Attitudes of Chinese Consumers towards Retail Formats

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Paper prepared for presentation at the 98th EAAE Seminar 'Marketing Dynamics within the Global Trading System: New Perspectives', Chania, Crete, Greece as in: 29 June – 2 July, 2006

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Abstract: The Chinese consumer goods market is widely considered to be one of the economic hot spots of the world. China seems to be the market with the largest growth potential within the next decade. Multinational retail companies, for example, Wal-Mart, Metro and Carrefour have made large investments to open up this new market. However, parallel to the positive aspects of the market development, foreign retail companies entering the market encounter numerous risks and difficulties. Whereas questions concerned with logistical problems are being discussed more often, analyses focusing on the shopping behavior of Chinese consumers are rare. In this context, the following report provides information on store preferences based on a comprehensive survey of 800 citizens of Wuhan. In detail, the research focuses on decision-making problems of Chinese consumers and determines their preferences for foreign chain stores on the one hand and for domestic supermarkets and traditional retail formats on the other hand. All in all, traditional wet markets still dominate shopping behaviour. Nevertheless, modern retail outlets are accepted as an alternative, although they are mainly used in addition to the daily shopping at traditional wet markets. However, this research shows that even in a more domestic market-oriented city like Wuhan, traditional shopping patterns are being abandoned and more differentiated shopping patterns are emerging.

Keywords: Retail and Distribution Management, Consumer Behavior, Store Preferences

1 Growth market China

There is hardly any other market at this time which is as laden with expectations and at the same time subject to so many myths as the Chinese consumer goods market. A population of 1.3 billion, two decades of rapidly rising real income and, with China's joining the WTO, the security of a basically viable market system makes it appear increasingly attractive to open up this market. International retail companies are seeking a share of this market, mostly with large-scale shopping formats similar to those in Europe. Companies such as Wal-Mart, Metro and Carrefour have, over the last few years, invested heavily in the development of the Chinese market.

However, besides the basically positive signs of market development, some serious risks are emerging. Only a fraction of the 1.3 billion people of the People's Republic of China is able to develop a significant consumer behavior, due to the large differences in income in the different regions. Especially the rural population usually does not have the necessary disposable income.[i] Market development concentrates on the urban population of some 524 million people in China's 660 cities (National Bureau of Statistics 2004, p. 95 and 401). The annual per-capita consumption in the cities is presently about 6511 RMB (about 809 $). This still seems a profitable target, considering that 2500 RMB alone are spent on groceries[ii] (Association of Chain Store Companies 2004), that large cities are comparably well connected and that the urban consumers are oriented on western lifestyles and consumption patterns.

One element is usually neglected, though and that is the Chinese consumer. Especially with respect to preferred shops and buying frequency, a radically different picture emerges from that in Europe. This is a factor that has hardly been recognized by the large retail chains in their attempt to develop the Chinese market.

This article, therefore, focuses on the store preferences of Chinese consumers. The intention is to reveal variation in perceptions between different retail formats and between different companies. About 20 % of the Chinese population is within reach of modern (western oriented) retail formats[iii], though traditional shop types (e. g., wet markets) still prevail. Thus, our empirical analysis will examine the attitude of Chinese consumers towards foreign as well as domestic hypermarkets more closely. To what extent have preferences for shop types been able to develop, if at all? What parts are played by domestic and foreign store formats respectively?

Subsequently, section 2 focuses on Chinese particularities in the context of global retailing. Section 3 gives an overview on the state of research on Chinese consumer behaviour, which will lead to the formulation of hypotheses and to the empirical analysis in section 4. A discussion of the outcomes in section 5 concludes the article.

2 Global retailing and Chinese particularity

The internationalisation of the retail market is still less pronounced compared to other industries. Food retailing in particular heavily depends on the respective national or regional consumption patterns. The key to success beyond the home market lies, in many cases, in an adaptation to local preferences. Thus, on the international level, economies of scale can only be employed in very few parts of the assortment. Accordingly, the foreign turnover of the largest food retailers is relatively small (see Table 1). Moreover, this shows the hitherto preferred growth strategy of the market leaders. Starting from the strong penetration of the home market, smaller national markets are developed. Almost all retail companies are still in the second phase of globalisation, a polycentric market development with a low degree of standardisation. Regiocentric marketing concepts are still only rudimentary, for example among the German discount stores.

