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Customer loyalty & face concerns

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Chapter 2

Changing Consumer Markets and Marketing in China*

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2.CHANGING CONSUMER MARKETS AND MARKETING IN CHINA

“China is a sleeping giant... If it wakes, it will shake the world.”

—Napoleon Bonaparte

2.1INTRODUCTION: RISE OF CHINESE CONSUMER MARKETS

Marketing is a contextual discipline (Sheth & Sisodia, 1999; Zinkhan & Hirschheim, 1992), and a key modern context is the rise of emerging markets such as China (e.g., Gu, Hung, & Tse, 2008). According to International Monetary Fund 2008 data, China is already equivalent to the United States in terms of its market power on the purchasing power parity index. China’s increasing importance is reflected in not only its massive population and production market—the largest in the world—but also the great growth in its consumer markets. It is the most or second-most important market for many major U.S. and European companies, including Intel, Apple, and Dell. Apple quadrupled its sales to China, from \$3 billion to almost \$13 billion from 2010 to 2011 (Rein, 2012; p. 12). The nation’s 350 million-strong middleclass, and more than one million millionaires (Sheth, 2011), also continue to grow in size. The U.S. Department of Economic Analysis concurs that real Chinese consumer spending has grown at an average annual rate of 10% for the past decade—the fastest in the world and much faster than in the United States.

But as a consumer market, China has been influential only in recent years. In the 1980s, compared with Western markets, few products and brands were available there, and Chinese consumers could satisfy only their most basic needs (Schmitt, 1997). By the 1990s, Chinese consumers rarely made independent consumption choices but rather adhered to majority opinions. In the 2000s though, individualism became increasingly widespread in Chinese consumers’ behavior, leading to the arrival of the modern Chinese consumer market (Zhang, 1996).

This emergence is largely the result of China’s changing economic, demographic, and socio-cultural environment in the wake of reforms and the open-door policy, launched in 1978. From the 1980s to 2000s, Chinese people’s individual annual income increased nearly tenfold: from an average of US\$309 in 1980 to US\$2,940 in 2008 (China Statistical Yearbook, 2010). Moreover, changing demographic considerations, such as single child laws, shifting age segments, and delayed marriage tendencies, have significantly influenced the consumer market (Tai & Tam, 1997). Finally, in terms of socio-cultural trends, Chinese consumers often respond to products that fill their socio-cultural needs, such as prestige or conformity. These developments all highlight the uniqueness and complexity of Chinese consumer markets.

Its remarkable growth also has attracted many multinational corporations (MNCs), including around 200 of the top 500 global companies that supply goods and service to the

Chinese population. Yet despite the promise of this emerging consumer market, many MNCs continue to face stiff competition, unstable environments, and escalating costs—which means few of them are profitable (Rheem, 1996). Well-known firms have scaled back or withdrawn (Cui & Liu, 2000), such as Best Buy, quitting the China market in 2011. The overall picture suggests that MNCs have achieved limited success in penetrating local markets (Prahalad & Lieberthal, 1998), possibly because of their failure to develop sufficient knowledge about changing Chinese consumer market and Chinese consumer behaviors. They assumed China was a homogeneous market, Chinese consumers were price-sensitive, and local companies can't create brands, or won't be able to offer what they do (Rein, 2012; p. 12), which prevented them from assessing market demand accurately or enacting effective marketing mix strategies (Cui & Liu, 2000).

In this Chapter, we address this situation in the pursuit of two main objectives:

1. Highlight developments in Chinese consumer behavior, including responses to the marketing mix (product, price, distribution channels, advertising, and sales promotions).
2. Formulate and develop directions for research that will lead to insightful implications.

Through our literature review, we propose that Chinese consumers, as compared with Western consumers, should exhibit higher brand loyalty, lower price sensitivity when the products are visible, and they are less responsive to promotional activities. When it comes to Chinese consumers' responses to channel choices with social presence, they put higher emphasis on face (i.e. self-image and/or status earned in a social network) than Western consumers. This situation reveals insights into how Chinese consumers' mind-sets are changing, in parallel with the changing practice of marketing, which have important implications for both marketing scholars and marketers.

2.2 CHARACTERISTICS OF EMERGING MARKETS

China is one of the most important emerging markets. To facilitate understanding about the characteristics of Chinese consumer behavior, we will first briefly discuss the five characteristics (see Figure 2.1) of emerging markets identified by Sheth (2011).

Market heterogeneity. Since markets are local, fragmented, low scale, and mostly served by owner-managed small enterprises, emerging markets tend to have very large variance relative to the mean across almost all products and services (Sheth, 2011). Contrary to conventional knowledge that a differential advantage strategy results in better margins or profits for the firm, how a firm standardizes and aggregates demand across thousands of rural villages and remote locations (i.e., a standardized strategy) is best for growth and survival within emerging markets (Sheth, 2011).

