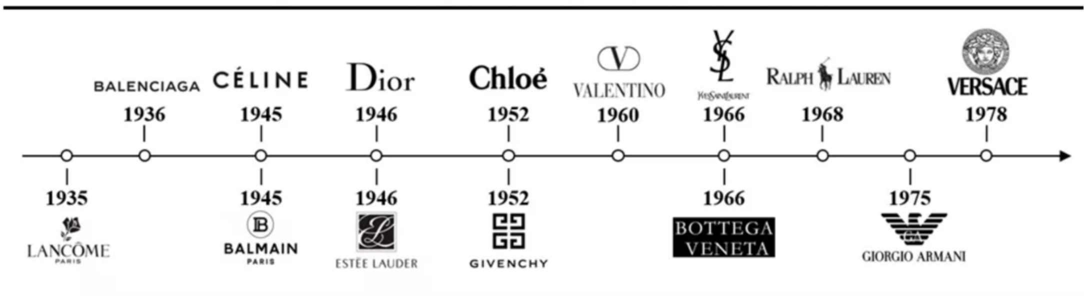

Fig 1.1 After World War II, the luxury industry ushered in another peak of brand birth

Stage 3: from 1980s to 1990s, luxury groups expanded globally, ushered in the peak of M&A and listing, and large-scale collectivized operation gradually replaced traditional family operation

The rapid growth of the Japanese luxury market has prompted brands to expand globally. From the late 1970s to the end of 1990s, Japan's per capita income reached a relatively high level, and its economy grew at a steady speed. Its per capita GDP increased from 12,900 dollars in 1970 to 26,500 dollars in 1990, and the demand for luxury goods grew rapidly. In 1985, the scale of Japan's luxury market was less than 450 billion yen, but before the bursting of the bubble economy in 1990, the scale reached about 1.65 trillion yen, with a compound annual growth rate of nearly 30%. Before luxury brands officially entered Japan, there was a large-scale purchasing agent phenomenon, that is, some Japanese dealers went to Europe and the United States to make large-scale purchases and then returned to Japan for sales. LV and Gucci were the first brands to realize the importance of the Japanese market. Gucci opened its first direct-operated store in Japan in 1972, and LV entered the Japanese market in 1978. Then other brands began to explore markets outside Europe and the United States. According to Founder Securities Co., Ltd statistics [2], by the end of the 1990s, most luxury brands like (LVMH, Hermes and Gucci)accounted for more than 30% of their revenue in Asia.

In the process of globalization, faced with an increasingly large business system, many family-run brands face pressure from capital and management structure, and their development has encountered bottlenecks. Luxury brands have ushered in the peak of mergers and acquisitions（M&A refers to the purchase, sale, split and merger of different companies or similar entities without the use of creating subsidiaries or joint ventures to help companies grow rapidly in their fields, industries or origins） and listing: LVMH (1987), Richemont (1988) and Kering (1988) were all founded or entered the luxury industry and listed during this period (the management families of the three groups are not the founding families of luxury brands). Tiffany (1987) and Hermes (1993) were also listed during this period. Taking the formation process of the LVMH group as an example, in 1971, the Moët & Chandon first acquired the perfume business of Dior, and then merged with the Hennessy to form the Moët Hennessy Group. In 1986, the Louis Vuitton acquired the Givenchy perfume business and the champagne brand Venuve Clicquot. In 1987, Louis Vuitton and Moët Hennessy merged into LVMH group. Mergers and acquisitions bring synergies. In terms of operations, back-office integration and management experience sharing have brought efficiency improvements. In terms of marketing, brand integration has brought about reductions in advertising costs and convenience in store expansion. Mergers and acquisitions bring about the integration of the industrial chain, contain competitors, and enhance the group's competitive position [3]. From this time on, the luxury industry entered a new stage of development.

Stage 4: Since the 21st century, the rise of emerging economies has brought a new round of development opportunities for the luxury industry

Since the beginning of the 21st century, emerging economies such as China have become a key market for luxury brands, the Chinese market plays an increasingly important role in the luxury goods industry, with its share of the global market increasing from 11% in 2019 to 21% in 2021 and is expected to reach 25% to 27% by 2025.[4] Luxury groups are also shifting their focus to The Chinese market.

This paper will also do further research and analysis based on the international investment by luxury brands in this stage.

1.3 SWOT analysis of the luxury sector

1.3.1 Strengths of luxury sector

Superior Quality: Luxury strives for excellence in design, craftsmanship and production, not just its product, but even its brand experience.
Conspicuousness: Luxury fulfills with respect needs, In the commercial society, conspicuous luxury consumption is one of the main ways and means to express financial power and gain or maintain a good reputation. People show their economic strength and social status through extravagant consumption. Therefore, conspicuousness is an extremely important feature of luxury goods.
Leadership: The real strength of luxury is its thought leadership based on its status and relationships with the elite of society. Luxury can set standards for desirable behavior, and like art, luxury can influence consumer behavior and reflect consumer values. It opens the door to different ways of thinking and acting, and luxury has the added effect of making consumers eager to emulate. Luxury has visibility and access to power; Luxury firms are in a strong financial position.[5]

1.3.2 Weakness of luxury sector

Growth relies too heavily on opportunism (Opportunism is the practice of taking advantage of circumstances – with little regard for principles or with what the consequences are for others.)
Vision of luxury sector not consistent among all stakeholders. The notion of luxury is overused and diluted. Luxury is the first expense cut back in a crisis.[5]
The luxury industry is caught in the contradiction between rarity and democratization (See 1.4.2 for details). In the one side, it is necessary to maintain the high-end and rare characteristics of luxury brands, in the other side, luxury brands rely on democratized commodities to expand marketing,

and luxury goods gradually become vulgar. Tom Ford said: “The ‘democratization of luxury’ promoted by the large luxury brand conglomerates is without doubt the main force behind the vulgarization of most traditional luxury fashion brands.” [19]

1.3.3 Opportunities of luxury sector

For luxury sector, Heritage, and design, together, can shape culture, Cultural connotation has two parts: historical stories and value propositions Luxury is not only the product of certain social and economic conditions, but also the product of the cultural conditions of an era, and will be branded with the imprint of the culture of the era. As a kind of artistic aesthetics, luxury has been endowed with many cultural, historical, artistic, philosophical, and social connotations. Behind it, there is a cultural system that has been passed down for decades or hundreds of years. It is a kind of high-grade lifestyle.

1.3.4 Threats of luxury sector

Luxury goods that cater to mass tastes instead of leading values may lose the meaning of luxury.

The association of luxury with privilege and excess is evaporating the source of growth and demand for luxury, and the high growth of the luxury market will eventually reach its limit.

Luxury brands must also solve the threat posed by counterfeiters, thieves and smugglers to their intellectual property and physical property.[5]

1.4 Luxury industry development driving factors

1.4.1 The expected growth rate of wealth is a more important factor

Income level and income growth rate are undoubtedly important factors influencing luxury consumption. The higher the income level, the stronger the purchasing power, and the more inclined to consume luxury goods, which have intangible value far greater than tangible value. However, compared with absolute wealth, the growth rate of wealth may be a more important factor affecting luxury consumption. Take China and Japan as examples: China currently has the largest consumption of luxury goods in the world, while the number of high net worth individuals (HNWI) in China and the total amount of their wealth is not the highest in the world, but it is the fastest growing in the past 10 years; Japan's current income level is higher than that in the 1980s and 1990s, but the scale of luxury goods consumption is not as large as that of that era. The underlying reasons may be: for the large number of middle-class people, in the cycle of rising incomes, people have better expectations for the future, so they are more willing to buy luxury goods.

According to the data from National Bureau of Statistics of China [7], the per capita disposable income of China in 2009 was 4,834 yuan, about 670 euros per year. According to the 2010 White Paper on Luxury Consumption Research [8] in Mainland China, the total consumption of luxury goods in China in 2009 was 77 billion yuan, about 106 billion euros. In 2021, the per capita disposable income of national residents will be 35,128 yuan, and the total consumption of luxury goods will be 471 billion yuan, or about 65.3 billion euros. China's per capita disposable income and China's luxury goods consumption are basically in line with the same multiple growth.

1.4.2 Democratization

The economic development of all countries in the world is accompanied by an increase in the gap between the rich and the poor. After World War II (1945), the United States, Japan, and China after the reform and opening, and many other economies that experienced rapid development, all showed the same characteristics, that is, the rapid increase in the gap between the rich and poor. Theoretically, luxury goods are commodities with an income demand elasticity greater than 1. Therefore, with the same capita income, the greater the gap between the rich and the poor, the higher the proportion of luxury consumption expenditure to total expenditure.

But in fact, among the products provided by luxury goods companies, there are not only "absolute luxury goods " for high-net-worth Individual, but also a large number of products with a slightly lower unit price (Accessible) for mid-to-high-end customer groups: People with an average annual consumption of luxury goods of less than 500 Euros still contribute nearly 1/3 of the market share, and these more popular products are usually an important source of profit for luxury brands. Therefore, if the gap between the rich and the poor is too large and the proportion of the middle-class decreases, it may not be a good thing for the luxury goods industry. The growth of the luxury goods industry in the 21st century has mainly come from the “democratization” of luxury goods, that is, the increase in expenditures related to the middle class.[2]

Therefore, we should pay attention to these two factors in the following analysis, focusing on the income level and the expected growth rate of wealth of residents in the investment areas of luxury brands, as well as the degree of democratization of luxury goods from different brands.

Chapter 2 Take Hermes, Burberry and Ferragamo as examples to analyze luxury brand strategy

In this chapter, I will use the annual reports （2006-2020）from three luxury brands which are Hermes, Burberry and Ferragamo as a basis to sort out the strategic development of luxury brands. Because the subsequent analysis of multinational investment and location selection by luxury brands will be based on strategic analysis to draw conclusions.

2.1 Hermes strategy

Since 1837, Hermès has been adhering to quality-oriented, culture-driven, and hand-crafted manufacturing， insisting on high-end development, from the original harness store to the prestigious ultra-luxury goods giant. Family governance has played a vital role in the development of the company. With the efforts of six generations, the company's operating performance is generally in a stable growth state. In 2006, Patrick Thomas and Pierre-Alexis Dumas, the sixth-generation successors of Hermès formally succeeding, they have inherited the family's business philosophy for more than 100 years and continue to carry forward the brand spirit of Hermès.

