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**Three Essays on International
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Introduction

With a population of 1.3 billion, China is the world's second largest economy. It has recently entered a "new normal"¹ phase, which represents a condition characterized by slower economic growth. Following the financial crisis in 2008, China has no longer achieved double-digit growth and in 2015, GDP did not reach the 7% target as it had in the previous three years (World Bank, 2016). However, the rise of the Chinese middle class and strong consumer spending continue to stimulate growth in several sectors of the world's economy (Euromonitor International, 2015; Orr, 2016), in contrast with a low internal demand of mature markets. Therefore, over the last few decades international firms have constantly increased their activities in China and in other emerging markets.

On the other hand, despite the country's modernization, China remains a developing country with specific characteristics (in terms of institutions, culture, way of doing business, and intermediaries system) that require foreign firms to reconsider their strategies. Moreover, its wide territory has not developed equally, resulting in great disparity between the most advanced areas (especially the Eastern provinces that include first-tier cities such as Beijing and Shanghai) and rural and inner regions (located in the Western provinces). Therefore, the Chinese market represents an interesting setting for research.

This thesis contributes to the recent debate about international marketing strategies in emerging markets. Since the rise of the emerging economies in the 1990s, scholars have discussed the inadequacy of strategies for success that firms have developed for traditional markets in such new contexts (Arnold & Quelch, 1998; Batra, 1997; Dawar & Chattopadhyay, 2002; Prahalad & Lieberthal, 1998). Moreover, emerging markets represent an opportunity to rethink existing perspectives and advance marketing science and practice (Burgess & Steenkamp, 2006; Sheth, 2011). Therefore, several scholars

¹ The definition of "New normal" was used for the first time by President Xi Jinping in 2014 (Retrieved from http://news.xinhuanet.com/english/china/2014-05/10/c_126484869_2.htm, accessed 17 November 2016)

(Burgess & Steenkamp, 2006; Johnson & Tellis; Sheth, 2011) have stressed the importance of conducting more research in emerging markets, research that might, however, be hampered by some difficulties, for example, access to primary data.

The aim of this thesis is to analyze the key marketing issues for foreign firms operating in China, such as distribution, communication, and price, whereas product is tackled across all three studies.

The first paper of the thesis investigates distribution, which represents one of main issues and challenges in the environment of emerging markets (Batra, 1997). It is also the most critical determinant of business success for foreign firms operating in China (Jiang & Prater, 2002). A multiple-case study approach is adopted by analyzing the strategies implemented by four Italian firms. The main findings concern the key decisions taken by these firms in their distribution management in China as well as some possible areas of innovation (distributors as active learning centers, role of physical stores in brand and consumer engagement, and evolution of the Internet channel).

The second paper further deepens the focus on distribution by analyzing the role of country of brand (COB) communication in points of sale. Previous studies have analyzed how country of origin (COO) and COB impact on consumers' perception and behavior; however, no empirical research has been conducted on the way these are communicated to consumers. The study adopts an exploratory approach to examine the effective use of the COB in retailing, which represents a primary communication channel for firms operating in China (Moore, Doherty, & Doyle, 2010). The main findings from the primary data (collected through participant observation in stores, analysis of the main Chinese e-commerce channels, and interviews with informants from the fashion industry) show that firms should enhance their COB communication in store and should further integrate it within their overall branding strategy.

The third paper analyzes the effect of country of origin on consumer preference with regard to wine, which represents a new product for the Chinese market since wine is not part of its cultural traditions. Wine is a growing sector in China (Euromonitor International, 2016) and it is characterized by a socio-cultural significance and a hedonistic value (Hu, Li, Xie, & Zhou, 2008). A hedonic analysis is performed on a sample of wine bottles sold on one main Chinese e-commerce website. The results show that COO is the wine attribute that influences sales the most.

The Chinese market is rapidly evolving and becoming a more competitive environment. Since China affects the shape of the global scenario and creates new opportunities and challenges for international firms, more studies should be carried out in this context. In this sense, research would contribute to the advancement of knowledge in management studies as well as provide relevant managerial implications for firms operating in emerging markets and for the institutions that support their activities.

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The Chinese Market as an Opportunity to Innovate Distribution Strategies?

Case Studies of Italian Firms

Abstract

China represents one of the most challenging emerging markets because of its complex distribution system and internal heterogeneity. By adopting a multiple-case study approach, the objective of this paper is to analyze the distribution strategies implemented by four Italian firms in China. The study wants to understand whether, as discussed by previous research, emerging markets represent an opportunity for firms to innovate their practice. Results discuss the main decisions and issues faced by foreign firms operating in the Chinese distribution system. Three areas of innovation are then suggested. First, local partners have a primary role to play in distribution access, but they also represent important learning centers for foreign firms. Second, physical stores in China shift their role from being mere points of purchase to focusing on providing product and brand experience. Finally, the rapid growth of the Internet channel in China offers new opportunities for foreign firms in their strategies for accessing this relevant, yet competitive, market.

Keywords: China, distribution, emerging markets, international marketing, Internet

1. Introduction

Given the economic crisis in traditional markets and a low internal demand, over the last few decades large multinational companies but also small-medium enterprises have increased their operations and investments in developing countries (Sheth, 2011; Wright, Filatotchev, Hoskisson, & Peng, 2005). Among them, despite the recent economic slowdown,² China represents a relevant market thanks to the rise of the middle class and strong consumer spending (Euromonitor International, 2015a; Orr, 2016).

Usually, when firms approach emerging economies they adopt the same business models that were developed for traditional mature markets (Arnold & Quelch, 1998; Prahalad & Lieberthal, 1998). However, these are often inadequate since they do not take into consideration the specific characteristics of the market, such as its institutional, cultural and economic context (Batra, 1997; Dawar & Chattopadhyay, 2002). According to Prahalad and Lieberthal (1998), when large Western companies approached emerging markets in the 1980s, they were guided by a “corporate imperialist” view. They primarily targeted the rich segments of consumers in these countries, who were more similar to Western consumers, missing the opportunity to reach larger markets. Arnold and Quelch (1998) explain that this outcome is due to the assumption made by foreign firms entering emerging markets that they would follow the same development path as developed countries. On the contrary, emerging markets require the development of new business models (Arnold & Quelch, 1998; Burgess & Steenkamp, 2006; Dawar & Chattopadhyay, 2002; Khanna, Palepu, & Sinha, 2005; Sheth, 2011). In the long-run, the strategies for emerging markets would have the potential to make firms more competitive since the knowledge accumulated in these countries may be transferable to developed markets (Arnold & Quelch, 1998; Prahalad & Lieberthal, 2003).

² In 2015, the Chinese GDP grew by 6.9% (World Bank, 2016) but did not reach the targeted 7% growth as it had in the previous three years.

From the scientific point of view, Burgess and Steenkamp (2006) argue that research in emerging markets represents an opportunity to advance the field of marketing, referring to it as “marketing renaissance.” They consider emerging markets as a natural laboratory in which theories and assumptions can be tested in order to achieve generalizability of findings. In this regard, Johnson and Tellis (2008) stress the importance of developing a coherent theory of the drivers of success or failure of entry in emerging markets, both at firm- and country-level.

Among the marketing issues for firms entering emerging markets, distribution is particularly significant as these countries often lack modern logistics and infrastructures (Arnold & Quelch, 1998; Bortoluzzi, Chiarvesio, & Tabacco, 2015; Cavusgil, Knight, & Riesenberger, 2012). Moreover, Jiang and Prater (2002) point out that in China, distribution is considered to be one of the most critical determinants of business success. The evolution of technology is also another aspect that influences the way in which foreign products can reach consumers around the world (Hamill, 1997; Quelch & Klein, 1996).

The aim of this paper is to analyze the distribution strategies of foreign firms in the context of emerging markets. Moreover, the study seeks to understand whether, as suggested by previous research (Burgess & Steenkamp, 2006), these new markets represent an opportunity for firms to innovate their practices. In order to do so, the distribution strategies of four Italian firms operating in the Chinese market are analyzed by adopting a qualitative method based on case studies.

Given the growing relevance of emerging markets for international companies and the lack of established marketing models for these markets, this paper presents an exploratory study on the phenomenon of distribution. The research aims to contribute to the discussion in the literature about marketing in emerging markets, which are rapidly evolving and affecting the operations and strategies of international firms at the global level.

The paper is structured as follows. First, it provides a review of the recent literature related to the characteristics of emerging markets and China, and the distribution strategies adopted by foreign firms in their international activities. Second, the research questions, the methodology, and the case studies are described. The results of the study are then presented, identifying three key issues in distribution. A discussion and managerial implications follow. Finally, the paper concludes by noting the limitations of the study and future directions for research.

2. Literature Review

2.1 Characteristics of Emerging Markets and China

Emerging economies are defined as low-income, rapid-growth countries that use economic liberalization as their primary engine of growth (Hoskisson, Eden, Lau, & Wright, 2000). In the 1990s, together with the emergence of developing countries as new market destinations for international firms and their products, scholars in International Marketing have begun to intensify the debate about whether strategies developed for traditional markets are applicable to markets like China, India, or Brazil (Arnold & Quelch, 1998; Burgess & Steenkamp, 2006; Dawar & Chattopadhyay, 2002; Khanna *et al.*, 2005; London & Hart, 2004; Prahalad & Lieberthal, 1998, 2003).

Previous literature has identified some common features among emerging markets. Khanna and Palepu (2000) define them as “institutional voids,” that depend on the lack of reliable information on the market, an inefficient system of intermediaries, and unpredictable government actions. Dawar and Chattopadhyay (2002) classify the characteristics emerging markets into three categories: (1) low per capita income (2) high variability in consumers and infrastructure, and (3) relative cheapness of labor. More recently, Sheth (2011) has summarized the key characteristics of emerging markets: market heterogeneity, sociopolitical governance, chronic shortage of resources, unbranded

competition, and inadequate infrastructure. He also identifies three types of comparative advantages that emerging markets can offer: government policy (which has initiated several marketing activities and created special economic zones), richness in raw materials (from human capital to industrial raw materials, energy, and other natural resources), and new and non-traditional marketing practices implemented by non-governmental organizations.

By identifying the key characteristics of emerging markets, Dawar and Chattopadhyay (2002) suggest that firms should not develop different models for each emerging market because these countries have a sufficient number of common factors that affect consumer behavior in these countries. On the contrary, they suggest developing an alternative business model for emerging markets as a group, as opposed to the models implemented in developed markets.

However, in some countries such as China, given its wide territory and the presence of different cultures and traditions, a single marketing strategy may not be applicable. The main feature that characterizes China is the market heterogeneity (Ma, Tong, & Fitz, 2013), which has been influenced by an unequal development within the territory. In fact, since the late 1970s, economic reform has favored the Eastern coastal areas over the rural and Western regions, creating different levels of services and infrastructures across these areas. Therefore, China cannot be considered as a single, homogeneous market (Cui & Liu, 2000; Walters & Samiee, 2003). Today, distribution is still influenced by the centrally planned, three-tier system from the pre-reform era, in which distributors and wholesalers operated only in one tier. During the pre-reform period, tier-1 distributors covered main cities, such as Beijing, Shanghai, Tianjin, and Guangzhou; tier-2 wholesalers distributed in the provincial capitals and medium-sized cities; and tier-3 wholesalers managed distribution channels in smaller cities (Jiang & Prater, 2002). Therefore, China's regional

market segments represent both opportunities and barriers for the expansion activities of foreign firms (Cui & Liu, 2000).

Two further crucial dimensions in the operating environment in China are represented by internal protectionism and the development of relationships/social connections (*guanxi*) (Walters & Samiee, 2003). Internal protectionism is intended to support local firms at the expense of competitors from foreign countries or other provinces in China, whereas *guanxi* play a primary role in penetrating the Chinese market and obtaining a positive effect on performance (Björkman & Kock, 1995; Sheng, Zhou, & Li, 2011). When conducting business, Chinese people prefer to interact with people they know and trust (Jiang & Prater, 2002). However, non-compliance with the rules of reciprocity leads to the loss of “face” (*mianzi*), causing damage and possible dissolution of *guanxi* (Luo & Chen, 1996). Therefore, trust and long-term orientation are crucial in Chinese business markets (Lee & Dawes, 2005).

2.2 Distribution Strategies in Emerging Markets

When firms approach a new market the first decision they face concerns the type of market entry, which affects their marketing and production strategy and how they build relationships with the nodes of the local market (Jansson, 2007; Johnson & Tellis, 2008). Products can be distributed through a company-owned distribution channel or independent intermediaries (Anderson & Coughlan, 1987). The first solution guarantees more control for the firm, whereas indirect channels are preferred in the case of high-perceived risks in the foreign market. However, indirect operations are characterized by a limited experiential knowledge, which is gradually acquired through direct contacts with the market and the customers (Jansson & Sandberg, 2008; Johanson & Wiedersheim-Paul, 1975).

In the case of emerging markets, because of their environmental characteristics and underdeveloped infrastructures (Arnold & Quelch, 1998; Khanna *et al.*, 2005), foreign

firms usually rely on local distributors in order to access a new market (Anderson & Coughlan, 1987; Checchinato, Hu, & Vescovi, 2014; de Luca, Vianelli, & Marzano, 2013; Sandberg, 2013), with the possibility of changing into modes of higher commitment in a later phase (Santangelo & Meyer, 2011). Indirect entry is also due to supply chain issues. In fact, many foreign companies localize their supply chain management in emerging markets in order to simplify their day-to-day operations, facilitating a faster response to customer demand and service (Jiang, 2002). A collaborative supply chain also promotes the achievement of high standards of productivity and quality for multinationals (Simatupang, & Sridharan, 2002; Sutton, 2004).