Table 1: Turnover of the top 10 of international food retailing 2003

Company	Net turnover (in m €) 1999	Foreign turnover (in %) 1999	Net turnover (in m €) 2003	Foreign turnover (in %)2003
Wal-Mart	154,975	17.5 %	226,928	18.5 %
Carrefour	51,948	45.8 %	70,500	50.0 %
Ahold	32,824	75.4 %	65,705	83.5 %
Kroger*	42,593	0 %	54,920	0 %
Metro	45,714	39.2 %	53,595	47.2 %
Tesco**	28,539	9.9 %	48,540	19.9 %
Target	31,652	0 %	48,163	0 %
Rewe	25,335	20.2 %	39,180	25.5 %
Aldi	25,600	34.1 %	39,111	38.6 %
Costco	25,335	21.5 %	36,915	19.5 %

Source: KPMG 2004; *=data from 2002; **= gross turnover, accounting year differs from financial year

The two most dynamic retail formats worldwide are hypermarkets and discount stores. From 1998 to 2003, the number of business models in the portfolio of the top 30 companies in international food retailing increased by 99 % and 49 % respectively[iv] (KPMG, 2004, S. 27). Discount stores are as yet mostly a Western European phenomenon. Hypermarkets, however, have, over the last two decades, spread rapidly to threshold and developing countries (except Africa). Hypermarkets are usually first established in urban areas and are later meant to conquer the periphery. Global market leaders in this retail segment at this time are Wal-Mart and Carrefour. Furthermore, Metro, with its Cash&Carry wholesale concept, has a specialty format fit for internationalisation.

However, despite global market leadership and experience in internationalisation, the market entry of companies such as Wal-Mart, Metro or Carrefour into China proves to be difficult. The market development is usually carried out through urban areas such as Beijing or Shanghai. Carrefour, for example, has five large-scale outlets in Beijing und a total of 59 in all of China[v].

Table 2: Turnover of selected Chinese and international chain stores 2004

Rank	Chain Stores	Turnover 2004 (bn Euro)	Turnover growth 2003/04 in %
1	Shanghai Bailian	6.20	22.5
2	GOME Electrical Appliance	2.19	34.3
3	Dalian Dashang Group	2.11	27.0
4	Suning Appliance	2.03	79.6
5	Carrefour (China)	1.49	20.9
7	China Resources Suguo Supermarket	1.27	44.9
15	China Resources Vanguard Supermarket	1.02	6.7
20	Wal-Mart China	0.70	30.5
23	Metro Group	0.58	13.2

Source: Fiducia 2005

To date, a total of 108 foreign retail companies are doing business in China[vi]. Alongside the "China-pioneers" Wal-Mart, Carrefour and Metro, convenience chain store companies such as Seven-Eleven, the Spanish discount store, DIA, or the French company, Auchan, can be found. Nevertheless, domestic companies still dominate the market (see Table 2). The cumulative turnover of the three leading international retail companies Carrefour, Wal-Mart and Metro in China for the year 2004 was only 2.77 billion Euro, while the Chinese Shanghai Bailian Group, with a turnover of 6.2 billion Euros in 2003, was able to produce a turnover more than twice as large[vii]. The total market share of foreign chain stores was 2.6 % in 2004, only a slight increase compared to the 2.3 % in 2003[viii].

Altogether, the relevance of chain stores for the Chinese retail industry is still comparably low. On a national average, the turnover produced by chain stores of about 700 billion RMB is only 15 % of the turnover for national consumer goods. However, the share in the areas of Shanghai and Shenzen is already 45 % and 40 % respectively. In the capital, Beijing, chain stores contribute 24 % to the local consumer goods retail turnover[ix].

3 Store preferences in China: Literature review

The shopping habits of Chinese consumers are at present largely unknown. Most notably, the question of preferences concerning international versus Chinese shops is hardly asked at all. Since the option between different shopping formats is a relatively new phenomenon in China, only very few empirical analyses concerned with this topic exist. In fact, the larger part of the analyses available concentrates on the categorisation and analysis of the "New Retail Economy"[x], which has developed since China joined the WTO, and the so called "Supermarket Revolution"[xi]. Other studies discuss market entry strategies of international companies, marketing channel development[xii] or the relevance of locally specific business types such as the traditional wet markets[xiii].

Some empirical contributions dealing with the purchasing patterns of Chinese consumers have been published. As a tendency, these studies focus on comparative analyses of similar target groups in other countries or of specific groups of products[xiv]. Cui and Lui (2001), for example, refer to the heterogeneity of Chinese consumers due to an increasing income disparity[xv]. Mai und Zhao (2004), in their characterisation of supermarket customers in Beijing, are able to show that the consumer behaviour is dominated by small baskets of goods and high shopping frequencies[xvi]. The purchasing patterns are determined by the fact that the vast majority of the supermarket customers walks to the shops. Arnold und Reynolds (2003) develop a typology of different customer segments based on hedonistic purchasing motives[xvii].

