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COO EFFECT IN CHINESE LUXURY CONSUMPTION: DOES GENERATION MATTER?

Andy Hou, Dauphine PSL Paris, Hong Kong¹
Beatrice Parguel, CNRS, Dauphine PSL Paris, France²
Julia Pueschel, NEOMA Business School, France³

ABSTRACT

In this research, we investigate the influence of Chinese consumers' generation on the perception of "Made in China" luxury. This issue is of utmost importance for the Chinese government as Chinese consumers have now become the first luxury consumers in the world while China remains a non-legitimate dwarf in luxury manufacturing. To bridge this gap, we carried a quantitative survey involving 300 Chinese luxury consumers and tested the effect of consumers' age on Chinese luxury products perceived luxury. Potential mediators are considered in our analyses, including consumers' ethnocentrism and innovativeness, materialism, and cultural orientations (i.e., preference for individualism and tradition). The data are currently being collected. Our results will be discussed at the 2023 Global Marketing Conference in Seoul if this research is selected for presentation. They should help position current and future "Made in China" luxury brands and target Chinese luxury consumers.

Introduction

Prior to the 19th century, "Made in China" products were synonymous with unparalleled quality and craftsmanship. Western merchants flocked to this Far Eastern market for rare, high-quality silk, ceramics, porcelain, or cashmere. This changed in the 20th century with China's economic transition and opening-up policy, which turned the country into a global manufacturing center. Quantity and cost savings ruled, materials and craftsmanship suffered in turn. The term "Made in China" became synonymous with cheap, low-quality products, with creativity confined to little more than opportunistic imitation. As such, China has never appeared so far as a legitimate actor in the luxury industry, where it suffers from a negative Country-Of-Origin (COO) effect (Lin & Siu, 2019), i.e., a negative extrinsic signal, which decreases product perceptions and purchase intentions (Peterson & Jolibert, 1995). As recent studies illustrate, Chinese consumers seem to prefer Western luxury brands (e.g., Jap, 2013; Mueller et al., 2016).

Meanwhile, China is to become the world's biggest luxury market according to a recent study¹, with Chinese consumers making up 40% of all luxury consumers by 2030. As an addition, Chinese luxury consumers have made 70 to 75% of their purchases inside mainland China in 2020 (32% in 2019) due to travel restrictions². In this context, the 14th Five-Year Plan that was officially endorsed by the National People's Congress in 2021 claims the ambition to improve the quality of domestically produced products and to not export the best products while leaving the lower quality items for domestic

¹ houandy@hotmail.com

² Beatrice.parguel@dauphine.psl.eu

³ julia.pueschel@neoma-bs.fr

consumption in order to increase the prestige of domestic brands among Chinese consumers (Nash, 2020). This requires countering the Chinese negative COO effect on

- 1 The New York Times (2022), In China, luxury shopping faces ongoing headwinds.
- 2 Bain & Company (2020), China's unstoppable 2020 luxury market, retrieved on January 14, 2023, from <https://www.bain.cn/pdfs/202012160134321779.pdf>.

the Chinese market itself. To do so, branding and targeted marketing, especially to young Chinese consumers, can be a key for several reasons as the image of Chinese brands and products may differ significantly according to Chinese consumers' generations.

First, the growth of the luxury market is especially important among Millennials – those born between 1980 and 2000 – who are predicted to represent 50% of spending in the world personal luxury market by 2025³. Second, China's GDP increased from \$1.211 trillion in 2000 to \$14.69 in 2020 according to the World Bank. This outstanding and rapid growth suggests that younger Chinese were born and raised in a country very different from the one where their parents were born and raised in. Therefore, they might significantly differ from a cultural point of view. As an illustration, the perception of “Made in China” has changed dramatically in the last decade (Zhou et al., 2016), with younger Chinese consumers being prouder of the growing importance of domestic companies (Polfuß, 2021). For these reasons, we hypothesize that the negative COO effect adversely affecting “Made in China” luxury products could play differently among the younger vs. the older Chinese generations.

