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Regional differences in consumer preference structures within China

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ABSTRACT

This study examines whether a single marketing strategy is sufficient to cover the Chinese market. Using data from four regions and nine industries, it finds that major regional differences in consumer preferences make regional market segmentation an attractive option. In more developed regions, consumers rely more on perceived quality and public brand image but less on quality expectations. Uyghurs care more about perceived quality and personal recognition but less about quality expectations than Han Chinese. Personal recognition is more important to southern than northern Chinese. Overall, consumer preference structures are influenced more strongly by differences in economic development than subculture.

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1. Introduction

Thanks to an incredible record of economic growth and a huge population (CIA, 2011), China has become the world's second-largest economy and the primary location for expected corporate growth opportunities (Garner, 2006; Retail in Asia, 2010). As firms from all over the world are flocking to China, the development of an effective marketing strategy is crucial in conquering the Chinese market and outperforming competition (Zhou et al., 2010).

When expanding internationally, firms tend to come up with one marketing strategy for a single or several countries (Homburg et al., 2009). However, China has a population twice as large as the combined developed world, comprises both developed and utterly poor regions, and is home to entirely different ethnic groups (CIA, 2011). Hence, it is unclear and needs to be examined whether a single marketing strategy is sufficient to cover the whole Chinese market. In the case of several marketing strategies, marketing managers need to know criteria to effectively differentiate these strategies. Specifically, it is important to understand along what economic and cultural dimensions Chinese consumer preference structures show high vs. low variability. Dimensions with high variability can be used to effectively differentiate marketing strategies (Homburg et al., 2009).

Only few empirical studies have analyzed intra-Chinese regional differences in consumer behavior (Smith and Wylie, 2004; Sun and Collins, 2005; Zhou et al., 2010). These studies merely focused on differences between two Chinese cities, did not identify the economic and (sub)cultural determinants of these differences, and had a very limited industrial and conceptual scope. This makes it difficult to obtain a general understanding of regional differences within China. To overcome these limitations and provide managers with knowledge of how to differentiate their marketing strategies in China, this study developed theories on the economic (GDP per capita) and subcultural determinants (Uyghur vs. Han; northern vs. southern Chinese) of intra-Chinese regional differences in consumer preference structures. The hypotheses mainly draw on economic and cultural theories developed by Frank and Enkawa (2008a, 2008b), Hofstede and Hofstede (2005), and Sirgy (1986). They were tested with data on the formation of customer satisfaction in nine industries (three products, six services) from four Chinese cities (Beijing, Shanghai, Wuhan, Ürümqi). Fig. 1 presents the conceptual framework.

2. Conceptual framework

As shown in Fig. 1, the conceptual framework consists of three major components. As regional differences in the formation of customer satisfaction reflect regional differences in consumer preference structures, the central component of the conceptual framework deals with the formation of customer satisfaction. The second component deals with regional differences within China and is the focus of the theory development. To make sure that the results on regional differences in consumer preference structures are not biased by a specific industry selection, the study controls for cross-industry differences in the formation of customer

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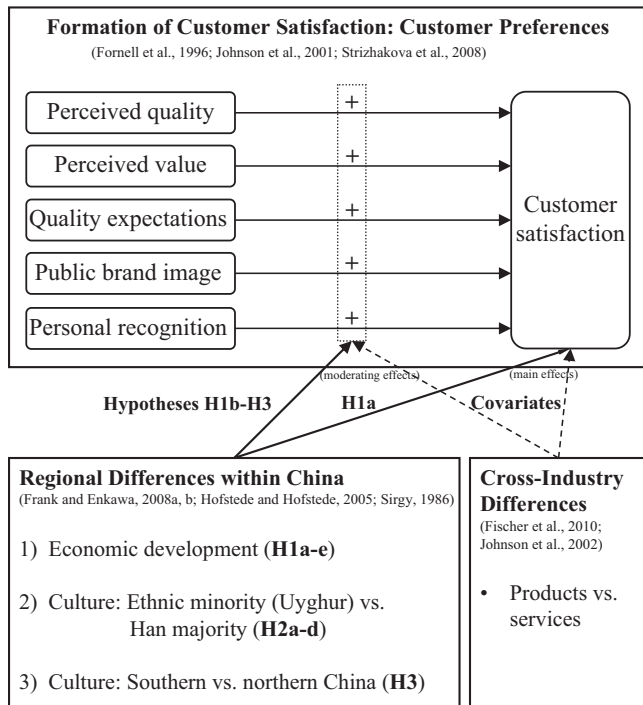


Fig. 1. Conceptual framework. Note: detailed overview of hypotheses, primary rationales, and results in Table 4.

satisfaction, based on extant knowledge summarized in the third component of the conceptual framework (Fischer et al., 2010; Johnson et al., 2001).