These days, the relatively young retail format supermarket competes with the almost ubiquitous traditional wet markets. Altogether, there seems to be little willingness to purchase groceries in supermarkets. This can be traced back mainly to the relatively high price level in the chain stores, barring access for large sections of the population due to their income situation[xviii]. Income has a significant influence on the willingness to shop for groceries at supermarkets. Surveys in Beijing showed that 50 % of households with a monthly income above 5,000 RMB shopped for groceries at supermarkets. Among households with a monthly income of over 10,000 RMB, even 90 % did this[xix].

The occasionally poor accessibility of the chain stores is another important factor. This is due to the insufficient distribution of supermarkets on the one hand and the relatively low mobility of the consumers on the other. Only about 1.5 % of the customers can currently use a car for their shopping trips.

Altogether, studies that investigate specific store preferences are rare. The main exception is the work of Zhu (2002)[xx]. She analyzes the determining factors of the shop preference of Chinese consumers and draws some implications regarding the market development of foreign retailers in China. These determination factors will be of further interest for our own generation of hypotheses in section 4.1.2. The main focus of our paper, the comparison between foreign and domestic retailers, is not analyzed. Thus, our article is necessarily of an explorative nature.

4 Store preferences of the Chinese metropolitan population: A survey in Wuhan

4.1 Survey design and status quo of the purchasing behaviour

The survey presented below is based on face-to-face interviews with 800 consumers in the city of Wuhan. This city was selected in order to achieve an image as close to the Chinese metropolitan market as possible[xxi], independent of the large towns on the coast such as Beijing or Shanghai. Wuhan, with a population of 7.8 million, is the capital of the central Chinese province of Hubei. With its focus on heavy industry, the city is oriented economically towards the domestic market and participates only marginally in the growth impulses coming from the world market. Thus, Wuhan stands for a large group of Chinese cities with medium income and low international orientation.

The data was collected in cooperation with the China Economic Monitoring Center of the National Bureau of Statistics of the P.R. China. Mostly closed questions as well as Likert-scales were used to avoid translation errors. The questionnaire was drafted in English and then translated into Chinese by a native speaker. The survey was then retranslated by two other native speakers separately, to prevent errors in the translation[xxii]. The survey was conducted in September 2004. The respondents were chosen by a random-route procedure and were visited at home by trained Chinese interviewers to answer the questionnaire. The sample of 800 consumers introduced here was intended to produce an explorative survey and, due to the size and heterogeneity of the Chinese market, cannot be representative for the consumer behaviour in all of China, although it is representative for the city of Wuhan. The utilisable sample includes 778 fully completed questionnaires.

The first analysis of the sociodemographic questions produced the following image. About two thirds of the respondents (67.2 %) live in a household with a child and/or spouse. Another 13 % live with their parents. The number of single households (3.4 %) as well as those living with a partner but without a child (5.6 %) is strikingly low compared to the European situation[xxiii]. Most subjects of the sample had a high school diploma as the highest educational achievement (39.5 %), only 2 percent held a master's degree. As for employment, roughly 36 % claimed to be employed at a state-run (24.1 %) or private (11.8 %) company, approx. 12 % were self-employed. With regard to the monthly household income available, 71 % of respondents claimed to have between 50 and 200 € at their disposal. Only 2.8 % had a household income above 500 € (5.2 % did not provide this information). Almost half of the respondents were usually responsible for food shopping (48.8 %), another third (33.6 %) went grocery shopping at least from time to time. 59.8 % preferred shops that are easily accessible.

Table 3: Frequency of attendance

Store format	**Frequency of attendance in %**				
	Every day	**More than once a week**	**Once a week**	**1-3 times a month**	**Seldom or never**
Wet markets	69.5	13.6	4.6	4.6	7.6
Chinese supermarkets	7.9	32.0	25.9	31.0	3.2
Foreign supermarkets	0.3	7.3	13.0	46.9	32.5
other (e. g. Convenience Stores)	22.3	47.1	43.5	17.5	56.7

Source: Own survey

For grocery shopping, traditional wet markets, which are frequented daily by a large group of respondents (69.5 %) dominate, followed by Chinese supermarkets, which are usually visited complementary to the wet markets. International stores have only inferior relevance (approx. 12 % of food expenditures) (compare Tables 3 and 4).

