Evolving Brand Preferences: The Case of China
An empirical analysis

Matthias Schramm

Torsten Staack

Abstract:

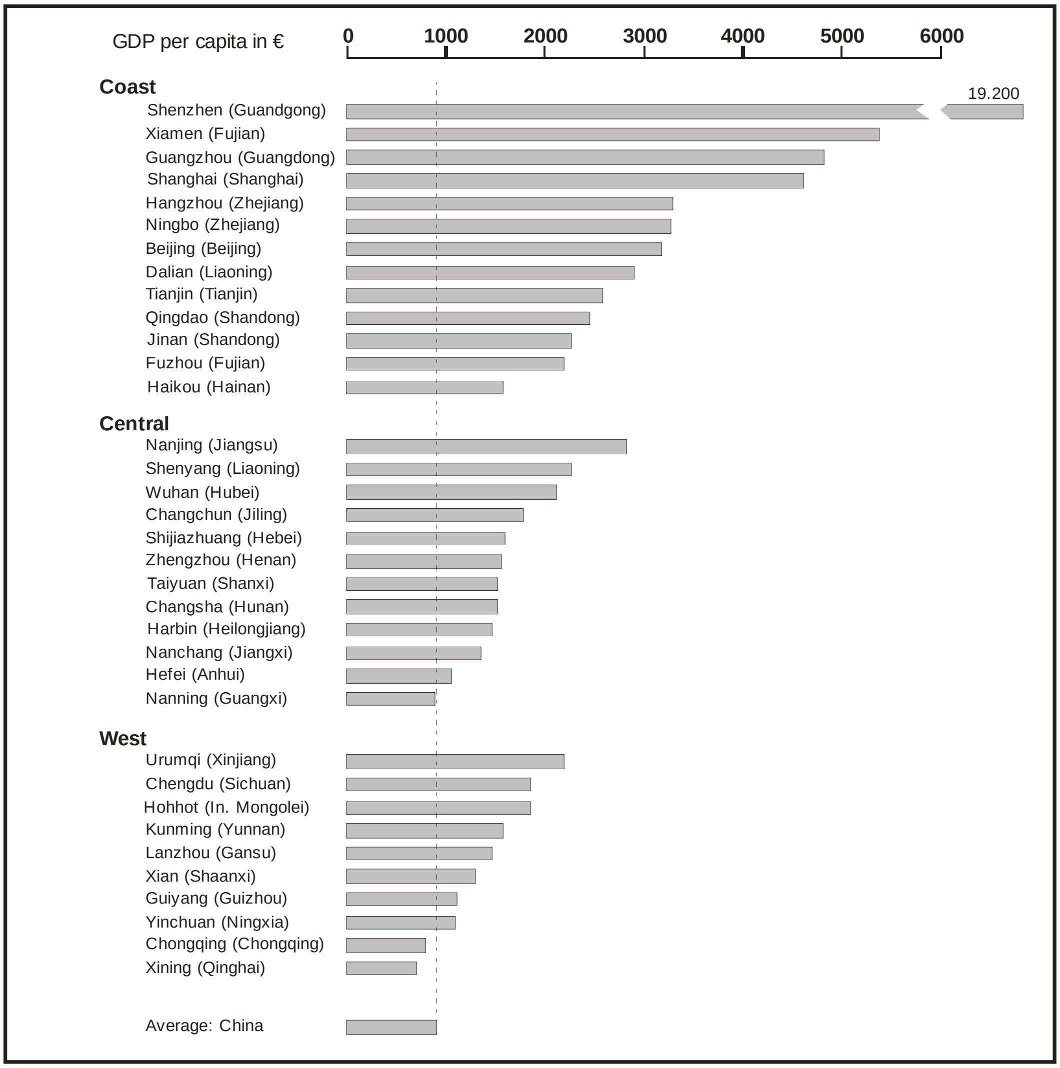
The Chinese consumer goods market is widely considered to be the Dorado of the brand product industry: Firstly, China is deemed to be the market with the greatest growth potential during the next decade. Secondly, foreign brand manufacturers seem to have the edge on their Chinese competitors with regard to image and quality of their products. In this context, the following work provides information on brand preferences of Chinese consumers based on an empirical survey. Ultimately, the research shows no general dominant preference for foreign brands but a strong polarization, which suggests a differentiated approach to the target group.

1. Introduction

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, the fact of 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 this market up. Moreover, the increasingly saturated consumer goods markets in the European Union and the United States, where the acquisition of new customers as well as the fostering of the customer base keep inflating the marketing budgets of the industry, make a stronger pervasion of the Chinese consumer goods market seem sensible and necessary.

However, the opening up of the Chinese market is hardly a simple task (Henderson, et. al. 2003, Kotler, et. al. 2003). A central problem lies in defining the relevant target group (Cui 1999, p. 56). 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 development and in income in the different regions (Taube 2003). A conservative estimate of the market potential could thus focus on the urban population of China's 660 cities (of which 174 alone have a population of more than one million people). Even this, with 524 million people (National Bureau of Statistics 2004, 95 and 401), would comprise a population larger than the United States and the EU-15 added together. As Figure 1 illustrates, however, the urban centers also are characterized by a great difference in income, which must lead to a further narrowing down of the target group that is relevant to foreign vendors.

