

## CHAPTER 2

### LITERATURE REVIEW

Western influence has changed shopping preferences of Young Adults. In most societies the youth are the ones who are perceived to be fashion and trend setters. They are easily influenced and thus most of them want to have social desirability, therefore in a quest for this change in fashion and trends become inevitable amongst them. Western fashion trends have been the greatest social influence in the 21st century with the rise of Televisions Films, internet and most recently the mobile phone. This has profoundly changed the way of life around the world and centered it on western civilization. Some theories relate to this research are as follows:

1. Attitude
2. Customer Satisfaction
3. Preference
4. Chinese shopping habits

#### 2.1 Theories of Attitude

[Eagly, Alice H., and Shelly Chaiken. 1998. "Attitude Structure and Function." In Handbook of Social Psychology, ed. D.T. Gilbert, Susan T. Fisk, and G. Lindsey, 269–322. New York: McGowan-Hill.]

“a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor.”

Prominent psychologist Gordon Allport once described attitudes "the most distinctive and indispensable concept in contemporary social psychology. Attitude can be formed from a person's past and present. Attitude is also measurable and changeable as well as influencing the person's emotion and behavior.

[Carl G. Jung, [1921] 1971:par. 687]

“readiness of the [psyche](#) to act or react in a certain way”

Attitude is one of Jung's 57 definitions in Chapter XI of Psychological Types. Jung's definition of attitude is a "readiness of the psyche to act or react in a certain way" (Jung, [1921] 1971:par. 687). Attitudes very often come in pairs, one conscious and the other unconscious. Within this broad definition Jung defines several attitudes.

The main (but not only) attitude dualities that Jung defines are the following.

**-Consciousness and the unconscious.** The “presence of two attitudes is extremely frequent, one conscious and the other unconscious. This means that consciousness has a constellation of contents different from that of the unconscious, a duality particularly evident in neurosis”. (Jung, [1921] 1971: par. 687)

**-Extraversion and introversion.** This pair is so elementary to Jung's theory of types that he labeled them the “attitude-types”.

**-Rational and irrational attitudes.** “I conceive reason as an attitude”. (Jung, [1921] 1971: par. 785)

The rational attitude subdivides into the thinking and feeling psychological functions, each with its attitude.

The irrational attitude subdivides into the sensing and intuition psychological functions, each with its attitude. "There is thus a typical thinking, feeling, sensation, and intuitive attitude" (Jung, [1921] 1971: par. 691).

**-Individual and social attitudes.** Many of the latter are “isms”.

In addition, Jung discusses the abstract attitude. “When I take an abstract attitude...”. (Jung, [1921] 1971: par. 679) Abstraction is contrasted with creationism. “CREATIONISM. By this I mean a peculiarity of thinking and feeling which is the antithesis of abstraction”. (Jung, [1921] 1971: par. 696). For example: “I hate his attitude for being Sarcastic.

[Olson, James M., Zanna, Mark P. (1993). Attitudes and Attitude Change. Annual Review of Psychology, 44:117-54.]

Explicit Measurements Explicit measures tend to rely on self-reports or easily observed behaviors. These tend to involve bipolar scales (e.g., good-bad, favorable-unfavorable, support-oppose, etc.).

[Ferguson, T. J., (2004). Perceiving Groups: Prejudice, Stereotyping, & Discrimination. Retrieved from: [www.usu.edu/psy3510/prejudice.HTML](http://www.usu.edu/psy3510/prejudice.HTML)]

Explicit measures can also be used by measuring the straightforward attribution of characteristics to nominate groups, such as “I feel that baptists are....?” or “I think that men are...?”

[Katz, Daniel. 1960. “The Functional Approach to the Study of Attitudes.”