Despite the lack of direct control, foreign firms benefit from local partners' expertise and knowledge of their own market (Arnold, 2000). For example, in a study of an Italian fashion firm in China, Guercini and Runfola (2010) analyze the role of the local distribution partner as gatekeeper to access business networks. The interaction with the Chinese partner allowed the firm to approach new suppliers and also to generate learning about the technical aspects of production. Moreover, Bortoluzzi, Chiarvesio, and Tabacco (2015) point out that foreign firms operating in China and India require higher co-participation from distributors than in the case of advanced markets, and this continues even after they have entered the market. For example, collaborating with distribution partners allows foreign firms to accelerate the process of acquiring legitimacy in the market. However, this dependency can also have negative effects when distributors have poor market knowledge or when they do not transfer their knowledge to foreign firms (Jansson & Sandberg, 2008; Salmi, 2000). Therefore, foreign firms should demand detailed market and financial performance data from their local partners in order to exploit their competitive advantages in an emerging market (Arnold, 2000). Arnold and Quelch (1998) also suggest that in order to reach profitable market development in the long-term, firms should consider multiple partners.

The literature emphasizes that emerging markets represent an opportunity for marketing innovation and reverse learning (Arnold & Quelch, 1998; Burgess & Steenkamp, 2006), which means that knowledge accumulated in developing countries may be transferable to developed markets. In this process Dawar and Chattopadhyay (2002) identify the central role of local subsidiaries as learning centers rather than mere executive branches. However, although previous studies have mainly focused on product innovation (Govindarajan & Ramamurti, 2011), they have overlooked the possible impact on the international approach of the firms' distribution, which is the focus of our study.

3. Research Objective and Methodology

The objective of this research is to analyze the marketing strategies of foreign firms in China in relation to distribution. Since the objective of the contribution is both empirical and analytical in nature, the appropriate methodology is the case study (Eisenhardt, 1989; Yin, 1994). An exploratory methodology is adopted since this has been acknowledged as being particularly useful for researchers interested in examining strategies in emerging economies (Hoskisson *et al.*, 2000).

The research questions are as follows:

- RQ1: What are the key decisions in distribution for foreign firms operating in the Chinese market?

Here the aim is to consider the specific characteristics of the market and to investigate, the main decisions that involve distribution for foreign firms in China.

- RQ2: Do emerging markets represent an opportunity for foreign firms to innovate their distribution approach in the international context?

This research question involves analyzing the possible areas of distribution innovation that are provided by operating in emerging markets.

Multiple case studies are used to answer these research questions as they typically yield more robust, generalizable, and testable theory than single-case research (Eisenhardt & Graebner, 2007). The cases are four Italian companies that have undertaken expansion activities in emerging markets. More specifically, the study analyzes the marketing strategies they implement in China. Despite operating in different sectors they share a common feature: their products are relatively new in the Chinese market, as highlighted in secondary data and confirmed by informants during the interviews.

A qualitative approach was adopted in order to understand the complexity of the phenomenon. Primary data were collected through nine semi-structured interviews with firm managers responsible for the Chinese market and their local partners. Each interview lasted approximately 60–120 minutes. When agreed by the informant, the interview was recorded and transcribed. When recording was not possible the researcher took detailed notes during the interview. The topics covered during the interviews were: market entry process, description of the Chinese distribution and the strategies adopted by the firm in this environment, the interaction with the Chinese partners, product selection and branding for the market, and what firms learnt from this market in terms of their international approach.

To ensure triangulation and cross-verify the findings from the primary data (Yin, 1994), secondary data consisting of sector reports and newspaper articles were analyzed. The interviews and secondary data were collected in Italy and China during the period from April 2013 to March 2016.

4. The study

The case studies relate to four Italian firms that operate in the Chinese market. China was selected as empirical setting because of its unique characteristics as an emerging market (Gu, Hung, & Tse 2008; Sheng *et al.*, 2011; Walters & Samiee, 2003)

and its market opportunities for international companies from various sectors. In fact, despite the economic slowdown, consumer spending has continued to grow together with rising disposable incomes (Euromonitor International, 2015a).

A list of Italian firms operating in the Chinese market was collected through contacts activated by the Department of Management of Ca' Foscari University of Venice and the Italian Trade Agency in Shanghai. First, an email was written to the contact person in the firm, explaining the objective of the study and asking if someone was available for interview to explain the distribution strategy of the firm in China. In order to understand their perspective on distribution development, it was also asked to interview their Chinese partner. Although the job titles of the informants may differ because of the firms' different organizational structures, the person that could best describe the aspects faced in distribution was interviewed. Only for firm C was it possible to interview the general manager of the Chinese branch and not their Chinese partner.

In order to increase the generalizability of findings, the selected firms belong to different sectors: firm A operates in the bakery and sweet sector, firm B operates in the baby-gear products sector, firm C operates in ham and cured meats sector, and firm D specializes in the jewelry sector. Firms A and B are small-medium enterprises (SMEs), which are defined by the European Commission as companies with fewer than 250 employees and a turnover not exceeding 50 million euro.³ The other two companies have larger dimensions and a higher turnover, as described in detail below, which allowed them to adopt a more direct strategy in China through joint ventures with local partners.

Firm A has 143 employees in Italy (and 120 employees in related minor companies). In 2013, it achieved a turnover of EUR 48 million, of which EUR 34 million came from sales in European countries and EUR 14 million from sales in non-European countries. The company entered China in 2004 through an agreement with a Chinese distributor based in

³ Retrieved from http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_it (accessed 18 November 2016).

Shanghai, which also owns mono-brand stores in eight first- and second-tier cities located in coastal areas, while in third-tier cities it is supported by external agents. The interviews were conducted with the CEO, the manager in charge of the Asian market, and the Chinese distributor.

Firm B employs 150 people and its products are exported to 80 countries, among which non-EU markets account for almost 80% of total exports. The 2014 turnover reached EUR 50 million, 18 million of which came from exports. The company entered the Chinese market in 2000 collaborating with a local distributor based in Shanghai. The interviews were conducted with the export director and the Chinese distributor.

Firm C has 1,400 employees across the world. In 2014 its turnover was EUR 690 million, of which EUR 200 million came from abroad. It has a direct presence in the United States and in China, where it entered in 2004 by establishing a joint venture (JV) with a local player in the food sector. Eighty percent of Firm C's clients belongs to business to business (B2B) (50% industry clients such as fast food restaurant chains and 30% Horeca), whereas the remaining twenty percent of the business is sold through big international retail chains or supermarkets. The interview was conducted with the Italian general manager of the joint venture.

Firm D has 600 employees and it belongs to a French group in the luxury sector. Nevertheless, its headquarters are still located in Italy, Milan. In 2014 the firm's turnover reached about EUR 180 million, of which exports accounted for 73%. Italy remains the first market, followed by France, the United States, Germany and Asia-Pacific countries. The company entered China in 2010 through a joint venture with a Chinese partner with an international background. The interviews were conducted with the PR and marketing manager of the Chinese branch, the press officer of the Italian headquarters, and the Chinese distributor for the digital activities.

The products of Firms A, B, and D are produced in Italy and exported to China. With regard to Firm C, because of laws that do not allow imports of pork meat from Italy, most products are produced locally — the exceptions being two products lines (Parma ham and San Daniele ham). Table 1 summarizes the characteristics of the case data.

Insert Table 1 here

5. Results

5.1 Distribution Access and Development

As discussed in literature (Jansson, 2007; Jansson & Sandberg, 2008; Johanson & Wiedersheim-Paul, 1975), the first decision that firms have to make before entering a foreign market, concerns the type of entry mode. This consequently affects the type of distribution, which can be direct or managed by the local partner that acts as intermediary. With regard to China, access to the market became easier for foreign firms after the WTO entry in 2001, however, all firms in the considered cases had to establish an agreement with a local partner in order to operate. In fact, for them the role of the Chinese partner was fundamental in accessing distribution and also dealing with the institutional environment.

The two main characteristics that make the Chinese distribution system particularly difficult for foreigners are the complexity of the system, partly caused by some difficulty in bureaucratic aspects, and its heterogeneity. The CEO of firm A stated:

Some obstacles were represented by the Chinese bureaucracy, their protectionism, the barriers that they want to put onto limits, then the enactment of unclear norms, inspections they want to make in factories etc. [...] In China there isn't a specialized distribution in our sector.

Firm B's export director also noted that "Not everywhere in China are there a modern distribution and a modern consumption behavior."

Firms A and B adopted an indirect strategy, relying on a single distributor in each case. In contrast, firms C and D created a joint venture with a Chinese partner. The partners of firms A and B are both located in Shanghai and they also import the products of other foreign brands. Firm A signed an agreement with its distributor in 2004. The distributor has 65 mono-brand stores in eight first- and second-tier cities located in coastal areas, while in third-tier cities it is supported by external agents. Firm B entered the Chinese market in 2000 through a company that later merged with a competitor. The name of the latter one was retained. The distributor's network enables the products of firm B to reach all Chinese provinces. However, although they operate directly through big retailers and convenience stores in the main cities, such as Shanghai, in secondary and more remote areas they are supported by sub-distributors and agents. Therefore, the distributors of firms A and B do not operate directly in less developed regions, making it harder for foreign firms to control their activities there.

Firm C entered the Chinese market in 2004 through a distribution contract with the current partner, which is the main private producer of pork and owns 5% of the entire market in China. For the first two years it was not possible to import meat products from Italy because of local legislation rules. The first production tests with Chinese meat and Italian ingredients and technology began in 2006, and the following year a joint venture with the same Chinese partner was settled. Thanks to the partner's leadership and an extensive network, the products of firm C managed to access the entire Chinese market. The general manager of firm C noted that:

Our partner was chosen in order to find synergies with them. They are in charge of local authorities, local HR, authorizations, administrative issues, financial banking, logistics...

The Chinese can do better in this than foreigners.

However, the products of firm C are positioned on a higher level than those of the distributor who mainly produces fresh meat (80%) in the medium-price segment. When

their clients are different, for example in the restaurants sector, firm C supports commercial activities by training the partner's employees in order to satisfy clients' needs.

JV was also the entry mode chosen by firm D. The selection of the local partner was based on their international background since it was important for firm D to properly manage the activities in the new market whilst maintaining its corporate identity. Since 2010, firm D has opened two directly owned stores and three corners in department stores. Both stores and corners are located in Beijing and Shanghai but they plan to open between six and eight stores in first-tier and second-tier cities (for example, Chengdu) by 2018. Direct stores are characterized by exclusivity as they display the most updated products. As for Internet retailing, firm D does not rely on mass-market websites such as Taobao or Tmall, but on a Chinese website that specializes in niche segment products. The website was launched in 2012 and initially specialized in bouquet compositions but later expanded its offering by including high-end products from countries characterized by a positive country of origin such as France, Japan, and Italy. Product categories include fragrances (candles, perfumes), accessories (including jewelry), personal care, and home decoration items. In 2013, the website also started to open physical stores (now they own 15 stores in seven first-tier cities), located in high-end shopping malls and urban areas.

According to the export director of Firm B, the distribution complexity is due to the fact that:

The Chinese market is very big... It has the same sale channels of other markets but there are more players involved. [...] There is a higher number of retail chains: apart from the most famous ones, in certain cities there are specific convenience store chains, which have 1,000 points of sale, or other smaller chains that have a lot of potential. It is something that you hardly find in the American market or the European one.

Given the complexity and fragmentation of the distribution system in China, the role of local distributors and partners is crucial for operation and to ensure that products reach

consumers. Regarding the relationship with their partners, overall the managers of these Italian firms described it positively since these relationships have allowed them to gain knowledge about the market. The export director of firm B stated that, “We have both acquired knowledge from each other [...] We have built a fundamental relationship to operate in a satisfactory way for both sides.” However, information is not always adequately provided to foreign firms, as the export director of firm B described: “Last week when I went to Shanghai, I found out that [our products] are sold in a hundred Family Mart stores there. But I did not know this, nobody had informed me about it.” Therefore, the collaboration with foreign partners should also be enhanced after the initial entry in order to effectively control the market and further develop in the long term.

5.2 Product Selection and Branding

One key aspect of implementing the distribution strategy in a foreign market is that of product selection. However, this aspect is particularly difficult because of the highly heterogeneous nature of the Chinese market. The CEO of firm A declared: “China isn’t just one country, there are a thousand Chinas.” The general manager of firm C made a similar remark:

People from different provinces have different habits, there isn’t one China, there are a thousand Chinas. Doing business in Shanghai is different from doing it in Beijing because the mindset is completely different.

According to consumers’ origins, their product demand varies in terms of materials and colors (in the case of clothing items and accessories) and also taste (for food items), since different provinces and areas in China are characterized by different flavors and eating habits. The chief operating officer of firm D’s distributor for the online channel noted, “China is huge: from East to West, from South to North, people are very different.”

In order to facilitate product selection in such a heterogeneous context, foreign firms often delegate this task to their partners. This was the case in firms A and B, also due to the novelty of their products in China. In fact, products belonging to the baby-gear sector are considered relatively new in the Chinese market as they started to become widespread during the 1990s. Moreover, the one-child policy implemented until the end of 2015 contributed to the development of baby products.⁴ Recently, the firm has started to consider some low levels of adaptation, for example, in terms of product colors.

The informant for firm B explained that, in general, “the sweet flavor doesn’t belong to the Chinese food culture,” and therefore they had implemented some product adaptation (in terms of ingredients and packaging) over the last year. Firm C’s products are mostly locally produced but in order to maintain the same quality of meat produced in Italy, they do not alter ingredients. In addition to typical Italian meat products, in China they sell meat products that are available in other Western countries (wurst, pepperoni and other toppings for pizza, etc.).