Unbranded competition. Many products and services are still not available in rural markets due to lack of access, poor infrastructure, and higher cost of doing business. Consequently, as much as 60% of consumption in emerging markets so far has been for unbranded products and

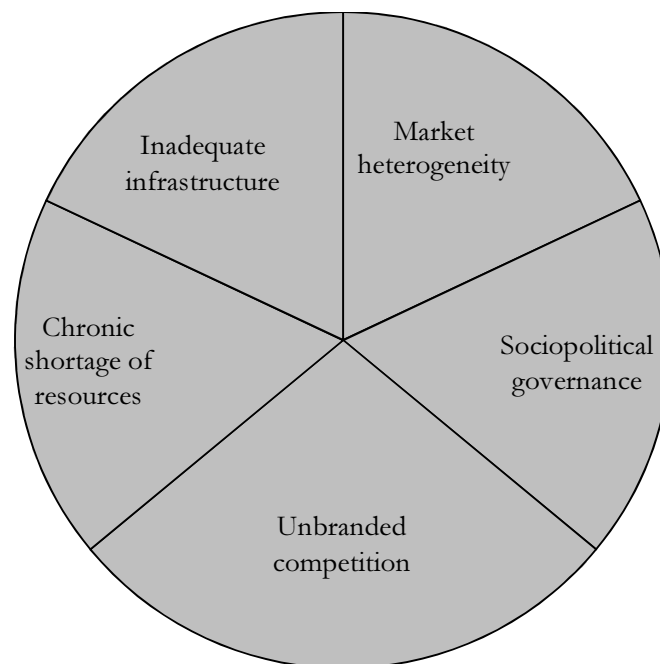
services (Sheth, 2011). This suggests that market creation and market development may be more necessary and potentially more profitable than market orientation. Furthermore, this market environment may have encouraged consumers in emerging markets from the general belief that a cheap price means poor products.

Sociopolitical governance. Markets are more governed by sociopolitical institutions and less by competition. Thus, it is not unusual to find many government-owned and -operated enterprises serving the markets with monopoly powers, such as CNOOC, a energy company in China. Such an environment makes it difficult for a new entrant to break into these markets.

Chronic shortage of resources. Emerging markets tend to have chronic shortage of resources in production, exchange, and consumption. This means innovating low-cost, affordable products and services that are consumption efficient is important.

Inadequate infrastructure. Infrastructure includes not only physical roads, logistics, but also market transaction enablers such as point-of-sale terminals, and basic banking functions. While the large metro areas may have adequate infrastructure, in general this is not the case in rural area. Therefore, nontraditional channels and innovative access to consumers may be necessary and profitable in emerging markets.

Figure 2.1: Five characteristics of emerging markets (Sheth, 2011; p. 168)



2.3 CHARACTERISTICS OF CHINESE CONSUMER BEHAVIOR

Compared with Western consumers, Chinese consumers behave differently in several ways. In Western cultures, customers tend to focus on their personal preferences when choosing brands (Reykowski, 1994) and usually pay more attention to intrinsic attributes (e.g., quality), whereas

Chinese customers tend to select brands for their prestige (Wong & Ahuvia, 1998) and attend to extrinsic attributes (Belk, 1988). In service settings, Western consumers rely on concrete evidence (De Mooij, 2003), such as task completion, efficient delivery, or time savings; Chinese customers tend to pay more attention to the quality of the interactions between service persons and customers (Riddle, 1992). Alden, Steenkamp, and Batra (1999) report that people from Western cultures also prefer advertisements with individualistic appeals, such as those that symbolize the importance of enjoyment, cost savings, and individualism. Chinese consumers, who come from a collectivist culture, instead favor advertisements with collectivistic appeals that signify family values, tradition, or technology. Liu, Furrer, and Sudharshan (2001) find that Chinese customers have a stronger tendency to offer praise if they receive positive service quality but do not complain, even if they receive poor service quality.

Explanations for these differences usually refer to Chinese cultural values, such as Hofstede's (2001) five cultural dimensions or Chinese traditions. Hofstede's five cultural dimensions are individualism–collectivism, uncertainty avoidance, power distance, masculinity–femininity, and long- versus short-term orientation. In terms of Chinese traditional cultural values, for example, *mianzi*, literally translated as “face”, is a well-documented, traditional Chinese cultural value that strongly affects Chinese consumers' behavior; it refers to a sense of favorable social self-worth that a person wants to possess in relational and network contexts (Goffman, 1967). The high level of face concerns might explain why China has become the second largest market for luxury products, even when average income remains relatively low. Brand consumption offers an important means to keep, save, and gain face (Liao & Wang, 2009), which reflect social and interpersonal rather than private needs (Wong & Ahuvia, 1998). The concern for face increases consumers' brand consciousness and belief that price equals quality; it negatively influences a price consciousness or value-for-money orientation (Bao, Zhou, & Su, 2003). Thus, some Chinese consumers appear to sacrifice basic necessities so that they can afford luxuries (Cui & Liu, 2000).

Compared with elderly Chinese consumers, younger people have different consumption habits and also behave differently, including in their media consumption (Zhang, 2010). Some research proposes a strict division, based on age, between those who grew up under Mao Zedong and those who grew up under Deng Xiaoping (e.g., Cui & Liu, 2000). Chinese people who were 35 years or older in 2011 grew up under Mao's (1949–76) socialist regime and experienced the Cultural Revolution, which increased their price sensitivity and rejection of conspicuous consumption (Anderson & He, 1998). However, younger people who grew up under Deng's (1978–97) economic reform and open-door policy are more influenced by fashion and Western products (Lin, 1985). Zhang (2010) refers to these Chinese consumers as Generation X—a bicultural group that incorporates both individualist and collectivistic cultural values, as summarized in the following snapshot:

Strolling down Shanghai's boulevards, one sees well-dressed young Chinese constantly talking on their mobile phones, switching easily between English and Chinese. They jam the city's Western-style bars and discos. They work at Internet startups or at the Western firms. They are ambitious and confident. They are aged 18-35, and they are the rising middle-class in China (TIME Asia, 2000).

Beyond age distinctions, the huge geographic reach of China means that it encompasses great regional diversity. Cui and Liu (2000) classify China into two main markets: growth (East and South) and emerging (North, Central, and Southwest). Chinese consumers' lifestyles and consumption behaviors differ significantly between these two markets. For example, those from South and East China adopt new products faster and have a greater tendency to emphasize conscious consumption than do consumers from other regions in China.

