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Effects of coupons on brand categorization and choice of fast foods in China

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Abstract

The major objective of this study is to explore the effects of coupons on consumers' brand categorization and choice processes using fast-food restaurants in China. Following a description of the Chinese fast-food industry, we build our conceptual framework by combining the couponing literature with the brand categorization and choice literatures. Using the data we collected in Beijing, we find both direct and cross-advertising effects. In other words, the presence of a coupon for a focal brand positively (negatively) impacts consumers' attitudes and intentions toward that brand (competing brands). We discuss our results in light of the important implications they have for brand management in multibrand situations and international management of sales promotions.

Keywords: Brands; Decision Making; Categorization; Choice; Coupons; Fast foods; China

1. Introduction

Nielsen Clearing House (2002) reported that coupon distribution in the United States has declined over the last few years, climbing to a high of 256 billion in 1999 and dropping to a low of 239 billion in 2001. Despite this trend, "coupons continue to be an important promotional vehicle for manufacturers and retailers" with coupon redemption rates reaching the 4 billion mark in 2001 (Guimond et al., 2001, p. 131; Nielsen Clearing House, 2002). Although couponing is very popular in North America, it is still relatively new in developing or newly industrialized countries in Asia. In the vast body of literature on couponing, very little has been done on Asian markets (Huff and Alden, 1998) and China in particular. Since China's size and rapid economic growth make it a target for multinational expansion (Wu and Deng, 2002), it is important for managers and researchers alike to understand how Chinese consumers respond to coupon incentives.

While many studies suggest that coupon incentives positively influence consumers' attitudes and behaviors toward consumer goods (for a review, see Bawa, 1996), "little is known as to whether consumer response to coupons is the same for services purchases [e.g., fast food] as it is for packaged goods purchases" (Taylor, 2001, p. 140). As a means of increasing sales, quick-service restaurants (QSRs) rely on coupons to draw new customers, stimulate repeat business from existing patrons, and appeal to the price-conscious segments of society (Muller and Woods, 1994; Taylor and Long-Tolbert, 2002). Viewed as a necessary evil by QSR managers, coupons are still a useful, and popular, mechanism for dealing with competitors in the fast-food market. Despite the widespread use of coupons by QSRs, studies dealing with the impact of coupons on consumers' fast-food categorization and choice processes are in short supply. To shed light on this under researched area, we look at how Chinese consumers respond to coupon promotions offered by fast-food franchises.

We selected the Chinese fast-food industry because it is "one of the seven fastest growing markets" in the country and one of the most rapidly developing fast-food markets in the world (Anderson and He, 1999, p. 78; Wu and Deng, 2002). While foreign fast-food giants are accelerating their expansion in China, Chinese fast-food companies are also stepping up their development plans. As Chinese consumers are faced with a multitude of foreign and domestic fast-food establishments, it is important for retailers to understand how current and potential customers categorize and choose among the available brands, and what impact coupons play in the

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decision-making process. To study the effects of coupons on consumers' brand categorization and choice processes, we use the Brisoux–Laroche model (e.g., Laroche and Parsa, 2000; Laroche and Toffoli, 1999) and the Extended Competitive Vulnerability model (e.g., Laroche et al., 2001; Laroche et al., in press), which have been validated in previous studies. Although both models have been tested on numerous occasions, no promotional factors were included in these tests and the two models were never validated in a Chinese context.

The goal of this research endeavor is thus to study the effects of coupons on Chinese consumers' brand categorization and choice processes using foreign and domestic fast-food franchises operating in Beijing, the capital city of the People's Republic of China. To accomplish our goal, we first determine whether coupons impact consumers' attitudes and intentions toward brands in the consideration, hold, reject, and foggy sets. In the second step, we test whether a coupon for a focal brand positively (negatively) affects consumers' attitudes and intentions toward that brand (competing brands). Compared with other brand switching studies that have used aggregate sales levels to find both direct and cross-advertising effects (e.g., Srinivasan et al., 1995), this study looks at consumers' attitudes and intentions—a microlevel analysis of the substitution effect in a couponing context.