Firm D’s products, jewels, are also considered to be quite new in China. Currently, they do not implement adaptations but, by looking into possible “connections and inspirations,” they try to mix the existing product offer with the Chinese taste. The PR and marketing manager described the jewelry sector as “still developing” but at a very fast pace thanks to the rise of the new medium class, born in the 1980 and 1990s. New generations of consumers are characterized by individuality and these consumers are “affecting fashion impressively.” Firm D’s Internet distributor explained:

[Consumers have changed] very quickly, they have become more and more diversified... In some ways, they are the most diversified customers in the world for several reasons. [...]

They know lots of things, not only Louis Vuitton or Gucci. Then through networks, the Internet, Taobao, they get to know many many things in the world, so for them, due to the

⁴ In 2014 baby and child-specific products recorded a value growth of 16% to reach sales of RMB12 billion (Euromonitor, 2015b).

limited spending power, they will stay in the mass market. So when they grow up they reach some spending power, at the beginning they are not mature, it means they don't know what to buy, they have money to buy, so they would buy the big brands (Louis Vuitton, Gucci or Prada), then one day they are not interested anymore in these big brands... Very quickly they can get in contact with other kinds of brands, which are niche brands.

This reference to branding represents a key element in making the foreign origin of products recognizable in the distribution system. Furthermore, for this important aspect of product management, distributors were responsible for choosing the Chinese name (sound transliteration) in order to make the brand readable by consumers. However, only the original Italian brand is used on product and communication material in order to convey the positive effects of country of origin. In the case of Firm C, branding represents a weakness in distribution as their products are labeled with a double logo, the Italian one and the one of the Chinese partner. Firm C would like to remove the double logo but the local partner holds the exclusive use of the Italian brand for the next twenty years due to the initial agreement made by the owners of the two partners. Firm C's general manager addressed this issue:

Double branding creates confusion among consumers. [...] If you see [the Chinese brand], which also produces mass-market products, it's not trustworthy. [Only] the "evolved" consumer understands the quality... Double brand is against premium positioning, it's against marketing mix rules.

Therefore, foreign firms should maintain the control over the product management and use adequate tools to make it recognizable in the distribution system, starting from a strong branding coherence. This is particularly significant especially in the case of emerging markets, where country of origin represents a positive information cue in consumer evaluation of novel products.

5.3 Main Retail Formats

The interviewees from the selected firms described two main retail formats for displaying their products and reaching their consumers in China: the Internet and physical stores.

All the interviewed informants highlighted the growing importance of the Internet as a retail channel in China. First, it represents a main source of information since it is widely accessible to the Chinese population. In fact, in 2015 China reached 668 million users becoming the country with the largest Internet user base (CNNIC, 2015). Firm A's CEO described the Internet use in China as follows:

We learnt that [Chinese consumers] trust the Internet in a terrific way, differently from what happens here [...]. They have Weibo, WeChat, all these tools and even e-commerce is integrated within the social network so you don't need to click on Tmall or the company's website [...]. There is a total endorsement of the Internet channel, a lot of attention towards it. You must be on the Internet.

In 2015, Internet retailing enjoyed a strong current value growth of 53%, generating sales of CNY 1,794.7 billion (Euromonitor International, 2016a). The export director of Firm B declared that the Internet in China represents an “anomaly” as the main communication tool and retail channel: “The online business is a specific characteristic of the Chinese market. There is no comparison in the rest of the world.” Further, the CEO of firm A pointed out that today, “with the Internet, from nothing [how the distribution was before], you use smartphones [to buy products]. Distribution in China has developed from nothing to the top.”

Through their distributor, firm A's products are sold directly on the main e-commerce platforms. Recently, in order to enhance the digital presence, they also began to operate using specialized e-shops of third parties. However, these continue to be indirectly managed by the distributor.

According to Firm D's e-commerce distributor, there are two main conditions that allowed this rapid development of e-commerce: payment and delivery. In fact, online payment systems are widely used in China and are extremely safe, and many shipping companies provide fast delivery services that are able to reach both urban and rural areas in China.

Within e-commerce, mobile commerce (m-commerce) has quickly boomed. In value terms, this accounted for a 51% share of overall Internet retailing in 2015 due to the rapid penetration of smartphones and tablets, as well as the development of internet speeds that enables consumers to access the Internet at any time and in more places (Euromonitor International 2016a, 2016b). By 2020, m-commerce is expected to account for a 67% share of overall value sales in Internet retailing in China. The experience gained in the Chinese e-commerce can push firms to invest more in this tool in other markets too. For example, following the development of Chinese online platforms, firm A launched the e-channel in the United States and is also implementing this strategy in other countries.

Nevertheless, physical stores continue to maintain relevance as retail channels in China because they the setting for consumers to learn about foreign brands and their products. Firm D's e-commerce distributor pointed out:

The reason why people visit the store is really for some newness, experience or just [to see] the environment. [...] The flagship stores, boutiques are the destination of where to represent the heritage of the brand, the shopping experience is the most important [aspect].

Thus, physical stores have shifted their role from being mere points of purchase to the setting where brands and products are represented and where consumers can learn how to use them. Firm A's CEO explained that since Chinese mothers do not have any experience with baby carriages, points of sale represent the location where they can physically touch these products for the first time and receive a demonstration from sales personnel. He states, "You still need to touch [products] in store, the contact still remains. Will

distribution disappear? It will probably disappear in the [traditional] way we used to think of it."

With regard to foreign food products, samples are relevant in a new market. Therefore, firm B plans to invest more on sampling activities in store:

We will increase the number of promoters, so we will focus more on product sampling, which is important because in China not everyone has had the possibility to taste products, especially in areas located outside first- and second-tier cities.

For firm C, an innovative retail channel is represented by sponsored events, where the company not only partners with B2B clients (such as wine bars and restaurants) but also reaches the final consumers. Since the category of ham products is new for most Chinese consumers, they organize food and Italian style events, aperitifs and dinners, and invite international chefs to teach guests how to combine ham with other Western products such as bread, pasta, wine, and cheese. Firm C's general manager explained that:

The Chinese market is completely different from the Italian one and also the European one, where 75–80% of sales belong to retail. [...] In China, the way products are consumed is completely different: consumers rarely buy them at supermarkets to use them as ingredients at home. Especially the Chinese consumer but also the foreign consumer [does not do that] since here expats go to eat in restaurants more often...

He described the final consumers of ham products as “‘evolved’ consumers that have started to know imported products, have traveled, have tried these products and want to try them again once back in China.” This category of consumers mainly lives in first-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen.

Along with the evolution of consumers' shopping habits towards a higher demand for high-quality and foreign branded products and an increased willingness to pay, in 2015 the Chinese retailing landscape was characterized by two trends: store closures and the diffusion of online-to-offline (O2O) and omni-channel initiatives (Euromonitor International, 2016b). Due to economic uncertainty, a large number of stores closed in

various channels. For example, among the firms in the case studies, firm D closed down a flagship store located on the Bund in Shanghai due to low traffic and huge operational costs.

Thus, a more competitive Chinese market requires foreign firms to adopt an O2O strategy in their retailing approach, which leverages on the integration between offline and digital channels. In the development of online shops, mobile-optimization should be included.

6. Discussion

Our findings confirm previous research on China's unique features as an emerging market (Cui & Liu, 2000; Walters & Samiee, 2003) and they contribute to the literature in emerging markets by identifying three reverse learning processes in distribution.

Foreign firms operating in the Chinese market encounter the following characteristics in the distribution system:

- High complexity due to administrative issues and the presence of a large number of business players and intermediaries. The distributors of foreign firms play a key role in directly accessing the distribution in developed areas, whereas for secondary areas their network of sub-distributors and agents is used to reach local chains, convenience stores, and small stores;
- Underdevelopment of the physical distribution system in certain areas of the country because of lack of adequate infrastructures and logistics;
- Internal heterogeneity of consumers because of different cultural habits and levels of sophistication with respect to Western products;
- A strong development of e-commerce, more advanced than any other country in the world;

- Relevance of physical stores as the setting to see and experience brands and their products (touch, trial, engagement, etc.).

Given the above characteristics, in answering RQ1 the three key decisions for foreign firms operating in the Chinese distribution system are:

1. distribution access and development;
2. product selection and branding; and
3. main retail formats.

Table 2 summarizes the main characteristics and decisions of the distribution process in the Chinese market.

Insert Table 2 here

For the first decision, China's highly fragmented and complex distribution system leads foreign firms to rely heavily on their local partner (distributor or JV partner) to access the market. This confirms previous research (Bortoluzzi *et al.*, 2015; Dawar & Chattopadhyay, 2002; Guercini & Runfola, 2010). Due to the market characteristics, local partners play a key role in the distribution of foreign products in China, in fact in more developed areas they manage distribution directly and in secondary areas they are indirectly in charge of the distribution development through their network of sub-distributors. On the one hand, this strategy simplifies the foreign firm's market entry and operations as Chinese partners have established *guanxi* (especially in the case of firm C, where the partner's leadership allowed them to enter the entire Chinese territory). On the other hand, this might also have negative effects, especially for the control of final distribution and the brand image.

Regarding product decisions, although distributors know the Chinese market better, so their role in product selection is positive, they do not appear to have much experience in

brand management. In this study, firm C's products, which are labeled with a double-brand, create confusion among segments of consumers that are not familiar with the foreign brand. Previous research has suggested that consumers are driven to purchase foreign products by their symbolic values and benefits (Zhou & Hui, 2003), and that safety represents a main concern in food purchase (Ruth & Yeoung, 2001; Wang, Mao, & Gale, 2008). However, in this respect products from firm C's brand and those of its partner are positioned in two different segments, which means that the double logo may reduce the positive effects provided by the foreign brand as stand-alone. However, since Chinese partners manage an irreplaceable resource (distribution), there is an issue of power dependence in the relation between foreign firms and their distributors. This power can gradually be reduced if interdependence between the two parties increases (Luo, 2003; Pfeffer & Salancik, 1978).

For the third key decision, it can be seen from the analysis of the case studies that the retail channel that has gained increasing relevance over the last few years in China is represented by e-commerce. For firms in China, the Internet has a primary role in communicating brands and products and also as a new sale channel. In fact, the increasing importance of the Internet in emerging markets was foreseen twenty years ago by Quelch and Klein (1996), when the Internet was still in its early stage. These two scholars argue that consumers from developing countries benefit from the expanded range of products, services, and information offered by the Internet. Moreover, not only has the Internet become a main platform to buy any type of product, it has also impacted the role of physical stores, which now focus more on the experiential aspects of the brand and its products.

In addressing RQ2, this study suggests that emerging markets represent an opportunity for firms to innovate their distribution strategies (Arnold & Quelch, 1998; Burgess & Steenkamp, 2006; Dawar & Chattopadhyay, 2002) in three areas. First, emerging markets can be test beds for innovation (Arnold & Quelch, 1998), not only for

new products but also for retail formats that are more focused on the experience of learning about brands and products and how to use or consume them for the first time. For firms, physical stores have the main role of product display and trial since customers do not have prior experience with them (for example, for firm A, first time mothers who have not used a stroller before) and for firms B and C, the opportunity to make consumers taste new food items. Therefore, for firm C a main retail format is represented by special events where consumers engage in product consumption in a highly entertaining way.

Second, because of their important role in the management of emerging markets, also local partners also represent learning centers for foreign firms, and not only subsidiaries as discussed in the literature (Dawar & Chattopadhyay, 2002). Even in the case of direct presence in the market through a JV (in the cases of firms C and D), the role of the Chinese partner is particularly significant. Firm D's press officer argued that for the company's board, receiving insights from the Chinese branch is of fundamental importance as it is a completely different market from those they have previously entered (including in Asian countries) and their knowledge is still limited.

Third, emerging markets have an impact on marketing practice (Burgess & Steenkamp, 2006), and the particular characteristics of the Chinese system affects the firms' overall approach to distribution, especially in terms of e-commerce (firms had to develop ad-hoc online channels in China that were different from those in the West) and new retail formats, which are not only points of sale but enhance product and brand experience.

Therefore, based on the above data and discussion, the following propositions are argued:

Proposition 1. *In emerging markets, distribution innovation is enhanced by the deep relationship established with the local partner to penetrate the market and accumulate knowledge.*

Proposition 2. *Distribution strategies developed for foreign markets that require firms to radically innovate their approach have an impact on other international markets in terms of channels and communication tools adopted.*

Table 3 summarizes the research questions and main findings of the study.

Insert Table 3 here

7. Managerial Implications

For foreign firms, China represents a potential market since products from various sectors (i.e. food, luxury or baby products in our analysis) have only recently started to become available, in particular for higher status consumers. The results of this study suggest that even if several areas of China have reached high levels of modernization (especially in first-tier cities such as Shanghai), the distribution system still represents a key issue for foreign firms that wish to enter this market or for those that already operate there. Therefore, local partners hold a primary role in managing the administrative aspects and accessing distribution channels since foreign firms do not directly control the relationships with governmental officers, retailers, and sub-distributors. Delegating these activities to local players with a deep knowledge of the market allows foreign firms to quickly reach points of sale in different areas of China. However, foreign firms should monitor the local partners' management since they might lose control of the distribution of their products, and should also provide adequate support for their activities, especially in the case of new products (for example, firm C has activated training for the JV partner's employees).

Moreover, given that China represents a heterogeneous market, firms should consider a different product offering within the same country. For example, in our multiple-case study, firm A might focus on different products between the Northern and

Southern parts of the market in terms of colors and materials. Product offering also depends on the level of development and the modernization of the city or area where products are sold. In our cases, most of the consumers of firm C's products live in first-tier cities where they are more influenced by the Western style of living.