Public Opinion Quarterly 24(2): 163. <http://poq.oxfordjournals.org/content/24/2/163.abstract.>]

Daniel Katz classified attitudes into four different groups based on their functions:

**Utilitarian:** provides us with general approach or avoidance tendencies

**Knowledge:** help people organize and interpret new information

**Ego-defensive:** attitudes can help people protect their self-esteem

**Value-expressive:** used to express central values or beliefs

**Utilitarian** People adopt attitudes that are rewarding and that help them avoid punishment. In other words any attitude that is adopted in a person's own self-interest is considered to serve a utilitarian function. Consider you have a condo, people with condos pay property taxes, and as a result you don't want to pay more taxes. If those factors lead to your attitude that " Increases in property taxes are bad" your attitude is serving a utilitarian function.

**Knowledge** People need to maintain an organized, meaningful, and stable view of the world. That being said important values and general principles can provide a framework for our knowledge. Attitudes achieve this goal by making things fit together and make sense. Example:

-I believe that I am a good person.

-I believe that good things happen to good people.

-Something bad happens to Bob.

-So I believe Bob must not be a good person.

**Ego-Defensive** This function involves psychoanalytic principles where people use defense mechanisms to protect themselves from psychological harm. Mechanisms include:

-Denial

-Repression

-Projection

-Rationalization

The ego-defensive notion correlates nicely with Downward Comparison Theory which holds the view that derogating a less fortunate other increases our own subjective well-being. We are more likely to use the ego-defensive function when we suffer a frustration or misfortune.

**Value-Expressive** serves to express one's central values and self-concept.

Central values tend to establish our identity and gain us social approval thereby showing us who we are, and what we stand for.

An example would concern attitudes toward a controversial political issue.

## 2.2 Theory of Customer Satisfaction

[Farris, Paul W.; Neil T. Bendle; Phillip E. Pfeifer; David J. Reibstein (2010). *Marketing Metrics: The Definitive Guide to Measuring Marketing Performance*. Upper Saddle River, New Jersey: Pearson Education, Inc. ISBN 0-13-705829-2.]

Customer satisfaction is defined as “the number of customers, or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals.”

In a survey of nearly 200 senior marketing managers, 71 percent responded that they found a customer satisfaction metric very useful in managing and monitoring their businesses.

“Within organizations, customer satisfaction ratings can have powerful effects. They focus employees on the importance of fulfilling customers’ expectations. Furthermore, when these ratings dip, they warn of problems that can affect sales and profitability. . . . These metrics quantify an important dynamic. When a brand has loyal customers, it gains positive word-of-mouth marketing, which is both free and highly effective.”

“In researching satisfaction, firms generally ask customers whether their product or service has met or exceeded expectations. Thus, expectations are a key factor behind satisfaction. When customers have high expectations and the reality falls short, they will be disappointed and will likely rate their experience as less than satisfying. For this reason, a luxury resort, for example, might receive a lower satisfaction rating than a budget motel—even though its facilities and service would be deemed superior in ‘absolute’ terms.”

“Customer satisfaction provides a leading indicator of consumer purchase intentions and loyalty.” “Customer satisfaction data are among the most frequently collected indicators of market perceptions. Their principal use is two fold”:

“Within organizations, the collection, analysis and dissemination of these data send a message about the importance of tending to customers and ensuring that they have a positive experience with the company’s goods and services.”

“Although sales or market share can indicate how well a firm is performing currently, satisfaction is perhaps the best indicator of how likely it is that the firm’s customers will make further purchases in the future. Much research has focused on the relationship between customer satisfaction and retention. Studies indicate that the ramifications of satisfaction are most strongly realized at the extremes.” On a five-point scale, “individuals who rate their satisfaction level as ‘5’ are likely to become return customers and might even evangelize for the firm. (A second important metric related to satisfaction is willingness to recommend. This metric is defined as “The percentage of surveyed customers who indicate that they would recommend a brand to friends.” When a customer is satisfied with a product, he or she might recommend it to friends,

relatives and colleagues. This can be a powerful marketing advantage.) “Individuals who rate their satisfaction level as ‘1’, by contrast, are unlikely to return. Further, they can hurt the firm by making negative comments about it to prospective customers. Willingness to recommend is a key metric relating to customer satisfaction.”