Extensive research on the COO effect shows that products made in developing countries are perceived to be of lower quality compared to those made in more developed countries (Verlegh & Steenkamp, 1999). However, the generalizability of the COO effect across segments and product categories has been questioned (Usunier & Cestre, 2008). As an illustration, Pharr's (2005) model suggests that COO effects could depend on both product-based characteristics (i.e., price, brand name, product type, product complexity) and individual-based characteristics (i.e., involvement level, involvement type, product familiarity, product importance). Further, consumers' age had been found to have a negative influence on COO effects for FMCG in developing countries (Insch & McBride, 2004). However, when it comes to luxury goods, there is still limited research on the relationship between consumer age or generation and the relative importance of COO effects. To fill this void, the present research aims at exploring the following research questions: 1/ Do COO effects still exist among Chinese luxury consumers? 2/ Are COO effects lower among younger Chinese luxury consumers? 3/ If so, how to explain the influence of the generations of Chinese luxury consumers on the relative importance of COO effects?

Literature Review and Conceptual Framework

Country of Origin (COO)

Initially, COO was simply defined as the national origin of products, but over time, as companies have adopted various types of overseas sourcing to attain competitive advantage, the subject has become more complex. Researchers now consider Country of Design, Country of Assembly, Country of Parts, Country of Headquarters, Country of Manufacture, and Country of Brand. In this research, we consider COO as the

country strongly associated with the brand in consumers' mind, which we think could be the most significant in driving COO effects.

3 BCG and Altagamma (2019), 2019 True-luxury global consumer insight, retrieved on January 14, 2023, from <http://media-publications.bcg.com/france/True-Luxury%20Global%20Consumer%20Insight%202019%20-%20Plenary%20-%20vMedia.pdf>.

COO effects have attracted extensive attention from academic researchers and marketers in the last 50 years. Indeed, a search of peer reviewed papers on the Business Source Complete database in January 2023 using the term "country of origin" in their title generated 908 papers. In recent years, there has been a growing interest in understanding COO effects in the luxury industry, particularly in emerging markets, including China (Heine et al., 2019; Kim et al., 2020). COO effects refer to the influences that the perceived country of origin of a product has on consumer evaluations regarding the product quality, prestige, or other attributes, and decision-making (Godey et al., 2012). Prior research (e.g., Han, 1988; Heine et al., 2019; Usunier, 1994; Walley & Li, 2015) has identified a few of its antecedents including countries' characteristics (e.g., cultural, social, political), products and brands characteristics (e.g., product category, conspicuousness) and consumers' characteristics.

Regarding consumers' characteristics, education and income positively affect acceptance of foreign products (Usunier, 1994). As an addition, ethnocentrism can affect the COO effect in several ways. Consumers who are more ethnocentric may be more likely to view products from their own country as being of higher quality or value than those from other countries, leading them to prefer domestic products over foreign ones (Han, 1988). When it comes to China, prior research displays conflicting results (e.g., Polfuß, 2021 versus Tsai et al., 2013). Tradition and culture can have a significant impact on the COO effect. For example, certain cultural traditions and values, such as a focus on craftsmanship, attention to detail, and a commitment to excellence, may be associated with the production of high-quality products, leading consumers to view products from those countries as being of higher quality or value (Steenkamp, 2019). Further, culture can also affect the COO effect by influencing consumers' perceptions of the prestige and status associated with products from different countries. For example, certain cultural traditions and values may be associated with prestige and status, leading consumers to view products from those countries as being more prestigious or status-enhancing (Steenkamp, 2019). This can be especially true if a country has a strong reputation for producing luxury goods or if certain products are associated with a particular cultural or social group (Heine et al., 2019).

This research focuses on China, where the recent economic development may have influence Chinese consumers' culture. As explained by Pueschel et al. (2020), the experience of "defining moments," i.e., critical shifts in the economic and/or political settings of a country (Schewe et al., 2000; Sudbury and Simcock, 2009), can cause serious discontinuity between generations, resulting in cultural changes that affect consumption. In this paper, we hypothesize that China's recent economic development could have altered Chinese consumers' culture, notably in terms of materialism, ethnocentrism, innovativeness, and preference for individualism versus tradition, with an impact on the relative importance of the COO effect in luxury consumption.

Generations

A generation is the product of an era and uniquely shaped by technologies, media, social markers, and events. As each cohort goes through life together and experiences similar events at a similar age, they may share a common social, political, historical, and economic environment. Thus, each generation has unique expectations, experiences, generational history, lifestyles, values, and demographics that influence their buying behaviors.