To model the formation of customer satisfaction, the conceptual framework adopts an updated version of the famous American and European Customer Satisfaction Index models (Fornell et al., 1996; Grønholdt et al., 2000; Johnson et al., 2001). It assumes that customer satisfaction is positively influenced by perceived quality, perceived value, pre-purchase quality expectations (Fornell et al., 1996), public brand image (Johnson et al., 2001), and personal recognition (Strizhakova et al., 2008).

The effect of perceived quality on customer satisfaction reflects that customers like products and services that perform well (Fornell, 1992; Johnson et al., 2001). Perceived value is defined as perceived quality compared with the price paid for products and services (Johnson et al., 2001). When controlling for the effect of perceived quality, the effect of perceived value on customer satisfaction reflects the importance of price (Fornell et al., 1996). The positive effect of pre-purchase quality expectations on (post-purchase) customer satisfaction represents the forward-looking nature of consumer cognition (Fornell, 1992; Fornell et al., 1996; Oliver, 1997). Defined as the perceived public overall opinion of a brand, public brand image impacts customer satisfaction because consumers express their group affiliation and thus gain social confidence from following the public opinion (Fischer et al., 2010; Johnson et al., 2001). Personal recognition for the use of products and services influences customer satisfaction because consumers define the social success of purchase decisions by feedback from others (Fischer et al., 2010; Strizhakova et al., 2008). Since the effect of personal recognition is established but still under-researched, its inclusion in the conceptual framework is methodologically interesting.

As depicted in the conceptual framework, the analyses controlled cross-industry differences in the formation of customer satisfaction. While the literature on such differences is still limited, there are established and empirically confirmed theories on the distinction between products and services. In particular, Johnson et al. (2002) showed that customer satisfaction is generally higher

for products than services. Fischer et al. (2010) found that the importance of public brand image tends to be higher for services than products because consumers follow the public opinion when quality is difficult to judge ex ante. This problem tends to be larger for services than products (Homburg et al., 2009).

3. Development of hypotheses

3.1. Consequences of regional differences in economic development within China

This study developed theory on the implications of economic and (sub)cultural regional differences in China for the formation of customer satisfaction. Large regional differences in the formation of customer satisfaction and thus in consumer preference structures would make it beneficial to serve the Chinese market with not a single but multiple regional marketing strategies. Table 4 summarizes the hypotheses, primary rationales, secondary literature support, and empirical results.

As China's population is roughly twice as large as the whole developed world (CIA, 2011), even four decades of unparalleled growth have not been sufficient to develop all regions of China. While regions along China's coastline have greatly benefited from economic growth, most of the inland regions are still underdeveloped, even if the Chinese government shifts its attention to these regions to combat increasing disparity and prevent political instability (Retail in Asia, 2010). This economic disparity should result in intra-Chinese regional differences in consumer preference structures.

Frank and Enkawa (2008a) showed that economic development enhances customer satisfaction as it enables consumers to purchase better products and services. This effect outpaces the rise of customer expectations, which might decrease customer satisfaction (Oliver, 1997). Customer satisfaction is thus predicted to be higher in Chinese regions with higher economic development. While this hypothesis refers to a main effect of economic development on customer satisfaction, the remaining hypotheses refer to moderating effects on the formation of customer satisfaction. Specifically, economic development should positively moderate the effects of perceived quality and public brand image and negatively moderate the effects of quality expectations and perceived value on customer satisfaction.

According to Maslow (1970), people tend to satisfy lower-level needs before they advance to the satisfaction of higher-level needs. Sirgy (1986) deepens this theory and concludes that higher levels of economic development, and thus of average income, lead consumers to pursue higher-level needs.

Under conditions of lower economic development and income, consumers would thus spread their expenses across many lower-level needs rather than pool their expenses to satisfy a single higher-level need at the cost of ignoring other lower-level needs. Hence, they would prioritize high perceived value (quality over price) and settle for low levels of higher-order needs. By contrast, under conditions of higher economic development and income, consumers consider the satisfaction of lower-level needs self-evident and focus more on the satisfaction of higher-level needs (Sirgy, 1986). They thus would prioritize high perceived quality and the psychological and social benefits of a good public brand image.

Moreover, prospect theory (Kahneman and Tversky, 1979) and socio-economic theory (Frank and Enkawa, 2008b) indicate that consumers have a greater desire for marginal improvement at lower than higher levels of economic development. This tendency should accordingly affect the forward-looking nature of consumer behavior, which derives from the desire for marginal

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