[Kessler, Sheila (2003). Customer satisfaction toolkit for ISO 9001:2000. Milwaukee, Wis.: ASQ Quality Press. ISBN 0-87389-559-2.]

The usual measures of customer satisfaction involve a survey with a set of statements using a Likert Technique or scale. The customer is asked to evaluate each statement and in term of their perception and expectation of performance of the organization being measured. Their satisfaction is generally measured on a five-point scale.

[Wirtz, Jochen; Chung Lee, Meng (2003), “An Empirical Study on The Quality and Context-specific Applicability of Commonly Used Customer Satisfaction Measures,” *Journal of Service Research*, Vol. 5, No. 4, 345-355.]

Wirtz & Lee (2003), they identified a six-item 7-point semantic differential scale (e.g., Oliver and Swan 1983), which is a six-item 7-point bipolar scale, that consistently performed best across both hedonic and utilitarian services. It loaded most highly on satisfaction, had the highest item reliability, and had by far the lowest error variance across both studies. In the study, the six items asked respondents’ evaluation of their most recent experience with ATM services and ice cream restaurant, along seven points within these six items: “pleased me to displeased me”, “contented with to disgusted with”, “very satisfied with to very dissatisfied with”, “did a good job for me to did a poor job for me”, “wise choice to poor choice” and “happy with to unhappy with”.

It seems that dependent on a trade-off between length of the questionnaire and quality of satisfaction measure, these scales seem to be good options for measuring customer satisfaction in academic and applied studies research alike. All other measures tested consistently performed worse than the top three measures, and/or their performance varied significantly across the two service contexts in their study. These results suggest that more careful pretesting would be prudent should these measures be used.

[Eroglu, Sergin A. and Karen A. Machleit (1990), “An Empirical Study of Retail Crowding: Antecedents and Consequences,” *Journal of Retailing*, 66 (summer), 201-21.]

A semantic differential (4 items) scale, which is a four-item 7-point bipolar scale, was the second best performing measure, which was again consistent across both contexts. In the study, respondents were asked to evaluate their experience with both products, along seven points within these four items: “satisfied to dissatisfied”, “favorable to unfavorable”, “pleasant to unpleasant” and “I like it very much to I didn’t like it at all”.

## 2.3 Preference

[Lichtenstein, S., & Slovic, P. (2006). The construction of preference. New York: Cambridge University Press.]

Preference is an individual's attitude towards a set of objects, typically reflected in an explicit decision-making process

[Scherer, K.R. (2005). What are emotions? And how can they be measured? Social Science Information, 44, 695-729.]

One could interpret the term "preference" to mean evaluative judgment in the sense of liking or disliking an object which is the most typical definition employed in psychology.

[Brehm, J.W. (1956). Post-decision changes in desirability of choice alternatives. Journal of Abnormal and Social Psychology, 52, 384-389.]

Preference can be notably modified by decision-making processes, such as choices.

## 2.4 Chinese shopping habits

**Understanding Chinese Consumers** Older consumers may value price over quality, but younger generations are increasingly willing to pay premiums for higher-end products. Since China started its "reform and opening" policy in 1978, its economy has expanded rapidly, and most leading international retailers and manufacturers have entered the China market. Some foreign companies are hesitant to enter the market, however, because they do not understand Chinese consumers and their shopping habits. Despite the country's rapid economic rise, China's regions have developed at different rates, and consumer trends vary greatly among different groups and regions. Understanding the preferences and mindset of consumer groups is the key to successfully expanding a retail business in China.

**Chinese consumer groups** In the past three decades, Chinese consumers' shopping habits have changed dramatically as incomes have risen and new products and concepts have entered the China market. Consumer habits continue to evolve today, and examining generations of consumers can reveal certain shopping trends. Planet Retail has found that the older generation generally maintains "traditional" spending habits, middle-aged Chinese oscillate between tradition and new trends, and the younger generation is becoming more Westernized and quality conscious.