Previous research has reported differences in generations within societies (Duffy, 2013; Voronov & Singer, 2002). Western generations can be categorized into four cohorts including (1) veteran generation (born between 1922 and 1943); (2) baby boomers (born between 1943 and 1960); (3) Generation X (born between 1960 and 1980); (4) millennials (born between 1980 and 2000); and (5) Millennials (born after 2000) (Zemke et al., 2000; Kim & Park, 2020). However, generations in non-Western societies may be different from those in Western societies due to the unique cultural, historical, and social contexts in which they are embedded (Mannheim, 1952). For instance, Pueschel et al. (2020) found that in the United Arab Emirates critical shifts occurred in the 90's, leading to the emergence of two generational cohorts differing in their personal values and therefore, in their luxury consumption.

Similarly, in China, the aforementioned enormous growth in GDP experienced in the two last decades may have contributed to create a gap in values and attitudes between generations. With older generations in China tending to be more collectivistic and less individualistic compared to younger generations, who's luxury consumption is dependent upon personal tastes and preferences. Further, the young generation in China is putting great emphasis on product innovativeness (Rahman et al., 2020), while being more materialistic (Gu & Fung, 2009) and less ethnocentric compared to older generations (Jiang et al., 2018). The younger generation (born after 1978) is reported renewed interest and appreciation in national culture and traditions (Jin et al., 2018; Zhou & Wong, 2008), which has been reflected in an increasing preference for Chinese luxury brands (He & Wang, 2015), hence, it is important to further explore the relationship between consumer age or generation and COO effects in the luxury industry, as understanding these factors can help companies effectively position and target their products to different segments of the population. The present study aims to investigate how the generational cohorts can affect the "Made in China" COO effect in Chinese luxury consumption.

Figure 1 summarizes the conceptual framework that will be tested in this research.

Fig.1. Conceptual framework

Methodology

To test our conceptual model, we carried an online survey in simplified Mandarin. A total of 300 luxury consumers were surveyed by salespeople from the most prestigious malls in China (i.e., Shanghai Plaza66, Beijing SKP, Nanjing Deji, Chengdu Taikoo Li, Hangzhou Tower, Shenzhen Mix C, Guangzhou Taikoo Hui).

In line with previous research (e.g., Kapferer & Michaut, 2014; Pueschel et al., 2017), respondents first reported whether they were actual luxury consumers. More precisely, they identified whether they purchased or were offered typical luxury goods (e.g.,

leather good, piece of clothing, watch, jewelry, and automobile) beyond a certain price in local currency over the last 2 years. Only those who had experience consuming luxury goods participated in the study. To ensure that respondents would feel comfortable openly disclosing their perceptions, they were assured that their responses would be kept anonymous and confidential (Podsakoff et al., 2003). No incentives were offered for completion of the survey.

COO effect was measured as the difference in perceived luxury between Chinese luxury products and a foreign point of reference, i.e., French luxury products. Perceived luxury was measured using 9 items inspired from the Brand Luxury Index (Vigneron & Johnson, 2004) and other traditional scales in luxury research (Wiedmann et al., 2009): “Chinese [French] luxury items are extremely expensive / conspicuous / stunning / very exquisite / of superior quality / make good impressions on others”, “People who buy Chinese [French] luxury items try to differentiate themselves from others / Few people own Chinese [French] luxury products / Social standing is an important motivator for buying Chinese [French] luxury items.” The order of measurement of perceived luxury of Chinese vs. French luxury products was randomized to avoid order effects.

We then invited respondents to tick their favorite brands in a list composed of Chinese and French brands to test the influence of age on a potential preference for local vs. foreign brands. Going further, we borrowed items from existing scales of the literature to measure materialism (Richins & Dawson, 1992), ethnocentrism, innovativeness, tradition, and individualism (Sharma, 2010). We favored very short scales so as not to discourage true luxury consumers from participating in the survey. All our items were measured using seven-point Likert scales. Finally, the authors collected respondents' gender, age, combined monthly household income, region of residence in China, and educational background.

TO BE CONTINUED...

Collecting data from real luxury consumers can be expensive and difficult, but we have almost completed the data collection phase and will begin the analysis phase in the next few days. Concretely, we will use linear regressions to test the influence of Chinese luxury consumers' age on COO effect in Chinese luxury consumption. As an addition, we will test potential mediators using the mediation analysis recommended by Zhao et al. (2010). Preacher and Hayes' (2012) PROCESS macro and 1000 bootstrapped samples will be used to determine whether indirect effects are significant. Our results will be discussed at the 2023 Global Marketing Conference in Seoul if this research is selected for presentation. They should help position current and future “Made in China” luxury brands and target Chinese luxury consumers.

Keywords: COO effect, “Made in China”, Generation cohort, Luxury, Consumer behaviour.

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