2.1.1 Controlling Know-How

Hermes has always adhered to their long-term strategy. It creates and manufactures durable, high-quality objects that can be passed on from generation to generation and can be repaired. This approach and the pursuit of excellence, especially when it comes to materials, requires consideration of sustainability and quality challenges at every stage from design to sales. In order to adhere to the tradition and ensure the high quality of the products, Hermes adopts a vertically integrated operation model, covering every link of the industrial chain. While all the competitors buy twill silk from China to print scarves, Hermès raises silkworms in Brazil. And weave silk in Lyon. To ensure the quality and stable supply of raw materials, but also for the confidentiality of know-how, Hermès owns 49.6% of SOFICUIR, a raw crocodile tanning company, and acquired the remaining shares of SOFICUIR in 2007, to turn it into a wholly owned subsidiary.

2.1.2 Controlling Distribution Network

Hermes has a long history of exploring sales distribution network. As early as the 1920s, Hermès Paris store has become a franchise store retailers of branded high-end luxury goods. In the 1930s, about ten years later, Hermes began to establish brand stores. Until the end of 2020, Hermès objects are available worldwide through a network of 306 exclusive stores. Hermès watches, perfumes and tableware are also sold through networks of specialized stores. The branches are in the following geographical areas: 75 in Europe (including 13 in France), 45 in the Americas (including 29 in the United States), 95 in Asia (including 29 in Japan), and 6 in Oceania. Hermès gradually withdraws its franchise rights and guarantees its control over the distribution network with a high proportion of direct sales.

2.1.3 Controlled Growth

The Group’s craftsmanship model is one of controlled growth, in line with sustainable development requirements. Hermès crafts high-quality objects in limited quantities. The majority of Hermès’ production takes place in France, at 51 production sites grouped to create regional clusters. Hermès’ strategy is to pursue this sustainable, responsible and social value-based growth model, with commitment to regions where there is a high level of manufacturing savoir-faire to create high-quality jobs. This strategy is the result of the high standards of a House founded on craftsmanship and independence and driven by its exceptional skills to serve unbridled creativity.

2.1.4 Promotion

Unlike other luxury brands, Hermes does not regard celebrity endorsements as a brand strategy and actively stays away from this marketing method, which saves a part of Hermes advertising investment, and Hermes’s promotion method is also largely influenced by the impact of their product positioning. Hermès is a unique, rare, luxurious image, and it is because of this quality that Hermès does not need the same sales volume as other brands. Only top celebrities and the super-rich can afford and access their highest quality and exclusive products. Hermès also does not follow a strategy of launching region-specific collections or product offers, allowing the same collection to be sold around the world.[10]

2.2 Burberry strategy

Burberry is established in 1856, The founder of Burberry, Thomas Burberry, initially focused on designing outdoor clothing. In 1879, he invented the Burberry trench coat is known all over the world as a brand identity，At the same time, Burberry designed a new lightweight military uniform that can replace the old military uniform.

Fig 2.1 The trench coat (2019)

In 1955, Burberry was granted a Royal Warrant by Queen Elisabeth II, the most prestigious recognition for Burberry so far. The brand was, consequently, deeply enrooted in the British Culture. In the 1970s and 1980s, Burberry's growth strategy was to sign licensing agreements around the world. Under the agreement, the manufacturer begins to produce complementary products to existing collections, such as accessories, suits, pants, shirts for men, women and even children. The production and distribution of these products was done through independent retail stores around the world, and soon Burberry's sales and profits began to grow. But current gains just a flash in the pan, the shortcomings of Burberry's growth strategy became apparent, in the 1990s Burberry suffered some serious image problems. Consumers began to perceive the brand as conservative and outdated. Additionally, the brand began to lose control over its licensors, resulting in inconsistent pricing, quality, and design.

In the early 2000s, the brand became very popular among "chavs," a derogatory term used to describe a low-income, sociopathic group obsessed with luxury brand logos and cheap jewelry. Football fans also developed an absolute obsession with the brand, which soon became associated with the violent and conflicted football hooligan culture. This led to the beginning of a ban on Burberry plaid clothing in certain venues. For high society and the media, Burberry has hit rock bottom.

In 2006, Angela Ahrendts became the new CEO of Burberry, the famous British company with a 150-year history in the United Kingdom fell into darkness and needed rescue. In a segment (luxury) that was growing at 13%, Burberry was only doing it at 2%. [11]

Unlike the long-term strategy that Hermès has always adhered to, To solve the above-mentioned crisis, Burberry had to reposition its strategy in 2006, and continued this strategy until 2014.With the changes of the times, Burberry has also been adjusting its strategy to achieve better development of the brand. Next, I will analyze it according to the timeline.

2.2.1 2006-2014

From year 2006-2014, Burberry's strategies [12] are:

1. LEVERAGE THE FRANCHISE

In order to restore Burberry's brand image, Burberry began to buy back franchise rights，Enhance consumer resonance and operate more effectively through exacting use of brand assets and coordinated action across the global organization.

2. INTENSIFY NON-APPAREL DEVELOPMENT

Increased focus on investing in non-apparel products such as shoes, small leather goods and belts. Burberry is investing in research and development, marketing, and supply chain for non-apparel products. They hope to regain market positioning through non- apparel products.

3.ACCELERATE RETAIL-LED GROWTH

Apply a dynamic retail mindset across the organization and processes to drive growth in all distribution channels.

4.PURSUE OPERATIONAL EXCELLENCE

Drive greater efficiency and productivity throughout the business.

5.INVEST IN UNDER-PENETRATED MARKET

To seize the opportunity to expand the company in both developed and younger markets. For Burberry, under-penetrated markets exist in both advanced， emerging and developing economies.

From 2006 to 2010, Burberry's investment focus was on the North American market. In 2006, for example, there was a £200 million market in North America, but Burberry only had 39 stores. This is an important time for Burberry to expand, especially in the large-scale high-end department stores in this market, where there is huge potential for future growth in sales.

But in the four years from 2010 to 2014, Burberry began to shift its investment focus to China. In September 2010, Burberry Group bought 50 stores in 30 Chinese cities, previously operated by its Hong Kong franchisee, for around £65 million. At the same time, this also shows that Burberry Group implements the strategy of leverage the franchise. At the same time, Burberry has expanded its presence in Latin America, India, and new markets such as Kuwait, UAE, and Saudi Arabia. For example, in the Middle East, Burberry has licensed retail and wholesale distribution in the UAE, Kuwait and Saudi Arabia. Successfully operated 8 stores and in 2007 the revenue in the Middle East increased by 27%.（Three different sales channels by Burberry is Retail is the brand's own store, selling its own products，Wholesale is to find a dealer to open a store and sell its own products, similar to franchising，licensed retail is to license its own trademarks and brands to other products.）

2.2.2 2015-2020

Since 2015, Burberry has begun to propose product and digital strategies, emphasizing that excellent products are the basis for Burberry's sales growth and productivity goals. And promote the combination of online and offline retail. Since November 2017, Burberry has officially updated their six strategic pillars with a multi-year plan to reinvigorate customers' experience with their products and deliver sustainable long-term value.
Six strategic pillars are:

(1) PRODUCT
To reinvigorate brands and gain fashion-forward influence, they offer innovative products and capture the attention of luxury consumers. Transforming leather goods is already a key part of that. They don't continue to be bound by tradition and provide continuous innovation. They will also focus on creating full apparel for customers, adding innovations in each price range to attract new customers to the brand.

(2) COMMUNICATION
They develop their communication style to be product-led, incorporating social media, and they use their digital and social media presence to convey new energies. They reignite brand ambition and change customer perception, increasing focus on customer experience, using pop-ups (ads) to continuously absorb consumers with the brand.

(3) DISTRIBUTION
Their goal is to operate a distribution network consistent with their luxury positioning. To support this change, they rationalized their luxury wholesale and retail network with an initial focus on the US and then EMEI. They are also transforming the customer experience by renovating their retail stores and

enhancing customer service. At the same time, refurbishment of retail stores also requires the support of investment budgets.

(4) DIGITAL

They're increasing consumer participation by showcasing websites with curated product assortments and personalized stories, and they're also improving the omnichannel experience, giving customers the flexibility to choose payment and delivery way， They also strategically develop and strengthen partnerships with digital transformation partners.

(5) OPERATIONAL EXCELLENCE

To deliver sustainable growth, they increase their agility and efficiency, enabling them to better respond to the rapidly changing environment in which they operate. Their ambition is to adapt their supply chain to deliver true luxury products, power the organization through technology and to work in a simple and efficient way. Operational excellence is an important foundation as they strengthen their Company and re-position their brand.

(6) INSPIRED PEOPLE

Their Inspired People program is designed to deliver the organizational and people elements of their strategy. Work is underway to deliver on their commitments of fostering a dynamic and inclusive culture to engage employees, empower their leaders, strengthen capabilities, expand their talent plans, simplify how they work and drive positive sustainable change across every part of their footprint.