2.4 REVIEW OF THE “MACRO MARKETING MIX”

We briefly describe developments in the macro marketing mix in China, including trends related to products, prices, distribution efforts, advertising, and sales promotions at the national, aggregate level (Leeflang & van Raaij, 1995).

2.4.1 Product/Brand Decisions

Before 1978, limited products were available on the Chinese market. The rapid increase in consumer purchasing power since 1978 has driven up sales of many consumer goods. According to the China Statistical Yearbook (2010), total sales of consumer products reached \$1450.6 billion in 2009, a remarkable increase of 8400% compared with 1978 figures. In this section, we discuss Chinese consumers' purchase decisions in general, as well as their specific preferences for foreign, national, and private-label products/brands.

Table 2.1 provides a summary of prior literature related to Chinese consumers' product/brand choices. Most studies investigate factors that might influence product purchase intentions (e.g., Cui & Liu, 2000; Hsu & Lai, 2008; Lupton, Rawlinson, & Braunstein, 2010; O'Cass & Choy, 2008; Zhou & Wong, 2004).

Brands play an important role in Chinese consumers' purchase decisions, because brand consumption offers an important method for Chinese consumers to keep, save, and gain face (Liao & Wang, 2009). Brand consumption serves not just material needs but also more social needs, including the desire to establish favorable social self-worth and be respected in relation to others (Ting-Toomey & Kurogi, 1998). Thus prior research consistently confirms the importance of brands in Chinese consumers' purchase decisions (e.g., Henderson et al., 2003; Zhou & Wong, 2004).

Moreover, compared with Western consumers, Chinese consumers tend to exhibit higher brand loyalty, because their high uncertainty avoidance and long-term orientation, which emphasizes continuity, leads to resistance to change and reduces the likelihood that consumers

will terminate valued relationships (Kale & Barnes, 1992; Lowe & Corkindale, 1998). A global consumer loyalty report (ACNielsen, 2013) affirms that Chinese consumers' brand loyalty is the highest in the world, especially for telecom brands (China 90% vs. global average 76%), personal electronic appliance brands (China 81% vs. world average 68%), home electronics (China 84% vs. world average 72%), and e-retailers (China 71% vs. world average 60%). Jung and Shen (2011) similarly indicates that U.S. consumers exhibit lower brand loyalty scores than Chinese consumers. Other marketing scholars argue that brand loyalty is gradually declining in both the United States and Europe (Johnston, 1984; Kapferer, 2005). Therefore, Chinese consumers, compared with Western consumers, tend to have higher brand loyalty. However, this trend may not apply as powerfully to young Chinese consumers, who are highly influenced by Western ideas of individualism and hedonism (Durvasula & Lysonski, 2010) and thus appear to change their brand choices more often than their older counterparts (McKinsey, 2010).

Ongoing debate rages about Chinese consumers' preferences for foreign brands (e.g., Zhang, 1996; Zhou, 2008). Usually consumers in developing countries (such as China) seem to have favorable attitudes toward foreign brands, which provide symbols of prestige (Batra et al., 2000). In support of this tendency, since the reform and open-door policy initiated and especially since China's entry into the World Trade Organization (WTO), the market has attracted more and more foreign companies. Before 1979, only 20 foreign countries had registered trademarks in China, with a total of 5,130 recordings. At the end of 2002, the number of countries represented reached 129, and the number of registrations was 192,999, or 37 times as many (Trademark Office of the State Administration for Industry & Commerce of China, 2011).

However, as national brands improve their quality and advertising techniques (Thorelli, 1998) while still offering lower prices, such that they are more competitive with foreign brands whose symbolic value is fading, Chinese consumers' consumption of national brands is likely to increase. A resurgent nationalism, partly fuelled by rapid economic growth, also portends the shift away from foreign and toward domestic brands (Bi et al., 2012). Finally, recent scandals, such as a rate of fluorine in Unilever's Lipton instant tea that exceeded permitted levels and suspicions of carcinogens in Colgate toothpaste, may be affecting the images of foreign brands. A recent survey shows that in the 4G cell phone market, Apple's market share puts it in third place, for the first time, after decreasing to 15.7%; the national brand Coolpad tops the market with a share of 23.1% (SINO Market Research, 2012). This combined evidence suggests that Chinese consumers generally are moving away from foreign brands, in favor of national brands.

With regard to private labels though, in a comparative sense, the penetration of private-label products is surprisingly low in China. Developed countries have witnessed a steady increase in the share commanded by private-label brands; in the United Kingdom, for example, private-label brand share rose from 21.5% in 1980 to 43% in 2010, and Belgium witnessed growth from 11.4% in 1983 to 40% in 2010 (Lamey et al., 2007; Private Label Yearbook, 2011).

Switzerland 46%, US 17%, Australia 14%, whereas in Asia it is significantly lower with Hong Kong and Singapore taking the lead with five percent and three percent respectively (Nielsen Report, 2009). In the mainland China, private labels accounted for only one percent share within all fast moving consumer goods products and 0.3 percent within the personal care segments in 2008, even though it was introduced over five years ago (Nielsen Report, 2009). Few local department stores have their own private labels, and in the grocery sector, whereas most Western supermarkets own private labels, few local Chinese supermarkets do. Carrefour's 435 private-label products thus accounted for 14% of the total sales of private labels in China in 2006 (CTR Market Research, 2006). Even in this relatively small market of private labels, category variability is limited. The main private-label categories include bread, edible oil, and tissues. Finally, awareness of private labels is very low among Chinese consumers; research conducted by ACNielsen (2005) shows that 49% of respondents knew nothing of private labels. Hsu and Lai (2008) take a unique, cross-cultural perspective to examine Chinese consumers' preferences for national brands versus private-label brands, as well as the nature of their expectations. They find that compared with U.S. students, Chinese students generally do not adopt private-label brands.

