

Brand Loyalty Dynamics — China's Television brands come of age

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Abstract

This article reports an analysis of purchase records over three years that was designed to test the extendibility of previous findings for brand loyalty and switching in the new context of China. It shows that Chinese consumers are most likely to switch brands of television when they buy a new set, and generally switch to larger, growing brands, a pattern common to other markets. This research is a substantive addition to our understanding of marketplace dynamics as revealed by brand performance measures (BPMs). It reveals the evolution of the underlying structure of the Chinese TV market and highlights its changes—largely the growing domination of big local brands. This change is reflected not only in switching, but also in loyalty figures that show Chinese consumers becoming more loyal as the market stabilizes. The conceptual implication of this study is that loyalty modelling can be contextualized for marketplace dynamics. The management implications are that small sets of survey data can be usefully employed to reveal underlying market structures. This is especially helpful in data-poor markets and categories.

Keywords: Brand Loyalty, Switching, Market Dynamics, Two-Purchase Analysis

1. Introduction

This paper reports on an exploratory study to test the extendibility of previous findings for brand loyalty and switching in the new context of the Chinese market for television sets. Much work has been done on Brand Performance Measures (BPMs) for Fast Moving Consumer Goods (FMCGs) and some on consumer durables, but little has been attempted in rapidly developing markets like China (already the world's largest for a number of durables, such as television sets), and attention is increasingly turning to this dynamic region.

Chinese consumers buy televisions virtually identical to those in other countries, watch similar types of programs and face similar choices of technology (satellite, HD, viewing-on-demand and so on), all of which might result in television buying behavior much like that in other parts of the world. On the other hand, no economy has experienced quite the same level of

sustained growth and change over so many years as China. The Chinese have gone from being poor farmers and factory workers to media-savvy office-workers in the space of a single generation (at least in the coastal zones), and may not have acquired the same level of product expertise, brand knowledge and shopping habits as Europeans. We might therefore expect Chinese consumers to behave somewhat differently.

That seems to be what the business press says in headlines like, "Low loyalty has become the new bottleneck restraining further development of domestic brands," (Sinomonitor 2004), "Brand Loyalty in China is very low. Building a strong brand is not easy..." (Reuters 2004) and "The Chinese are brand-conscious but not loyal (Chen and Penhirin 2004).

The main research questions explored here are whether well-established brand buying patterns like those found in Europe and North America are present in China, and at what levels. Further, do those patterns evolve over

time or change in a way that can be explained by reference to existing knowledge of brand buying patterns?

To answer these questions, surveys were conducted amongst Chinese television buyers in April 2004, 2005 and 2006. All three independent surveys asked 400 TV buyers in large coastal cities about the brands of the TVs they had bought on the last two purchase occasions (see appendix A for demographic information). 273 (68%) of respondents in 2004, 296 (74%) in 2005 and 311 (78%) in 2006 had bought at least two TVs, with an average of six years between purchases. Moreover, about a quarter had more than one TV in their homes, figures consistent with marketplace data showing that in the coastal zones household penetration for TVs reached 100% in 2003 (Datamonitor 2006). The data were organized into brand switching tables and modelled using the Duplication of Purchase Law (DoP). The results are laid out in section 5 and show that switching patterns in China are similar to those in better-studied markets. Loyalty, discussed in section 7, is low, but is becoming more similar.

2. Dynamic market conditions

In the 1980s, the Chinese purchased fewer than 10,000 television sets per year, but in 2005, they bought 43 million (Datamonitor 2006). The country now has nearly 350m TVs, compared to 300m in the US (Rapid Intelligence Pty. 2006). And while the majority are traditional Cathode Ray Tube (CRT) types, growth in sales over the past few years has come mainly from the rapid commercialization of new TV display technologies such as PDP, LCD and others. Chinese consumers not only buy ever more TVs, they buy bigger, fancier, pricier ones, making the Chinese TV market the most dynamic in the world.

While Chinese manufacturers have long been producing televisions for foreign companies--20-30 million sets are exported each year (Datamonitor 2006) efforts to capture the local market with their own brands are relatively new. These focus mostly on low cost CRT TVs because that is where manufacturing strength lies and because Chinese firms must pay royalties to patent

holders to use the latest technology, making it nearly impossible to secure a price advantage. As a result, while foreign brands sell only about 30% of all units, they capture about 60% of the revenue in the marketplace (McKinsey Quarterly 2006).

At the same time, China has fierce competition and frequent price wars (Euromonitor 2005). Chinese firms generally attempt to expand with aggressive pricing that depresses profitability in the entire industry. On the other hand, this rewards domestic producers' advantages in cost control and distribution and squeezes out less competitive firms. The giants have even begun to leverage their strength in China to become truly global—TCL's purchase of Thomson/RCA made it the largest TV manufacturer on Earth (Fortune 2004). Even so, there is much room for modernization--only about a third of TV sales in china are through modern, service-providing retailers (Datamonitor 2006), though the largest--Gome, Sunning, Yongle and Five Star, are growing by up to 35% per year (Fortune 2007). This expansion of product availability will probably be of most benefit to the high volume producers.

But what are the effects of these dynamics on bedrock marketing concepts such as brand loyalty? Do new sales come from existing customers (loyalty) or from customers of other brands (switching)? What happens to loyalty as the marketplace evolves and consumers face new technology and brand choices? And how are these changes reflected in BPMs?

3. Brand Buying Evolves

While most work on behavioural brand loyalty uses panel data, this is often unavailable or unreliable (emerging markets), or too expensive to gather (infrequently bought goods, subscription markets). The available data are then limited to separate one-off surveys made up of individual interviews, which can be used to establish market structure and brand loyalty patterns (Dall'Olmo Riley 2000, Wright, Sharp & Sharp 2002).

The data here were analyzed using a Two-Purchase technique that reliably generates BPMs such as repeat purchase loyalty (Bennett, Ehrenberg & Goodhardt

1) PDP = Plasma Display Panel, LCD = Liquid Crystal Display, FPD = Flat Panel Display, RPTV = Rear Projection Television, MD RPTV = Micro-Display Rear Projection Television, DAB = Digital Audio Broadcasting

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