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Ding, Qing Shan

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### Original Citation

Ding, Qing Shan (2011) Urban adult Chinese consumers favour foreign products? An investigation of the effects of Country of Origin and Consumer Ethnocentrism on product preference and willingness to buy. In: Marketing Fields Forever, 5th to 7th July 2011, University of Liverpool Management School, Liverpool, UK. (Unpublished)

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## **Title:**

Urban adult Chinese consumers favour foreign products? An investigation of the effects of Country of Origin and Consumer Ethnocentrism on product preference and willingness to buy.

## **Introduction**

Since the then Chinese leader Deng Xiaoping introduced the 'open door' policy, the Chinese economy has experienced rapid economic growth for over 30 years. It has now surpassed Japan as the world's second largest economy. (Bloomberg, 2010) Mainland China has fast developed into one of the world's largest consumer market. It had already proved its worth by becoming the second biggest luxury goods market, and is expected to become the largest in next five to seven years. (Boston Consulting Group, 2009) Further encouraged by Chinese central government's policy to stimulate domestic consumption, that is to shift from an export oriented economy into a more balanced development model, China presents a tremendous opportunity to both Chinese and foreign companies.

This study is to investigate the impact of Country of Origin (COO) and Consumer Ethnocentrism (CE) on Urban Adult Chinese Consumers' (UACC) product preference and willingness to buy. To put it in plain terms, it will seek to clarify whether UACC prefer foreign products or Chinese products and investigate the rationale for such decisions.

## **Summary of Literature Review**

A number of authors have attempted to define COO effect. In a study that examines the factors that affect consumers' willingness to purchase foreign products, Wang & Lamb (1983) defined COO effects as intangible barriers for entering new foreign markets in the form of negative consumer bias toward imported products. Samli (1995) pointed out COO is a critical information cue, which plays a major role in having products accepted in a foreign market. Roth & Romeo (1992) refer COO effect as to how consumers perceive products imported from a specific country. Papadopoulos (1993) considers COO effect as the process of how the origin of imported products would affect consumer's product perceptions and attributes evaluations. Chinen, Enomoto, & Costley (2000) described COO effects as consumers' reliance on COO information in evaluating the quality of products from various countries and making their decisions on product purchases.

Although the definitions of COO effect do vary, in essence all previous researches indicated the products' COO is an important information cue, which affects the imported products' acceptance, consumers' perception, product evaluation and willingness to buy in foreign markets. The theory of COO effect effectively explains why some consumers consider that wine from France is better quality than wine produced in Argentina, cars made in Germany are more reliable than cars made in China, and clothing labels from Italy are far superior to products from India. The products from these countries all benefited from a good country image in their respective categories.

The findings of past studies of COO effects on Chinese consumers are divided. There are two distinguished groups of researchers that hold contradictory views which one group of studies concluded Chinese consumers have a preference for foreign products and the other group of investigations suggested Chinese consumers have a tendency towards domestic products.

Hu and Dickerson (1997) carried out an investigation of country of origin effect on Chinese consumers' perceptions of foreign-branded and Chinese-branded apparel. It was designed to test Chinese consumers' preference of foreign or local Chinese brands, more specifically, to test whether Chinese consumers' perceived quality, perceived price, and purchase willingness would be different as a result of different country of origin labels. This study found that Chinese consumers held positive bias towards foreign branded apparel, in terms of perceived quality, perceived price and purchase willingness. It subsequently concluded Chinese consumers had a significantly stronger preference for foreign branded apparel over Chinese branded apparel. Li, Fu, & Murray (1997) concluded in their study that foreign brands are traditionally perceived in China as having higher quality. Chinese consumers have unfavourable perceptions towards Chinese products, foreign products are highly preferred. Sin, Ho, & So (2000) conducted a review about past studies on 'Advertising in China' between the periods of 1979-1998, in which it implied that mainland Chinese consumers have a strong preference for foreign brands. The preference between foreign brands and Chinese brands was further investigated by DeLong, Bao, Wu, Chao, & Li (2004), it investigated on Chinese consumers' perceptions of registered foreign brands sold in Shanghai. It concluded that US brands overwhelmingly have more positive perceptions than local Chinese brands. US brands were evaluated much more positively than Chinese brands, in terms of design innovation, workmanship, brand image, service, and display of products. Ahmed & d'Astous (2004) carried out a study into Chinese consumers' perceptions of countries as producers of consumer goods. The results of this study revealed that Chinese consumers' perceptions of products made in highly industrialised countries are much more positive than for those made in newly industrialised countries. As products/brands from more industrialised countries, such as US, have a very positive image amongst Chinese consumers. Wu & DeLong (2006) tested Chinese consumers' perceptions of western-branded denim jeans, it suggested that Chinese consumers have a strong preference for 'western brands' and they were dissatisfied with local Chinese brands.