2.3 Ferragamo strategy

Ferragamo's strategy aims to strengthen its position in the luxury market by leveraging its creativity, glamour, Italian craftsmanship and position in the footwear and accessories segment, enhancing its classical elegance and glamour with a contemporary style, enhancing its competitive position among the global luxury market leaders to create shareholder value through sustainable and profitable growth. Ferragamo's goal is to maintain its position in the high-end luxury segment on a global scale, by emphasizing the exceptional and central role played by the exceptional quality of Italian products in its collections, as well as by fully supporting its marketing and communications activities. The main guidelines can be summarized as follows:

2.3.1 Expand distribution network in emerging markets and optimize global retail and wholesale performance

Ferragamo intends to leverage its distribution network, which is strategically well balanced in terms of channels and geographic areas, to take advantage of the opportunities offered by high growth countries and to improve the effectiveness of each distribution channel, through:

- Further expansion of its commercial presence in emerging countries, above all in Asia Pacific. Since 1980, Ferragamo has started its first internationalization attempt in the Asia-Pacific region and has made good progress. It has successively established distribution networks in these countries and regions. Hong Kong in 1986, Japan in 1991, China in 1994, Korea in 1995. Into Latin America and South Asia in late 1990s and early 2000s, India in 2006. [13] Until 2020, the revenue of Ferragamo Group in the Asia-Pacific region has accounted for 32.9% of all revenue, ranking first, followed by North America, accounting for 23.6%.[14]

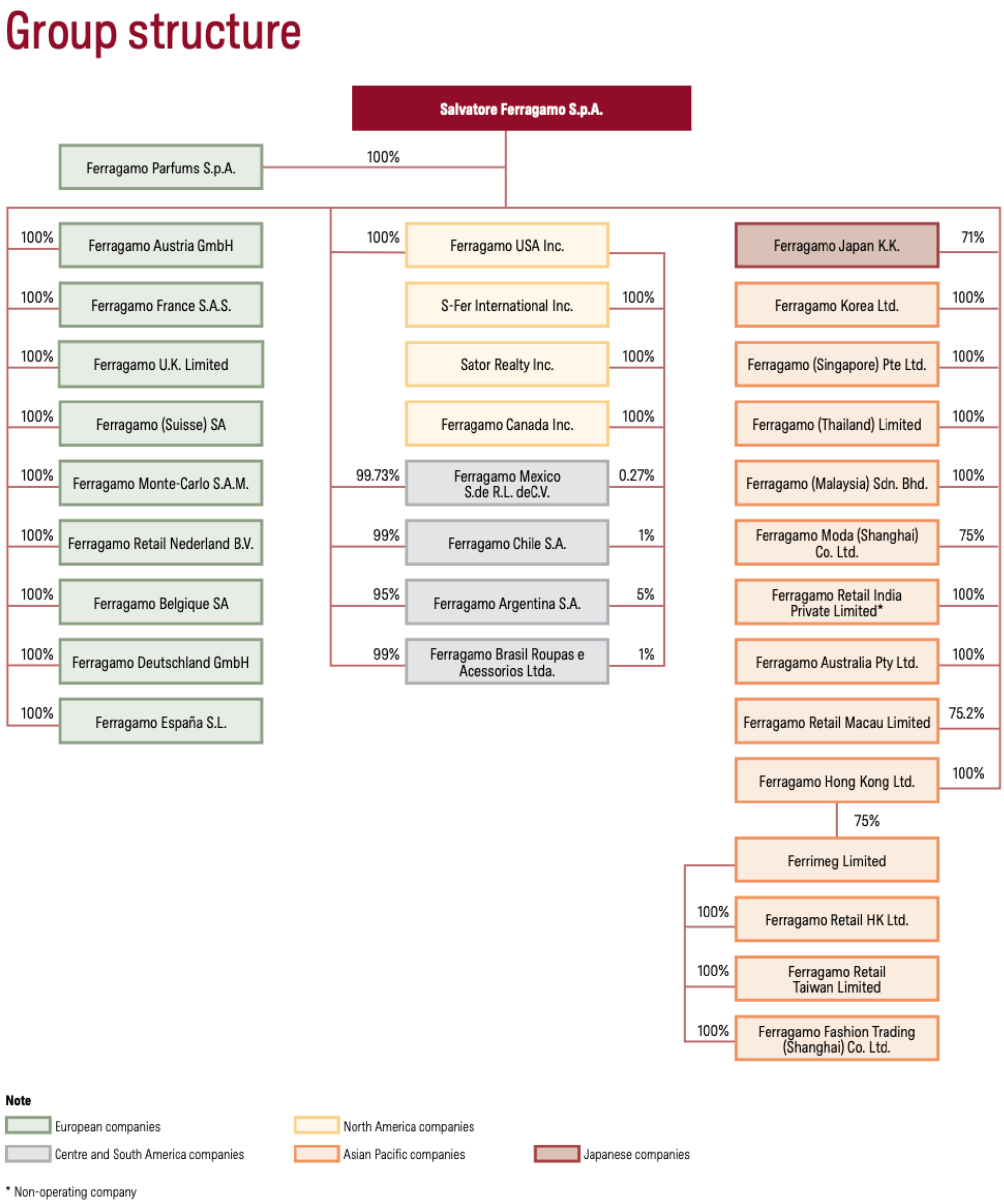

Fig 2.2 Structure of Salvatore Ferragamo group

- Improvement in the performance of the retail channel, which is to be achieved through more effective management of product categories in stores, the renovation of stores improving their layout, the opening of stores dedicated exclusively to men or women's products as well as, above all in historic luxury markets, renewal of the stores' image.

- Constant control of the wholesale channel, consolidating its presence in the most prestigious department stores in historic luxury markets and continuing to exploit this channel to penetrate emerging countries; particular importance is also attached to the travel retail segment.
- Development of the e-commerce channel.

2.3.2 Optimization of the product range and the collection structure

Ferragamo believes that it can increase revenues and operating profits also by making changes to the product range and the collection structure:
- By supplementing the collections so as not only to satisfy new purchasing opportunities, also with a specific focus on younger customers and the needs of specific geographic areas/markets, but also to optimize the price structure and profits from the collection.
- By increasing the focus on the Group’s core product categories (men and women’s footwear and leather goods) and which, at the same time, are among those with the highest profits and forecast growth.

2.3.3 The production system

The organizational model employed by Ferragamo entrusts the production process entirely to expert staff in the Italian external workshops, although the management and organization of the most important stages of the value chain are retained internally. In terms of production, Ferragamo directly manages the product development and industrialization phases, during which Ferragamo has 100% authority to control the quality of the finished product.
Ferragamo's operating model ensures flexibility and efficiency in production and logistics cycles, utilizing an extensive network of selected Italian manufacturers that have worked with Ferragamo for many years. The tight

integration between the parent company Salvatore Ferragamo S.p.A. (the only manufacturing company in the group) and the supplier network allows extensive control over key stages of the value chain in the production process to be maintained.

Combining the strategies of the three luxury brands, Hermès, Burberry, Ferragamo, it is not difficult to find that in addition to the emphasis on quality that luxury brands have always emphasized, they will also develop markets with insufficient penetration and control the global sales network into their respective strategies. With the support at the strategic level, we found that to realize the globalization strategy, we must go through international investment. In the following chapter, we will turn our attention to the main balance sheet and international investment data of these three luxury brands over the years. And get the answer of how do luxury brands chose their establishment location depending on characteristic also on their own strategy. Are multi-national corporations (MNS) in the luxury industry driven by different location factors than other MNC? And give some examples of international investment by luxury brands.

Chapter 3 Take Hermes, Burberry and Ferragamo as examples to analyze luxury brand multinational investment data

In this chapter, we will continue to refer to the annual reports （2006-2020） from three luxury brands which are Hermes, Burberry and Ferragamo，I will focus on the key consolidated data and the multinational investment data over the years mentioned in the annual reports of these three brands, and combine the FDI (Foreign direct investment) data of these three brands to analyze the multinational investment of luxury brands

3.1 Key Consolidated Data from annual report

3.1.1 Key Consolidated Data from Hermes

From 2006 to 2020, Hermès overall operating conditions were very well. Revenue and net income maintained stable growth from 2006 to 2019,except for a slight decrease in revenue in 2020 due to the impact of the covid-19, Affected by the epidemic, sales fell by 6% throughout the year, but have resumed growth since the second half of the fiscal year, and the fourth quarter was particularly strong, with a year-on-year increase of 16%[15].The cash flow situation was good, operating cash flow covered all investment, maintaining year-on-year growth. It is worth mentioning that the restate net cash of Hermès in 2012 was significantly lower than that in 2011. The reason is that in 2012, Hermes increased the investment, invested 370 million euros, which was mainly used to expand the distribution network and purchase the Hermès store in Beverly Hills, California to increase capacity and secure supply. In addition, Hermes' investment situation is relatively stable, which is in line with its strategy of stable growth.

in millions of euro (unit)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1514.9	1625.1	1764.6	1914.3	2400.8	2841.2	3484.1	3754.8	4118.6	4841	5202	5549	5966	6883	6389
Operating income	415.2	423.7	449.2	462.9	668.2	885.2	1118.6	1218	1299.3	1540.7	1697	1922	2128	2339	2073
Net income attributable to owners of the parent	268.4	288	290.2	288.8	421.7	594.3	739.9	790.3	858.8	972.6	1100	1221	1405	1528	1385
Operating cash flows	321.7	356.6	378.9	401.1	571.5	722.8	884.8	1015.9	1048.7	1218.2	1427	1580	1863	2063	1993
Investments (excluding financial investments)	134.3	155.9	160.4	207.3	153.8	214.4	370	232.4	322.2	266.6	262	265	312	478	448
Restated net cash (1)	536.3	485.5	432.4	576.4	950.1	1044.2	721	1091	1493.6	1614	2345	3050	3615	4562	4904

Fig 3.1 Key Consolidated Data from Hermes (1: Restated net cash includes non-liquid financial investments and borrowings.)