2. The fast-food industry in China

With current growth rates of 20%, China's fast-food market offers a point of economic growth for the catering industry and attracts aggressive competition from some of the biggest global players (Wu and Deng, 2002). With annual sales reaching 200 billion Chinese yuan renminbi (approximately US$24 billion), the Chinese fast-food industry accounts for two fifths of the country's food and beverage sales (Wu and Deng, 2002). Given the rapid development of the Chinese economy and its enormous market potential, experts predict that in the wake of the nation's entry into the World Trade Organization, more foreign fast-food companies will enter the Chinese market in the coming years. Pleasant surroundings, fast service, above-average hygienic standards, and consistent food quality attract Chinese consumers to foreign (i.e., western) fast-food restaurants (Watson, 2000; Yan, 1997). These factors, along with strategic locations, assembly line methods, standardized workflow procedures, and effective management policies mean that foreign fast-food chains are poised for rapid, large-scale expansion in China.

Compared to the United States, the fast-food industry in China has a comparatively short history with Chinese-style fast-food restaurants emerging only after Kentucky Fried Chicken (KFC) and McDonald's first entered the country in 1987 and 1992, respectively (Wu and Deng, 2002). Over time, some domestic fast-food chains such as Beijing Quan Ju De, Ma Lan Hand-Pulled Noodles, and Tianjin Gou Bu Li, which serve well-known traditional Chinese food, have learned modern managerial techniques and developed rapidly. Compared with transnational giants, however, most Chinese entrepreneurs still lack managerial experience, financial resources, and capable personnel, all of which are forcing the government to take special measures to aid the domestic fast-food industry (Watson, 2000; Yan, 1997).

Since their entry into the Chinese market, the major western fast-food chains, such as McDonald's and KFC, have been breaking world sales records. Some KFC outlets have reported serving up to 20,000 customers a week, 10 times the average number of meals served at a typical franchise in the United States. Since its entry into the Chinese market, KFC has sold over 240,000 tons of chicken products and opened over 600 stores (Wu and Deng, 2002). KFC's sales reached a massive 2 billion Chinese yuan renminbi (approximately US$241 million) in the year 2000 (Wu and Deng, 2002). Lagging behind KFC with just over 300 outlets, McDonald's plans to dramatically increase its presence by implementing its well-known franchising strategy and adding at least 100 outlets across the country in the next year (Wu and Deng, 2002).

Hamburger patties, chicken, french fries, and soft drinks are some of the standard building blocks of western-style fast-food meals. These meals have found a receptive market in China where the proliferation of fast-food chains has been quite rapid. The success of western fast-food chains can be traced to their mass appeal across different consumer segments such as hurried adults who want a quick bite to eat and seniors who see their neighborhood restaurants as safe, clean, and accessible places to spend time chatting with friends (Anderson and He, 1999; Watson, 2000). Drawn like magnets to foreign fast-food outlets, children have also helped jump-start a consumer revolution previously unknown in China's past (Watson, 2000). Fast-food chains find themselves at the foreground of this new wave of consumption, with KFC and McDonald's leading the way by offering kids meals and must-have birthday parties complete with cake, entertainment, and mascots (e.g., Uncle McDonald, a.k.a. Ronald McDonald) (Yan, 1997). According to anthropologists, the regular consumption of western-style fast food has become somewhat of a ritual for modern day Chinese families who aim to please their little emperors and empresses (Watson, 2000; Yan, 1997). With increasing per capita income and lower fertility rates, "Chinese parents' love and money have focused on a single child, resulting in unique social and economic implications such as the 4-2-1 indulgence: four grandparents and two parents indulging one child" (Shao and Herbig, 1994, p. 16). In the foreseeable future, the "singleton" subculture, which has emerged in China as a result of the one-child-per-family birth control policy, will continue to be a powerful driving force of the consumer revolution of which fast-food consumption is an important part (Watson, 2000).