According to above authors, it seems fairly conclusive that Chinese consumers have a strong preference for foreign brands. However, there are other studies suggest a very different view. Schmitt (1997) and Wei (1997) suggested it is important to recognise the differences within China. Cui (1999) proposed segmentation strategies of Chinese consumer market based on geographic, demographic, psychographic and lifestyle variables. Zhou & Hui (2003) conducted a study on the symbolic benefits of foreign goods in China. It was determine whether the symbolic benefits of foreign products, such as modernity, prestige and associations with foreign lifestyles, was the main motivation of Chinese consumers to buy products of foreign origins. It pointed out there are signs suggesting the symbolic value of foreign products are starting to fade. Dickson, Lennon, Montalto, Shen, & Zhang (2004) examined Chinese consumers' evaluation of local and foreign apparel products. It segmented

the Chinese consumer market into 6 distinguished clusters: US-brand value consumers, Chinese-brand value consumers, US-made cotton classic consumers, High price China-made fashion consumers, Budget China-made cotton fashion consumers and US-made and branded fashion consumers. This study concluded that some groups of Chinese consumers strongly favoured US branded products but other groups preferred Chinese brands. It was clear that some consumer groups are unlikely to purchase foreign-made or foreign brand apparels. Kwok, Uncles, & Huang (2006) conducted a concentrated investigation on brand preferences and brand choices among urban Chinese consumers. It was designed to study the nature and extent of the COO effect amongst urban Chinese consumers and the impact of COO on actual purchase behaviour. The results of this study disclosed that respondents generally have favourable attitudes towards Chinese grocery brands. About 50 percent of respondents agreed or strongly agreed that they will buy Chinese brands whenever possible and that they enjoy shopping for Chinese brands.

It is evident that there are contradictory understandings of Chinese consumers' preference on foreign and domestic Chinese products. There is one group of studies concluded that Chinese consumers have strong preference on foreign products, and others suggested this is not a simple issue. It is important to recognize the differences within Chinese consumers and some had a tendency towards Chinese products and brands.

Furthermore, the impact of CE on Chinese consumers cannot be disregarded. Shimp and Sharma (1987) proposed the concept of 'Consumer Ethnocentrism' (CE). The term CE was adopted from the general sociological concept of ethnocentrism. In general the concept of ethnocentrism refers to the tendency of people to "view their own group as the centre of the universe, to interpret other social units from the perspective of their own group, and to reject persons who are culturally dissimilar while blindly accepting those who are culturally like themselves." (Shimp and Sharma, 1987, p.280) It introduced a CETSCALE for measuring CE beliefs. Wang and Chen (2004) and Wong, Polonsky, & Garma (2008) studied the impact of CE on Chinese consumers, which both concluded there was no evidence suggesting CE impacted on purchase intentions. Klein, Ettenson, & Morris (1998) concluded Chinese consumers' animosity toward Japan was related negatively to their willingness to purchase Japanese products. Ahmed & d'Astous (2004) suggested Chinese consumers did not show animosity towards Japanese products. Ishii (2009) found that consumer animosity and CE significantly affect Chinese consumers' willingness to purchase American and Japanese products.

It is evident that current understanding of COO effect and CE in China is still an area subject to further debate. This research aims to clarify Chinese consumers' evaluation and preference on foreign and domestic Chinese products and examine the influences that impact on purchase willingness. These include quality perceptions, symbolic benefits of foreign products and factors which could negatively correlated to the purchase intention of foreign products, the influence of CE and consumer animosity.