With regard to distribution channels that are active in China, the growth of the Internet has huge implications for foreign firms since it will be easier for them to sell their products without a direct presence in the market. It is important for firms to adapt their company websites to the local language and layout. A version for mobile phones and tablets is also suggested as the majority of Chinese Internet users navigate through a mobile screen.⁵ Moreover, since China has specific social media and e-commerce websites that differ from the international landscape, a proper management of these tools is required. However, as pointed out by the Internet distributor of firm D, this channel is not without its risks. She stressed this point:

When you open physical stores it's the location [that counts]... there are huge costs. However, when you open the online shop, the investment could be even huger than the store. Nothing is confirmed, you can't expect revenues, there are lots of issues you can't control: how many visitors per day, percentage of customers... For local, and especially foreign companies, the Chinese market is very difficult, nothing is given... Everything is expensive. Even if the Internet has gained an unprecedented importance in distribution, physical stores still maintain a primary role in China because they provide product and brand experience. Therefore, firms operating in China should invest in retail formats and sales personnel's training in order to engage consumers more actively.

With regard to the role of distributors, we are far from saying that the Internet will substitute the activities of local intermediaries, especially in a country such as China where they play the role of gatekeeper (Guercini & Runfola, 2010). We agree with Quelch and

⁵ The number of mobile Internet users in China reached 594 million as of the end of June 2015 (CNNIC, 2015).

Klein (1996) on the importance for foreign firms to maintain existing channel arrangements and to integrate the Internet within their strategies by adopting an O2O approach in order to effectively reach Chinese consumers.

8. Limitations and Future Research Directions

This study has investigated the distribution strategies adopted by four Italian firms in one emerging market, China, discussing the primary critical issues and recent opportunities. Two propositions relevant for international distribution are presented. In adopting an exploratory analysis the study aims at contributing to the discussion in the marketing literature about international strategies in emerging markets, which is still relatively recent and continuously evolving. The analysis of four original case studies covers significant distribution and marketing issues for foreign firms operating in China and suggests possible areas of innovation, which should be further considered in future studies.

A limitation of the study is that it did not cover the international marketing activities implemented by the selected firms in other countries. Therefore, this analysis should be complemented by comparing of the distribution activities in China with those performed in another emerging market, or with those in a developed country, in order to further investigate Proposition 2.

On a methodological level, the paper used a qualitative approach and therefore, even if the selected firms operate in different sectors, this research suffers from the limitation that the results are not generalizable.

Given the relevance of emerging markets in the world economy and their fast evolution (also something that concerns China), the need for more in-depth studies has been addressed. Burgess and Steenkamp (2006) invite marketing scholars to conduct more research in emerging markets in order to further the advance of marketing as an academic discipline as well as to maintain its managerial relevance. Johnson and Tellis (2008) point

out that more studies should be undertaken to analyze the drivers of success or failure of entry in these markets.

Thus, in future research these initial findings from the selected case studies should be compared with those of other foreign firms operating in other emerging markets as this will allow researchers to verify the results' reliability and develop a marketing model. Moreover, a quantitative approach can be adopted (for example, an analysis of panel data) to identify the factors that determine the performance of a firm in emerging markets.

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Table 1. Description of Case Data

	Firm A	Firm B	Firm C	Firm D
Year of establishment	1963	1968	1812	1967
Sector	Baby gear products	Bakery products	Cured meat and ham	Jewelry
No. of employees	143	150	1,400	600
Turnover	48 mln EUR (2013)	50 mln EUR (2014)	690 mln EUR (2014)	180 mln EUR (2014)
Chinese market entry	2004	2000	2004	2010
Type of market entry	Indirect exporting	Indirect exporting	Joint venture	Joint venture
No. of points of sale in China	65 mono-stores of the distributor	7,000 points of sale	n.a.	15 direct-owned stores
Area of operation in China	First- and second-tier cities	First-, second-, and third-tier cities	First-, second-, and third-tier cities	First-tier cities
Interviewees	<ul style="list-style-type: none"> • CEO • Manager for Asian area • Chinese distributor 	<ul style="list-style-type: none"> • Export director • Chinese distributor 	<ul style="list-style-type: none"> • General manager of the Chinese branch 	<ul style="list-style-type: none"> • PR and marketing manager for the Chinese market • Chinese distributor for the e-channel • Press officer at Italian headquarters

Table 2. The Distribution Development in the Chinese Market

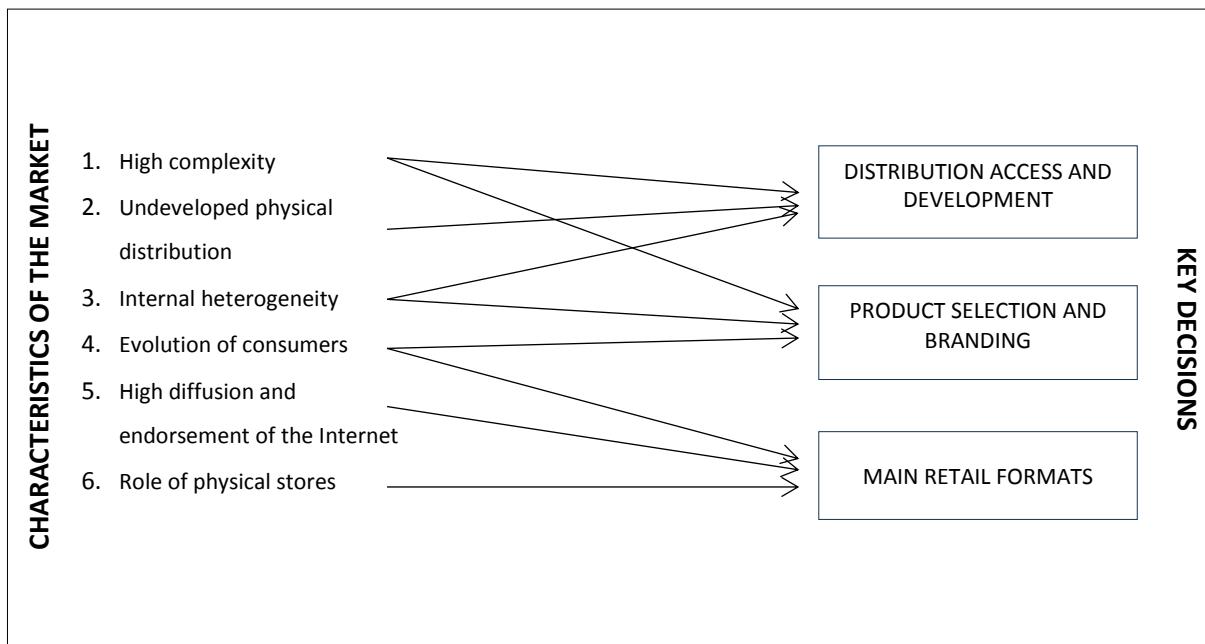


Table 3. Summary of Research Questions and Main Findings

		RQ1: What are the key decisions in distribution for foreign firms operating in the Chinese market?	RQ2: Do emerging markets represent an opportunity for foreign firms to innovate their distribution approach in the international context?
Main findings		<ul style="list-style-type: none"> • Primary role of local partners in distribution access and management of administrative issues • Active role of distributors also in product selection and branding. Issues in brand management • Main retail formats: Internet channel (high diffusion and consumers' endorsement) and role of physical stores as the setting of brands' and products' representation and experience 	<ul style="list-style-type: none"> • Chinese partners as learning centers, favoring experiential knowledge for foreign firms • Opportunity for innovation in physical stores focused on product and brand experience and engagement • Opportunity for innovation in firms' international distribution approach, given the increasing importance of Internet and new role of physical stores

The Country of Brand Communication in the Retail Setting:

An Analysis of Italian Products in China*

Abstract

The aim of this paper is to investigate the role of country of brand (COB) communication within the retail environment of emerging markets. Drawing from the literature on store image, a framework to analyze static and dynamic elements of COB communication is developed. By adopting an inductive approach, COB use is analyzed in a sample of 20 stores of Italian fashion brands in China using the mystery shopping technique. Given the increasing growth of e-retailing in China, the in-store observation is complemented by an analysis of the use of COB within the brand's local website and e-commerce page. In order to have a multi-layered representation of the phenomenon, in-depth interviews with managers of Italian firms in fashion industry are carried out. Findings confirm that retailing represents a primary communication channel for firms operating in China; however, the results of the participant observation show that COB is a cue information utilized only by a small percentage of the sample, mainly in a textual and iconic way. Managerial implications are discussed on the extent to which COB communication in store should be managed within an effective marketing strategy in line with the country and consumer characteristics in order to enhance the brand image in a growing market such as China.

Keywords: China, country of origin, country of brand, retail, store

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1. Introduction

Since the publication of Schooler's study (1965), a large body of literature has analyzed the concept of country of origin (hereafter, COO) and its effects on consumers' product perception and evaluation process (for a review, Verlegh & Steenkamp, 1999). COO represents an extrinsic attribute of products, which is often used as quality cue and is aimed at stimulating positive associations between products and the country where they were originated and influence consumer judgement (Olson, 1972; Papadopoulos & Heslop, 1993; Verlegh & Steenkamp, 1999).

However, findings regarding COO effects have been contrasting. Some studies show that COO has symbolic and emotional meanings to consumers (Fournier, 1998), whereas according to other scholars (Agrawal & Kamakura, 1999) COO is only one extrinsic cue among other extrinsic and intrinsic cues available to the consumer during purchase. Moreover, some studies (Samiee, Shimp, & Sharma, 2005; Usunier, 2006) show that consumers actually have only a modest knowledge of the national origins of the brand. They conclude that past research has inflated both the influence that COO information has on consumer product judgements and behavior and its importance in managerial practice.

In the case of emerging countries, several studies (Agbonifoh & Elimimian, 1999; Batra, Ramaswamy, Alden, Steenkamp, & Ramachander, 2000; Essoussi & Merunka, 2007; Ettenson, 1993; Marcoux, Filialtrault, & Chéron, 1997) have found that a preference for imported, branded products over domestic ones seems to prevail among consumers. However, other studies (Checchinato, Disegna, & Vescovi, 2013; Samiee *et al.*, 2005) suggest that COO does not affect the brand image since brands and countries are sometimes associated incorrectly or, especially in emerging countries such as China, COO may not affect consumers because they are not aware of the country's image and characteristics, so the COO cue has a limited meaning for them.

Given the limitations of COO research, recently the debate has shifted from country of origin to country of brand (COB) (Usunier, 2011). In an era where products are designed in one country and manufactured in another one before reaching the final consumer, consumers tend to focus on brand origin, rather than on country of manufacture (Hamzaoui & Merunka, 2006; Samiee, 2011; Usunier, 2011). Moreover, COB has to be known by consumers to affect their decisions, so where and how companies decide to use this cue in their communication represent a key issue.

In this study, we focus our attention on retailing, which represents a relevant communication tool, since online and offline stores are the last touchpoints before sale between brands and customers. So far, previous literature has analyzed COO and COB from the consumer perspective, overlooking how these cues are effectively communicated within the retail environment.

By providing an empirical research in a retail setting in China, we aim at contributing to the debate on marketing strategies in emerging markets and COB research. A multi-channel approach is adopted since consumer purchase behavior is affected by perceptions of both traditional stores and digital channels (Verhagen & Van Dolen, 2009). Drawing from the literature on store image (Kotler, 1973; Lindquist, 1974; Martineau, 1958; Schmitt, 2003), we developed an analysis framework of COB use within stores. Then we tested it on a sample of 20 points of sale of Italian fashion brands in China by using an inductive approach based on the participant observation technique. We choose fashion as it is a sector characterized by high symbolic values, which constitute one of the primary motivating forces for Chinese consumers to purchase foreign products (Zhou & Hui, 2003). Moreover, since firms sell their products in different retail channels and in China a primary one is the Internet, COB use is also analyzed in online communication (Chinese website), and in particular, in a leading e-commerce site. We complement this analysis by interviewing managers of Italian fashion firms operating in China in order to obtain a

deeper understanding of COB role in retailing and marketing strategies of foreign brands, and properly explain the results that emerged from the observational data.

The remainder of the paper is structured as follows. First, we provide a literature review on COO and COB, focusing on emerging markets and the interplay with retailing. We also briefly review the main elements of store image provided by literature. Second, we present the research questions and we define the methodology adopted in our research. The proposed framework is based on the analysis of COB presence within static and dynamic elements of the store. Third, we present the results of our exploratory analysis, followed by the discussion and managerial implications. Last, we provide the conclusion of this study.

2. Literature Review

A vast stream of literature has analyzed COO since the publication of Schooler's (1965) study, which was the first to empirically test the "country of origin effect" in products (juices and fabrics) with identical characteristics. The COO effect is related to consumers' attitude towards a given country; therefore, when consumers are not familiar with a country's products, country image serves as a halo to infer a brand's product attributes (Han, 1989).

Since the 1990s, the globalization of today's business activities has led to a renewed interest in the effect of a product's country of origin on consumer decision making (Papadopoulos & Heslop, 1993). On the one hand, several studies have focused on COO effects in developing countries due to their increasing importance as new markets for international companies and their products. On the other hand, the concept of COO itself has evolved, leading to new definitions such as Country of Design (COD), Country of

Manufacture (COM) and Country of Brand (COB) (Hamzaoui & Merunka, 2006; Usunier, 2011).

In emerging markets, COO main effects determine a competitive advantage for foreign companies and a reverse ethnocentrism among consumers (Agbonifoh & Elimimian, 1999; Ettenson, 1993). In addition to quality perception, another factor that explains COO influence on consumers' perception is represented by the social status associated with foreign brands. For example, brands seen as nonlocal have been found to be attitudinally preferred to brands seen as local among Indian and Chinese consumers (Batra *et al.*, 2000; Zhou & Hui, 2003).