Fig. 1: Local GDP of chinese province capitals and cities named in the five year plan



Source: National Bureau of Statistics 2004, 404. Our calculations.

With a premium-brand-strategy, which is used so far by most foreign enterprises in the PR of China, the relevant market shrinks to the 5-10 % of the population with the highest income. The suspicious Chinese consumer goods market is thus reduced to a mere 25-50 million people that can currently be approached as potential customers. Only 15 million of these currently have an annual income of more than € 3,500.

A quantitative extension of the relevant target group can only be achieved in two ways. On the one hand, through patient waiting: There is a good chance that income levels will continue to rise substantially for most of the Chinese population during the coming years, and that a greater number of consumers will cross the income limit critical to consume international brands. On the other hand, current concentration on a premium-brand-strategy could be replaced by a diversified brand portfolio and, thus, by active pursuit of the development of the middle and lower income groups (Chen/Penhirin 2004). Brand management can thus be seen as a central factor for the opening up of the mass segment of the Chinese consumer goods market.

Against this background, this work, on the basis of empirical research, intends to highlight consumer behavior and particularly the brand preferences of Chinese consumers. The analysis will focus on the attitude of Chinese consumers towards domestic and foreign brands. To what extent have decided brand preferences been able to emerge? And if so, how significant are domestic and foreign brands?

In the following, Chapter 2 will present the survey design as well as the hypotheses, made, before the findings of the empirical research are presented in detail in Chapter 3. Chapter 4 will conclude this survey with a summarizing discussion of the findings.

2. Survey Design and Hypotheses

The survey is based on 1600 face-to-face interviews with consumers in the cities of Beijing (800) and Wuhan (800). The collection of data was carried out in cooperation with the China Economic Monitoring Center of the National Bureau of Statistics of the People’s Republic of China. These two cities were selected in order to provide an image of the Chinese consumer goods market that is as realistic as possible (Hiu, et. al. 2001, p. 327). Beijing, the nation`s capital with a registered population of 11.5 million, also is one of the Chinese cities with a high density of high-income inhabitants. Thus, the city seems fit to represent the booming cities on the east coast. Wuhan, the capital of the central-Chinese province of Hubei, has a population of 7.8 million. The city’s focus on heavy industry brings about an economic focus on the domestic market. All in all, Wuhan has so far only marginally benefited from the growth process. This renders Wuhan representative for the large group of Chinese cities with a moderate income level and slower economic growth.

Although the sample underlying this survey covers only two large cities, the composition of the sample allows us to expect sound and representative findings on

Chinese consumer behaviour. The questionnaire comprises various qualitative and methodical elements. As regards interrogative forms, to limit translation mistakes, mostly closed questions as well as statement-batteries with Likert-Scales were used.[1] On average, the questionnaire could be completed by most of the respondents in about 30 minutes. The survey was conducted in September 2004 (weeks 38 and 39). The respondents were selected via random sampling and visited at their homes by trained Chinese interviewers to complete the questionnaire.

The main goal of the survey is the determination of brand preferences of Chinese consumers. In particular, a comprehensive consumer typology with regard to different brand preferences for foreign brands on the one hand and for Chinese brands on the other hand is built up. On this topic, hardly any empirical work can be found: Ming summarizes the surveys available until the late 1990s, but does not come to consistent results with regard to consumer behavior in matters of brand preferences (Ming, et. al. 1999)[2]. Only a few recent pieces of empirical research on the brand preferences of Chinese consumers can be found. Frequently, however, these analyses focus only on the attitudes towards specific products in order to compare them with the attitudes of similar target groups in other countries. For instance, the survey conducted by Witkowski et al. (2003) analyses intercultural effects on perception and preference for the fast-food chain, Kentucky Fried Chicken, in China and the United States. Somewhat more broadly, Wang et al. (2004) research the decision- and choice behaviour of Chinese consumers in the garment sector. A somewhat more econometric survey is the work of Lin and Chang (2003) on habitualised choice behaviour with regard to Chinese brands. Even though the cited works provided useful information for our own analysis, it is also clear that a general empirical survey of the brand preferences of Chinese consumers is not available so far. Thus, this paper must be seen as explorative.