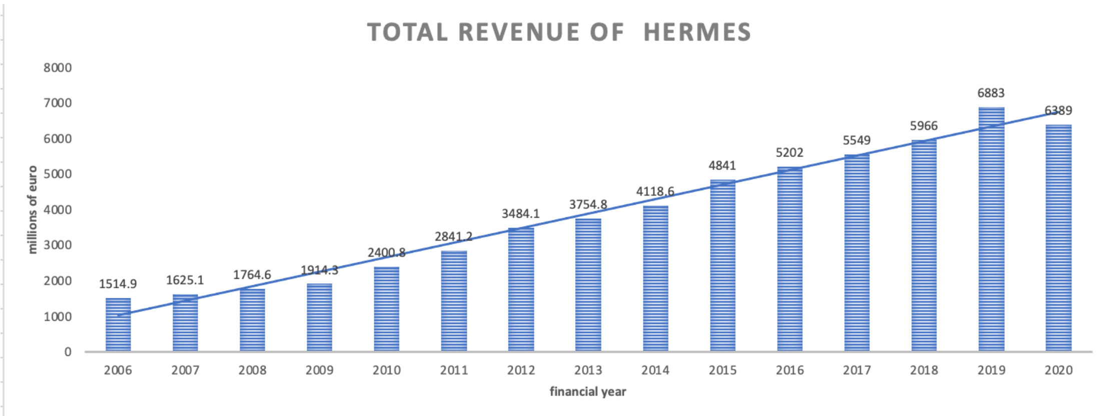

Fig 3.2 Total revenue of Hermes from 2006 to 2020

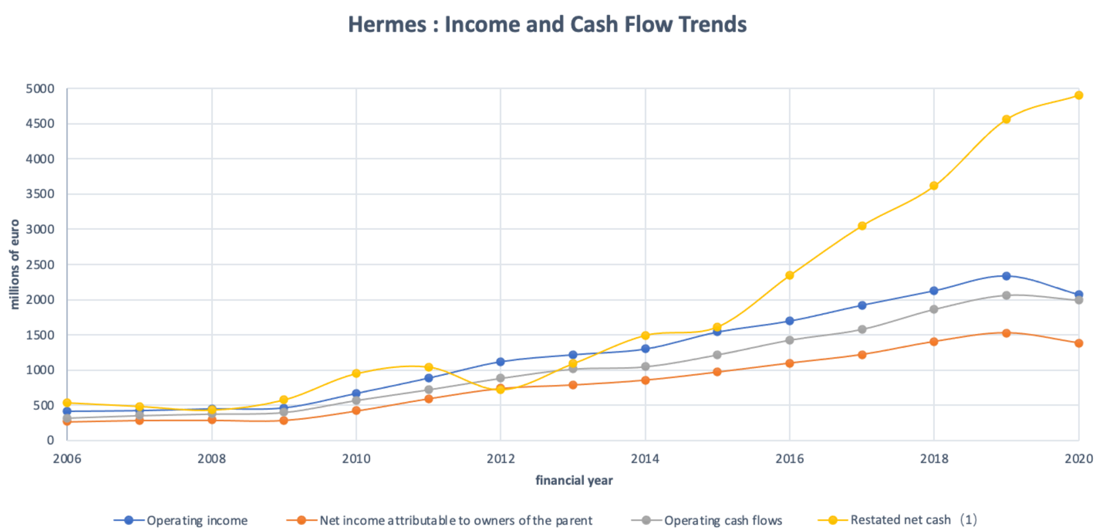

Fig 3.3 Income and cash flow trends of Hermes from 2006 to 2020

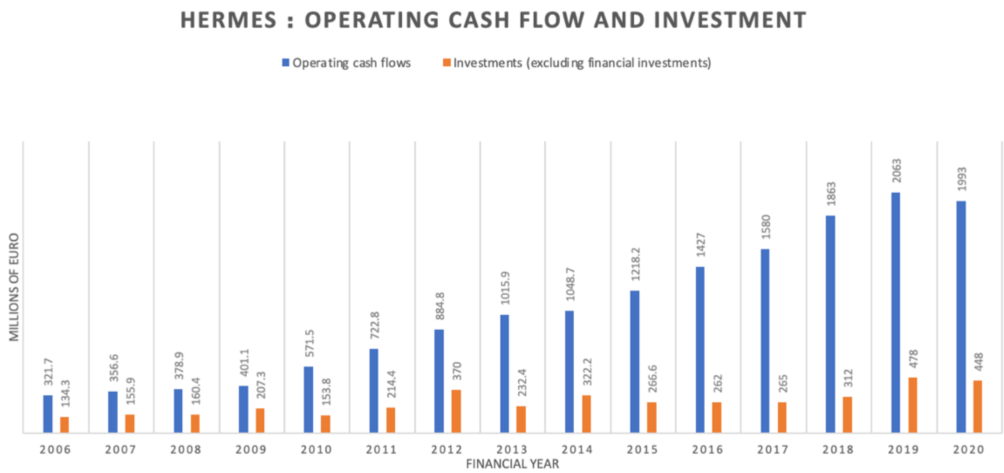

Fig 3.4 Operating cash flow and investment of Hermes from 2006 to 2020

3.1.2 Key Consolidated Data from Burberry

Burberry has the same situation as Hermès, except for a slight decrease in revenue in 2020 due to the impact of the covid-19，from 2006 to 2020，revenue maintained stable growth and cash flow is stable. Thanks to Burberry's digital strategy, Burberry's online marketing channels are running well and have not been severely impacted by the epidemic. The total revenue is expected to achieve stable growth in 2024.[16]

Burberry Group's attributable profit (Attributable profit is defined as that part of the total profit currently estimated to arise over the duration of the contract, that fairly reflects the profit attributable to the work completed to date, as at the accounting date) [17] has been growing steadily or falling slightly, but it fell to minus 6 million pounds in 2009, which is very noteworthy. The reason for this is that in 2009/10, Burberry incurred a restructuring charge of £48.8 million, which is the LEVERAGE THE FRANCHISE strategy proposed by Burberry, and Burberry began to buy back franchises around the world. The performance of the Spanish region deteriorated in the last two years, and with the poor economic situation in Spain，the local business is no longer viable. The global collection will be available on all channels In Spain from Spring/Summer 2011.

All products designed and manufactured in Spain will cease after autumn/winter 2010, so the Barcelona factory must be closed and about 300 jobs will be lost.

In 2013, Burberry's attributable profit declined, total movement in net cash was negative 41.7 million pounds, primarily reflects Burberry taking full effective ownership of the retail business in Japan from 29 March 2013. This business was loss-making in FY 2013.

In 2018, Burberry's cash flow fell mainly because they increased their inventory by ten percent and acquired a division of an Italian supplier to build a center in Florence called Burberry Manifattura, this covers all activities from prototyping, product innovation and engineering to the co-ordination of production. Burberry Manifattura has more than 100 professional artisans and artisans specializing in the development of luxury handbags and accessories that complement Burberry's lack of leather goods production.

In 2020, attributable profit decreased, it was related to asset impairments resulting from the expected impact of the pandemic on Burberry future trading. But in fact, the pandemic did not have much impact on Burberry. Both cash flow from operation and total movement in net cash began to increase in 2019.

unit：millons of pounds	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total revenue	742.9	850.3	995.4	1,201.50	1,279.90	1,501.30	1,857.20	1,998.70	2,329.80	2,523.20	2,514.70	2,766.00	2,732.80	2,720.20	2,633.10
Attributable profit	106.4	110.2	135.2	-6	81.4	208.4	263.3	254.3	322.5	336.3	309.5	286.8	293.5	339.3	121.7
Cash flow from operation	148.4	161.2	105.7	247.7	431.5	366.4	482.5	523	535.5	568.1	503	688.6	702.5	515.9	624.9
Free cash flow	-	-	-	125.3	310.7	111.8	202	249	274.2	300.5	273.8	465.1	483.7	300.8	66.3
Total movement in net cash	-	-	-	71.8	254.4	35.9	40.4	-41.7	105.9	149.7	108.1	148.9	82.9	-54.8	50
Net asset	386.6	396.9	495.3	543.9	603.5	733.7	891.4	1052.8	1208	1451.5	1620.9	1697.8	1425.4	1460	1218.8

Fig 3.5 Key Consolidated Data from Burberry (It didn't show free cash flow and total movement in net cash in annual reports before 2009)

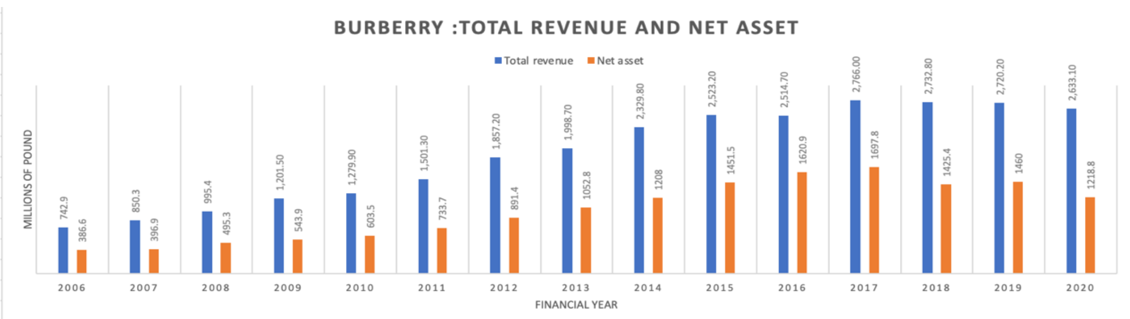

Fig 3.6 Total revenue and net asset of Burberry from 2006 to 2020

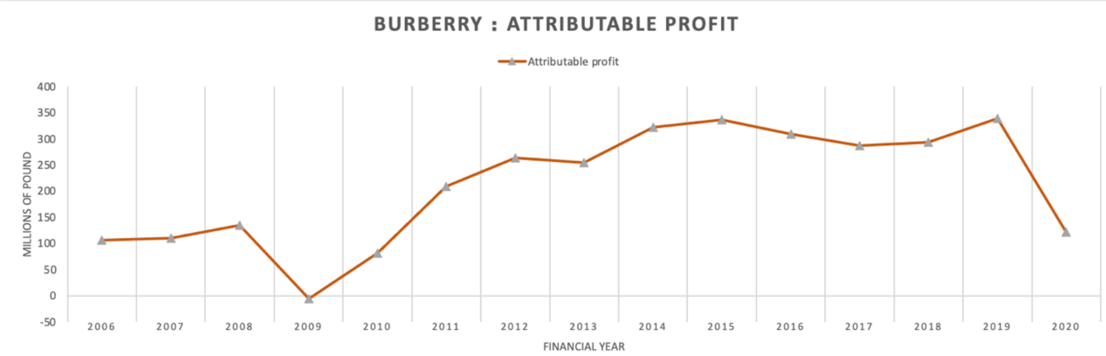

Fig 3.7 Attributable profit of Burberry from 2006 to 2020

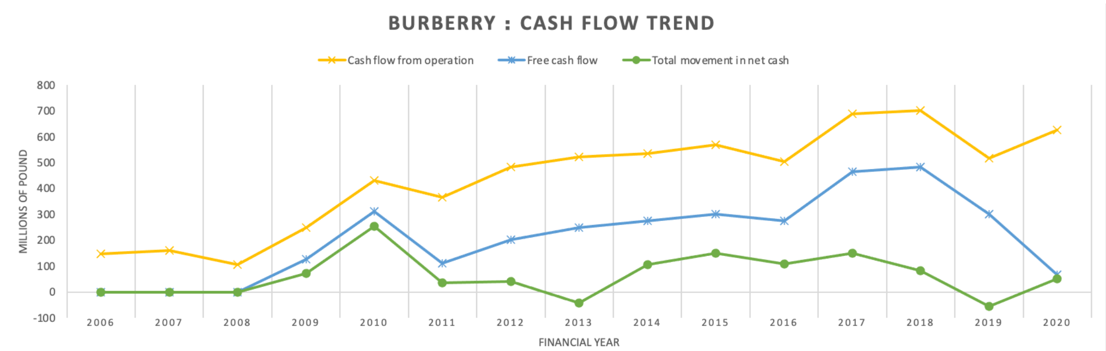

Fig 3.8 Cash flow trend of Burberry from 2006 to 2020

3.1.3 Key Consolidated Data from Ferragamo

In 2009, Ferragamo's operating profit and net income fell sharply, of which net income fell to minus 14,661000euros, In relation to the tax dispute between the subsidiary Ferragamo International B.V., Salvatore Ferragamo Italia SpA and the Florence Revenue Office，The dispute resulted in a fee of 52.9 million euros to the Dutch company.