With regard to the evolution of COO concept, recently scholars have pointed out several limitations. First, Samiee *et al.* (2005) argue that the importance of COO cue might be inflated in the past literature since consumers are not really knowledgeable about the origin of the brand. Second, Usunier (2006) identifies a relevance gap between COO research (mainly on manufacturing origin) and managerial practice that usually refers to the origin of the brand. Therefore, the concept of "hybrid (or bi-national) products" has been introduced (Chao, 1993; Hamzaoui & Merunka, 2006). Hybrid products refer to products designed in one country (the country of brand) and manufactured in countries where labor is usually cheaper. Third, countries under consideration do not represent the mere notion of the national origin of a product but their country-of-image (Roth & Diamantopoulos, 2009) or culture-of-brand-origin (Lim & O'Cass, 2001). Therefore, in recent literature the focus has shifted from COO concept as COM to COB (Samiee, 2010; Usunier, 2011).

Managing a proper COB is fundamental for international companies. In particular, scholars stress the relevance of the brand origin recognition accuracy (BORA), as companies with non-classified or incorrectly classified brands may obtain an unfavorable

association (Magnusson, Westjohn, & Zdravkovic, 2011; Samiee *et al.*, 2005; Usunier, 2011).

Regarding China, Chinese consumers tend to associate foreign brands with symbolic benefits, such as sophistication, prestige, modernity, and novelty (Zhou & Hui, 2003). Even if in the past few years there has been a decline in Chinese preference for Western brands (Cui & Liu, 2000; Zhu, Wang, & Lu, 2003) attributed to the improved quality of local products (Cui, 1997), the diminishing symbolic value of foreign brands (Zhou & Hui, 2003), and the brand origin confusion (Zhuang, Wang, Zhou, & Zhou, 2008), international brands and their companies still maintain a preference among consumers. In the retailing context, previous studies have shown that in China foreign stores are perceived as superior to local stores in three dimensions: customer service, products and complaint handling (Chaney & Gamble, 2008). Liu, Murphy, Li, and Liu (2006) suggest that the store signs of foreign brands should display their brand name both in Chinese and English language and also include COO. By examining the impact on attitudes about product country-of-origin in relation to the store type, Jeong, Stoel, and Chung (2012) argue that COO alone is not important. However, there is a significant effect of COO connected to store type on customer attitudes, suggesting that stores and COO interact with each other.

None of these studies reveal if findings depend on the way COO is presented to consumers, that is an issue firms have to tackle with, as suggested by Insch and Florek (2009). Past research on consumer information processing has proved that the differences in the presentation format of products can affect the consumer choice (Zhang, 1996), but only a few research are related to this topic. For example, Chaney and Gamble (2008) analyze the impact of the retailers' ownership on consumer perception. In their analysis, they identify COO as one dimension of store image.

Literature in retailing defines store image as the consumer's global impression of a retail store, which is developed from objective and subjective perceptions learned over

time (Hartman & Spiro, 2005; Martineau, 1958; Zimmer & Golden, 1988). It represents a critical aspect for retailers, since it has an impact on their store patronage and market positions (Steenkamp & Wedel, 1991; Pan & Zinkhan, 2006).

With regard to store image attributes, they represent a mixture of tangible or functional factors and intangible or psychological factors that a consumer perceives to be present (Lindquist, 1974). Schmitt (2003) distinguishes between static and dynamic elements. Static elements include cold, hard, tangible elements of the store (for example, items used to present the merchandise), communication material (brochures, leaflets, etc.), and store atmosphere, which is represented by visual, aural, olfactory, and tactile cues (Kotler, 1973; Lindquist, 1974). On the contrary, dynamic elements include human interactions with the store personnel, other customers, and entertainment activities (Pullman & Gross, 2004; Schmitt, 2003).

Since retailers might play a primary role in affecting perceptions of product quality, product value, and willingness to buy (Dodds, Monroe, & Grewal, 1991), how to successfully manage the store image is a key issue. In particular, the store image represents a primary asset in mono-brand or flagship stores, where the COB element can be a positive cue since consumers in developing countries tend to perceive foreign retailers as premium players (Chaney & Gamble, 2008; Corstjens & Lal, 2012). Moreover, in fashion retailing, flagship stores are used as market entry method since they are a signal of the brand strength and as a means of assuring partner companies of their commitment to China (Moore, Doherty, & Doyle, 2010).

With the development of e-commerce, recent studies have started to analyze online store image or e-store image (Aghekyan-Simonian, Forsythe, Kwon, & Chattaraman, 2012; Chang & Tseng, 2013; Van der Heijden & Verhagen, 2004). The importance to adopt a multi-channel perspective of store image is stressed (Verhagen, & Van Dolen, 2009). Since on digital platforms consumers cannot examine products directly, the online store image

impacts purchase intention through perceived value and perceived risk as mediators (Aghekyan-Simonian *et al.*, 2012; Chang & Tseng, 2013). Ultimately, consumer purchase behavior is affected by perceptions of both traditional stores and digital channels (Verhagen & Van Dolen, 2009).

Given the influence of multiple channels on store image, it is important to understand how the actors involved in the selling process – i.e. wholesalers, exporters, stores and the Internet – transfer the COO attribute to consumers (Clarke, Owens, & Ford, 2000). However, to the best of our knowledge, no empirical research has been conducted on the way in which the information about COO or COB is provided to consumers in the retail context, and how firms manage this element in their overall communication strategy.

3. Research

3.1. Research Questions

Given the literature gap on COO/COB use within the store environment and the need to explore its linkages with foreign products' brand image in emerging markets, our study represents an exploratory analysis that aims at investigating COB use in fashion stores.

In order to achieve this aim, we need first to understand the role of retailing as a communication tool within the strategies of foreign firms operating in an emerging market environment. Our first research question is:

- What is the role of retailing within the international branding strategies of foreign firms in China?

Then, we are able to answer our main question:

- What is the role of COB communication within the retail environment of foreign fashion (mono-brand) stores in China and which COB elements are used?

In the analysis, we considered the products' COB as our focus is on the interactions between the country of brand and the brand image of foreign products; therefore, we did not consider the country of the retail or company owner.

3.2. Methodology

To investigate the phenomenon, we choose the Chinese market since it represents a relevant venue for international firms in retail sector. In fact, despite the economic deceleration, retailing in China maintained a 7% growth in 2014 (Euromonitor International, 2015a).

In order to answer the research questions, since our aim is to explore a phenomenon for which there are no previous empirical studies, we adopted an inductive approach (Saunders, Lewis, & Thornhill, 2007). To reduce limitations of generalizability and obtain a multilayered representation of the phenomenon (Arnould & Wallendorf, 1994), data were collected using different techniques:

1. participant observation in store (mystery shopping),
2. analysis of COB use in the online environment, and
3. semi-structured interviews with key informants (seven managers operating in the retailing sector in China).

The participant observation was carried out by adopting the mystery shopping technique, in which researchers act as customers/potential customers mainly in order to monitor staff behavior and report on their service quality (Wilson, 1998) but also to study consumers in the experiential environment in an unobtrusive way and provide rich information on the retail environment (Healy, Beverland, Oppewal, & Sands, 2008). For example, Barnes and Lea-Greenwood (2010) use mystery shopping to understand how fast fashion is translated and communicated in the retail store environment, a topic new in literature. Jamal (2003)

adopts an ethnographic approach to investigate the consumer behavior of different ethnic groups in UK through repeated participant observation and long qualitative interviews.

In order to analyze COB use within stores, we developed a framework drawing from the literature related to store environment we reviewed in the previous paragraph (Kotler, 1973; Lindquist, 1974; Martineau, 1958; Schmitt, 2003). A summary of the analyzed elements is presented in Table 1.

Insert Table 1 here

We focus our attention on both static/physical and dynamic/relational elements of the store; therefore, we did not limit the analysis to observation only (as in Barnes & Lea-Greenwood, 2010). In fact, the researchers also interacted with store personnel, whose argumentations seem to have a relevant role in China, as highlighted by previous research (Lane, St-Maurice, & Dyckerhoff, 2006).

Since the true intentions of the researcher are not disclosed, the mystery shopping technique raises ethical concerns regarding the rights of respondents (Healy *et al.*, 2008). Kimmel (2001) argues that deception may be considered necessary to obtain valid and unbiased investigations, eliciting more spontaneous behavior from participants; in fact, revealing the researcher's true identity would in turn cause people to behave unnaturally. In this study the type of deception used concerns withholding information to the store personnel regarding the shopper's true identity and visit purpose.

If this information had been revealed during the interaction, store assistants would not have treated researchers as regular shoppers, not allowing them to investigate how Made in Italy products are presented through the human interaction in store. However, we agree with Smith, Kimmel, and Klein (2009), who stress that researchers' deliberations

about the use of deception should be informed by their moral standards as well as by community and institutional norms before deciding to adopt this type of research method.

Twenty mono-brand stores selling Italian products were analyzed in the period between November 2012 and July 2013. The mystery shopping activity was separately carried out by two researchers belonging to the same socio-demographic class of the store's target, who later discussed the results together and shared them with other research members. These results were cross-checked with the findings from the online analysis and the semi-structured interviews.

During the participant observation the researchers followed a protocol, since it is necessary to ensure that the information collected is not biased as a result of arbitrary behavior by the observer (Smith, 1995). Each participant observation was conducted in the following way:

- The mystery shopper randomly selected mono-brand stores selling Italian fashion items in urban areas.
- She started the observation by examining the point of sale from outside, and then she entered the store and started to examine the internal elements.
- Sales personnel initiated the interaction with the mystery shopper. Only if the salesperson did not actively offer his/her service did the shopper herself start the dialogue.
- In order to make the simulation credible, the mystery shopper always asked about the products sold in the store with the intention of buying. She also tried on some clothing items; however, no purchases were completed by the participant.
- Whenever possible, photographs were taken to overcome potential limitations (e.g., loss of data or subjective bias) and the shopper integrated the observational data with field notes as immersive process aimed at gaining understanding of the holistic situation (Ereaut, 2002; Healy *et al.*, 2008).

- Immediately after the store visit, the fieldworker filled an analysis template, based on the developed framework, integrating it with additional comments, in particular related to the dynamic elements, in order to provide a more complete description of each participant observation.

The duration of the observations covered the necessary time to explore the store elements identified in the framework and conduct the interactions with store assistants.

Even if the fashion industry has been slower than other sectors to adopt e-commerce as it is difficult to translate the in-store experience to the online environment (Blázquez, 2014), nowadays fashion brands adopt an omni-channel vision that customers to research and shop anytime and anywhere (Hansen & Sia, 2015). Therefore, the participant observation was completed by an analysis of the online environment in order to evaluate if the use of COB is consistent within the retailing communication strategy. For each store of the sample, it was analyzed whether COB elements are present on the home page of the website for the Chinese market (to verify if it is considered an important element to differentiate their brand) and on the brand page of the main e-commerce clothing website (Tmall). It was also analyzed if the product and brand description presented any references to COB or the history of the brand.

The third type of data comes from seven semi-structured interviews with managers from firms operating in China, which lasted, on average, from twenty minutes to one hour. Detailed notes were taken during interviews by the researchers and later cross-checked in order to fill verbal reports. The interviewed managers held the following roles:

- three store managers from three points of sale of different firms,
- two managers (retail manager and business to business [B2B] manager) of the local subsidiary of a high-end brand,
- the general manager of the Chinese distributor of an Italian firm, and
- the operations director of a designer outlet mall.

The main topics covered in the interviews were the role of retailing within the branding strategies of the firm in China and the role of COB communication in store. More specific questions were asked to the interviewees depending on their role in the company. Store managers were asked questions regarding the dynamic elements activated in store (e.g., the content of the interactions between sales personnel and customers, the way products and brands were presented) and consumers' behavior in store towards foreign products and the store communication (e.g., common questions asked by customers in store, favorite product items and designs). In contrast, interviews with managers holding decisional power in turn covered broader topics, including the strategies adopted to communicate the brand image (e.g., formats of stores, management of activities and events in POS) and an assessment of the perception of Chinese consumers towards foreign brands.

The cities where the analysis was conducted are Beijing and Shanghai, China's main first-tier cities, since they have a more advanced distribution system (Wong & Yu, 2003). This decision was taken to avoid the risk of comparing communication strategies based on different aims and targeted to different consumer profiles, since as Elliott and Tam (2014, p. 312) state: "Marketers who treat important markets, such as China, as single, homogeneous markets may be making a fundamental error."

4. Results

Regarding the role of retailing within a foreign firm's marketing strategy in emerging markets, interviewed managers argued that in China stores play an important role in building brand awareness among consumers. The retail manager of a high-end clothing brand declared that the retail strategy is also integrated with the e-commerce channel in order to reach consumers in areas where physical stores are not available yet. Moreover, e-commerce is used to promote brand awareness and create brand image.

In order to enhance the brand image and engage with consumers, along with traditional media (e.g., advertorials on magazines), a high-end clothing firm (operating directly in China since 2001) implements unconventional activities, such as invitations to special concerts or galas, which are communicated to consumers in an exclusive way. However, as stated by one of the interviewed managers, one of the most relevant choices in the Chinese market is related to the store location. The decision about where to open a new store is made based on several criteria, among which the main ones are total population, average income, and presence of other competitors in that city. The primary consumer target is located in first tier cities, but also second-tier cities and new developing areas have increased their importance in the past few years. In the decision of the location, the operations director of a retail outlet stated: “It is important to maintain an exclusive offer and not to be affected from the local competitors.” Therefore, differentiation is important, and also by means of their stores brands have to be perceived as foreign.

Moreover, the interviewed managers argued that retailing is not only a channel to reach the final consumer, but it is also aimed at “increasing the contractual power towards B2B clients” (manager of a high-end clothing firm), who have a deeper knowledge of product quality than end users.