This survey is based on the following hypotheses which were derived either from the relevant literature or from empirical exploratory work carried out by the authors:

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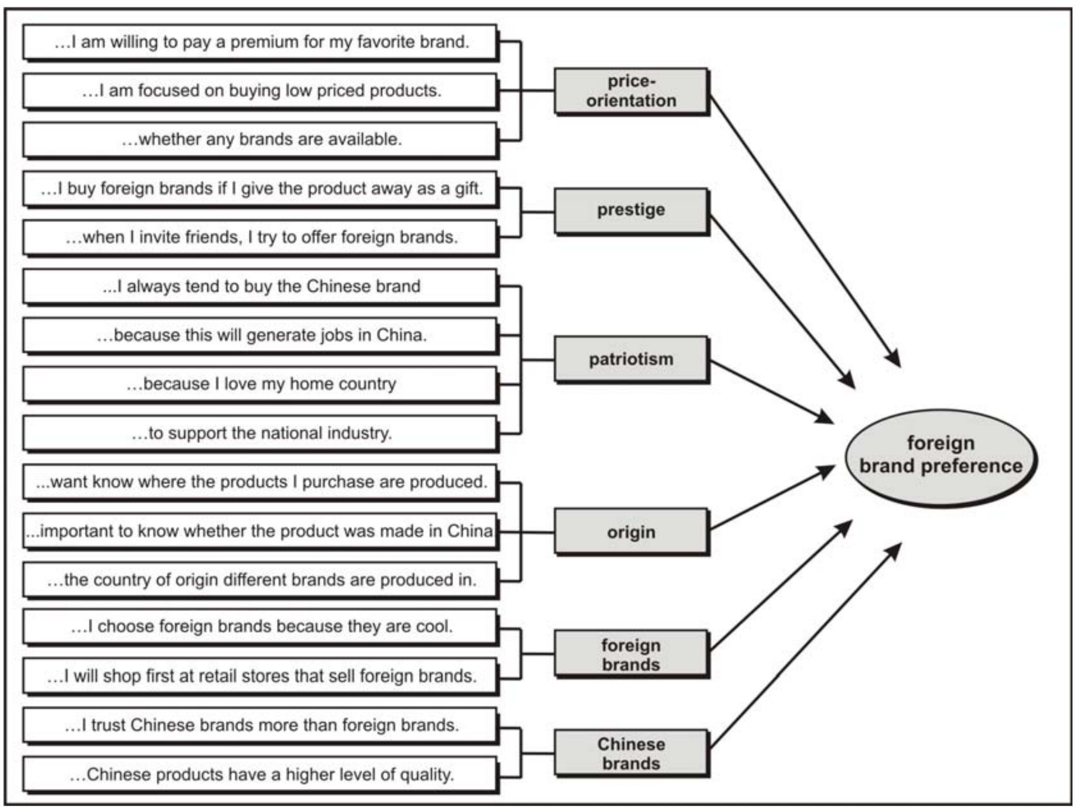
1 The questionnaire was written in English and then translated into Chinese by a member of the staff of the Chair for East Asian Economics/China (University of Duisburg-Essen) (native speaker). Additionally, the questionnaire was then translated back into English separately by two other staff members (both also native speakers) (Brislin 1986; Parameswaran/Yaprak 1987).

2 The meta-survey carried out by Ming mainly focuses on empirical surveys from the early 1990s, which primarily dealt with basic questions of marketing (e.g. communication policy) (compare for instance Stewart et al. 1986) without a special focus on brand preferences (see for instance Tse, et. al. 1989; Schmitt, et. al. 1994; Klein, et. al. 1998).

- Hypotheses 1: Preferences for foreign brands are mainly based on the prestige-effects of the brands. The demand for such brands is thus one of conspicuous consumption.
- Hypotheses 2: Aside from this, there subsists a pronounced preference for Chinese brands, which derives from the good price performance ratio.

To test these hypotheses, a model for the explanation of the construct "preference for foreign brands" was designed. Following the two central assumptions (H 1 and H 2) as well as the empirical work cited above, six partial constructs, such as "price", "prestige" or "patriotic reasons" were deduced as possible influential factors. Figure 2 shows the designed model with the possible influential factors on the preferences of Chinese consumers for international brands as well as the statements phrased to operationalize the partial constructs.

Fig. 2: Possible influential factors with regard to the preference for foreign brands



Source: Our results

3. Findings of the empirical research

In the following, the most important results of the empirical research project are presented. As we had to learn, China – in particular the two chosen cities – does not appear to be homogeneous, in fact the results differ in many regards. However, in order to present a coherent picture of the brand preferences of the Chinese consumer, we decided to present the results of one city – Beijing – in depth here and compare some findings in the final Chapter. All following results were taken from the survey conducted in Beijing.

All in all, it can be seen that Chinese consumers in general have a positive attitude towards as well as a strong preference for brands. Roughly 72 % thus have a general additional willingness to pay for the brands favored by them. Parallel to this, however, an information overload can be noted on the side of the consumers. More than 68 % feel swamped by the complexity of the range of products. The following Table shows the differentiated results for selected Likert-Scales which measure the purchasing behavior of the respondents (Table 1).

