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Enhancing value for Chinese shoppers: The contribution of store and customer characteristics

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A R T I C L E I N F O

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A B S T R A C T

This study tested the relationships between store and customer characteristics with perceived value and customer loyalty in retailing in China. Survey data were collected from shoppers in department stores ($n = 200$) and supermarkets ($n = 200$) in the tier 2 coastal city of Tianjin. Data for each type of store were analysed separately using structural models. In supermarkets, value was predicted by quality and price, but for department stores, only the customer orientation of the store was significant, suggesting that customers seek different shopping experiences in each context. In each case, value mediated the links to loyalty and, for supermarkets, choice of merchandise and consumer time pressure demonstrated direct links to loyalty. The paper discusses the implications of the findings, and concludes with possible future research.

1. Introduction

The past two decades have seen enormous growth in retail activity in China, facilitated by the transition to a market economy, deregulation and direct foreign investment. In 1992, the central government opened China's retail market to foreign investors, providing the impetus for retail development and access to more than a billion consumers (Wong and Yu, 2002). Since then, international retail giants such as Carrefour, Metro and Wal-Mart have established and expanded their presence in the more developed areas along the east coast (Liu, 2007). The retail sector continues to grow, with projections of a 34% increase between 2008 and 2012, to reach a total value of over RMB7.54 trillion (Business Wire, 2008). This growth has involved a shift of focus for supermarkets and department stores from overseas visitors to the local community and a resultant increase in the importance of these stores to the retail industry (Chain Store Age, 2008; Lo et al., 2001).

In tandem with the expanding market economy in China, the spending power of urban residents has risen dramatically with a fivefold increase of real income over the past two decades (Chan et al., 2007; Veeck and Burns, 2005). Correspondingly, the standard of living of the population has increased markedly (Wong and Yu, 2002), providing the opportunity for a 'shopping lifestyle'. For example, in 2005, China Resources Enterprise Limited, which operates more than 1700 supermarkets and hypermarkets in China, opened four 'lifestyle' stores offering higher-quality products targeting the growing middle class, with plans for an additional 20 such stores within 3 years (Roberts et al., 2005), while in 2007, Solana, China's first lifestyle centre opened in Beijing, representing a new direction in China's burgeoning retail development scene (Hazlett, 2006). The growth in retail activity and consumer income in China has stimulated research but most studies have centred on foreign retailers' international activities and the development of coastal regions (Liu, 2007). We respond to the call for consumer studies. As Wong and Yu (2002, p. 371) stated

> With the largest consumer market in the world in terms of population, understanding the consumption and shopping patterns of China's huge population is crucial to the success of existing retailers and potential investors.

Scholars note that China is not a single homogeneous market (Au-Yeung and Henley, 2003; Zhang et al., 2008). For instance, there exists income disparity between the coastal cities and those located in central and western China, and between large cities and towns (Au-Yeung and Henley, 2003). Zhang et al. (2008, p. 378) state that most studies use the "coastal-inland dichotomy based on industrialization" and they emphasise the need to take account of the personal values of Chinese shoppers. The influence of exposure to a shopping lifestyle has been acknowledged for many years, with studies showing that consumers in the south, who are more exposed to foreign mass media, especially from Hong Kong, demonstrate different buying behaviours to northern and central China (Tsang et al., 2003; Yip, 1995). Additionally, consumer needs vary considerably with the socio-economic and cultural

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differences among markets, and they modify over time as the personal situation and market experiences of the consumer changes (Kim et al., 2002; Tai, 2005; Zhang et al., 2008). Thus, the Chinese retail market presents a dynamic and complex challenge for researchers.

Some recent consumer studies have been reported (e.g., Chaney and Gamble, 2008; Tai, 2005; Zhang et al., 2008; Zhou and Wong, 2003) but, in general, China is a rapidly expanding and relatively untested retail market, where "most [research and studies] have centred on foreign retailers' international activities and the development of coastal regions" (Liu, 2007, p. 410). This focus provides much scope for research into the major preferences, priorities, and future shopping intentions of Chinese consumers. Consequently, the aim of this study is to investigate the emerging consumption patterns in one region of China by testing the relative effects of store and customer characteristics on perceived value and customer loyalty. Specifically, hypotheses relating to the relationships between store characteristics (i.e., quality and choice of merchandise, service orientation, and customer orientation) and customer characteristics (i.e., price consciousness, time pressure, and consumer relationship proneness) and their relative effects on perceived value and customer loyalty are examined.

The paper is organised as follows. First, we present a review of the literature and emergent gaps; we then develop a conceptual model and hypotheses, to address the gaps and guide the study. Next, we outline the methodology of the project, and provide details of the validity and reliability of the scales. The results section includes the testing of the structural models and hypotheses, followed by discussion and managerial implications. The paper concludes with limitations and suggestions for future research.