From the analysis of the retail stores belonging to the sample, it emerged that only a few of them used either static or dynamic elements that identified “Made in Italy” products, suggesting that COB does not represent a primary cue for these brands in their physical retail channel. Six stores (30% of the sample) contained COB static elements, in details (Table 2):

- All stores used at least an element from store atmosphere. The most common elements were texts (four stores), followed by the flag symbol and iconic images (both in three stores). The auditory element was used in just one store, whereas the

olfactory element was absent. The tactile dimension was not analyzed because of risk of subjectivity bias.

- 12 stores displayed communication materials, but among them only one contained COB elements in a catalogue.
- Within the decoration elements, only one store contained COB references in a furnishing item and a monitor displaying a video of Italian cities.

We compared these results with the communication implemented in the online platforms (local website and Tmall page) of the analyzed brands (Table 3). Findings reveal that none of the brands with COB in store had a specific website for the Chinese market. Among the 8 brands that had a website specific for the Chinese market, only one showed the COB reference on the title bar of the webpage. The brand presence on the e-commerce platform Tmall resulted higher with 12 brand pages and half of them containing the “Made in Italy” label either on the brand description or product specifications. Overall, only two stores with COB elements also had a Tmall brand page, which showed COB reference as well.

Regarding the overall atmosphere, the participant observers positively evaluated the visited Italian brands’ stores in Beijing and Shanghai for what concerns the following aspects: location, store cleanliness, lightning, and setting pleasantness. All visited stores were located in high traffic areas, either on main urban streets or inside high-end malls. In both cases, other foreign stores with a similar positioning of the analyzed stores were also present, whereas local firms were almost or totally absent.

For what dynamic elements of the store concerns, the store traffic was generally low, suggesting that the considered stores were characterized by exclusivity. Most shoppers were female, middle aged (25–45 years old) and belonging to a high-status group, as assessed by the observation of their outfit. Moreover, in most observations (18 interactions), the clientele was composed of both local and foreign customers, suggesting

congruence between the international brand image of the products and the target at the stores.

An important element of the analysis is represented by the interactions with the store personnel. A positive assessment was made by the mystery shoppers regarding their courteousness and willingness to help. In our interviews with sector experts, several managers stressed the importance of sales personnel's role, as "they transmit brand knowledge and also represent a 'brand ambassador'" (retail manager of a high-end firm). However, no storytelling activities about the brand's values and history were performed during the interactions. One reason might be due to the personnel's training level; in fact, during the interviews it was pointed out that it is not that high because of a frequent turnover among store assistants and managers. Also, no entertaining activities were performed during the observations.

In the product presentation, the main features highlighted by store assistants were fashionableness (8 stores) and high quality (7 stores). In three cases, store assistants defined the product brands as "famous," for example it was mentioned that the products were popular among several actors from Hong Kong. In the case of products manufactured in Italy, store personnel did not particularly highlight this aspect (Table 4).

Regarding consumers' COB perception, interviewed firm managers reported that "Made in Italy" identification is not clear for most Chinese consumers. "[Consumers] usually cannot distinguish an Italian brand from a French one," declared the retail manager of a high-end brand. She also pointed out, "When Made in Italy, and Made in Europe in general, is perceived, the associations are: quality, classicism, durableness, design, flexibility and functionality..."

However, she also suggested that Chinese consumers have a general idea of different lifestyles connected to a precise country, so for certain product categories such as leather shoes, associations are more precise.

5. Discussion and Managerial Implications

From the results of this exploratory study, a controversial behavior emerges. Key informants stressed that being perceived as foreign firms is relevant for the development of the products' brand image in the Chinese market. However, from the store visits and the on-line analysis, COB does not result a primary cue the fashion firms of the sample rely on to communicate their product image in store.

In answering RQ1, the research confirms the primary role of fashion retailing in China towards both consumers and business partners (Moore *et al.*, 2010). In fact, retailing serves to reinforce the strength of the brand, especially by selecting adequate locations for their stores in urban areas in order to attract consumers in first-tier cities and later expand themselves in second-tier cities. Interviews with firm managers suggest that most Italian firms in China adopt the same retail format of other international markets, without any particular specific adaptation for the local market.

Answering our main research question regarding the role of COB, findings suggest that in the considered sample this type of cue is marginal. From our analysis of COB communication within the physical stores and online platforms (Chinese website and Tmall page), it emerges that only 30% of the sample used COB elements in their store settings. 40% of the analyzed brands operate in China with a local website, while 60% of the brands have an official online presence in Tmall.⁶

Given the increasing usage of the online communication among Chinese consumers (637.7 million users in 2014),⁷ it is important for international brands to develop a website in Chinese language to advertise their products and provide information that represents quality cues and leads to purchase (Chao, Singh, Hsu, Chen, & Chao, 2012).

⁶ Data as of December 2014.

⁷ Euromonitor International (2015b).

However, from our analysis the following points emerge: first, there is not an integrated marketing communication between the physical store and the online website, resulting in non-coherent store image on the various channels; in fact, none of the stores with COB elements in their point of sale have a specific website for the Chinese market; second, the percentage of brands that communicate online have a slightly higher presence on Tmall than those with their own website (60% and 40%, respectively); third, the Made in Italy reference is present online only in one website in a hardly noticeable part (the title bar of the webpage) and six Tmall brand pages.

Comparing the use of COB in the two channels, it seems that COB is more frequently used as a cue when consumers need more information, such as on the Internet where they cannot touch products or physically experience the brand world. This is consistent with previous research where COB has been considered as a simple product descriptive information (Hye & Leslie, 2002; Zhang, Han, & Wang, 2011). Indeed, virtual store spaces have become relevant for communicating with consumers, especially with those from culturally and physically distant markets. Therefore, in order to attract sales in an online shopping platform such as Tmall, a brand needs an association that immediately proves its quality and reduces the perceived risk in the purchase decision, so marketers tend to adopt the COB as a quality cue more often (Aghekyan-Simonian *et al.*, 2012; Verlegh & Steenkamp, 1999).

Regarding the type of elements used, Insch and Florek's (2009) findings are confirmed as simple elements (the "made in" label, the Italian flag, and iconic images) are more common than elaborate symbols and texts. However, in such a new and culturally distant market as China, this type of elements might not immediately enhance the brand recognition. As pointed out by the interviewed managers, the "Made in Italy" association is not clear for most Chinese consumers in favor of a general idea of "Made in Europe," confirming previous research (Checchinato *et al.*, 2013). Moreover, as discussed by

Samiee (2011), the mere use of certain colors shared by a country's flag is not effective since consumers may associate them with colors used in other countries' flags.

Regarding dynamic elements, although sellers are highly important in China (Merrilees, Miller, & McKenzie, 2001), they tend not to rely on COB to enhance the brand image, focusing more on product quality and fashionableness. Considering that most Chinese people have only a vague idea about Italian's characteristics and culture, these findings seem to be consistent with previous research (Samiee *et al.*, 2005) that states the inflated importance of the COB cue.

The entertaining element together with storytelling activities by the store personnel were missing in the sample. In the product presentation, no reference was made to the brand history. Since shopping is highly experiential in the Chinese market (Yu & Bastin, 2010) and the culture of brand origin is more likely to influence the consumer (Lim & O'Cass, 2001), retail strategies should consider this aspect more in order to make shoppers engage with the brand, facilitating products' presentation at the same time. In this way, sellers would truly act as brand ambassador.

Samiee *et al.* (2005) suggest that international marketing strategies should place much greater reliance on non-geographic attributes of brands than those related to their origins. This conclusion is consistent with results obtained by Lee and Ganesh (1999), Papadopoulos and Heslop (1993), and Godey *et al.* (2012), indicating that the brand image is more important than COB and a very strong brand could decrease the relevance of COO.

Therefore, international firms should properly manage COB as part of their brand image (Magnusson *et al.*, 2011), integrating the origin reference within a cultural value system that is relevant for the destination market and differentiates the brand from competitors.

6. Conclusion

Many scholars have analyzed how COO and COB impact consumers' perception and behavior in developed countries, and more recently in developing countries such as China, where foreign brands can leverage on a higher perceived quality and image. However, so far research has not approached how companies use COB elements in their marketing strategy and, in particular, in the context of the last touch point before sale, the store.

This paper contributes to the literature as it tries to fill this gap by adopting an exploratory approach to examine the effective use of the COB and its relation with the overall brand strategy of foreign firms in China. Moreover, given the multi-channel characteristic of store image (Verhagen & Van Dolen, 2009) and a limited knowledge on how the integration across multiple channels can be accomplished (Hansen & Sia, 2015), the analysis was carried out in both traditional stores and online platforms, which have become a main point of purchase for Chinese consumers.

In our proposed framework analysis, COB represents a cue that companies may adopt in order to provide information to consumers and, at the same time, modify their quality perception of the products, influencing their purchase decision. In retailing, COB can be used in static and dynamic elements; however, in order to be effective, it must build a true value and information system to be provided to consumers (Verlegh & Steenkamp, 1999; Zhang *et al.*, 2011). Especially in new and distant markets, simple elements such as "Made in" label, colors, and iconic images should be integrated in a defined brand image. As Li, Li, and Kambele (2012) suggest, retail sellers should consider emphasizing the intrinsic brand value to current Chinese customers in their marketing strategies. Dynamic elements such as interaction with store personnel and entertainment activities might enhance the transmission of the brand image, making it more recognizable and significant for consumers. Moreover, this delivery should adopt a multi-channel approach (Verhagen

& Van Dolen, 2009). In this way, online store attributes and offline operations can have a joint influence of on the performance of multichannel retailers (Jin, Park, & Kim, 2010).

More studies should be undertaken to explore this phenomenon and overcome the limitations of the present research. The main one is related to the fact that, even if some evidence about the use of the elements that communicate COB in the retailing context might be generalizable, findings are related to a limited sample of stores in a specific country, China, and a specific COB, Italy.

In the future research, findings of this exploratory research on COB in the fashion retail environment should be verified in the context of other sectors and other markets. Moreover, the consumer's perception and attitude towards the brand and purchase intention related to the COB communication in store represent an interesting aspect to analyze. In this case, an ethnographic approach could be considered since it allows to record human action in natural settings (Fielding, 1993), which are characterized by deeply embedded sociocultural patterns that are resistant to transfer to other research settings (Arnould & Price, 2006; Arnould & Wallendorf, 1994). By analyzing the natural setting of the topic of interest, ethnography would be able to offer valuable insights into the market and consumer behavior, for which empirical evidence are not well established yet.

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Table 1. The COB Analysis Framework Developed from Literature

Store elements	Presence of COB information in
Static/physical elements (Kotler, 1973; Lindquist, 1974; Martineau, 1958; Schmitt, 2003)	<ul style="list-style-type: none"> • Decoration elements (furniture, displays, personalized walls, etc.) • Communication materials (catalogues, leaflets, etc.) • Store atmosphere (colors and flag, texts, music, perfumes, etc.)
Dynamic/relational elements (Lindquist, 1974; Schmitt, 2003; Pullman & Gross, 2004)	<ul style="list-style-type: none"> • Sales personnel's product presentation and interaction • Entertainment activities • Clientele (congruency between brand image and target)

Table 2. Results from the Analysis of COB Use in Static/Physical Elements

Type of static/physical elements	N of stores	COB presence
Decoration elements		
Furniture	2	1
LCD displays	1	1
Personalised walls	2	0
Total*	5	2
Communication materials		
Catalogues	8	1
Leaflets	3	0
Flyer	0	0
Counter display	1	0
Total*	12	1
Store atmosphere		
Iconic images	3	3
Colours and flag	3	3
Texts	4	4
Music	1	1
Perfumes	0	0
Total*	11	11

*Please note that multiple elements could be present.

Table 3. Results from the Analysis of COB Use in Store and On-line Communication

STORE ID	TYPE OF PRODUCTS	COB IN STORE	CHINESE WEBSITE	COB IN CHINESE WEBSITE HOMEPAGE	TMALL BRAND PAGE	COB IN TMALL BRAND PAGE
A	women apparel	0	0	0	0	0
B	women apparel	0	0	0	1	0
C	accessories	1	0	0	1	1
D	family apparel	1	0	0	1	0
E	women apparel	0	1	0	1	1
F	men/women apparel	0	0	0	1	0
G	men/women apparel	0	1	0	1	0
H	shoes	1	0	0	0	0
I	shoes	1	0	0	0	0
J	women apparel	0	0	0	0	0
K	men/women apparel	0	0	0	0	0
L	accessories	0	1	0	1	1
M	men/women apparel	0	1	0	1	1
N	shoes	0	0	0	1	1
O	accessories	1	0	0	1	1
P	accessories	0	1	0	0	0
Q	shoes	0	1	1	1	0
R	men apparel	0	1	0	0	0
S	women apparel	1	0	0	0	0
T	men/women apparel	0	1	0	1	0
<i>N. of stores</i>		6	8	1	12	6
<i>(%)</i>		30%	40%	5%	60%	30%

Table 4. Results from the Interaction with Store Personnel (Presentation of Italian Products)

Characteristics highlighted	N of stores	% of stores
Fashionable product	8	26.67%
High quality product	7	23.33%
Famous brand	3	10.00%
Imported product	2	6.67%
Locally produced product	2	6.67%
Comfortable product	1	3.33%

The Country of Origin Effect: A Hedonic Price Analysis of the Chinese Wine Market*

Abstract

Country of origin (COO) represents a product cue that enhances brand recognition and prestige, especially in the context of emerging markets. In this paper, a hedonic price model is used to analyze the effect on wine purchase in China. Wine represents a new product for Chinese consumers and its sector has rapidly increased over the past few years. The study aims at measuring the COO effect on consumer preference, testing the model on a sample of foreign and local wines sold on a main Chinese website. The analysis shows that COO represents the attribute with the highest coefficient on wine sales. Moreover, in the sample France is surprisingly not the country with the greatest COO effect. Results are discussed on the extent to which foreign firms operating in sectors where COO implies specific characteristics of quality should enhance this attribute in their marketing strategies in order to increase their competitive advantage.