Table 1: Mean values and standard deviations of individual statements

When buying products…	MV/ st.dev.	Strongly agree	agree	neutral	disagree	Strongly disagree
…I am willing to pay a premium for my favorite brand.	**.86/1.02**	**28.9**	**43.2**	**14.4**	**11.7**	**1.7**
…I will shop first at retail stores that make a special effort to sell foreign brands.	**-.54/.989**	**2.5**	**13.4**	**26.9**	**41.7**	**15.4**
…I prefer to buy foreign brands if I want to give the product away as a gift.	**-20/1.081**	**4.1**	**25.8**	**28.4**	**29.4**	**12.3**
…even though certain products are available in a number of different brands, I always tend to buy the Chinese brand.	**.55/.907**	**14.5**	**39.3**	**34.0**	**11.2**	**1.0**
…I am willing to take time to look on the labels so I know where the products I purchase are produced.	**.99/.888**	**29.3**	**48.5**	**15.0**	**6.1**	**1.1**
…when I invite friends, I try to offer foreign brands.	**-.44/1.03**	**3.9**	**15.6**	**26.8**	**39.7**	**14.0**
…sometimes I get confused because there are so many different brands.	**0.76/.975**	**21.9**	**46.6**	**20.2**	**8.6**	**2.6**

Source: Our results

To test the hypotheses generated in Section 2, bivariate correlations of the different partial constructs operationalized by the statements were analyzed. The preference for brands was tested by two differently phrased parts in the questionnaire. First, the preference for foreign brands is analyzed, followed by a closer look at the preferences for Chinese brands (see Tables 2 and 3). The highly significant correlation between the statements *“Before purchasing a product it is important to know the country of origin different brands are produced in”* and *“Before purchasing a product it is important to know the level of quality of the different brands”* clearly shows the necessity of this differentiated examination.

Table 2: Correlations between statements on the preference for foreign brands

Statement 1	Statement 2	Correlation (Pearson)
…I will shop first at retail stores that make a special effort to sell foreign brands.	…when I invite friends, I try to offer foreign brands.	0.465***
…I prefer to buy foreign brands if I want to give the product away as a gift.	…when I invite friends, I try to offer foreign brands.	0.534***
…I choose foreign brands because they are cool and have really funny and crazy ads.	…when I invite friends, I try to offer foreign brands.	0.578***
(foreign) of high prestige/of low prestige	(foreign) expensive/cheap	-0.605***
…I will shop first at retail stores that make a special effort to sell foreign brands.	…I am focused on buying low priced products.	-0.84***

*Source: Our results; *** = level of significance p ≤ 0.01; * = level of significance p ≤ 0.1*

Especially instructive is the very strong and highly significant correlation (0.534***) between the statements *„When buying products… I prefer to buy foreign brands if I want to give the product away as a gift”* and *“…when I invite friends, I try to offer foreign brands”*. Thus, an influence of prestige-reasons on the demand for foreign brands stated in hypothesis 1 (H 1) can now be confirmed. A further piece of evidence is the highly significant correlation (0.605***) between the statements *„When thinking of foreign brands, do you think they are … of high prestige/of low prestige”* and *“… expensive/cheap”*. In contrast to this, the preference for Chinese brands differs: The highly significant correlation between the *statements „It is important to buy Chinese brands … because this will generate jobs in China“* and *„…to support the national industry“* proves that domestic brands are demanded mostly for patriotic reasons, such as the strengthening of the domestic economy. Furthermore, the trust mustered is higher compared to foreign brands (0.436***). Thus, hypothesis 2 (H 2) can also already be confirmed at this point.

Subsequent to this first review of the findings, the correlations between general brand preference, preference for foreign or Chinese brands, respectively, as well as reasons for consumer behavior are illustrated in a more differentiated fashion, using multivariate methods of analysis. Based on cluster analysis, a classification of the respondents with regard to their consumer behavior with respect to brands is carried out.

Table 3: Correlation between statements on the preference for Chinese brands

Statement	Statement	Correlation (Pearson)
…because this will generate jobs in China.	…to support the national industry.	0.526***
…because I love my home country	…to support the national industry.	0.641***
…even though certain products are available in a number of different brands, I always tend to buy the Chinese brand.	…it is more important to know whether the product I buy was made in China than what brand it is.	0.225***
…even though certain products are available in a number of different brands, I always tend to buy the Chinese brand.	…I am focused on buying low priced products.	0.275***
…even though certain products are available in a number of different brands, I always tend to buy the Chinese brand.	…because I trust Chinese brands more than foreign brands.	0.436***

*Source: Our results; *** = level of significance p ≤ 0.01; * = level of significance p ≤ 0.1*

Factor analysis for dimension reduction

In order to explain the brand preferences of Chinese consumers, a wide range of influencing factors has to be taken into account. With a larger number of variables, however, the risk that these are no longer independent of each other rises, as well as the risk that some fields are measured more intensively than others. With this number of variables, the degree of coherence is not known a priori. Thus, the focus of the factor analysis carried out first is the reduction of this diversity of variables into groups of variables which broach similar explanatory factors (Backhaus et al. 2003). Besides the reduction of complexity, the factor analysis also serves the uncovering of influential factors which are independent of each other and can thus, in this case, be used exploratively.