From 2016 to 2020, Ferragamo's net income and operating profit continued to decline, but net cash used in investment continued to increase, because Ferragamo began to repurchase the shares of branches worldwide in 2016, and in 2016 Ferragamo took back the shares of Latin America, Southeast Asia and South Korea branches, 100% holding of the branches in these regions, from 2017 to 2018, Ferragamo repurchase 49% of the shares of the Indian branch from the Indian partner, in 2019, Ferragamo repurchase 100% shares in the Danish branch to expand their global distribution network. In 2020, Ferragamo acquired a 100% stake in Arts S.r.l, it has been collaborating with Ferragamo since its inception in 1984, helping with the prototyping, industrialization, and quality control of products as well as the monitoring of their network of suppliers with respect to men’s footwear. Ferragamo pursued this deal to strengthen its control over its supply chain and acquire strategic capabilities in one of its key product categories. Interestingly, in fact Arts S.r.l was in Florence and was founded by the nephew of the founder of Ferragamo. In 2020, due to the impact of the epidemic, Ferragamo's revenue declined, and net income and operating profit also dropped to negative values. Under the influence of the epidemic, the luxury industry will accelerate the shift to digital shopping.[18] Ferragamo needs to improve their digital marketing capabilities to cope with the impact of the epidemic. In fact, as early as 2016, Ferragamo began to increase investment in intangible assets, mainly refer to the so-called "Marlin Project", aimed at standardizing the Group’s retail information systems relying on SAP（A software for enterprise management solutions developed in Germany）and developing the e-commerce platform. We have reason to believe that Ferragamo can also overcome the impact of the epidemic as soon as possible through digital marketing

unit：thousands of euro	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
total revenue	687379	690830	619598	781601	986375	1152965	1258034	1331822	1430039	1437923	1393472	1346842	1377261	915825
Operating profit	77390	63791	36476	86437	156649	194322	219058	245416	264600	260728	186054	149769	149698	-61541
net income	47146	38883	-14661	60801	103259	125279	159967	163515	174450	198358	114283	90187	87365	-71696
net cash used in investment	19546	27062	19689	21716	42374	61163	70303	84347	79599	68508	76610	75766	63376	37391
cash at end of the year	64827	77058	76999	132469	73179	110808	70292	96455	142121	117249	212088	207707	222332	327880

Fig 3.9 Key Consolidated Data from Ferragamo

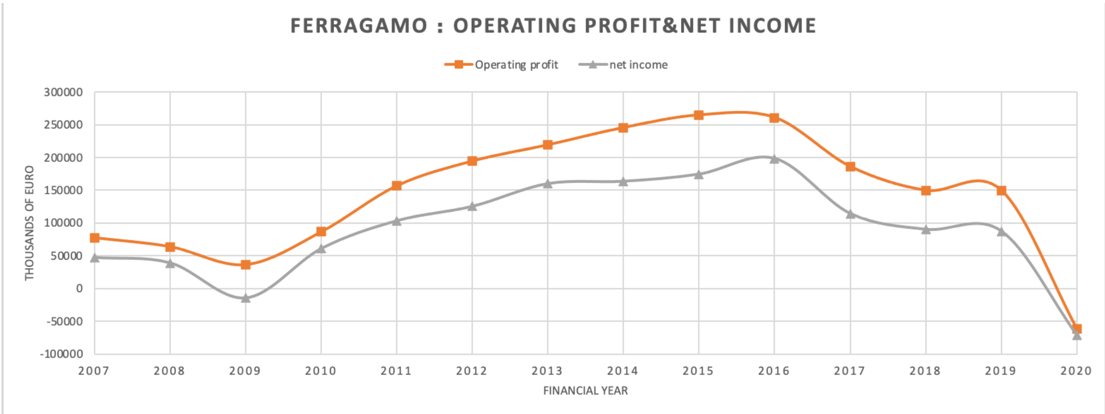

Fig 3.10 Operating profit and net income of Ferragamo from 2007 to 2020

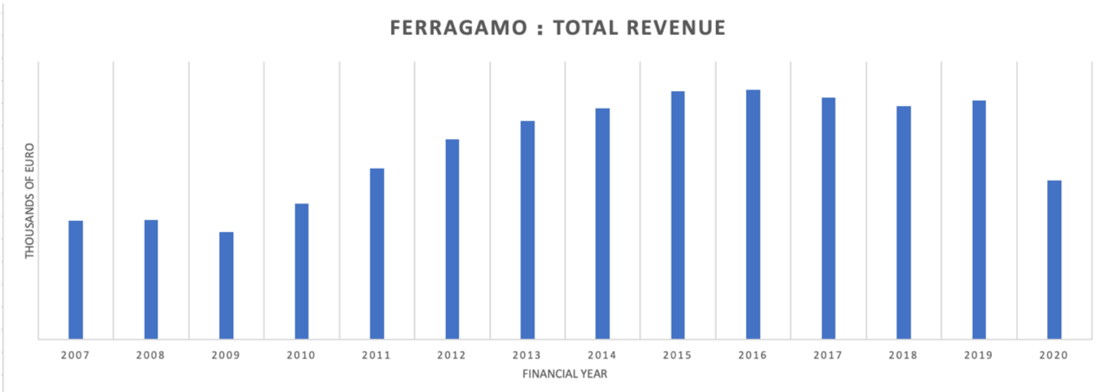

Fig 3.11 Total revenue of Ferragamo from 2007 to 2020

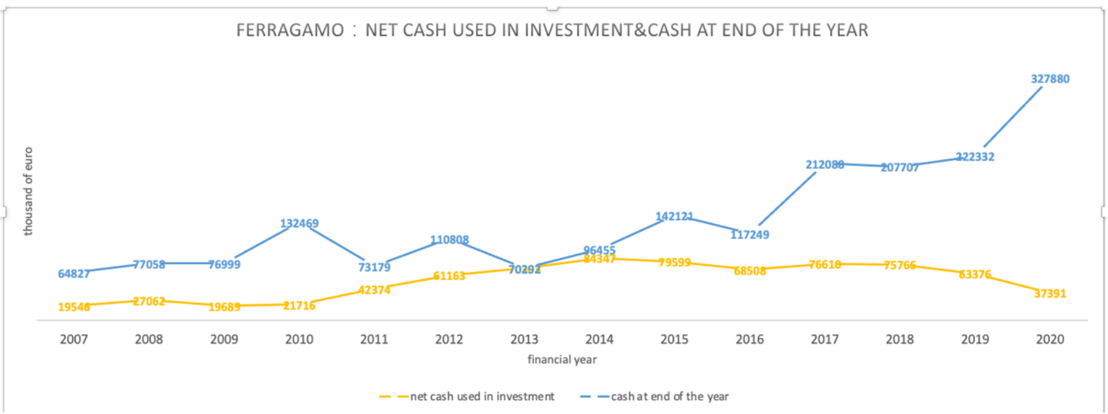

Fig 3.12 Net cash used in investment and cash at the end of the year from Ferragamo from 2007 to 2020

3.2 FDI data from Hermes Burberry and Ferragamo

In this chapter, I will introduce the multinational investment in the luxury industry based on the FDI data and annual reports of the three luxury companies Hermes Burberry and Ferragamo between 2004 and 2020. And provide an analytical basis for our analysis of the characteristics of multinational investment location selection in the luxury industry.

3.2.1 FDI data from Hermes

Hermès' multinational investments are mainly concentrated in the textile industry, retail industry and consumer products manufacturing industry, mainly in the production and distribution of luxury goods such as clothes, bags, shoes, accessories, etc. Hermès' multinational investment has covered 24 countries in the past 14 years. Calculated according to the total investment, advanced economies account for 68%, emerging economies account for 30%, and developing economies account for only 2%. The advanced economy with the largest total investment is the United States, and the emerging economy is China.