Keywords: China, consumer preference, country of origin, hedonic price, wine

* Written with Andrea Baldin.

1. Introduction

In the past few decades, Chinese consumers have been rapidly influenced by Western lifestyles not only in sectors such as fashion and travel, but also in food consumption (Curtis, McCluskey & Wahl, 2007; Veeck & Veeck, 2000). Rising incomes and changing lifestyles have contributed to change the diet of urban Chinese consumers (Ortega, Wang, Olynk, Wu, & Bai, 2011; Veeck & Burns, 2005) and safety has been found to be a main concern in food purchase (Ruth & Yeung, 2001; Wang, Mao, & Gale, 2008).

Products that did not belong to local traditions have become widespread in this market, for example cheese, chocolate, pasta but also beverages such as coffee and wine (Euromonitor International, 2015). In particular, wine sector has rapidly grown in China due to the development of internal production and imports (Vianelli, de Luca, & Pegan, 2012), which have been increased thanks to the tariff reductions following China's WTO entry (Hu, Li, Xie, & Zhou, 2008).

In 2015, the total volume of wine sales increased by 6%, to reach 4.4 billion liters (Euromonitor International, 2016b). The performance improved from the previous year, when the government activated the anti-extravagance campaign to counteract corruption, which led to a decline in sales of premium wine.

In China, the preferred variety is red wine because of the symbolic meanings associated with this color, such as wealth, power, and good luck (Euromonitor International, 2015). However, the majority of Chinese consumers still lack knowledge of grape wine, since it represents a relatively new alcoholic drink type and they are traditionally used to drink non-grape wine such as rice wine (Camillo, 2012). In 2013, the per capita consumption of grape wine was only 1.5 liters per person, compared to 51.9-liter average in France.⁸ The main importing country is represented by France, which accounts

⁸ Chow, J. (29 January 2014). China is now world's biggest consumer of red wine. *The Wall Street Journal, Asia Scene*. Retrieved from <http://blogs.wsj.com/scene/2014/01/29/china-is-now-worlds-biggest-consumer-of-red-wine/> (accessed 14 July 2016).

for a total volume of 130 million liters, followed by Chile, Spain and Australia (Euromonitor International, 2016b).

Chinese consumers usually perceive foreign products as characterized by symbolic values (Zhou & Hui, 2003). In the case of wine, imported one is preferred to convey a desirable image of themselves, not risking “losing face” (Hu *et al.*, 2008). In order to understand the impact of origin and other attributes on wine prices, a widely used method is the hedonic price analysis (Angulo, Gil, Gracia, & Sánchez, 2000; Combris, Lecocq, & Visser, 1997; Schamel & Anderson, 2013).

Hedonic price modeling relates variations in price to differences in goods’ attributes, which include quality, reputation, and objective characteristics (Oczkowski, 2001). In literature, it has been already applied to analyze wine in developed countries, but the role of country of origin (hereafter, COO) has not been included as product attribute since they considered samples belonging to the same country (Angulo *et al.*, 2000; Combris *et al.*, 1997; Golan & Shalit, 1993; Nerlove, 1995; Oczkowski, 1994).

In this research, we apply a hedonic price model, including COO as independent variable, and test it on a sample of wine products sold in China. We contribute to the discussion about COO effects in emerging markets by adopting a widely used type of analysis in wine sector. However, on the one hand, COO research has mainly focused on consumers’ perception and attitude towards wine (Balestrini & Gamble, 2006; Hu *et al.*, 2008). On the other hand, so far hedonic price models were used to analyze the wine sector in developed countries by considering samples of wine belonging to a single country.

Our aim is to measure the importance of COO attribute for the wine sector in developing countries. Given the relative newness of wine consumption in the Chinese market, from a marketing perspective it is important to investigate the product characteristics weighted by consumers in order to define a proper strategy for the destination market.

The remainder of the paper is structured as follows: first, a literature review on the COO issue in China and the use of hedonic price modeling is provided; second, the hypotheses and methodology are presented; third, the description of the sample follows; then, the results of the study are presented; discussion and conclusion conclude.

2. Literature Review

COO belongs to the category of extrinsic product attributes (together with other cues such as price, brand name, packaging, and warranties), used by consumers when intrinsic cues (such as design, taste, and performance) are difficult to assess prior to product purchase (Elliott & Cameron, 1994).

Several scholars argue that COO is a positive product attribute that influences judgment (Papadopoulos & Heslop, 1993) and is characterized by symbolic and emotional meanings (Fournier, 1998). In the context of developing countries, research has indicated that consumers tend to prefer imported, branded products over domestic ones because of their higher perceived quality (Agbonifoh & Elimimian, 1999; Batra, Ramaswamy, Alden, Steenkamp, & Ramachander, 2000; Essoussi & Merunka, 2007; Ettenson, 1993; Marcoux, Filialtrault, & Chéron, 1997).

However, other scholars point out that COO is only one extrinsic cue among other extrinsic and intrinsic cues available to the consumer during purchase (Agrawal & Kamakura, 1999). Moreover, consumers have only a modest knowledge of the correct COO and they tend to focus on brand origin, rather than on country of manufacture (Hamzaoui & Merunka, 2006; Samiee, 2011).

The literature on COO has recently shifted to country of brand (COB) since nowadays, products are designed in one country and manufactured in another one before reaching the final consumer (Usunier, 2011). However, for food products, including wine, the accuracy of the origin is relevant since it is perceived as an indicator of quality

(Lockshin & Rhodus, 1993). Moreover, especially in Europe the geographical brand is indicator of raw materials and production processes compliant with specific regulations (Agnoli, Capitello, & Begalli, 2014). Therefore, wine retailers tend to display wine by the COO in order to simplify the purchase decision especially for naïve consumers (Chaney, 2002).

With regard to the Chinese market, COO often influences the perception of foreign products for several reasons. First, COO is used as surrogate information cue in the evaluation of products that were previously unavailable (Zhang, 1996) since it is difficult for consumers to assess their quality. Second, another main consumer motivation to purchase foreign products is represented by symbolic values, such as modernity, prestige, and associations with foreign lifestyles (Zhou & Hui, 2003). In China, a form of hedonic consumption seems to be diffused, which involves multisensory, fantasy, and emotive aspects of one's experience with products (Hirschman & Holbrook, 1982). Moreover, in the food sector safety represents one of the main concerns for Chinese consumers because of some recent food safety scandals (Ortega *et al.*, 2011). Therefore, there is an increasing willingness-to-pay towards certified products, especially among the segment of high-income Chinese consumers (Wang *et al.*, 2008).

Previous studies suggest that COO represents an important factor for Chinese consumers in wine evaluation, especially for gift purchase and public consumption since they are exposed to other people's judgement (Balestrini & Gamble, 2006; Hu *et al.*, 2008). In a recent study, Yang and Paladino (2015) provide partially contradicting results. They show that COO (Australia) only generates favorable attitudes, whereas domestic COO (China) is found to have a significant impact on the purchase behavior of wine as gift. They argue that Chinese consumers are more inclined to purchase domestic wine thanks to potentially enhanced quality and price advantage.

With regard to wine demand, Agnoli *et al.* (2014) use an econometric model to estimate the Chinese still bottled wine import demand using data within seven year-timeframe collected from Eurostat and the United Nations Commodity Trade Statistics Database. Their findings show positive effects of COO and geographical brands (wine with indicators of quality connected to a specific area).

In other countries, wine sector has been analyzed using hedonic price models (for a review, see Orrego, Defrancesco, & Gennari, 2012). The main assumption of this type of analysis is that every commodity is considered as a combination of objectively measurable or rankable traits that differentiate related goods from one another. Waugh (1928) was the first scholar to implement this technique. In his pioneering work, observing a significant variation in vegetable prices in different markets, the author investigates the influence of quality traits (color, size, and uniformity of spears) on market price.

Later, Rosen (1974) developed a model in which every good is evaluated by customers for the utility it generates. Hence, every consumer evaluates the attributes and the traits of the good when they make the purchase decision. Since the hedonic price function is determined as the equilibrium between demand and supply conditions, the coefficients in the hedonic regression should be interpreted both by producers and consumers perspective. On the supply side, the coefficients should reflect the marginal implicit cost for the attributes. On the demand side, the coefficient should reflect the consumers' preference – or their willingness to pay – for that specific quality attribute, while the ratios of the attributes should be interpreted as the consumers' marginal rates of substitution between attributes. Subsequent to Rosen's work, several empirical papers have estimated a hedonic price function, in particular considering food items (among them, Shi & Price, 1998; Stanley & Tschirhart, 1991; Uri, Hyberg, Mercier, & Lyford, 1994). Other studies use hedonic analysis in the quality assessment of services, which are difficult to assess given their intangible attribute, for example in tourism (Thrane, 2005),

transportation (Armstrong & Rodriguez, 2006) and the housing market (Can, 1992; Linneman, 1980; Witte, Sumka, & Erekson, 1979).

With regard to wine, price is considered a good indicator of quality by consumers that are not knowledgeable about it, for example average consumers from Germany and United Kingdom since they consume wine less frequently than consumers from Italy and France (Bernetti, Casini, & Marinelli, 2006). However, several studies (Anderson, 2003; Cholette, Castaldi, & Fredrick, 2005) have pointed out that since the 1990's, France's share of the UK wine market has dropped with demand shifting toward New World wines, such as Australia, suggesting a higher sophistication and new preferences among British consumers compared to a few decades ago.

So far, hedonic price techniques have been adopted to wine in several studies. Golan and Shalit (1993) evaluate the quality characteristics of Israeli wines in order to provide appropriate recommendations to wine producers. Nerlove (1995) considers the case in which wine prices are exogenously determined, as in the case of state-owned Swedish retail monopoly, so prices are controlled by the government. In such a case, in order to infer consumers' preferences, the author uses the quantity sold as dependent variable instead of prices. Combris *et al.* (1997) use objective characteristics that appear on the label of the bottle and also sensory characteristics (like aroma, body, and firmness) evaluated by a jury composed of professional wine tasters. The main finding of his study is that the sensory characteristics are not significant in explaining the price of wine because of taste differences between wine tasters and consumers and the lack of perfect information among consumers. However, when the regression includes an overall sensory quality score as measure of quality, accessible from published wine guides, it tends to be significant (Combris, Lecocq, & Visser, 2000).

In more recent studies, scholars have focused on different wine characteristics evaluated by consumers in the purchasing decision: reputation of winery (Ling &

Lockshin, 2003), sensory quality ratings (Costanigro, McCluskey, & Mittelhammer, 2007; Oczkowski, 2001), packaging characteristics (Mueller Loose & Szolnoki, 2012), and retail formats (Brentari, Levaggi, & Zuccolotto, 2011).

In conclusion, the body of theoretical and empirical literature suggests that objective characteristics (written on the label) and reputation attributes are the main determinants of wine price. So far, the hedonic price analysis has been performed in developed countries by using samples belonging to a single country. Therefore, COO has not been considered as determinant of wine purchase. Only a few studies (Angulo *et al.*, 2000; Steiner, 2004) include the growing area of wines from the same country as explanatory variable of prices.

In this study, the authors try to investigate the effect of COO on wine purchase by using a sample of wine bottles sold on a main e-commerce website in China.

3. Hypotheses and methodology

Based on previous works that show a positive COO effect on foreign products (Zhang, 1996; Zhou & Hui, 2003) and wine (Balestrini & Gamble, 2006; Hu *et al.*, 2008) among Chinese consumers, the foreign COO is expected to be a significant characteristic for the purchase of wine in China. Moreover, since it is assumed that prices and attribute contents can be taken as exogenous to Chinese consumers, Nerlove's (1995) approach is adopted to investigate the effect on sales. Therefore, this hypothesis is formulated:

H1. Foreign COO has a positive effect on the sales of wine bottles in China.

Second, given that France is the main importing country of wine sold in China, representing 38% of the imports' total volume in 2014 (Euromonitor International, 2016b) and its leadership is confirmed by a recent study (Agnoli *et al.*, 2014), it is hypothesized:

H2. French COO has the highest positive effect on the sales of wine bottles in China.

In order to test these hypotheses, the proper methodology to use is the hedonic price regression since it argues that the utility of the purchaser is enhanced by the characteristics of that commodity, rather than by the commodity itself (Agrawal & Kamakura, 1999; Rosen, 1974).

In the hedonic price analysis, the utility function of each purchaser is determined by the level of characteristics incorporated in the commodity. Thus, the market price of a good is the sum of the implicit price paid for each characteristic.

Let's suppose a variety of wine is represented by a vector Z of n attributes $Z = (z_1, z_2, \dots, z_n)$. The utility maximization problem that the consumer faces when he chooses one unit of wine can be formulated as follow:

$$(1) \quad \text{Max } U(Z, X)$$

$$(2) \quad \text{Subject to } Y = p(Z) + X$$

where X is a composite good, which represents all the other commodities other than wine; Y is the consumer's budget and $p(Z)$ is the market price of Z .

The first order conditions are:

$$(3) \quad \frac{\partial U / \partial z_i}{\partial U / \partial X} = \frac{\partial p}{\partial z_i} = p_i, \forall i$$

Hence, the marginal rate of substitution between the wine characteristic z_i and X is equal to the implicit price p_i of the characteristic z_i . Such implicit prices are represented by the coefficients of the linear hedonic price equation:

$$(4) \quad P_j = \alpha + \beta_1 z_{j1} + \beta_2 z_{j2} + \dots + \beta_n z_{jn} + \varepsilon$$

where P_j is the market price of wine j , α is the intercept, and ε is the error term.