Using an explorative factor analysis, a total of three influencing factors (with Eigen-values > 1), that cumulatively explain 59.94 % of total variance (KMO = 0.748), could be identified (Backhaus et al. 2003, p. 292). The quality of the data for the following analysis was tested by the Kaiser–Meyer–Olkin–criterion in combination with the Bartlett-test. The Kaiser–Meyer–Olkin–criterion proves whether the data base is suited for factor analysis. The determined value of 0.748 substantiates a good suitability of the data base[3]:

- Factor 1: Prestige-effect of foreign brands
- Factor 2: Patriotism
- Factor 3: Trust-/Performance-effect of Chinese brands

The following Table 4 shows the statements behind the respective factors as well as the factor loading.

Table 4: Factor loading of the particular statements

Factor 1: Cronbachs Alpha = 0.794; % of the explained variance: 22.99	**factor loading**
…I will shop first at retail stores that make a special effort to sell foreign brands.	.776
…I prefer to buy foreign brands if I want to give the product away as a gift.	.725
…I choose foreign brands because they are cool and have really funny and crazy ads.	.807
…when I invite friends, I try to offer foreign brands.	.820
Factor 2 : Cronbachs Alpha = 0.784; % of the explained variance: 19.67	
…because this will generate jobs in China.	.775
…because I love my home country	.838
…to support the national industry.	.859
Factor 3: Cronbachs Alpha = 0.640; % of the explained variance: 17.28	
…even though certain products are available in a number of different brands, I always tend to buy the Chinese brand.	.604
…it is more important to know whether the product I buy was made in China than what brand it is.	.515
…Chinese products have a higher level of quality.	.698
…because I trust Chinese brands more than foreign brands.	.809

Source: Our results

A quality factor used to test the soundness of the extracted factors is the reliability analysis. It determines how well a latent attribute is represented by a set of variables/statements and how much the single variables contribute to the reliability of the construct[4]. The extracted factors “Prestige-effect of foreign brands” (0.794), “Patriotism” (0.784) have values above 0.7 and thus prove the reliability of the measurement. Although, the third factor “Trust-/Performance-effect of Chinese brands“

[3] With values under 0.5, it is advised to refrain from the execution of a factor analysis (Backhaus et al. 2003, p. 276).

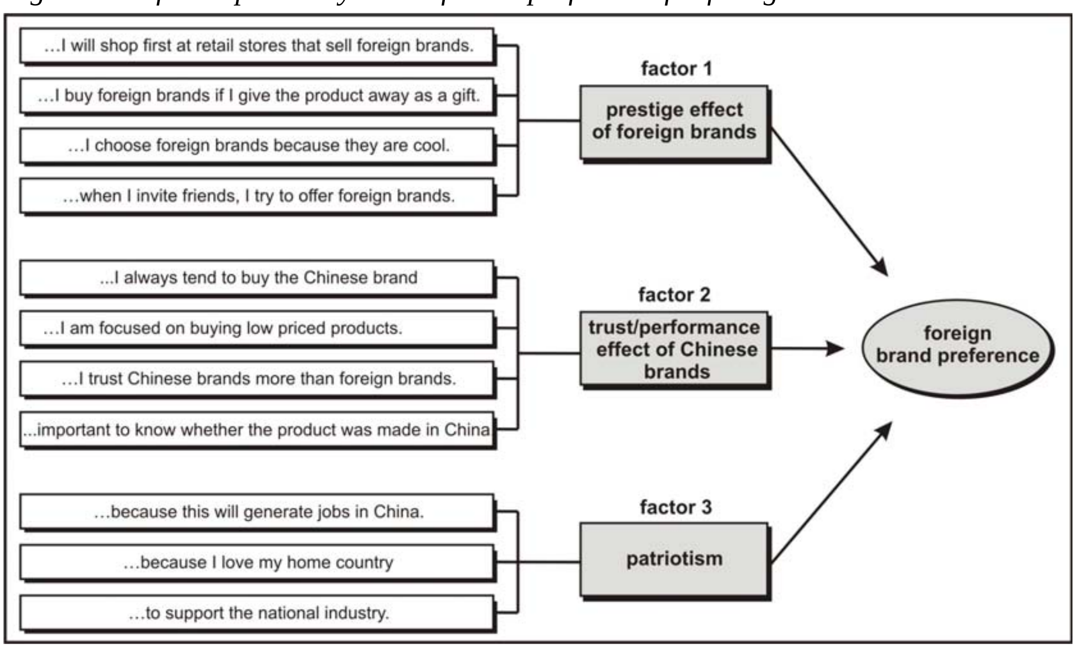
[4] The reliability coefficient Cronbachs Alpha is based on the idea that the reliability of a scale is the better, the stronger the correlation between the individual variables and the greater the number of variables is. The values of the coefficient range from 0 to 1, while the Cronbachs Alpha should at least reach a value of 0.7 to indicate a reliable measurement.

(0.640) does not fulfill this condition, it can be accepted, because of a value just under 0.7.