Generally, Chinese consumers develop shopping habits in their youth and keep these habits through adulthood. Though increased wealth can change some preferences, such as beverage and snack food preferences, most Chinese consumers' habits are identified by their objective living

conditions and limited earnings. The current Chinese consumer population can be separated into several groups with distinguishing characteristics.

**Frugal retired** Born before 1960, most of these Chinese consumers grew up in tough political and economic times, did not receive systematic education, and worked at state-owned enterprises. The difficult environment during their early lives made these individuals frugal and sensitive toward changes in consumer goods prices.

**Wealthy retired** This group experienced difficulties similar to the frugal retired consumers, but wealthy retired individuals primarily worked in government and government-funded enterprises that provided higher wages and better retirement benefits. Though many of these consumers are frugal, they are less price-sensitive and often value quality more than cost.

In the next 5-10 years, spending habits of Chinese consumers who are older than 50 will change slightly. These consumers will increase spending on groceries as the government raises retirement pensions in line with inflation rates. Though they will consume healthcare and entertainment products, their children will likely buy these products for them.

**Frugal forties** These consumers, who grew up during the Cultural Revolution (1966-76) and early stage of the reform era, swing between tradition and new trends. They work in various companies—state-owned, private, and foreign-invested—and earn modest incomes. These consumers generally save a large proportion of their earnings to take care of their children and parents.

**Wealthy forties** These consumers share the same background as the frugal forties, but they work for the government or large state-owned enterprises and have slightly higher incomes. Though they must also raise children and look after their parents, they are willing to pay premiums for quality products. In the next decade, consumers in their forties will have fewer childcare responsibilities and expenses. These consumers will thus increase spending on entertainment, groceries, travel, and high-quality and healthcare products.

**Thirties** Many consumers in this group are well-educated and grew up in a more open environment than their parents. Compared with older generations, Chinese in their thirties save less, spend more on entertainment, and often shop online. They also pursue value and quality rather than low prices. These individuals will become the most important consumers in the next decade, buying for their parents, children, and themselves.

**Twenties** Consumers in the first generation of the one-child policy have opposite shopping habits from their parents. These consumers barely save and spend most of their income on entertainment, advanced electronics, and other trendy products. They often shop online and look for products that help distinguish their personalities. They can also be impulse buyers. As consumers in their twenties age and start new families, their shopping habits may become

slightly more conservative, though they will still favor high-quality and convenient products and spend more on groceries than previous generations.

**New generation** The new generation of consumers (under the age of 20) is the most Westernized and open to new products. These consumers pursue individualism and often use the Internet to follow global trends. Though most in this group do not yet earn an income, they significantly influence their parents' decisions on food, clothing, electronics, and other purchases. Social media is an effective marketing tool to reach this group of consumers (see the CBR, January-March 2011, Social Media in China: The Same, but Different).

**Migrant workers** Migrant workers (generally 25-45 years old) are rural residents who moved to the cities for jobs starting in the 1990s. They can be even more frugal than elderly consumers, buying only the necessities and saving money to send remittances to their families in rural areas. Many migrant workers are expected to see a big increase in incomes and move their families to the cities in the future. They will significantly increase spending on groceries once they receive city household registration, or hukou, status and fully integrate into city life. Migrant workers' consumption levels are unlikely to match that of their urban peers, however.

**The rich** There are more than 1 million Chinese with assets over \$1.5 million, and the number is increasing rapidly. Rich consumers (generally 20-60 years old) are fairly concentrated in large urban areas, with Beijing, Guangdong, and Shanghai housing about half of this group. These individuals are successful entrepreneurs, top managers, and business owners. They pursue the best products available, particularly imports, and are the perfect candidates for marketing new products. Premium supermarkets have already emerged in China to provide high-quality products to wealthy consumers (see Choosing the Right Retail Format).

**Fast-growing consumer product categories** As incomes increase and the young generation becomes the main body of consumers, the Chinese will gradually turn from buying only basic necessities to leading comfortable, high-quality lifestyles. Planet Retail expects the following consumer product categories to expand rapidly in the next 5-10 years.