Table 4: Share of food expenditures

Store format	%-share of food expenditures				
	1-25%	26-50%	51-75%	76-100%	Mean
Wet markets	14.9	47.8	25.5	11.8	44.7
Chinese supermarkets	60.6	34.4	3.6	1.5	25.2
Foreign supermarkets	81.1	17.7	0.6	0.6	11.9

Source: Own survey

Model for the measurement of store preferences

A large number of analyses of store preferences, both in the national and international context already exist. All in all two research streams can be identified. On the one hand, surveys based on attitude research analyse the cognitive, emotional and intentional dimensions of store preferences and in doing so try to explain the underlying motives and the actual purchasing decision [xxiv]. On the other hand, there are studies based on actual purchasing decisions mostly using panel data. These analysis try to identify explanatory factors on an econometric basis [xxv]. However, in the case in hand, the actual purchasing decision cannot be used for research due to the low number of foreign chain stores and the insufficient data. Even in urban areas, only relatively few Chinese consumers can visit foreign shops regularly. Thus, at this point the shopping behaviour is, to a far greater extent, determined by local conditions than by the consumers' preferences.

Similar to our own article is the survey by Zhu (2002) which identifies some explanatory factors of store choice of Chinese consumers using structural equation modelling [xxvi]. The price attractiveness of the shop, the quality of the goods, the sales staff, the shop atmosphere as well as the shopping convenience were identified as central influence factors [xxvii]. However, Zhu focuses on the general shopping behaviour of Chinese consumers, not on a comparison between foreign and domestic shops.

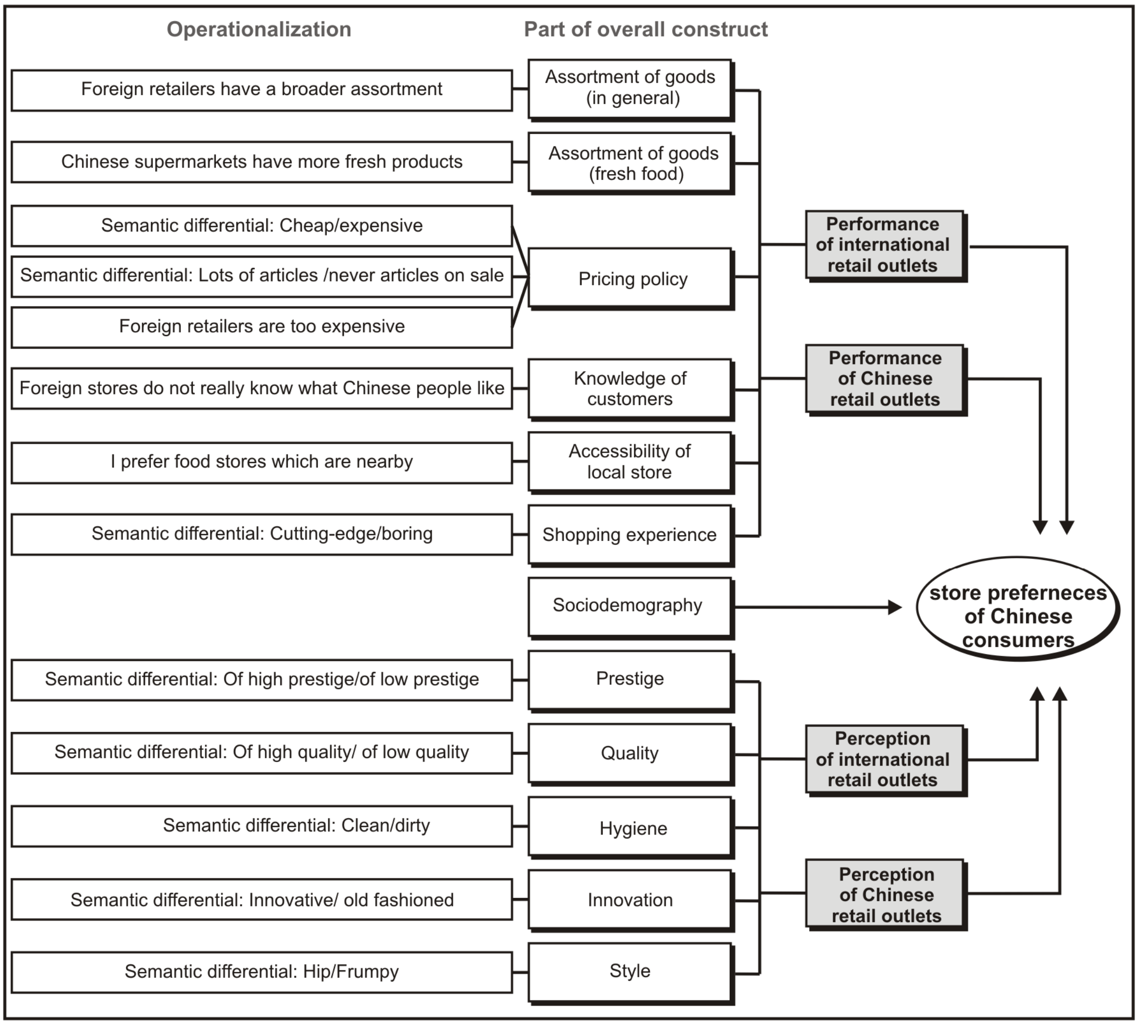
Regarding the assumed diverging preferences for different types of shops, we refer to similar studies in the field of brand management. They reveal that differentiated preferences for foreign and domestic brands exist and that buying motives are dissimilar. Witkowski et. al. (2003), e.g., investigate intercultural influences on the perception of the fast-food chain KFC (Kentucky Fried Chicken) in China and the USA [xxviii]. The key finding is that Chinese consumers have a significantly higher affinity for KFC than US-American consumers. The preference for the restaurants in China is strongly linked to connotations such as modernity, attractiveness and American lifestyle.