Construct modification

The model for the explanation of the construct “Preference for foreign brands” conceived in Section 2 together with the necessary explanatory modules only partially substantiates the interrelation hypothetically assumed before. The influence of particular partial constructs, such as “Prestige-reasons” or “Patriotism” could be verified. However, due to unclear contributions to explanation and the associated bias in the results, several variables, mainly from the partial constructs “Price orientation” and “Origin” had to be eliminated. Since these variables could not be attributed to any of the factors, but each would have separately constituted an independent factor, the consideration of these variables would have produced a deterioration of the overall results. The respondents seem to have linked the questions not directly to the preference for foreign brands, which could also account for the small contribution of explanation of individual constructs. The following chart shows the revised model for the explanation of preference for foreign brands together with the influence of the partial constructs.

Fig. 3 Modified explanatory model for the preference for foreign brands



Source: Our results

Cluster analysis for the identification of groups with different brand preferences

Based on factor analysis, a hierarchical cluster analysis was carried out next. The intention of the factor analysis is the identification of homogenous groups which are as heterogeneous among each other as possible. The three components “Prestige-effect of foreign brands”, “Trust-/Performance-effect of Chinese brands” and “Patriotism” extracted during factor analysis were used as cluster-building variables. Based on the Ellbow-criterion as well as the interpretation of the contents, a solution with five Clusters was selected as output for further analysis. These Clusters could be validated to more than 90 % in their group classification by discriminant analysis.

In the following chart, the Clusters identified are described by the three factors identified during factor analysis. All Clusters exhibit a partially pronounced brand focus. Only cluster 2 shows hardly any such preferences.

Table 5: Characterization of Clusters by extracted factors

Cluster / Factors	1 n = 32, 15.0 %	2 n = 33, 21.8 %	3 n = 29, 16.4 %	4 n = 21, 18.1 %	5 n = 54, 28.7 %
Factor 1: Prestige-effect of foreign brands	--	+	+	-	-
Factor 2: Patriotism-effect	+	-	+	+	--
Factor 3: Trust-/Performance-effect of Chinese brands	+	++	-	-	-
Mean values from 0.95 to 2.00 = ++; 0.30 to 0.94 = +; -0.29 to +0.29 = 0; -0.30 to –0.94 = -; -0.95 to –2.00 = --;*** = level of significance p ≤ 0.01; * = level of significance p ≤ 0.1					

Source: Our results

Cluster 1: “Chinese Brand Lovers” (15.0 %)

The most distinct trait of this cluster is the preference for Chinese brands. A higher level of trust is connected with these brands. The “Chinese Brand Lovers” value the performance of “their” Chinese brands. International brands, in contrast, are rejected completely. This is also reflected in the favoured use of Chinese supermarkets. International Supermarkets (Carréfour, Metro, etc.) are found to be too expensive and do not offer as many fresh products as Chinese ones. However, all in all, this group strongly prefers food stores which are nearby. Especially the prestige-reasons cited in Clusters 2 to 3 have a negative effect in this group. Additionally, the patriotism-effect is quite strong within this group, further underlining their preferences for Chinese brands. With regard to socio-demography, this group differs from Clusters 2 through 3. It is dominated by older families (nearly 12 % of respondents are older than 65 years) with or without children. The level of education is low compared to other groups: 26 % of the members of this group have completed High School, and another 26 % have completed Junior College, only few visited a university. Compared to other Clusters, the income level is low: more than 34 % belong to the group with lowest income (less than 2000RMB per month).

Cluster 2: "Brand Lovers" (21.8 %)

The cluster of "Brand Lovers" is characterized by a consistent commitment to brands. With 21.8 %, it has a similar size to Clusters 3. However, members of this group are willing to pay a price premium for their favorite brand. Even though foreign as well as Chinese brands are appreciated, the occasion for the purchase determines which product is bought. The focus on foreign brands, as in cluster 3, is explained by prestige-motives. In contrast, Chinese brands are preferred for certain (lower-priced) product groups. Compared to this, patriotic reasons only play a minor role in the purchasing decisions of this group. "Brand Lovers" most frequently shop in Chinese supermarkets and on the traditional weekly markets, but also visit international stores. Socio-demographically, members of this group are somewhat younger than in other groups, all in all, the cluster consists mostly of young families. The level of education in this group is very high. While the level of income is average, some 20 % belong to the high income group (more than 5000RMB per month).

Cluster 3: "Foreign Brand Lovers" (16.4 %)

The group of "Foreign Brand Lovers" with 16.4 % of all interviewed consumers has a similar size to the cluster of the "Chinese Brand Lovers". The focus on international brands was comparable to Cluster 2, however. The popularity continues to lie in the high reputation for quality, which in this group is only accredited to foreign and not to Chinese brands. In this cluster as well, consumers reject domestic brands. The source of this resentment can probably again be found in the cheapjack-image of Chinese brands. This assumption is supported by the also negative price-orientation. Contrary to the stated similarities, this cluster exhibits a notably low level of patriotism. „Foreign Brand Lovers" like to use a broad spectrum of shops: Chinese supermarkets as well as traditional street markets are frequented, in addition they like to visit international supermarkets and do so more than other groups. In terms of socio-demography, this group is dominated by young people. More than half of the people in this group attended Junior College. Although they are quite young, members of this group have a high income level.