The underdevelopment of private-label products in China might stem from various reasons. From a supply-side perspective, the concentration of retailers in China is lower than in many European countries (e.g., Germany, Switzerland, the Netherlands) and the United States. China's market features more than 3.3 million fast moving consumer goods stores, but it still lacks substantial national retail chains (Nielsen Report, 2009). This low retail concentration in turn might lead to insufficient R&D and quality control systems, which are required to support private-label product offers (Wang, 2006). Although introducing private labels could grant retailers more direct profits, they also must make substantial initial investments and take on inventory risk, which likely discourages Chinese retailers from developing private labels. From a demand-side perspective, Chinese consumers' lack of trust in private-label products might be the biggest obstacle, as exemplified by widespread food safety concerns that get actively spread by the media after scandals, such as the recent contaminated milk problem. Also, face concerns could be responsible for the underdevelopment of private-label products. That is, Chinese consumers are sensitive to the use of well-known brand names (Sudhaman, 2004), because their brand consumption helps them keep or gain face (Liao & Wang, 2009). Private-label products cannot meet these social needs, so Chinese consumers likely view them as inferior to national brands, with the potential to cause a loss of face (i.e., "People who buy private label products would not want their friends to know"; Lupton et al., 2010).

Yet in the long run, private labels might find some promise in China. First, as large retailers start to build trust among Chinese consumers, and the differences in perceived quality between private-label and national brands decrease, private-label products likely will gain broader acceptance in China (Retailing in China, 2011). For example, Watsons has more than 2000

Watsons-labeled products, accounting for about 20% of all the products it sells. Second, Chinese consumers appear to be growing increasingly rational in their consumption choices (McKinsey report, 2010), so private-label products and their good price-to-quality ratio should represent appealing choices. Third, Chinese consumers tend to sacrifice on the basics so they can afford luxuries (Yau & You, 1994). To enable their brand consumption for visible products, they likely curtail their expenses on privately consumed products, by buying less, lower quality, or more private labels. Specifically, when Chinese consumers choose to spend more in a category they value, they trade down in one or more less compelling categories (McKinsey report, 2010). Therefore, we anticipate that Chinese consumers welcome more private-label products in privately consumed product categories.

2.4.2 Price Sensitivity

Price is a multidimensional stimulus for consumers; it affects purchase intentions both positively (e.g., quality and prestige) and negatively (e.g., economic sacrifice) (Dodds, Monroe, & Grewal, 1991). In the past decade, the general price level in China has been increasing approximately four times faster than it did in the 1980s, with annual inflation rates reaching up to 17% in 1995 (China Statistical Yearbook, 2006). Beyond absolute price levels, managers and researchers also are interested in assessing consumers' price sensitivities, which should determine their strategic and tactical decisions. Many researchers thus have attempted to determine Chinese consumers' level of price sensitivity (see Table 2.2).

From a theoretical point of view, economic development has an undoubtedly important influence on price sensitivity (Tse, Belk, & Zhou, 1989), and Chinese people's income per person has increased enormously since 1978. With increasing income, their price sensitivity overall should be declining, though at a cross-country level, Chinese consumers are still members of a developing economy and thus might be relatively more price sensitive (Zhou & Nakamoto, 2001) than consumers in developed economies. Prior research confirms this relation: Some studies show that Chinese consumers are highly price sensitive (e.g., Ackerman & Tellis, 2001; Dickson et al., 2004), especially compared with U.S. and Japanese consumers (Meng & Nasco, 2009). Empirical evidence also shows the opposite trend (e.g., Bao, Zhou, & Su, 2003; Lance et al., 2004; Li & Su, 2007). Zhou and Nakamoto (2001) find specifically that Chinese consumers are less price conscious than their U.S. counterparts, and other studies indicate that Chinese consumers have a lower price consciousness and value-for-money orientation than U.S. consumers (e.g., Bao et al., 2003; Lupton et al., 2010). In this thesis (Chapter 4), we spend ample attention to price sensitivity.

Socio-demographic traits, and age in particular, also appear to influence Chinese consumers' price sensitivity. Due to the one-child policy launched in 1980, many Chinese families have one child surrounded by two parents and four grandparents. These adults usually are much less price sensitive when buying for their children, rather than for themselves (Zhu, 2013). In

such a setting, it is reasonable to infer that China's younger generations exhibit lower price sensitivity than the older generations. Moreover, younger Chinese consumers, who have received more education and earn higher incomes when they enter the workforce, are greatly influenced by Western cultural values, such as individualism, consumerism (Arnett, 2002), and hedonism (Durvasula & Lysonski, 2010). A recent survey reveals that about 80% of people buying luxury items in China are 45 years or younger (Country Commercial Guide for U.S. Companies, 2012). Older consumers instead continue to emphasize thrift as a virtue and criticize conspicuous consumption. Thus, Qiu (2011) proposes that older Chinese consumers value price over quality, whereas younger generations appear increasingly willing to pay premiums for higher-end products. We conclude in turn that younger Chinese consumers exhibit lower price sensitivity than older Chinese consumers.