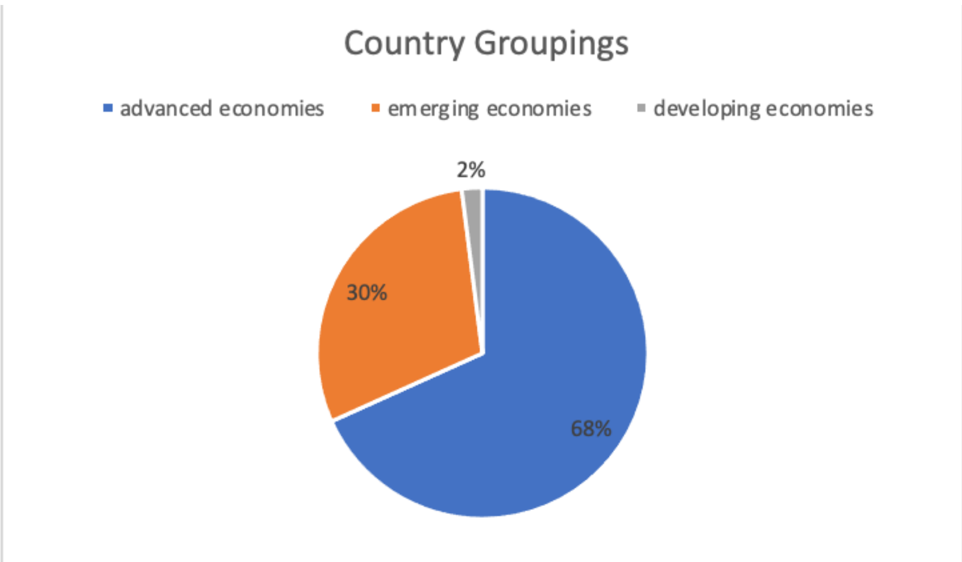

Fig 3.13 Proportion of Hermès' Investments In Different Economies

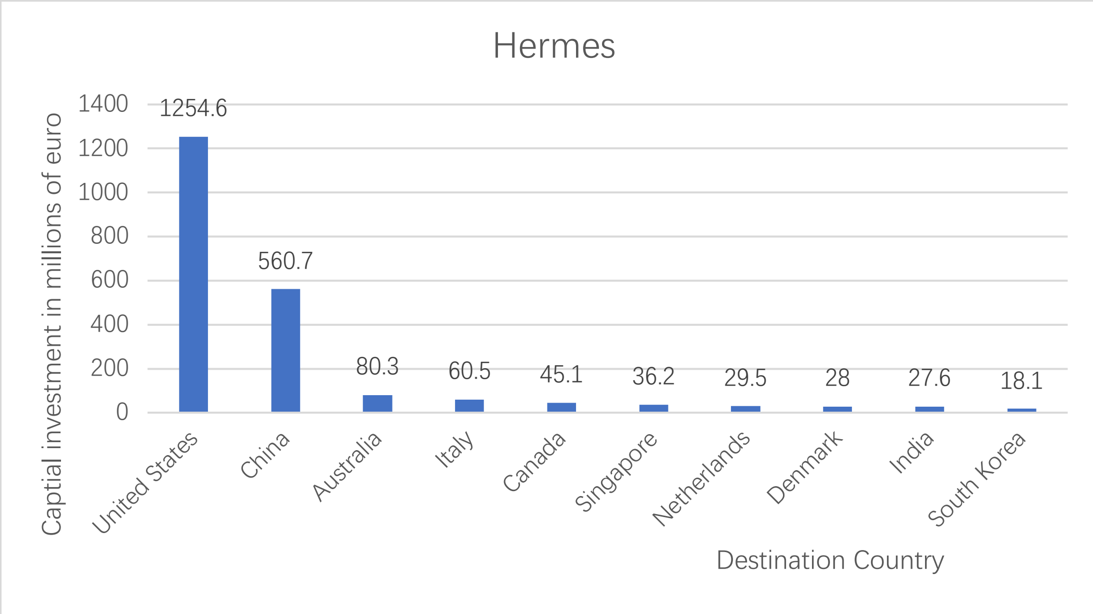

Fig 3.14 Top 10 countries get capital investment from Hermes

Hermès annual report pointed out that according to the strategic requirements of Hermès (controlling know-how), the production of core products leather goods and harnesses is completed by factories located in France. Hermès' multinational investment is mainly to expand distribution network，by opening new stores in other countries and renovating existing stores，Hermes has purchased the building at New Bond Street 167 in London, the store in Beverly Hills, US and the store in Sydney, Australia,etc.Secondly, Hermes' multinational investment is to complete the strategic requirements of vertical integration. Hermes acquired Soficuir International, a company specializing in the supply and tanning of exotic leather. Soficuir is headquartered in France and has branches in Italy, the United States and Switzerland. At the same time, Hermès is also investing in the construction of cattle farms in Norway, the United States, Russia, and other countries. Hermès has very strict requirements on leather. Through vertical integration, it ensures the quality of leather goods and the integrity of the supply chain. In addition to this, Hermès increased its stake in Vaucher Manufacture Fleurier in Switzerland, which specializes in the design, production, and assembly of precision mechanical watch. And the acquisition of 100% of SARL Clerc Thierry Créations, a Swiss-based company specializing in watch prototyping. As well as plans to expand the shoe factory in Italy. Through multinational investment, Hermès absorbs the advanced technologies of luxury manufacturing and production in other countries to complement its product range and ensure product quality.

3.2.2 FDI data from Burberry

Like Hermes, Burberry's multinational investments are mainly concentrated in the textile industry, retail industry and consumer products manufacturing industry. Burberry's multinational investment has covered 32 countries in the past 14 years. Calculated according to the total investment, advanced economies account for 72%, emerging economies account for 27%, and developing economies account for only 1%. The advanced economy with the largest total investment is the United States, and the emerging economy is China.

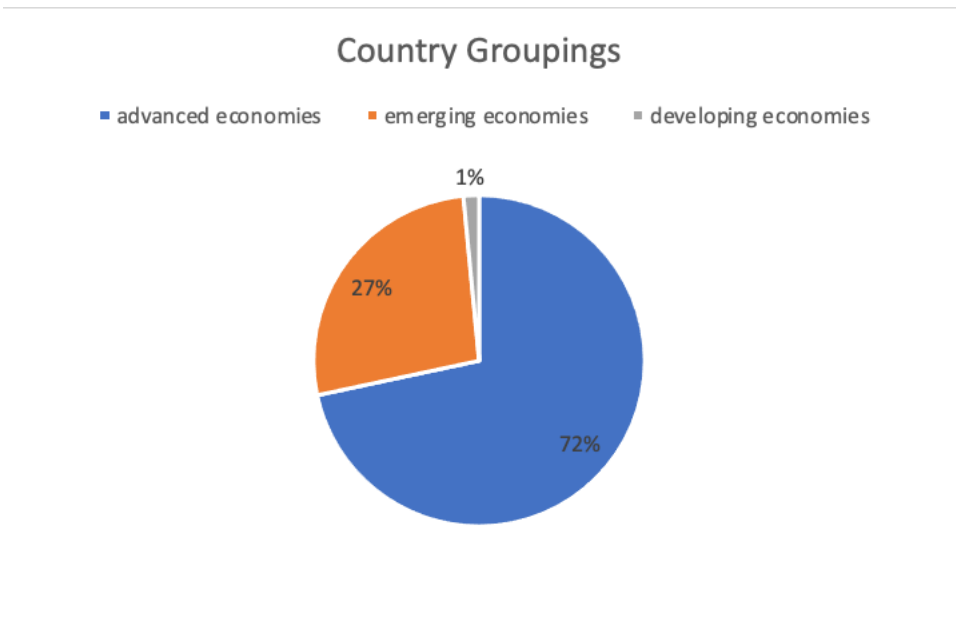

Fig 3.15 Proportion of Burberry’s Investments In Different Economies

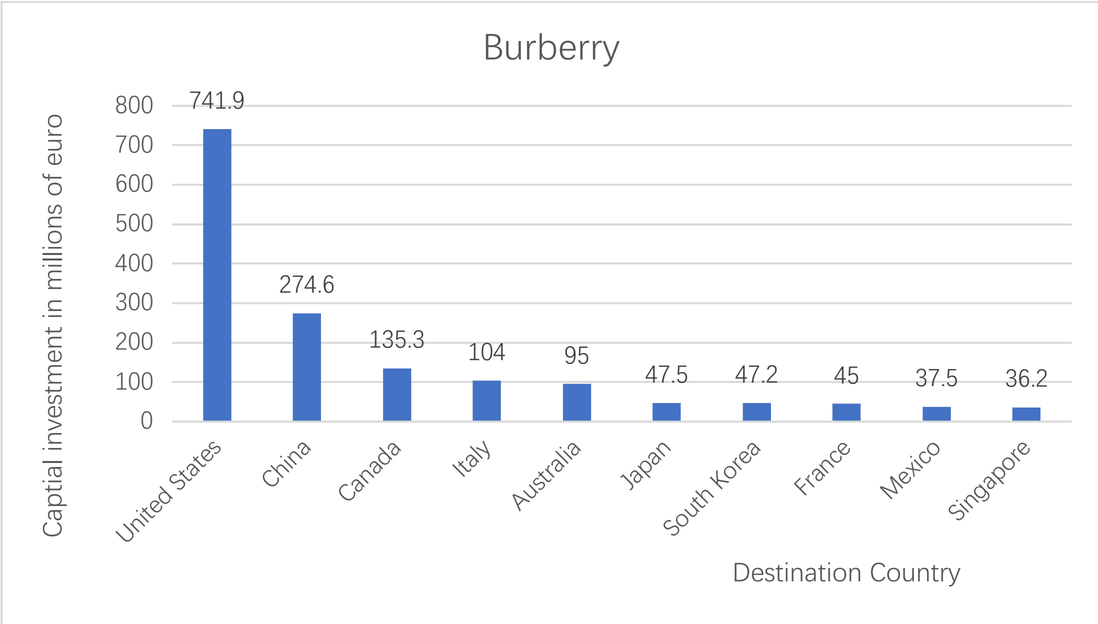

Fig 3.16 Top 10 countries get capital investment from Burberry

Unlike Hermès' long-term strategy, Burberry, after experiencing a brand image crisis in 2006, began to reclaim franchise and invest in opening direct-sale stores in other countries to expand its distribution network. To improve the efficiency of procurement and distribution, in terms of logistics, to save logistics costs, the Asian Distribution Center was established in October 2008 to optimize logistics to provide the ability for long-term growth. Expansion of the regional distribution center in Piacenza, Italy to optimize European logistics activities. In 2018 ， Burberry has completed the acquisition of a division of a long-time Italian partner to create a new Centre of Excellence for Leather Goods covering activities such as prototyping, product innovation, engineering and production coordination to intensify non-apparel development.

3.2.3 FDI data from Ferragamo

Ferragamo's multinational investments are also concentrated in the textile industry, retail industry and consumer products manufacturing industry. Ferragamo's multinational investment has covered 28 countries in the past 14 years. Calculated according to the total investment, advanced economies account for 57%, emerging economies account for 37%, and developing economies account for only 6%. The advanced economy with the largest total investment is the United States, and the emerging economy is China. About multinational investment, Ferragamo only emphasized in its annual report that it has opened or refurbished retail stores in other countries to expand its distribution network.