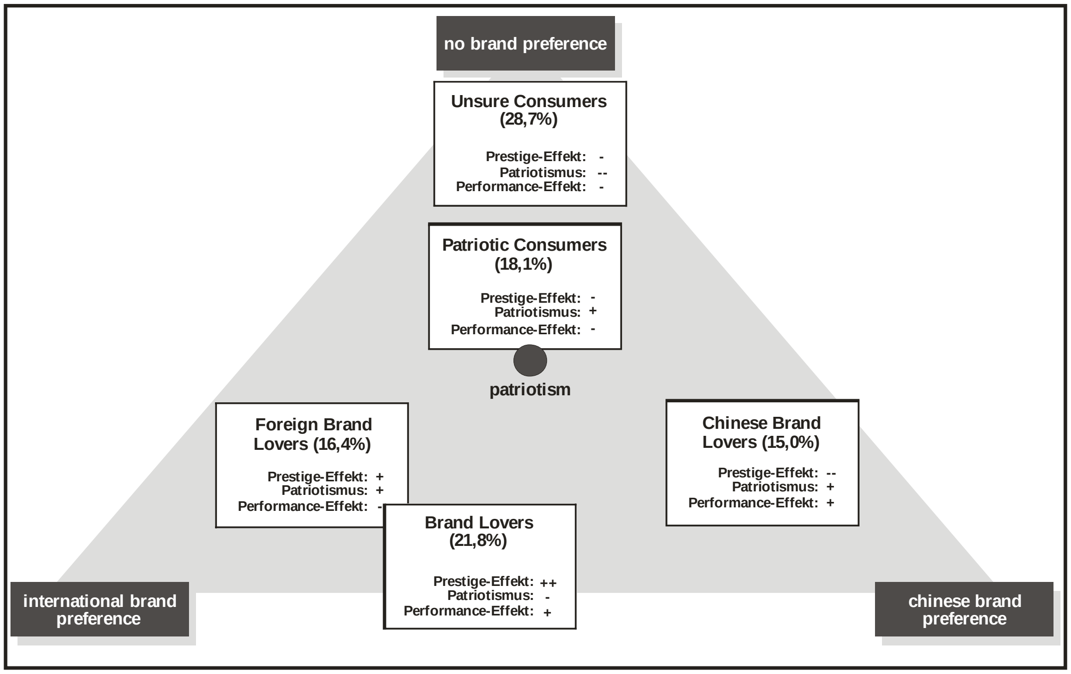
Cluster 4: “Patriotic Consumers” (18.1 %)

The most distinct trait of this group is that they do not have any brand preference at all. They neither like foreign brands nor do they favor Chinese brands. Instead, in their buying decision, patriotism has a high relevance. The “Patriotic Consumers” prefer do buy Chinese products not necessarily brands, in order to show their high patriotic attitude. They wish to support national industry and strongly hope that their buying-decision will generate jobs in the specific region. The consistency of this pro-Chinese attitude is furthermore reflected in the preference for Chinese shops, while foreign shops are strictly rejected. More than two thirds claim never to visit foreign supermarkets, more than 35 % of all products are bought daily at traditional markets. In terms of socio-demography, this cluster again shows many similarities to Cluster 2: It is dominated by young families (54.8 %). The level of education is heterogeneous: One quarter of the people in this cluster have completed High School, roughly 36 % a Junior College program, some have visited university. The income level in this group is somewhat lower, about 30 % fall into the category with a lowest monthly income (>2000 RMB).

Cluster 5: “Unsure Consumers” (28.7 %)

The cluster of the “Unsure Consumers” is characterized by a complete lack of any specific preference. Similar to Cluster 4, they do not favor any brands – international or Chinese. Additionally, no patriotic-preference could be found, instead they reject any patriotic buying motive. More than in any other group, members of the “Unsure Consumers” report that they are confused because there are so many different brands and new products on the market. That might be one reason why this group shows “negative” preferences only. The same holds true for their choice of stores: they do not have any preferences concerning a favorite shopping place, they use nearly any store reaching from traditional markets to international supermarkets. Looking at the socio-demography of this cluster, it seems remarkable that the average age compared to other groups is quite low/young. More than 16 % state that they are still living with their parents and another 42 % are living with partner and child. The level of education can be compared with that of Cluster 4: Nearly all educational levels can be found, reaching from high school to MA. The same holds true for the income level in this group: again, all income groups can be found.

Figure 3: Typology of the sample



Source: Our results

The typology (Figure 3) uncovers five different groups, all of which show a pronounced focus on brands. However, this result has to be considered differentiatedly, since only Cluster 2, the “Brand Lovers”, shows a general brand preference. People in this cluster, contrary to all other groups, exhibit a preference for international as well as for Chinese brands. Depending on the occasion, Chinese brands are substituted for international brands and vice versa.