## **Research Objectives**

1. To study the impact of COO on product preference and willingness to buy, to clarify whether UACC prefer foreign products or Chinese products and explore the rationale behind the decision making. The current understandings on this issue are divided, some studies firmly concluded Chinese consumers have a preference on foreign products, others argue it is not this simple and some Chinese consumers prefer domestic products. As pointed out by Cui (1999) and Cui & Liu (2001), China is a vast consumer market with internal differences in terms of geographic, demographic, psychographic and lifestyle considerations. It is extremely difficult to examine the characteristics of the entire population. One of the characteristics is the urban and rural divide, which urban cities has started or already developed a consuming culture and rural areas are lacking behind in many respects. Further encouraged by the central government's policy to stimulate domestic consumption and vast urbanisation plans, China's urban consumers market will continue to grow. To develop knowledge on this fast growing consumer market is vital for both foreign and Chinese companies that wish to capitalize on this opportunity.
2. To examine the extent of CE beliefs amongst UACC and whether it influences the willingness to buy foreign products. The influence of CE has been validated in many countries, both Wang and Chen (2004) and Wong, Polonsky, & Garma (2008) both suggested there is no evidence of its influence on Chinese consumers. This study will seek to test the findings of these two studies and further explore the influence of CE amongst UACC.
3. To investigate whether consumer animosity towards Japanese, French and American exist in UACC and further explore how it was generated. The anti-Japanese campaigns in China have been widely reported by the media and Chinese consumers' animosity toward the Japanese has been investigated by Klein, Ettenson, & Morris (1998) and Ishii (2009). There were more recent calls for boycotting French products followed the incidents surrounding the Olympic torch rally in 2008. This study will extend the investigation on consumer animosity to the French extent and examine whether the uprising of anti-American sentiments in South-America and Middle East exists in China.

## **Research Methodology, Sampling Methods & Data Collection**

This study adopted the 'Mixed Methods' research approach, which included quantitative street surveys and qualitative in-depth interviews. Purposive sampling was selected for the quantitative street survey. Two cities in the North and South of China were chosen to draw comparisons and address the question of regional divide. The political, economic and cultural centre of the Northeast provinces – Shenyang, which is a city with long history, was selected to represent the North. Shenzhen, a modern young city which is the product of China's 'open up' policy, was selected to represent the South.

The street survey was carried out in busy shopping districts of the two respective cities. In the North, the researcher approached shoppers in the Zhong Street and Taiyuan Street of

Shenyang, asking them to spend around 10 minute to conduct a structured short interview. In the Southern city of Shenzhen, the researcher was based in a shopping complex, named Costal City, and approached shoppers to participate. During the process, 170 valid questionnaires were collected in the North and 197 were completed in the South.

The in-depth interview was based on snowball sampling, where the researcher initially identified a few perspective interviewees and relied on the initial contact to further encourage interview participants. In the North, the interviews were carried out and recorded in an office provided by a local university. The researcher's associate in the Sothern city of Shenzhen made his company's board room available for conducting and recording interviews. Overall, 8 interviews in the North and 6 interviews in the South were successfully conducted.

### **Preliminary Results**

The preliminary results indicate UACC cannot be simply considered as favouring foreign products or in preference of domestic Chinese products. As the results show 28.3% respondents favour Chinese products, 27.3% favour foreign products, 40.1% says it depends and 4.4% chosen don't know. It is evident that for those have a preference for foreign products, better design and superior quality are the top 2 features, and the symbolic benefits of foreign products are fading fast as only 9% believe they are status symbols. European and US products are popular in laptops, mobiles, cars and luxury goods product categories. Chinese products are the most preferred in the grocery category. Although CE beliefs are low, there are strong anti-Japanese sentiments amongst UACC, 53.7% of respondents dislike the Japanese. The consumer animosity towards Japanese negatively correlated to the purchase willingness of Japanese products. There are no significant differences between demographic variables, such as gender and age groups, in terms of UACC's CE beliefs and consumer animosity towards Japanese. However, Northern China is significantly stronger than Southern China in both respects. Consumer animosity towards French and American are very low.

The results of interview findings clearly reveal UACC's strong desire to protect domestic Chinese industries and willingness to purchase domestic products when possible. It indicates the significance of the availability of domestic alternatives. The consumer animosity towards Japan was not only due to historic conflicts and atrocities, but also repercussions of current economic, political and strategic concerns.

### **Conclusion**

It is clear that UACC cannot be simply considered as prefer foreign products or favour domestic Chinese products. As the symbolic benefits of foreign products continue to fade, quality and design became important differentiators. Product categories and availability of domestic alternatives play a key role between the choices of foreign or domestic products. Although CE beliefs are low, strong consumer animosity towards Japanese suggests negative bias cannot be neglected. The strong desires to protect domestic Chinese industries reveal the potential challenges lay ahead for foreign products. If more competent Chinese competitors start to emerge, it will impose a significant threat that cannot be ignored.

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