One of our own investigations on the brand preferences of the Chinese consumer [xxix] analyses the different brand preferences for foreign and domestic brands. We found that domestic brands are bought mainly for patriotic reasons as a strengthening of the domestic economy (ethnocentrism), while consumers with a high preference for foreign brands bought those products primarily for reasons of conspicuous consumption. Based on the identified determinants for the explanation of the brand and store choice, the following hypotheses are deduced for this article:

- The attitude towards foreign and domestic shops is different. Preferences for foreign shops are based primarily on image-oriented aspect, such as the high prestige or the perceived modernity of the shops.
- Preferences for Chinese shops on the other hand are based on performance-oriented aspects, such as a good price-performance ratio and an attractive, regionally adjusted assortment policy. The accessibility of the shops is also an important factor, given the low automobile density.

To test these hypotheses, loosely based on the article by Zhu (2002), we designed a model for the explanation of the construct "shop preference" (Figure 1)[xxx]. Several partial-constructs, such as perceived performance or the perception of a specific shop were deduced as possibly central influence factors from the empirical work cited in the above paragraph. To allow a more detailed examination, these partial-constructs were specified more closely by several elements, which include more emotional image-oriented aspects, such as consumers' prestige- or quality-perception on the one hand and more cognitive performance-oriented elements, such as the product composition, on the other hand. Figure 1 shows the complete model as well as the statements used for the different constructs. The survey was carried out using 5-point Likert-scales (from -2 to +2) and a semantic differential for foreign and domestic shops respectively.

Figure 1: Model of store preference



Source: Own illustration

4.2 Empirical results

Initial univariate statistics suggest considerable problems for foreign retailers. Even though about half of the respondents (47 %) declare that foreign supermarkets have a broad range of available products, they still do not fully meet the preferences of 39.4 % of the respondents. In contrast , Chinese shops are seen in this regard as very competent by 62.5 %, especially in the fresh-produce-sector. Altogether, foreign supermarkets have a high esteem of prestige (60.8 %) and quality (62.8 %). However, the largest number (74.3 %) of consumers in Wuhan find international supermarkets simply too expensive (see Appendix 1).

Following this first overview of the findings, the interrelations between general store preference and the determinants for international/Chinese shop preferences are illustrated below in more detail, using multivariate analysis. Based on a cluster analysis, consumers are then classified according to these preferences.

4.2.1 Influencing factors of store preferences

To explain the store preferences of Chinese consumers, a multitude of influencing factors must be taken into account. The factor analysis is, apart from reducing complexity, used to expose independent influencing factors and is thus in this case used in an explorative way. Altogether, five factors (with Eigenvalues > 1), which cumulatively explain a variance of 59.75 %(KMO 0.85), could be extracted and characterized as follows:

Table 5: Factor analysis

Factor 1: Image and prestige of foreign supermarkets Cronbach's Alpha = 0.793; %of variance: 14.90	**Fact or load-ings**	**Factor scores**
F: hip/frumpy	.781	.375
F: cutting-edge/boring	.745	.386
F: of high prestige/of low prestige	.743	.340
F: of high quality/of low quality	.710	.288
Factor 2: Cognitive evaluation of performance of Chinese supermarkets Cronbach's Alpha = 0.751; %of variance: 12.10		
C: often lots of articles on sale/never any articles on sale	.825	.527
C: likeable/dislikeable	.728	.396
C: clean/dirty	.675	.351
Factor 3: Comparison Chinese vs. foreign stores Cronbach's Alpha = 0.687; %of variance: 11.94		
My friends all prefer Chinese supermarkets	.718	.421
Chinese supermarkets have more fresh products.	.717	.395
Foreign stores do not really know what Chinese people like	.682	.422
I prefer food stores which are nearby	.506	.298
Factor 4: Image and prestige of Chinese supermarkets Cronbach's Alpha = 0.658; %of variance: 10.88		
C: cutting-edge/boring	.753	.489
C: of high prestige/of low prestige	.709	.416
C: innovative/old fashioned	.705	.435
Factor 5: Cognitive evaluation of performance of foreign supermarkets Cronbach's Alpha = 0.576; %of variance: 9.91		
F: often lots of articles on sale/never any articles on sale	.763	.547
Foreign retailers have a broader assortment	.669	.461
F: likeable/dislikeable	.659	.397

Source: Own calculations, method of extraction: principal component analysis; Varimax rotation with Kaiser-Normalisation, F= Foreign Supermarket, C= Chinese Supermarket.