2. Literature review

2.1. Chinese consumers

As noted in the Introduction, China offers great retail opportunities because it is the world's most rapidly expanding consumer market and, over the past decade, retail purchasing has grown by about 13% a year (Chaney and Gamble, 2008; Editorial, McKinsey Quarterly, 2006). This retail growth is fuelled by the enlarging well-off middle class, which is expected to double in size by 2020 (Chaney and Gamble, 2008). More specifically, the emerging upper middle class is expected to increase to 520 million shoppers over the next two decades, with spending power that will dwarf all other segments and be prevalent throughout many of China's cities (Editorial, McKinsey Quarterly, 2006; Farrell et al., 2006). In 2006, Farrell et al. noted that 77% of urban Chinese households lived on less than 25,000 renminbi a year (below a consumer threshold) but they estimate that by 2025 this figure will drop to 10%. Consequently, China is evolving from a relatively monolithic, poor country into a vibrant marketplace with complex and rapidly developing consumer segments (Farrell et al., 2006).

As average incomes increase in China, the spending patterns of different consumer groups are likely to evolve, both as a result of, and leading to greater choice and changing tastes. Chan et al. (1997) suggested that the growth in income and consumption in China is likely to follow the same pattern as in Thailand and Taiwan. That is, a shift in spending towards clothing, consumer durables (appliances, furnishings), personal care products, and household goods. Chan et al. (1997, p. 207) also projected that spending on food would grow, with changes in the type of food (e.g., more processed and packaged food such as branded soy sauce and frozen dumplings). Cheung and Grant (2006) report such changes in the dairy industry, where China's consumers are adopting the purchasing habits of their Asian neighbours and seeking higher value-added products such as milk beverages, cheese, and yogurt. They predict that by 2011, revenues from sales in these areas will grow by 22%, 38%, and 31% a year, respectively. These changing consumer tastes and the country's increasing affluence provide significant opportunities for supermarkets and department stores, discussed next.

Large stores, including chains, have enjoyed success in China. The French retailer Carrefour entered China in 1995 and is now the leading foreign retailer with 71 hypermarkets; Wal-Mart (USA) is second and Metro (Germany) third (Chaney and Gamble, 2008, p. 172). When predicting the likely success of department stores in China, Chan et al. (1997, p. 208) stated that "department stores are a well established and popular format compared with other Asian countries where department stores market penetration is low". In general, this has proven true with modern large-scale outlets offering many goods and professional service. Cheung and Grant (2006) noted that in 2000, modern grocery-retailing formats accounted for one-fifth of packaged-goods sales in urban China and this proportion grew to about one-third by 2004. They predict that by 2010, nearly two-thirds of China's dairy sales will come through supermarkets, compared with 40% in 1998. Additionally, Liu (2007) found that more and more Chinese nationals are shopping in chain stores and demonstrating greater trust in them than before. However, the market is not just limited to affluent women in coastal cities seeking branded cosmetics and fashion, the chain store concept is also reaching into the countryside where older shoppers can meet their needs in pleasant, air-conditioned department stores with greater selections (Chan et al., 1997; Liu, 2007). Therefore, both supermarkets and department stores are important contributors to the increased consumption in China, and spreading throughout the country. Thus, these types of stores were selected as the context of the current study.

One of the main issues in designing a study in China is to acknowledge, and endeavour to understand, the diversity of consumption behaviour throughout the nation. Scholars recognise that China is a continental economy with substantial differences in climate, culture, tastes, and consumer preferences across regions (Chaney and Gamble, 2008; Walters and Samiee, 2003). In discussing the "landscape and mindscape" of China's retail industry, Liu (2007) discusses different notions of the fragmented market, including a "seven region typology" from earlier work. Another approach to segmentation is the tier system based on level of economic development. The first tier includes Shanghai, Shenzhen, Guangzhou, and Beijing; second tier cities are the next 40 cities (primarily provincial capitals), while third tier are the next 60 (Chaney and Gamble, 2008; Cheung and Grant, 2006). Significant growth is expected from the latter two groups. For example, Cheung and Grant (2006) project that 70% of the growth in net revenues in dairy sales will come from the second and third tiers. Finally, Lane et al. (2006) extend the discussion to brand and fashion conscious "aspirants" in China's small cities and towns. This group, numbering 135 million, roughly equals the total population of the first and second tier cities (137 million) and their average household incomes are comparable. Lane et al. (2006) found that aspirants are just as likely as those in the bigger cities to visit supermarkets, and that they are making large household purchases.

In summary, we conclude that China is made up of many retail segments, with characteristics and consumer behaviour that are still being debated, but are recognised as rapidly changing. Incomes are increasing, tastes are changing, and foreign and local investment in chain stores is continuing with considerable