Cultural values can affect Chinese consumers' price sensitivity. Strong evidence indicates that the social need for face is a cornerstone of Asian cultures (Li & Su, 2007). Such social needs cause Chinese consumers to relate price and face very closely (Li & Su, 2007); as Bao, Zhou, and Su (2003) show, face negatively influences price consciousness and value-for-money orientations. Meng and Nasco (2009) also confirm that Chinese consumers have significantly lower price sensitivity than U.S. consumers. Yet face only functions in relation to more visible forms of consumption (Liao & Wang, 2009), not for non-visible consumption (Lowe & Corkindale, 1998), because at its core, face entails a public, social self-image (Chan, Wan, & Xin, 2010). Chinese consumers differ substantially in their attitudes and behaviors toward publicly versus privately consumed products (Ackermana, 2001). For publicly consumed goods, and especially gifts, Chinese shoppers are not frugal, because they use the high prices to build their face or symbolize their wealth and status. In contrast, for privately consumed products, they are price-conscious, pragmatic shoppers (Li & Gallup, 1995). Doctoroff (2013) confirms that Chinese people are extremely price sensitive inside the home. Thus Zhu (2013) summarizes the situation: If a brand can signal a high social status, Chinese consumers are happy to pay a premium, but if it doesn't, they become very price sensitive. We therefore expect Chinese consumers' (compared with Western consumers') price sensitivity to be lower for publicly consumed products.

2.4.3 Distribution Channels

Distribution is a critical success factor that dictates the market share of a firm. Before 1986, as much as 80% of all goods in China were distributed through state-owned marketing channels (Luk & Li, 1997). The implementation of a series of reform programs, such as the legalization of private enterprises since 1988 (Deng, Wang, & Alon, 2011), drastically changed the distribution system in China, creating a new pattern of multichannel competition (Luk, 1998). Now wholesale and retail sectors feature grocery and other stores, supermarkets and hypermarkets, and free markets selling diverse consumer products throughout China.

Table 2.3 lists prior research into Chinese consumers' attitudes toward distribution developments. Some academic interest has focused on structural changes to marketing channels (e.g., [Jiang & Prater, 2002](#)), whereas other studies focus on Chinese customers' channel choices (e.g., [Tse & Yim, 2001](#)).

Regional disparities in economic infrastructure and consumer purchasing power largely determine China's distribution channel structures. We particularly expect channel structural imbalances between first-tier cities (e.g., Beijing, Shanghai, Guangzhou) and relatively poor inland cities (e.g., [Cui & Liu, 2000](#); [Jiang & Prater, 2002](#); [Luk & Li, 1997](#)). Therefore, a distribution strategy that works in one region may not translate into success in another. The array of regional disparities warrants a localized approach to distribution strategies; Unilever successfully introduced its Wall's Ice Cream in Beijing and Shanghai with distribution vehicles adapted to their local environments ([Cui & Liu, 2000](#)).

Economic and technology development may influence Chinese consumers channel choices. This is reflected by the increasing popularity of e-commerce. According to the [Chinese Data Center of Internet \(2008\)](#), at the end of 2007, the number of Internet shoppers in China exceeded 55 million, 7 times as many as that of 2002. ACNielsen research shows that while the average flow of daily visitors in hypermarkets such as Wal-Mart or Carrefour, is around 0.15 million people, 9 million people have access to "Taobao" every day, a Chinese C2C web site for online shopping, similar to eBay, Rakuten and Amazon, equaling the number of visitors of 600 hypermarkets. Indeed, more and more Chinese customers tend to involve in both online and offline channels within a single journey to purchase.

Cultural factors such as face concerns also might affect Chinese consumers' channel choices. According to face theory, Chinese consumers pay attention to their own face but also are sensitive to granting face to others. When purchasing or consuming with others, Chinese consumers carefully judge the value of the products or services involved, to show off their face or enable others to feel they have achieved face ([Li & Su, 2007](#)). Specialty stores provide better service, a nicer store image and environment, higher quality, and greater product assortment ([Huddleston, Whipple, & Mattick, 2009](#)). Because the perceived value thus is higher in specialty stores, Chinese consumers likely shop at these stores, especially in others' presence (i.e., social presence). Furthermore, specialty stores target affluent customers ([Huddleston et al., 2009](#)). Therefore, shopping at specialty stores can signal the consumer's income level and further enhance her or his face. In turn, we predict that in social presence settings, Chinese consumers (vs. Western consumers) are more likely to choose specialty stores.

2.4.4 Advertising Persuasiveness

Advertising, once viewed as an insidious capitalistic tool, was banned during the Cultural Revolution (1966–76). Since 1979 though, the advertising industry has been growing, such that annual expenses jumped from US\$5,331 million in 1998 to US\$74 billion in 2009 ([CTR Media](#)

Research, 2009). Now, advertising has become one of China's fastest-growing industries. According to Nielsen Media Research, the U.S. ranked first in advertising in 2005, and China ranked third, after only the United States and Japan (China Advertising Yearbook, 2006).

We summarize studies related to Chinese consumers' advertising preferences in Table 2.4. Most studies (Cui & Yang, 2009; Pae, Samiee, & Tai, 2002; Zhang, 2010) investigate ad persuasiveness; they show that Chinese consumers generally prefer foreign sourced, standardized (Zhang, 2010), collectivistic (Cui & Yang, 2009) appeals in commercials that feature Chinese models and avoid sex appeals (Pae et al., 2002).