There are two factors relating to Chinese supermarkets (Factors 2 and 4) as well as two factors focussing on foreign supermarkets (Factors 1 and 5). Factors 2 and 5 are cognitive evaluations of performance, Factors 1 and 4 include emotional perceptions of image and prestige of Chinese consumers. Cleanliness is relevant only regarding

Chinese supermarkets, it can be assumed that it is taken for granted in foreign stores. In foreign supermarkets, on the other hand, the assortment is an important factor. Price policy is central for both Chinese and foreign stores. Factor 3 could be extracted as the only comparative factor. It includes social and assortment-related aspects, as well as matters of location, such as the accessibility of the shop (see Table 5).

4.2.2 Consumer groups in China

Based on the factor analysis, a hierarchical cluster analysis was carried out. The following three factors were used as active variables: Factor 2: cognitive evaluation of performance of Chinese supermarkets, Factor 3: comparison, and factor 4: image and prestige of Chinese supermarkets. Factor 5 was excluded due to its weak reliability (alpha = 0.58).

Because of the Ellbow-criterion as well as the interpretation of the content, we chose a solution with five clusters, which could be confirmed by a discriminant analysis (89.6 %). In the following, all of the identified consumer groups will be briefly characterized (Tables 6 and 7 and Appendices 5, 6 and 7).

The typology reveals a total of five groups, all of which show a pronounced focus on the type of store (see Table 7). In all clusters, the use of traditional wet markets generally dominates for grocery shopping. With respect to modern retail formats, the findings have to be examined in more detail. Here, the preference for Chinese supermarkets consistently prevailed.

Table 6: Cluster description by factors

Cluster / Variables	1		2		3		4		5	
	n = 98, 12.9 %		n = 201, 26.4 %		n = 241, 31.7 %		n = 131, 17.2 %		n = 89, 11.7 %	
	Ø	**σ**	**Ø**	**σ**	**Ø**	**σ**	**Ø**	**σ**	**Ø**	**σ**
Factors for the evaluation of Chinese supermarkets (active variable)										
Factor 2: Cognitive performance of Chinese supermarkets***	-.09	.56	-.31	.88	.82	.60	-1.09	.79	.22	.83
Factor 4: Image and prestige of Chinese supermarkets***	1.22	.71	-.65	.64	-.18	.63	-.28	.94	1.02	.88
Comparing factor (active variable)										
Factor 3: Comparing evaluation***	-.29	.67	.73	.55	-.50	.66	-.92	.68	1.35	.52
Factors for the evaluation of foreign supermarkets (passive variables)										
Factor 1: Image and prestige of foreign supermarkets*	.28	1.08	-.11	.97	-.02	.85	-.05	1.09	.07	1.14
Factor 5: Cognitive performance of foreign supermarkets*	-.06	.99	-.05	.98	-.02	.94	.01	1.03	.17	1.16

Source: Own survey, declaration of factor values; *** = p ≤ 0,01; * = p ≤ 0,1; Ø= average, **σ** = Standard deviation

With respect to foreign hypermarkets, the clusters of the typology polarize strongly. On the one hand, Cluster 1, the “modern supermarket shopper” (12.9 %) and 4, the “pretentious consumer” (17.2 %), show a positive assessment of foreign hypermarktes. For these clusters, this is mainly a result of the prestige-effect and with the high quality of these stores, which in these groups is associated only with foreign and not with Chinese hypermarkets (Appendices 5 and 6). However, both groups shop more often at Chinese supermarkets, mainly due to the better assortment and the perceived freshness of the products. The income in Cluster 1 is on a medium level, 60.4 % lie in the range between 50 and 200 € per month. The income level in Cluster 4 on the other hand is significantly above average, almost one quarter (24.9 %) dispose of an income between 200 and 600 €. Members of these clusters are young families with children on the one hand, and young adults living with a partner or with their parents on the other hand. In both groups, the level of education is quite high.