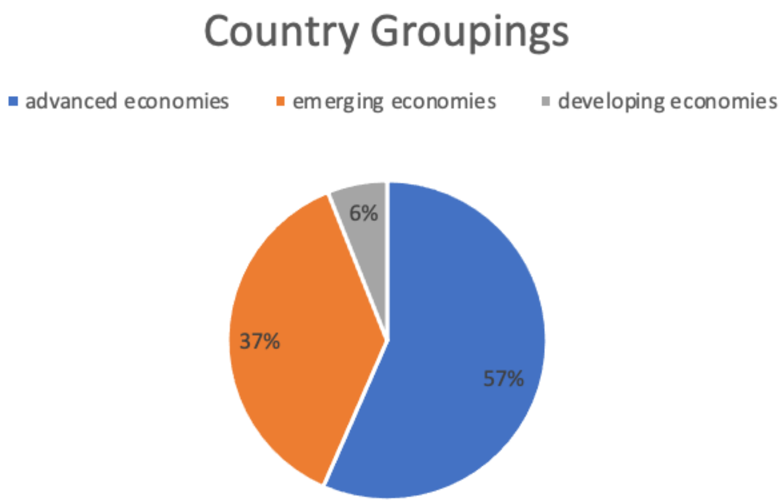

Fig 3.17 Proportion of Ferragamo's Investments In Different Economies

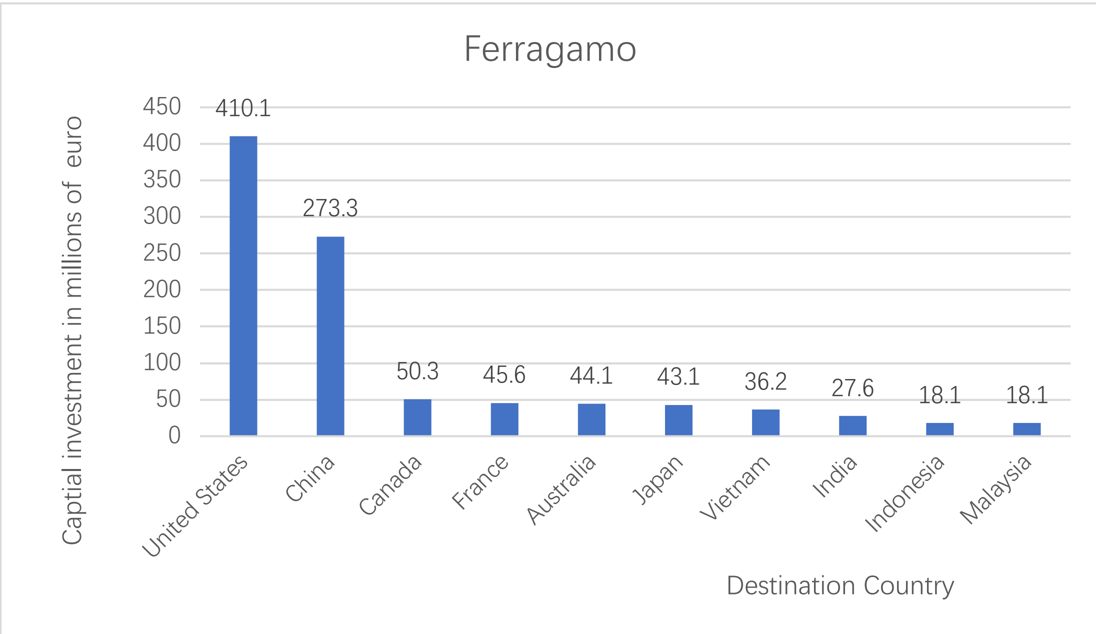

Fig 3.18 Top 10 countries get capital investment from Ferragamo

According to the above description, the multinational investments of luxury brands are mostly concentrated in the retail and textile industries, and they also take advanced economies as their main target countries, while luxury brands also pay attention to investments in emerging economies. In the next chapter, I will combine the characteristics of luxury brands and FDI location selection factors to further describe the multinational investment motives of luxury brands. At the same time, I will summarize the characteristics of luxury brands' multinational investment location selection.

3.3 An example of Hermès' investment in China——Shang Xia

In recent years, top luxury groups have increased their presence in the Chinese market, striving to enhance their brand voice in the world's largest incremental market. According to McKinsey and Bain Luxury Research, between 2012 and 2018, China contributed more than half of the growth in global luxury consumption. In 2021, the proportion of the Chinese market in the total global luxury goods consumption will increase from about 20% in 2020 to about 21%. By 2025, the Chinese market is expected to become the world's largest luxury market.In the new normal of slowing economic growth in China, the luxury goods market shows no signs of weakening and continues to thrive. The growth of the Chinese market has been so strong that we have come to a conclusion: those who win China win luxury market.

As early as 2009, Hermes began to invest in local Chinese brands.In 2009, Hermès announced the launch of a new brand in Shanghai called Shang Xia, which will design, manufacture and distribute objects that employ exceptional Chinese materials and know-how. It takes the promotion of Chinese traditional precious crafts as its core mission, which is highly in line with the spirit of Hermès' craftsmanship.Shang Xia, whose Shanghai store opens in 2010, will offer a collection of furniture, art-of-living products, Ready-to-wear &

Accessories. Through Shang Xia, Hermès approaches the Chinese market with the utmost respect and creativity: its goal is to forge strong mutual bonds, as Shang Xia manufactures and sells its own products. These products are crafted in keeping with Hermès' core values – creativity, quality and commitment to excellence， Hermès hopes to bring the concept of Hermès into China through Shangxia, and build Shangxia into Chinese Hermès.

Hermès said it would fully support Shang Xing, allowing them to achieve mass production in a short period of time without worrying about financial problems， Shangxia invested about 2 million euros in its flagship store in Shanghai, but Hermès refused to disclose the total investment in this new Chinese brand. Shang Xia's distribution strategy is to set up flagship stores in shopping areas with high customer flow. Unlike other luxury brands, Shang Xia does not hold fashion shows or advertisements, but instead holds art exhibitions, so as to bring consumers an artistic experience. It proves the cultural connotation of Shangxia, a new luxury brand.In terms of management, Hermes also intervenes as little as possible, and the designer from shangxia， Jiang Qinger understands the needs of the Chinese customer, she mentioned the transformation of Chinese luxury goods consumers in recent years. Today's Chinese social economy has developed to a higer level. After experiencing Western luxury goods, some people begin to gradually return to their own cultural roots, looking for a better way of life. Therefore, investing Shang Xia is investing in Chinese culture, which also represents a new attempt by Hermes to enter the growing luxury market in China. Hermès has always focused on providing high-quality brand products in the long run, while not for short-term investment gains. [22]

Before the appearance of Shangxia, other luxury brands' investment in China usually took the form of brand extension, copying the original business model or launching product lines with Chinese characteristics. Hermès investmented in Shangxia, it is a new brand strategy to become a local Chinese luxury brand reflects the fact that a traditional luxury brand like Hermes does not just tend to follow traditional marketing strategies, but constantly adopts extraordinary plans to change customers experience. took the form of brand extension [20]Although Hermès invests in shangxia to invest in Chinese culture, a new investment perspective [21], not for short-term investment income, but in 2020, the Italian Exor Group announced that it will invest about 80 million euros in the Chinese luxury brand "Shang Xia" under the Hermès Group, which will bring about 80 million euros of non-recurring income to Hermes.

Chapter 4 Multinational investment location chosen by luxury brands

4.1 What is FDI

Foreign direct investment (FDI) is a category of multinational investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy. Foreign direct investment frequently goes beyond capital investment. It may include the provision of management, technology, and equipment as well. Foreign direct investments are commonly categorized as horizontal, vertical, or conglomerate. With a horizontal direct investment, a company establishes the same type of business operation in a foreign country as it operates in its home country. In a vertical investment, a business acquires a complementary business in another country. In a conglomerate type of foreign direct investment, a company invests in a foreign business that is unrelated to its core business.

At the same time, FDI is also an important way to achieve internationalization. Dunning (1993) introduced a model of internationalization motives including four different categories of motives. These categories are market seeking, resource seeking, efficiency seeking and strategic resource seeking motives. [27] Dunning (2000) explained that market and resource-seeking motives are the two most recognized categories of motives. These two categories still correspond to most first-time international companies.[28]

4.2 Motives of FDI

Market seeking：According to Dunning (1993), markets seeking to generate profits by promoting or exploiting new markets by investing in foreign markets.

At the same time products and services must be adapted to the tastes, needs and trends of local consumers.[32]

Resource seeking：The resource seeking companies are those investing abroad in order to obtain resources (Dunning, 1993)，For example, the resources that the company needs do not exist in their own country, or the cost of such resources in other countries is relatively low. Seeking cheap labor is also a kind of resource seeking.

Efficiency seeking: Efficiency-seeking company usually a large, experienced and diversified multinational corporation. Efficiency-seeking direct investment transfers comparatively disadvantaged industries to foreign countries, reallocates production factors through foreign direct investment, and concentrates domestic technology, knowledge, and human resources to develop domestic comparative advantage industries.[29][30]

Strategic resource seeking: Strategic resources are intangible resources dealing with the technology and core competence of the company (Dunning, 1993). Company can obtain foreign advanced technology through Multinational mergers and acquisitions, knowledge and management experience to promote the technological level of domestic enterprises.[31]

4.3 Investment Drivers for Luxury Brands

The multinational investment of luxury brands is a combination of vertical investment and horizontal investment. Horizontal investment includes investing in retail stores in other countries to develop the same retail business as in the home country, which also includes the investment drivers market seeking. Vertical investment includes vertically integrated investment in other countries.

For example, Hermès invests in tanneries in other countries to provide high-quality leather raw materials, which reflects the investment driver of efficiency seeking. At the same time, luxury brands have also expanded their product range through multinational investment and absorbed technologies from other companies. For example, the French luxury brand Hermes, known for its exquisite leather goods production technology, acquired a Swiss high-end watch production company, and a British luxury brand Burberry famous for its clothing. It acquires a leather goods manufacturing center in Italy. This reflects the investment drivers that luxury brands seek for strategic resources. The investment drivers of resource seeking do not conform to the characteristics of luxury brands, and cost factors are not the key factors considered in luxury brand investment, and the investment share of luxury brands in developing countries with low labor costs is also very small. Luxury brands adhere to local production to ensure product quality, such as Hermes' five leather goods production factories are all located in France. Therefore, we will analyze the investment location characteristics of luxury brands from three aspects: market seeking, efficiency seeking (vertical integration), and strategic resource seeking.