Demographics, and age in particular, again should influence Chinese consumers' preferences in this field. Abundant literature describing the growth of China's economy affirms that Chinese society has witnessed a significant increase in the frequency and intensity of its contact with Western cultures (e.g., Naito & Gielen, 2005). Acculturation (defined as "the general processes and outcomes of intercultural contact," Berry, 1997, p.8) thus occurs both in the real world and through virtual reality (Jensen, 2003). Younger Chinese consumers, with their greater media exposure, participation in social networks, and better mastery of English, are more acculturated with Western social beliefs and values than older Chinese consumers, though they still maintain many traditional Chinese values (Zhang, 2010). Not surprisingly, research shows that Chinese younger consumers are equally persuaded by collectivistic and individualistic ad appeals; their older counterparts are more persuaded by collectivistic than individualistic appeals (Zhang, 2010).

Regarding the influence of culture on Chinese consumers' advertising preferences, we expect that advertisements for publicly consumed products, such as automobiles, focus more on prestige. Such publicly consumed products are associated with social status, and "status" can be purchased with publicly consumed products (Chao & Myers, 1998). Chinese consumers seek to build their self-image and ideal-self through publicly consumed products (Liao & Wang, 2009), so prestige-focused advertising that emphasizes status should fit well with Chinese consumers' expectations and be more effective. Furthermore, previous research (e.g., Hornikx & O'Keefe, 2009; Zhang, 2004) indicates that advertisements with appeals adapted to the audience's important cultural values are more persuasive and better liked than unadapted ads. When Chinese consumers purchase publicly consumed products, face, as a Chinese cultural value, is a very important factor, so advertisements emphasizing prestige or face should be more effective. Accordingly, car makers such as BMW have positioned their luxury vehicles as status symbols that display the owner as a successful person. Trying to sell a sports car as a toy for thrill-seekers would not work. As Cheng and Schweitzer (1996) find, Chinese commercials resort more often to symbolic cultural values, whereas Western commercials tend to use both symbolic and utilitarian values. Thus we expect that Chinese consumers (vs. Western consumers) evaluate prestige-focused advertisements for publicly consumed products as more persuasive.

2.4.5 Sales Promotion Effectiveness

Sales promotions stimulate consumers to buy more and faster (Ailawadi, Neslin, & Gedenk, 2001). The promotional effort has a significant positive impact on sales and overall customer satisfaction (Baidya & Ghose, 2010). Typical promotional tools include price discounts, in-store demonstrations, coupons, sweepstakes and games, and gifts. ACNielsen (2005) indicates that the top three sales promotions for Chinese consumers are two-for-one offers (38%), price reductions (29%), and more volume for the same price (12%). Lotteries, due to their indirect benefits and uncertainty, do not attract Chinese customers.

Table 2.5 contains a summary of studies dealing with Chinese consumers' attitudes toward sales promotions. Many of them (Kwok & Uncles, 2005; Shi, Cheung, & Prendergast, 2005; Zhou & Wong, 2004) address the effectiveness of different sales promotions. They consistently indicate that promotional effects are moderated by stock-up characteristics (high/low) (e.g., Li & Su, 2007) and product categories (utilitarian vs. hedonic) (Kwok & Uncles, 2005).

Income might be another important factor that influences response to sales promotions. Although the economy of China has enjoyed a great progress in the last two decades, compared with consumers from developed countries the great majority of Chinese people still have low incomes (Emery & Tian, 2010). Households with the highest incomes only accounted for 10 percent of the total population, with these annual disposable incomes averaging less than 44,000 RMB (about \$6500 USD) (China Statistical Yearbook, 2013). Chinese consumers with less income likely are more responsive to sales promotions than are comparable consumers in developed countries. However, the empirical results reveal no significant difference in responses to sales promotions between Chinese and Australian consumers (Kowk & Uncles, 2005). This counterintuitive result calls for future research.

Cultural factors such as face concerns and risk aversion, also might affect consumers' responses to sales promotions. With their high face concerns and risk aversion, we expect that Chinese consumers are less responsive to sales promotions in public consumption or gift-giving situations, because they likely regard sales promotions as signs of "cheapness" or "low class" (Ndubisi & Moi, 2005). Anderson and He (1998) also propose that Chinese consumers regard price discount sales as the seller's effort to get rid of poor quality inventory. Kashani and Quelch (1990) report that Asian consumers express embarrassment at redeeming coupons. Accordingly, with social presence, Chinese consumers appear unlikely to purchase promotional items, for fear of losing face. Without social presence though, we expect Chinese consumers to prefer promotional items, because the promotion can help them budget for purchases of expensive brands in categories which are more relevant in public consumption contexts. In turn, we propose that: with (vs. without) social presence, Chinese consumers are less likely to buy promotional items.

2.4.6 Future Research Directions

Although a substantial body of research exists on China's marketing mix, we outline some possible and promising research directions:

Brands. Relatively few empirical studies test whether, as theory suggests, Chinese consumers' brand loyalty is higher than Western consumers'. Do different drivers motivate Chinese consumers' brand loyalty? Furthermore, not much is known about whether Chinese consumers tend to move away from foreign brands in favor of Chinese brands. Ideally, studies would employ longitudinal data to verify the existence of such tendency. Finally, as noted, the penetration of private-label products is very low in China, but we still do not understand why or where the potential for private-label growth is greatest. Do cultural factors such as face affect Chinese consumers' choices of private-label products? Might product visibility moderate Chinese consumers' brand choices?

Price sensitivity. Multiple studies have investigated Chinese consumers' price sensitivity, without reaching consensus. Some pressing questions need to be answered: Does product visibility moderate the relationship between culture and price sensitivity? Compared with Western consumers', is Eastern, Chinese consumers' price sensitivity lower for publicly (vs. privately) consumed products?