Table 7: Description of the clusters by grocery purchases per store formats in %

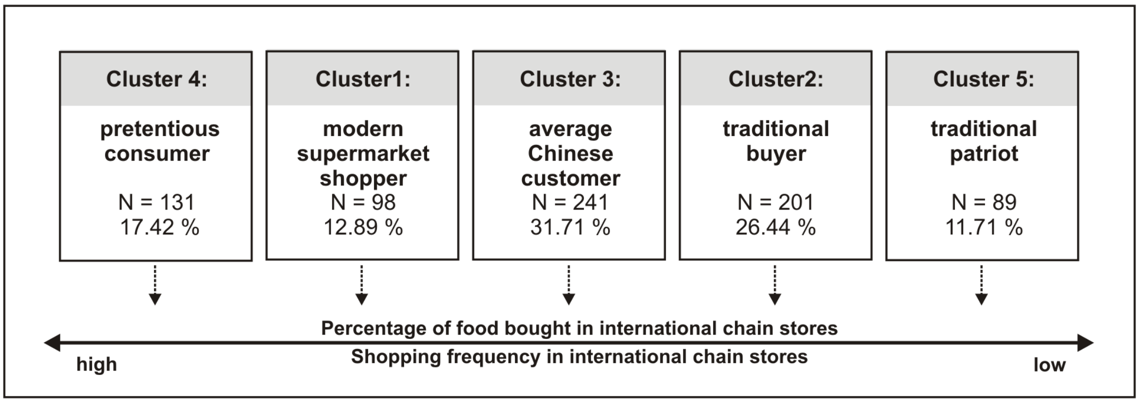
Variables / Cluster	1	2	3	4	5
	n = 98, 12.9 %	n = 201, 26.4 %	n = 241, 31.7 %	n = 131, 17.2 %	n = 89, 11.7 %
Wet markets***	40.93	48.21	44.44	38.49	49.91
Chinese Supermarkets (Hualian etc.)*	23.22	25.31	25.27	27.41	24.93
Small retailers in the neighbourhood	6.54	5.91	7.46	5.44	8.52
Convenience stores (opened 24h)	6.54	4.37	5.39	5.50	5.43
Foreign Supermarkets (Carrefour etc.)***	14.06	10.12	11.51	15.51	7.78

Source: Own survey; declaration of means; percentage share of distribution line of grocery purchases; *** = level of significance p ≤ 0,01; * = level of significance p ≤ 0,1

The antipole is made up of Cluster 2, the “traditional buyer” (26.4 %), and Cluster 5, the “traditional patriot” (11.7 %). The most distinct trait of these clusters is a pronounced preference for Chinese shops. The “traditional buyers” appreciate the performance of Chinese hypermarkets, but still prefer traditional formats such as wet markets. The “traditional patriot” considers Chinese shops to be clearly better than foreign ones. In addition, he is characterized by high ethnocentrism (see Appendix 7). Reasons such as the freshness-image of domestic shops, easy access to the stores as well as social aspects, such as meeting friends at the shop, explain these evaluations. Foreign shops, on the other hand, are rejected by both groups. The main negative perceptions are a poor price-performance ratio and the opinion that foreign companies do not really understand what Chinese customers like. With regard to sociodemography, Cluster 2 shows great similarity to the “modern supermarket shopper”. Young families with a child dominate this group. The level of education is comparably high. Still, about two thirds (66.1 %) have a relatively low income of 50-200 €. Cluster 5, the “traditional patriot” (11.7 %) differs strongly from Clusters 1-4 with regard to sociodemography. Older families with a child dominate this group. The level of education, as well as the income in this cluster, is very heterogeneous. Even though in this group also two thirds (65.5 %) lie in the income range between 50 and 200 €, half of these people (32.2 %) are in the bottom third, up to 100 €. Furthermore, Cluster 5 has a noticeably high unemployment rate of almost 32 %.

The largest group (31.7 %), the “average Chinese customer” (Cluster 3), can be classified as lying between these two poles as shown in Figure 2. Members of this cluster value the performance of Chinese shops, which is reflected in the preferred use of Chinese supermarkets next to the traditional wet markets. However, foreign shops are also used, even if only as a supplement to Chinese stores. In principle, these consumers prefer Chinese supermarkets because of an appealing assortment and a higher perceived cleanliness. Image and prestige in this group play a minor role for the performance evaluation. This group consists of slightly older families with a child (68.9 %) as well as respondents who lived with their parents (13.2 %). Even though the level of education is high, the income is rather low. Figure 2 graphically summarises the key findings of the cluster analysis.

Fig. 2: Typology of the sample



Source: Own survey

5 Implications and recommendations

In general, a preference for the traditional wet markets dominates all clusters. Hypermarkets, mostly Chinese are visited additionally, whereas other shops, for example convenience stores are of marginal importance (see Table 5, 6 and appendices 2 to 4). However, this research also shows that traditional shopping patterns are changing even in western cities, such as Wuhan and that more differentiated preferences are emerging.