4.2.1 Luxury Investment Location Selection：Market Seeking

The market share of luxury goods is mainly concentrated in Europe, with the largest proportion of new luxury stores opening in Europe, but since 2020, luxury brands will shift their strategic focus to the Asia-Pacific market. Data show that from January to October 2020, the Asia-Pacific region accounted for 38.9% of the new stores opened by global luxury brands. This proportion exceeded 31.8% in 2019, and for the first time exceeded the European market share. The driving force behind the increase mainly comes from the expansion of the Chinese business network of luxury brands. China accounts for about 18.8% of the number of new stores opened by global luxury brands so far in 2020, which is much higher than the average of the previous three years (6.4%).

The number of new luxury brand stores in the Chinese market increased by 64.7% based on 2019, making it the only major market where the number of new stores increased this year.[33]

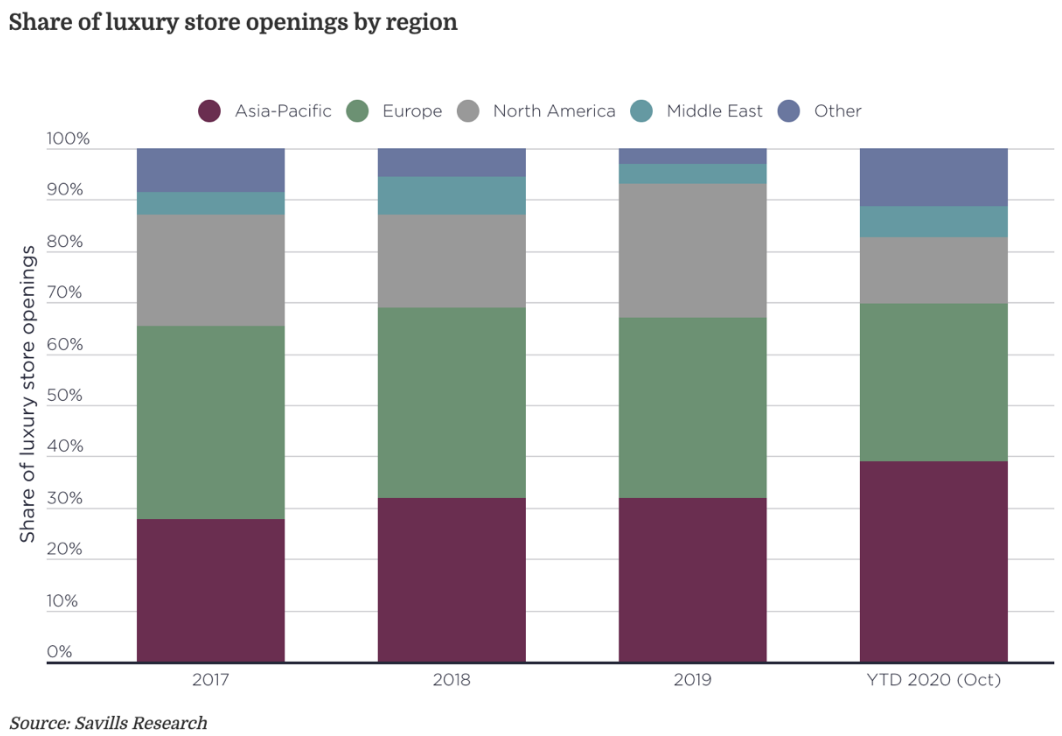

Fig 4.1 share of luxury store openings by region

After identifying the main areas for luxury brand retail investment, we also determined that luxury brands are more likely to gather in high-tier cities to open stores based on the characteristics of luxury brands with high prices, high visibility, low purchase frequency, and stable customer base. Although luxury brands have deliberately built a huge and well-structured consumption network, we can still intuitively see their preference for business development in high-tier cities. The degree of commercial development in a city is a key consideration for luxury brand investment. [34]

Due to the features of the above-mentioned luxury goods, the extreme requirements of luxury goods for location selection can be described as a perfect combination of brand positioning, project investment promotion, and urban location conditions. When pricing luxury goods, the core target customer group is the head high-net-worth customer group with little price sensitivity.

According to data from Bain Company, about 5% of luxury goods' high-net-worth customers account for more than half of sales. Such customer groups generally have high investable assets, and regardless of economic downturn or frequent price hikes of luxury goods, it will not have a significant impact on their willingness to spend. While the extremely high brand premium of luxury goods is used to describe social stratification with "threshold price", some products with value preservation attributes also have investment value. Therefore, this part of the high-net-worth customer group with high income, high taste, and good investment regards luxury consumption as "value recognition".

To attract these high-net-worth consumers, luxury brands will choose high-end shopping malls that can create closed-loop services. These shopping malls generally have high-end restaurants, life services, and VIP rooms that coexist with luxury goods. Shopping malls are the core, surrounded by luxury residences, high-end office buildings and high-end hotels, forming an ecological circle for luxury consumption. Therefore, high-end shopping malls that can attract high-net-worth consumers are the preferred investment locations for luxury brands.

Therefore, high-end shopping malls with luxury ecosystems in high-tier cities are the investment focus of luxury brands.

4.2.1 Luxury Investment Location Selection：Efficiency Seeking

The efficiency-seeking investment of luxury brands is realized through vertical integration. Through vertical integration, the upstream and downstream industries of the industrial chain can be merged, so that the transaction price between enterprises can be changed from market prices to internal prices, and transaction costs between enterprises can be reduced. Integrate resources on the industrial chain, strengthen the control ability of upstream and downstream enterprises, and comprehensively improve the bargaining power, to improve efficiency and obtain higher profits.

The efficiency-seeking investment of luxury brands is mainly concentrated in the places where raw materials are provided， In addition to mentioning in Chapter 3 that Hermès is building cattle farms in the United States, Norway, Russia, etc., as well as vertical integration such as the acquisition of rare leather suppliers, we also learned that LVMH Group, currently the largest multinational luxury conglomerate, is also Vertical integration through multinational investment, It vertically integrates various leather suppliers such as Masoni, Industria Conciaria and The Roux Tannery in Italy and France respectively, as well as the acquisition of the Johnstone River Crocodile Farm in Australia to produce crocodile skins exclusively for them. [39] At the same time, lvmh acquired loro piana, which is the world's largest cashmere manufacturer and an important wool buyer, with self-operated farms in South America, a professional wool harvesting factory in Mongolia, and a camel hair production farm in Argentina. It has unparalleled raw material supply advantages.[40] LVMH and Hermes achieves mastery of rare raw materials through vertical integration.

Through the above description of representative luxury brands, we can confirm that the multinational investment of luxury brands, in terms of efficiency seeking, is mainly reflected in vertical integration through the acquisition of raw material suppliers to complete the investment of regions where raw materials are provided. Invest in high-quality raw materials for luxury brands to ensure product quality and improve production efficiency.

4.2.1 Luxury Investment Location Selection：Strategic resource seeking

As the "Luxury Strategy"[36] said: "Luxury brands are complementary rather than competitive. It is a common phenomenon to bring Hermes into Cartier." Due to the complementarity between luxury brands, Luxury brands invest in luxury companies from other countries or luxury brand suppliers with relevant advanced technologies through strategic resources seeking to expand their industrial scale, acquire technology and enhance their competitiveness.

For example, as mentioned earlier, Burberry invested in an excellent production center for leather goods in Italy, Hermes acquired a high-end watchmaking company in Switzerland, and LVMH acquired Bulgari to expand its jewelry business. These all illustrate that the multinational investment of luxury brands is based on the consideration of strategic resource seeking. Therefore, Brand influence and technological drivers are mainly considered in the investment location selection.

Due to the characteristics of the luxury industry, its most important intangible asset is brand influence. When luxury brands invest or acquire luxury brands from other countries, the first consideration is whether they can acquire high-value brands through multinational investment and enhance their own influence. The luxury goods industry also has a strong demand for technology, such as the production process of luggage fabrics, perfume formulations, etc. In other industries, the rapid change of technology may lead to rapid development or rapid closure of enterprises, but in traditional sectors of the luxury industry, technology is often characterized by a long history and manual skills. Through a comprehensive survey of the invested companies, luxury brands can understand their core designers, production processes, patents, and other aspects. Higher production technology can produce better products, directly obtain the superior technology of the invested enterprise through transnational investment and improve its own technology.

Luxury brands multinational investment through strategic resources seeking， invest in companies with high brand influence and technology to make up for the weak links in luxury production, get rid of dependence on a single brand, strengthen risk resistance, and reduce competition in the same industry.

Chapter 5 Conclusion

Firstly, this paper introduces the development process of luxury goods, SWOT analysis of luxury sector and drivers of the luxury industry developing then analyzes the strategies of luxury brands based on the financial reports of three luxury brands from different countries, Hermes, Burberry, and Ferragamo from 2006 to 2021. With the support of the strategy, we know that luxury brands expand their distribution network and vertical intergration through continuous multinational investment. Then, we move our attention to the main financial report data and FDI (Foreign Direct Investment) data of these three luxury brands over the years. By analyzing the FDI data and the annual investment situation mentioned in the financial reports of these three companies，we find that developed economies have always been the investment focus of luxury brands, and emerging economies represented by China have gradually attracted the attention of luxury brands. Next, we introduce a practical case of Hermès' investment in China. Finally, We draw our conclusions by analyzing the FDI motives of luxury brands. The multinational investment of luxury brands is mainly divided into three forms, market seeking, efficiency seeking and strategic resource seeking. Among them, the market is mainly concentrated in Europe, and there is a trend of gradually shifting to the Asia-Pacific region. Most luxury brands open retail stores to expand distribution network in high-end shopping malls in high-tier cities. Efficiency seeking investment primarily through vertical integration, acquiring raw material suppliers and investing in regions that supply raw materials is the main choice for luxury brands. Strategic resources seeking to get rid of dependence on a single brand by acquiring or investing in luxury brands in other countries to obtain their technology or brand influence.Therefore, according to the complementarity of luxury brands，foreign luxury brands with unique luxury industry technology or brand influence are also the focus of multinational investment by luxury brands.

The development of luxury brands is inseparable from multinational investment, which is not only a strategic requirement of luxury brands, but also what leading luxury brands are doing. Through multinational investment, luxury brands can complete external expansion, control the supply chain internally, and enhance their ability to deal with risks. Therefore, multinational investment will continue to bring new impetus to the development of luxury brands, and will continue to be the strategic development goal of luxury brands.

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