Distribution channels, advertising, and sales promotions effectiveness. Situational factors such as social presence and their impacts on consumers' channel choices are not well understood. Do Chinese consumers (vs. Western consumers) evaluate face-oriented advertisements as more effective when they tout publicly consumed products? Does social presence moderate Chinese consumers' purchase intentions toward promotional items?

2.5 CONCLUSION AND LIMITATIONS

We examined extensive existing literature related to Chinese consumers' responses to marketing activities and formulated several directions. However, we acknowledge several limitations to our approach. First, we attempt to capture the most meaningful generalizations about each element of the marketing mix for researchers and marketing managers, but the scope of each element is of course very broad. For example, the influence of culture on Chinese consumers' channel choice, reflects our assessment of a unique, important phenomenon in China; other important issues clearly exist (e.g., young Chinese consumers may engage in e-commerce more than older Chinese consumers), but we did not take this into account because age-based differences in e-commerce seem to represent a worldwide phenomenon). Second, the future directions have not been tested yet. Thus, collecting cross-cultural and longitudinal data and using more comprehensive methods to empirically test those directions are desirable. Finally, like most studies of Chinese consumers, this paper has focused on urban/overseas residents. However, the diversity with respect to access to products and services tends to be enormous between urban

and rural households (Sheth, 2011). As the rural economy continues to develop, studies of rural consumers could make significant contributions (Cui & Liu, 2000).

In summary, after more than 30 years of reform and an open-door policy in China, the developments in its economic, demographic, and socio-cultural environment have affected marketing decisions considerably. In this Chapter, we have captured some of the unique phenomena and shifting traits of this emerging consumer society, in constant transition.

Table 2.1: Overview of product decision research

Study	Context / (countries)	Method	Main Results
Zhang (1996)	T-shirts and color television (US vs. China)	MANOVA	Products that enjoy a positive country-of-origin image receive more positive ratings from Chinese consumers. Products from Japan and the United States are preferred to those from South Korea.
Cui & Liu (2000)	Unspecified (China)	ANOVA	Consumers from different regions differ significantly from one another in terms of purchasing power, attitude, lifestyles, media use, and consumption patterns. Consumers in South China adopt new and luxury goods fastest, compared with other regions in China. Consumers in East China like lifestyle products, while traditional goods such as refrigerators and color televisions have saturated these regions. Consumers in North, Central, and Southwest China are generally conservative in adopting new products.
O'Cass (2000)	Fashion clothing (China)	SEM	Product involvement acts as an antecedent to purchase decision involvement, consumption involvement, and advertising involvement. Women and young consumers are more involved than older consumers in fashion clothing.
Zhou & Wong (2004)	Toothpaste, shampoo, bottled water, casual clothes, athletic shoes, and cell phones (China)	Regression analysis	Substantial variations appear in purchasing motives across conspicuous versus inconspicuous products, as well as between people with different levels of social compliance tendencies. Chinese consumers' purchase intentions are highly influenced by the motivational factor of perceived brand prestige. The impact of perceived prestige seems more profound for high social compliance people than for their low social compliance counterparts.
O'Cass & Choy (2008)	Fashion clothing (China)	Regression analysis	A consumer's level of involvement has a positive effect on brand-related responses such as perception of brand status and brand attitude. Brand status and brand attitude have positive impacts on a consumer's willingness to pay a premium for a specific brand.
Hsu & Lai (2008)	Packaged food (China)	SEM	Private-label purchases increase when consumers perceive reduced consequences of making a mistake in brand choice in a category; when that category has more search than experience characteristics; and when consumers' degree of price consciousness in the category increases in general.
Elliott, Meng, & Hall (2008)	Retailing/banking (China)	t-test	Chinese consumers exhibit higher levels of discomfort and insecurity and lower levels of optimism and innovativeness with regard to using new technology products.
McGuinness, Campbell, & Leontiadis (2010)	Machinery (China, Japan, France, Germany, Switzerland, Italy, UK)	Multiple regression analysis	Strategies based on product quality and service have the greatest impact on preferences. Friendship in the traditional Chinese sense does not seem to be a strong characteristic of these relationships.
Lupton, Rawlinson, & Braunstein (2010)	Food-related private-label and manufacturer brands (US vs. China)	Chi-square and t-tests	Chinese students do not adopt private-label brands as much as U.S. students. Chinese students view private-label products as inferior to manufacturer brands, perhaps due to non-availability, a perception of lower quality, or a desire not to lose face.

Table 2.2: Overview of price sensitivity research

Study	Context / (countries)	Method	Main Results
Anderson & He (1998)	Cameras, cosmetics, fast food, and soft drink consumption (US vs. China)	Discriminant analysis	Brand and appearance are the two most important variables discriminating camera and cosmetics price segments; taste is the most important discriminant for fast food and soft drinks. Higher proportions of the materialistic segment focus on visible product attributes for cameras and cosmetics. A higher proportion of the traditional price-conscious segment buys domestic fast food (lower priced alternative to Western brands) and wants value (durable, quality, less expensive cameras).
Zhou & Nakamoto (2001)	Unspecified (US. vs. China)	SEM	Young Chinese consumers are more prestige sensitive, less price conscious, and less coupon prone than their U.S. counterparts, but they are as value conscious.
Ackerman & Tellis (2001)	Supermarket (US vs. China)	ANOVA	Chinese supermarkets have substantially lower prices across a range of food products than U.S. supermarkets. These differences ranged from 37% for packaged goods of the same brand and size to more than 100% for meats and seafood of the same type and description.
Zhou, Su, & Bao (2002)	Unspecified (US vs. China)	MANOVA	Chinese consumers believe in the price–quality relationship to a lesser extent than U.S. consumers because price information is less credible.
Meng & Nasco (2009)	Unspecified (US vs. Japan vs. China)	SEM	Chinese consumers report significantly higher price and prestige sensitivity, compared with U.S. and Japanese consumers. U.S. consumers show higher levels of proneness effect than Chinese consumers.
Lupton, Rawlinson, & Braunstein (2010)	Food-related private-label and manufacturer brands (US vs. China)	Chi-square and t-tests	U.S. consumers indicate that price has a greater effect on their decision to purchase compared with Chinese consumers.