**Toys** The younger generation of parents is more willing than older generations to pay for toys. New parents tend to buy Western brands for their children, as they perceive those toys to be safer than Chinese ones.

**Convenience foods** The young generation spends significantly less time cooking than their parents and instead turns to restaurants and convenience foods, such as microwave meals and instant noodles. Many Chinese do not consider Western convenience food appetizing, though it is generally easier to prepare than Chinese convenience food. Many local companies are researching how to make Chinese food more convenient.

**Pet products** Many Chinese consumers own pets—mostly cats and dogs—but few spend money on pet products, such as food and toys. Instead, they make these items at home. The new

generation, however, is wealthier and has less time to make “do-it-yourself” products. As this generation ages, the consumption of pet products will rise.

**Personal care products** The consumption of personal care products in China remains low, but this market has great potential for growth. For example, most Chinese men do not wear cologne and most Chinese buy shampoo without conditioner. As incomes increase, more Chinese consumers will be able to afford non-essential personal care products—especially cosmetics and men’s personal care products.

**Wine and whisky** Wine and whisky have broken traditional alcohol preferences in China, as the young generation seeks alternatives to strong traditional spirits, such as baijiu (see Opportunities in China’s Alcoholic Beverage Market). Wealthy consumers often flaunt their status by drinking high-end wine while lower-income consumers drink local beer. Though traditional alcoholic drinks will still dominate the China market in most places, big cities and their young wealthy consumers will contribute to a fast rise in wine and whisky sales.

**Snack foods** The young generation will spend more than their parents on snacks for themselves and their children. Traditional Chinese snacks, such as roasted sunflower seeds and dried sweet potatoes, are generally made by small local factories. But recent food and product safety scares have led some Chinese consumers to view food products made by such factories as unsafe or unclean. The market for Western snack foods, such as chocolate products and potato chips, will expand as young consumers fancy these snacks more than traditional Chinese ones (see Chocolate Fortunes).

**Health food and products** Though health food and products are still generally expensive, Chinese consumers are paying more attention than ever to their health. Most elderly and low-income Chinese consumers turn to natural solutions and Chinese herbal medicine while younger and wealthier consumers often look to Western products, which are generally pre-prepared.

**Baby products** Older generations raised their babies with self-supplied products—such as cotton diapers and homemade baby food—but younger generations will rely on disposable diapers and canned baby food. New parents and grandparents hope to buy the best products possible for their children, especially given recent food safety concerns. For example, after the Sanlu Group melamine-tainted milk incident in 2008, most parents interviewed said they no longer trusted local brands of infant formula and would buy imported brands if they can afford them. In addition, many new parents will turn to Western baby products because the variety of traditional Chinese baby products is limited. Many young parents are already buying baby products online from US and European producers.

**Auto products** Personal car ownership in China remains low but is rising quickly. Many Chinese consumers cannot afford expensive cars, but they will spend money on products—such as cushions, gadgets, and tinted window films—to improve their cars’ appearance. In addition, short car trips are gaining popularity as many Chinese drive out of the city on weekends for

picnics, hikes, and other leisure activities. As a result, consumption of related products, such as disposable silverware and convenience food, will also rise.

**Products for the elderly** In the next 5-10 years, China's population of senior citizens will reach 250 million, close to the entire population of the United States (see the CBR, April-June 2011, Can an Aging China Be a Rising China?). Though these elderly consumers' incomes will not increase significantly, their children will look after them and buy them health food and elderly care products.

**Mid-range products** Because of high consumer demand for low prices, many retailers in China stock cheap products and have little space for mid-range or high-end items. Though retailers have tried to fill the gap with private labels, few have done so successfully. Consumers are concerned about the safety of cheap goods and are willing to pay slightly more for safe food products, but many shoppers think the private labels and other mid-range products they have tried are not worth the premium prices, according to a 2009 China Chain Store and Franchise Association survey. Retailers must use effective marketing, accurate pricing, and consistent quality to build trust among consumers and sell more higher-priced items.

## 2.5 Tips for retailers in China

Foreign companies must understand certain factors to successfully sell to Chinese consumers.