The preferences for foreign and Chinese shops respectively are differently pronounced in the single clusters. Initially, it becomes apparent that all groups consistently prefer Chinese supermarkets for their grocery shopping. As for the international shops, the clusters of the typology are substantially polarised. There are groups that solely prefer domestic supermarkets as well as groups with clear preferences for foreign shops. In principle, foreign stores are able to position themselves mainly due to their high prestige (conspicuous consumption). Foreign supermarkets are perceived as of high quality but also as more expensive than all Chinese stores. Since a ubiquitous presence of foreign shops has not yet been achieved, but many Chinese customers visit such a supermarket at least between 1 and 3 times per month, it must be assumed that visiting such a store presently still counts as a part of leisure activities to most Chinese. This parellels most of the statements of respondents who visit foreign shops but judge domestic supermarkets to have a better matched assortment. All in all Chinese consumers tend to buy their daily food mostly at wet markets or Chinese hypermarkets and visit western hypermarkets as part of their weekend-shopping expedition[xxxi]. This might also explain why traditional Chinese retail formats are visited much more frequently than western formats (see also Table 5).

Supermarkets still compete with the traditional wet markets. In our survey, income has a significant but low influence on the willingness to shop for groceries at supermarkets (regression analysis: adj. R-square = 0.02, Beta = 0.14, T = 3.78***). This result differs from earlier studies demonstrating that the effect of income on consumption becomes weaker during the transition process of the economy.

In the future, it remains to be seen to what degree newer market developments and governmental interventions will shape the retail sector. For example, the Chinese government has announced the closing down of street markets to control diseases such as SARS or bird flu better and to raise the general level of hygiene in the food distribution sector, thus, a tendency towards larger sales formats is to be expected [xxxii]. It is still unclear, however, to what extent foreign companies will be able to participate in this. Even though they have better logistics, their urge for expansion is being restricted by recent governmental regulations [xxxiii].

In the face of the illustrated problems it seems difficult to formulate recommendations for the managements of international retail companies. However, the following strategic advice can be given:

a) Foreign chain stores must adapt to the local circumstances. Although this seems trivial at first glance, it still remains an important argument. In many cases, however, modelled on western standards, hypermarkets are built on the periphery of the cities despite the fact that only a small fraction of all Chinese consumers own a car to conveniently visit these stores. The accessibility of most hypermarkets for the majority of consumers remains weak. Foreign chains, such as Wal-Mart or Carrefour are increasingly aiming at a regiocentric conquest of China, starting by building large scale hypermarkets in the large coastal cities Beijing or Shanghai and then developing the hinterland., [xxxiv].

b) Overall income will rise and pave the way for more and more Chinese consumers to visit hypermarkets. In line with China’s further integration into the global economy and the joining of the WTO, future high growth rates seem possible. Real incomes will continue to rise over the next few years for the majority of the population. Thus, a traditional middle class segment will develop, which will be able to purchase foreign branded products on a larger scale and to frequent higher-priced stores. This trend, starting from the coastal regions, will also reach China’s western cities, even though there might be a conceivable time-lag. For foreign companies it is recommendable to hold on to the premium positioning and simply wait. This would prevent a cost-intensive repositioning of the image and would create a well-defined USP compared to Chinese formats.

c) Foreign chain stores must localise their assortment. Foreign retailers must adjust their assortment according to the regionally different consumer preferences. Chinese cuisine differs very much between the regions. The empirical analysis shows that international retailers still have shortcomings especially concerning the range of fresh products. Companies will have to serve not only metropolitan areas but also rural regions and 3rd-tier cities with substantially lower income levels throughout the country. This heterogeneity of the Chinese market is the biggest challenge for foreign companies, since, different from the saturated western markets, the “better” part of the Chinese market still has to be developed. Here, domestic companies possibly have an advantage due to their better knowledge of the market. Only if the foreign hypermarkets are able to understand regional profiles as a competitive advantage and to establish regional assortments and prices through decentralisation, will they be able to compensate this disadvantage compared to the Chinese competitors.

This survey is the first to provide empirical results of the competitive environment for foreign chain store companies in China, however, limited to one region. The sample introduced here is conceived as an exploratory survey and refers only to the city of Wuhan. This city was selected to achieve an image of the Chinese fast moving consumer goods market as realistically as possible [xxxv]. Nevertheless, due to the size and heterogeneity of the Chinese market, this survey cannot be seen as representative for the consumer behaviour in all of China. A further methodological limit is the focus on attitudes. It cannot be ruled out that the attitudes of Chinese customers towards the questions discussed have not yet been stabilised due to a lack of experience. Future longitudinal analyses will provide more reliable results.

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