Table 2.3: Overview of distribution channel research

Study	Context / (countries)	Method	Main findings
Luk (1998)	Household appliances, communication equipment, fashion, shoes, plastic films, agricultural, chemicals, beer, and cosmetics (China)	Conceptual paper	International marketers should avoid a “one channel fits all” mentality. There are opportunities for international marketers to establish massive distribution networks in China, but they should avoid extensive channel overlaps; otherwise, there will be incessant channel conflict.
Luk & Li (1997)	Unspecified (China)	Key informant approach	Among recent developments and emerging trends in China’s distribution system, reforms can be defined as operational and structural.
Anderson & He (1998)	Cameras, cosmetics, fast food, and soft drink consumption (US vs. China)	Discriminant analysis	Marketers should have different distribution strategies for Chinese customers of different ages. For younger segments, it is more efficient to distribute at neighborhood stores near schools, universities, and sporting sites. For older segments, it is better to distribute at retail sites identified with social relationships.
Jiang & Prater (2002)	Unspecified (China)	Conceptual paper	The distribution puzzle is that regional protectionism fragments distribution channels throughout China. Three new forces are changing and modernizing China’s distribution and logistic system: the booming economy, entering the WTO, and e-commerce.
Laforet & Li(2005)	Online and mobile banking (China)	Hierarchical regression analysis	Four important factors that affect Chinese consumers’ choice of online channels are: (1) minimize misuse of credit cards, (2) minimize fraud, (3) make better purchase choices, and (4) maximize access to information.
Bai, Wahl, & McCluskey (2008)	Supermarket (China)	Multivariate probit model	New hypermarkets are competitive supermarkets, but they do not compete much with wet markets and small grocery stores.
Homnurg, Vollmayr, & Hahn (2014)	(China vs. US. vs. Germany)	Multinomial logistic selection model	The establishment of a new channel has a positive impact on firm value. However, reactions to an increase in distribution intensity are largely contingent.

Table 2.4: Overview of advertising research

Study	Context / (countries)	Method	Main findings
Tai & Pac (2002)	Foreign or local advertisements (China)	t-test	Chinese consumers generally prefer foreign sourced, standardized commercials to local ones. Standardized commercials are more likely to gain acceptance for durable products.
Cui & Yang (2009)	Digital camera advertisement (China)	t-test	Chinese consumers respond more favorably to ads with no sex appeals than those using sex appeals in terms of their attitudes toward the ads and brand and buying intentions. They prefer ads featuring Chinese models to those using Caucasian models, even when a strong sex appeal is used.
Zhang (2009)	Body wash, car, and chocolate (China)	ANOVA	Chinese Generation X consumers, with high income and high education, are persuaded by collectivistic and individualistic ad appeals; older consumers are more persuaded by collectivistic than individual ad appeals. These persuasion effects emerged for shared products and not personal use products.
Deleersnyder et al. (2009)	More than two decades of advertising expenditures in 37 countries	Meta-analysis	Advertising behaves less cyclically in countries high in long-term orientation and power distance (such as China), and more cyclically in countries high in uncertainty avoidance.
Zhang (2010)	Body wash, car, chocolate, and frozen food advertisements (China)	ANOVA	Salient self-construals shift toward independence or interdependence in response to individualistic versus collectivistic advertisements. When exposed to individualistic ads, low biculturals responded with more independent self-construals.

Table 2.5: Overview of sales promotion research

Study	Contexts / (countries)	Method	Main findings
Zhou & Wong (2004)	Supermarket (China)	Regression analysis/correlation analysis	The promotional effect (i.e., discounts vs. cheaper prices) and atmosphere effect conveyed by in-store posters (i.e., enjoyment, modern, attractiveness) have significant effects on impulse buying; household income is negatively associated with impulse purchases.
Kwok & Uncles (2005)	Batteries, film, chocolates, and ice cream (Australia vs. China)	Logistic regression	Consumer sales promotions are more effective when they provide benefits congruent with those of the promoted product. Ethnicity does not have a significant impact on responses to sales promotions. Hedonic products are associated with the choice of monetary promotions; utilitarian products are associated with non-monetary promotions.
Shi, Cheung, & Prendergast (2005)	Products/brands in general (China)	ANOVA	Price discounts and buy-one-get-one-free offers are the most effective promotional tools for inducing purchase acceleration, stockpiling, and spending more. In-store demonstrations are mainly effective in encouraging product trial. Coupons are effective for inducing stockpiling and purchase acceleration. Sweepstakes and games are relatively ineffective for generating all types of consumer responses.
Laroche, Kalamas, & Huang (2005)	Fast food restaurant (China)	Paired t-test	Both direct and cross-advertising effects, such as the presence of a coupon for a focal brand positively impact consumers' attitudes and intentions toward that brand.
Li, Sun, & Wang (2007)	Yogurt, cheese, and milk (Singapore)	ANOVA	A consumable nature but not stock-up characteristics affect frame preference. Consumers choose price discounts for low-consumption items and free products for high-consumption items.