**Some consumer habits can change** Wine provides the best example of changing Chinese consumer habits. Spirits once dominated China's alcohol market, but wine consumption has skyrocketed in the past decade. Many Chinese consumers now prefer wine because it is less potent than spirits, less bitter than beer, and promoted as a healthy drink. In contrast, some companies have had to adjust their products to better suit Chinese tastes. For example, McDonald's Corp. tried to promote its beef burgers when it first entered China in 1990. After realizing that chicken and pork are more popular in China, the company adapted to consumers' unchanging habits and launched a menu of chicken burgers.

**Small discounts are better than none** Many Chinese consumers, particularly elderly shoppers, wish to save as much as possible. Retailers, especially hypermarkets, often cut prices of basic produce and price-sensitive items, such as eggs, pork, seasonal products, and local specialties. Retailers limit the amount of those products consumers may buy at a time to encourage shoppers to visit the stores more frequently. These types of promotions have proven effective as many Chinese consumers are willing to wait for half an hour to save on a particular item.

**Product safety mistakes can be devastating** Food and product safety problems exposed in the media can strongly influence Chinese consumers. For example, media reports in March revealed that clenbuterol, a drug that accelerates growth, was found in pork from the Shuanghui Group, a

local leading pork manufacturer. The following month, Shuanghui's retail sales dropped 45 percent, and many consumers interviewed would not buy its products.

**“Face” matters** Chinese greatly value “face”—a quality associated with dignity, honor, and pride—and will pay more to save face. For example, when purchasing gifts for important friends and family during Chinese New Year, consumers generally buy gifts that are of the appropriate value for the receiver and pay particular attention to product packaging. Consumers that cannot afford a higher-quality gift will buy the product with the nicest packaging within their price range. In addition, consumers will pay more for gifts with fancier packaging, even if the product is of equal quality to a less expensive item.

**Chinese consumers generally favor foreign brands** Product safety incidents and lax government supervision have scared Chinese consumers away from certain domestic products. Consumers will often pay a premium for foreign brands to ensure quality, particularly for important items such as infant formula. To increase their products' appeal, many Chinese companies register an office in the United States or Europe and brand their products as “foreign.” This has made it increasingly difficult for consumers to discern domestic from foreign brands, and they thus turn to famous and leading brands instead. Foreign companies should devote resources to ensure Chinese consumers know their products' true origin.

**Pricing is a sensitive issue** Pricing a foreign brand in China can be tricky. On one hand, Chinese shoppers believe the higher the price, the better the quality or the higher the status. If a foreign brand is priced lower than a local one, shoppers may suspect that it has defects. On the other hand, the premium Chinese consumers are willing to pay varies by product category and by consumer groups. For example, Planet Retail finds that young shoppers are willing to pay double for foreign-branded infant formula or five to seven times more for foreign bottled mineral water, but older consumers are not. Most modern retailers in China implement a high-low pricing policy. To create a low price image, hypermarkets and supermarkets price frequently purchased products low to match and compete against rivals while charging a premium on impulse purchases and other price-insensitive products.

**Understand the government** Foreign players have found China's complex legislative and political system difficult to navigate, especially if they do not have a local partner. To meet central-government development targets, local governments may provide incentives to attract more foreign investment to their region. Local regulators may deduct taxes, coordinate with real estate developers to reduce or eliminate rent, offer discount utility fees, speed up approval processes, or help companies find local suppliers and secure loans. In exchange for these measures, local governments sometimes ask foreign retailers to open more stores or establish regional headquarters in the area. In general, such negotiations may be more difficult in larger cities, where the local government has a greater choice of foreign direct investment options.

**Localization is key** Facing such a unique group of consumer, foreign companies should focus on localizing operations. Localization does not simply involve opening an office and using Chinese packaging, but it also includes marketing, maintaining patience, and investing in research and development. Though the PRC government no longer requires foreign retailers to form joint ventures with local companies, many foreign retailers still favor partnering with local companies, which have more regional knowledge.