The other clusters of the typology polarize strongly in terms of brand focus. One the one hand, there is Cluster 1 “Foreign Brand Lovers” who exhibit a strong preference for foreign brands. The focusing is a result of the esteem of prestige and high quality, neither of which are attributed to Chinese brands. This group strongly dislikes Chinese brands, resulting presumably from the cheapjack-image of many Chinese brands and the negative price-orientation of both clusters.

The antipole is made up of the „Chinese Brand Lovers“. The most significant trait of this cluster is the preference for Chinese brands, which are trusted greatly. The “Chinese Brand Lovers” above all value the performance of “their” Chinese brands. This focus on Chinese brands at least partly results from the patriotism-preference, the “Chinese Brand Lovers” show. Foreign brands, on the other hand, are completely rejected.

In contrast to these three clusters stand the last two Clusters: They do not show any brand preference at all. On the one hand, their buying behavior is determined by their patriotism-preference as in case of the “Patriotic buyer”. On the other hand, the “Unsure Consumers” seem to have any preferences but are confused by the growing number of brands and products. It can be assumed that their preferences are still to be built up.

4. Conclusion

Altogether, this empirical survey confirms – at least with respect to the region of Beijing – the two leading hypotheses stated above. The main hypothesis of the survey states that those consumers who exhibit a high preference for foreign brands mostly consume these for reasons of conspicuous consumption (H 1). Using bivariate correlation analysis, this assumed influence of prestige-reasons on the demand of foreign brands could be confirmed. Chinese consumers regard foreign brands as more high-grade, innovative and modern as well as more expensive compared to domestic Chinese brands. The foreign brands thus have a higher prestige-value. The second main hypothesis (H 2), on the other hand, examines to what extent there is a significant preference for explicitly Chinese brands. Correlation analysis showed that domestic brands were mainly consumed for patriotic reasons, such as the strengthening of the domestic economy, and that the trust invested in these brands is higher compared to foreign brands. Chinese brand products are generally seen to be in the low- and mid-price segment, but still have a good image in terms of quality and are seen as competitive, especially with respect to their price-performance ratio.

Following this, a typology was developed using multivariate methods, which also endorses the correlations assumed in the survey. Altogether, five groups could be specified, at least three of which have a specific brand focus. This focus must be treated in a differentiated way, however, since the clusters of the typology polarize strongly with regard to the brand focus. While some clusters have a significant preference for foreign brands, others show an equally strong preference for Chinese brands. Only the cluster of “Brand Lovers” exhibits a general preference for brands without regard for the provenance. Ultimately, an explicit preference for international brands could only be verified for roughly 40 % of the consumers interviewed.

The survey shows that, all in all, the Chinese consumer goods market is far from being the Dorado of the foreign brand product industry. Since Chinese consumers have only recently been confronted with the concept of brands at all, it will still take time for it to become integrated into consumer behavior and preference structures. Moreover, the Chinese economy is characterized by extreme disparities in personal income, so that generally only the population of the larger cities can be the target group of a more intensive brand policy. However even this - substantially smaller - group of Chinese consumers hardly has an income level that can be compared with that of the middle class of the United States or Europe. Ultimately, only a very small group of Chinese consumers can be seen as a target group for the mostly high-priced foreign brand products. Furthermore, the cluster analysis reveals another interesting phenomenon. There is no general preference for foreign brands, but the purchase of these products is linked to a particular purpose. A large group of consumers highly trust Chinese brands, which are mostly positioned in the lower price-segments. As the management consultants at McKinsey recently showed, the market share for shampoo of all foreign manufacturers in the total Chinese market is only roughly 24 % (Chen/Penhirin 2004, p. 67). If this comparatively small market share is seen together with the marketing expenses, it becomes clear that the Chinese market is anything but an easily handled field. For the brand Head&Shoulders (Pantene) alone, 101 million US $ (86 million US $) were invested only in the first and second quarter of 2004 and only for TV advertisements (Chen/Penhirin 2004, p. 67). In the face of the size of the target group and the costs involved in approaching it, a positioning in the premium-sector seems to be a difficult enterprise.

Structural problems of the Chinese market add to the difficulties of an adequate positioning. Usually, foreign brands are established in all of the Chinese market, and are uniformly positioned. Because of the heterogeneity of the Chinese market, however, they are confronted by different competitors in different regions. Especially in the consumer goods sector, locally and regionally specialized Chinese brands are to be found, which cater to the specific needs of the consumers and are well-positioned. National brands are, at the most, limited to white goods or consumer electronics, and even here, exceptions can be found. To face this heterogeneity of the competitors, a special marketing strategy for each region will have to be developed, as well as a locally varying positioning, if a wider group of consumers is to be attracted.

Altogether, it seems that further empirical research is necessary to fully understand the preferences of Chinese consumers. This holds especially true as brands are a comparably young phenomenon on the Chinese markets. As can be seen, to some extent – varying form cluster to cluster – brand preferences are still to be built up. However, this process seems to be of special interest, as it gives us the opportunity to have a closer look of how and why preferences evolve.

5. Bibliography

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