As in Nerlove (1995), a ‘reduced form’ is used. Differently from the usual hedonic analysis, in which price is treated as dependent variable, the regression measures the effect of price and attribute measures on quantity sold. This is justified by the assumption that prices and attribute contents can be taken as exogenous to Chinese consumers, as done by Nerlove (1995) for Swedish consumers. The two markets are similar since both countries’ consumers represent only a small portion of world’s wine drinkers and wine prices are controlled by the government. In fact, in China wines from certain countries such as Australia, Chile, and New Zealand are not subject to import duties thanks to mutual free trade agreements (the tariff rate on wine from other countries is of 14% for bottled wine or 20% for bulk wine). In addition, wine imported into China is also subject to 10% “consumption tax” and 17% “value added tax.”⁹

By using the reduced form, it is assumed that the evaluation of a particular wine attribute is revealed by varying the hedonic demand for it. Following Nerlove (1995), since customers take price $p(Z)$ as given, they maximize the utility function (1) by choosing the quantities $q(Z)$ of each variety bought at those prices. Hence, in the case in which prices are exogenously determined, Nerlove (1995) proposes to estimate the demand function regressing the quantity of each variety on its price and the quality attributes that characterize the variety:

$$(5) \quad q(Z) = R[p(Z), a(Z)]$$

⁹ Retrieved from
<http://www.austrade.gov.au/Australian/Export/Export-markets/Countries/China/Industries/wine>;
<http://en.wines-info.com/html/2015/9/189-62706.html>; <https://www.nzte.govt.nz/en/export/market-research/wine-regulations-for-exporting-wine-to-china/> (accessed 4 August 2016).

where $a(Z)$ reflect the customer's evaluation of the attribute z , that is, the effect of the attribute z on the quantity of variety sold, keeping its price fixed.

While in (4) the coefficient of the attribute represents its implicit price, in (5) the willingness to pay w_i for one more attribute z , given variety price, is obtained as follows:

$$(6) \quad w_i = -\left(\frac{\partial R/\partial Z_i}{\partial R/\partial P}\right)$$

Following the body of literature, the explanatory variables to include in our function can be divided into two categories: objective characteristics and reputation attributes. Objective characteristics are those attributes that are recognized by the consumer since they appear on the label (alcoholic content, vintage year, COO, body, etc.). On the contrary, reputation attributes are given by indicators of quality for agricultural products such as “protected designation of origin” (PDO) or “protected geographical indication” (PGI) and rating reported. The latter set of attributes is supposed to contribute to repeat purchases and attract new customers, increasing the number of bottles sold, which is the dependent variable. Brand is not included as reputation attribute because the large number of different brands in a single market does not allow consumers to have a clear understanding of branding in the wine market (Gluckman, 1990). Table 1 summarizes the independent variables of the model.

Insert Table 1 here

The final specification of the model to be estimated is given by:

$$(7) \quad \ln(SOLD) = \alpha + \beta_1 ALCOHOLIC\ CONTENT + \beta_2 INDICATOR + \beta_3 RESERVE +$$

$$\beta_4 \ln(PRICE) + \beta_5 RATING * N.REVIEWS + \sum_{i=1}^n \gamma_i COO_i + \sum_{j=1}^m \delta_j BODY_j + \varepsilon$$

n = number of COO

m = number of BODY types

γ_{CHINA} and $\delta_{LOWMEDIUM}$ are set = 0

Some remarks on the final specification of the hedonic regression: first, the double-log relation between the *SOLD* and *PRICE* variables is chosen as it provides the most satisfying value of the Ramsey RESET test (F-test 9.78, $p < 0.001$). Second, the overall evaluation by users interacts with the number of reviews in order to take into account not only the quality of the wine judged by customers but also the quantity of evaluations made at the same time (indeed, wider the feedback, more reliable is the overall evaluation). Third, the COO variable associated to China is set as the reference variable. By doing so, the first hypothesis is tested, as the coefficients of the foreigners COO will be interpreted with respect to China. With regard to wine body, the dummy variable associated to the lightest level of body is set as the base variable in order to analyze the preference of Chinese consumers for a heavier wine body.

4. Sample

The model is tested on a sample of foreign and local wines sold on a local website specialized in wine products, “Yes my wine” (<http://www.yesmywine.com>). The company

was founded in 2008 in Hong Kong and it has currently 8.5 million registered users.¹⁰ In 2015, Yesmywine's online and offline sales reached one billion RMB.¹¹

E-commerce is chosen as setting of the study since China has the world's largest online retail market, nearly eighty percent bigger than the United States. In 2015, it reached approximately \$630 billion of sales (Wang, Lau, & Gong, 2016). Among product categories, food and drink have increased by 3,408.8% in value growth within the period 2010–15 and it is expected to grow by 22.2% in the next five years, ahead of all other sectors (Euromonitor International, 2016a).

The sample is composed of still red wine as it is the variety that registered the fastest volume growth of 2015 with an 11% sales increase (Euromonitor International, 2016b). It does not include bulk wines but only single bottles of 75cl each.

A random sample was collected from 300 items given as results for the category “red still grape wine” on the website within the period of the second week of June 2016. For each item, the following information was analyzed: number of bottles sold, price, alcohol content, vintage year, variety, COO, body, indicators of quality, reserve attribute, number of reviews, and percentage of rating from reviews.

Because of missing data, the final sample analyzed with the software Stata 13 is composed of 167 items. Table 2 summarizes the sample data.

Insert Table 2 here

5. Results

At first, the model was tested considering age as attribute, however this reduced the sample to 125 items since 42 items, especially among Chinese wines, do not have

¹⁰ Retrieved from <http://www.yesmywine.com> (accessed 14 July 2016).

¹¹ The company owns a hundred stores in China. Retrieved from <http://www.beverageinsight.com/2016/04/27/yesmywine/> (accessed 14 July 2016).

information about vintage year. The age attribute resulted not significant ($p > 0.10$), therefore this attribute was removed from the analysis. The regression based on the final model (7) is run on 167 items. Table 3 presents the results of the hedonic analysis.

Model 1 includes the variables as specified by equation (7). As there is evidence of heteroskedasticity ($p < 0.01$ for the White test), robust standard error estimates are used. The R-square of the model is 0.6917, suggesting a goodness of fit.

As shown by Table 3, COO attributes are the independent variables with the highest coefficients. All COO regressors are highly significant ($p < 0.01$). Therefore, H1 is supported.

Among the countries of the sample, surprisingly France does not have the highest coefficient (3.708) but ranks fourth after Spain (4.722), Chile (3.856), and Australia (3.964). H2 is not supported.

Model 2 adds the variety of wine (such as Cabernet, Merlot, Crianza, and so on) as variable in the hedonic regression (5). However, as expected, this leads to multicollinearity issues: indeed, some varieties are produced exclusively by one single country (e.g., in our sample the variety “Sangiovese” is produced only in Italy). Therefore, a regression removing those varieties associated with only a country was run, lowering the items to 155. The R-square of Model 2 is slightly improved (0.7180) due to the increased number of variables that explain the quantity of bottles sold. However, results show that only two varieties, Malbec ($p < 0.01$) and Merlot ($p < 0.10$), are significant variables.

It was also verified whether the variety itself, rather than COO, can explain consumer preferences (Model 3). A regression removing the COO and including the variety of wine in the equation (5) was run on 165 items (two items are not considered because of multicollinearity). In this case, almost all varieties are significant, but the R-square is much lower (0.5751).

By comparing the three models, the authors can conclude that Model 1 is preferable given the multicollinearity issues in Model 2 and a higher goodness of fit compared to Model 3. Hence, according to these results, it seems that COO effect is stronger than wine variety in explaining consumers' preferences.

With regard to other objective characteristics, it is argued that reserve attribute is not significant, suggesting a more importance attributed to COO and geographical brands, as opposed to vintage year. This confirms the study by Agnoli *et al.* (2014) and also indicates a low level experience of Chinese consumers with wine products. As expected and in line with Nerlove's (1995) results, price taken in its logarithm has a significant negative coefficient of -0.889 on sales ($p < 0.001$). Alcohol content does not represent a significant variable, confirming results by Angulo *et al.* (2000).

The coefficients of the body attributes are estimated as a dummy variable by considering low-medium level as 0. Results suggest that Chinese consumers prefer wine of medium and medium-high body (coefficients are 1.975 and 1.970 respectively, at $p < 0.01$).

Regarding reputation attributes, indicators of quality, which are connected to the wine origin, are significant and increase sales by 104.33%. This enhances the importance of the geographical origin. Number of reviews and overall rating are highly significant ($p < 0.001$), however the effect is very small (0.1%).

6. Discussion and Conclusion

In this study, hedonic price modeling is used to analyze the effect of wine attributes in the context of a developing country, unlike previous research which have focused on mature markets. In China, the consumption of wine products has been largely increased over the past few years, therefore it is relevant for practitioners to adequately manage their strategies in such market.

The first hypothesis is confirmed since a foreign COO has a positive effect on the sales of wine bottles in China. Moreover, from our analysis it is the main attribute that influences the sales of wine in China, confirming previous research on consumer perception of foreign wine products (Balestrini & Gamble, 2006; Hu *et al.*, 2008). The four countries with the highest COO coefficients are also the main importers of wine in China, as per the latest sector reports (Euromonitor International, 2016b).

The second hypothesis is not confirmed as Spain has the highest positive COO effect on sales instead of France. This is due to the sample size, however it suggests that not only the market leader, French wine, but also other foreign countries take advantage of COO hedonic attribute.

Among reputation attributes, the authors also agree with Agnoli *et al.* (2014) regarding the importance of geographical brands, denoted by indicators of quality. Therefore, firms operating in emerging markets should leverage on the positive effect of COO by developing marketing focused on communicating the attributes associated with the country of production.

The results suggest that the vintage characteristic is not relevant for consumers, unlike British and Spanish markets (Angulo *et al.*, 2000; Steiner, 2004). This is attributable to the novelty of the wine product and consumers' inexperience in China (Balestrini & Gamble, 2006). Therefore, firms should implement activities in order to make consumers more knowledgeable about the quality characteristics of wine products, as the rapid diffusion of new food habits will imply higher consumer sophistication in the next few years.

Since the hedonic price model was tested on a small sample, the study suffers from the limitations of results' generalizability. Other categories than red still wine should be considered in order to analyze the attributes' effects on different wines, such as sparkling

wine or white wine. Also, “Yes my wine” does not provide socio-demographic data of the purchasers.

In the future research directions, the model should be tested on a larger sample within a longer timeframe, also adding more variables such as place or region of origin. In this study, place of origin is not considered here because it is assumed that since wine is a relatively new product for Chinese consumers, it is hard for them to distinguish the product attributes of items belonging to different regions of the same country. Moreover, the analysis should integrate information about consumers in order to investigate purchase motivations. As “face saving” might be a determinant in purchase decision (Hu *et al.*, 2008; Yang & Paladino, 2015), it would be interesting to investigate possible behavior differences between private and public consumption or among consumers belonging to different social groups.

With regard to reputation variables, our analysis considered the rating provided by consumers of the e-commerce website. This attribute could be integrated by the rating given by expert tasters (Angulo *et al.*, 2000; Combris *et al.*, 1997).

This study contributes to the literature on International Marketing and COO by adopting a hedonic price analysis to measure consumer preferences in China. Despite being a well-established model, to the best of our knowledge it nevertheless has never been used in emerging markets before. By carrying out an original analysis on wine sector, it confirms previous studies on COO positive effect in China (Balestrini & Gamble, 2006; Hu *et al.*, 2008; Zhang, 1996; Zhou & Hui, 2003) and identifies the main objective and subjective product attributes that influence purchase. The results of this study are relevant also for other products than wine, in which COO is used as information and quality cue. First of all, hedonic price analysis can be applied to food products that did not belong to the traditions of one country (for example, chocolate and coffee in China), so the origin increases their perceived value. Second, also firms operating in other sectors where the

manufacture origin implies specific characteristics of quality for consumers (e.g., fashion or design products) need to improve their COO brand management (Agnoli *et al.*, 2014).

The study also extends the broad research in hedonic price modeling by adding COO as variable and giving evidence of the most relevant attributes for a traditionally Western product in an emerging market such the case of wine in China. As consumers progressively gain more experience with products, the analysis will need to include more detailed attributes such as place or region or origin.

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Table 1. Independent Variables of the Hedonic Price Model

Variable	Typology	Description
<i>Objective characteristics</i>		
Price	Continuous variable	Price in RMB
Alcohol Content	Continuous variable	Alcohol content in %
Reserve	Dummy variable	1 if reserve wine; 0 otherwise
COO	Dummy variable	Country of origin
Body	Dummy variable	Low-medium, medium, medium-high, heavy
<i>Reputation attributes</i>		
Indicator of quality	Dummy variable	1 if the item has an indicator (e.g., PDO, PGI); 0 otherwise
Rating	Continuous variable	Overall evaluation by users in %
N of reviews	Continuous variable	N of reviews by users

Table 2. Data Description

Variable	N of observations	Mean	Std. Dev.	Min.	Max.
Price (RMB)	167	126.826	101.597	28	558
Quantity sold	167	28721.590	83419.240	1	729450
Alcohol content	167	13.042	0.731	11	15
Indicator of quality	167	0.437	0.498	0	1
Reserve	167	0.132	0.339	0	1
N of reviews	167	191.497	487.873	0	4800
Rating (%)	167	0.970	0.081	0	1
COO - Argentina	3	0.018	0.133	0	1
COO - Australia	12	0.072	0.259	0	1
COO - Chile	36	0.216	0.412	0	1
COO - France	66	0.395	0.490	0	1
COO - Italy	6	0.036	0.187	0	1
COO - Spain	18	0.108	0.311	0	1
COO - China	26	0.156	0.364	0	1
Body - low-medium	7	0.042	0.201	0	1
Body - medium	71	0.425	0.496	0	1
Body - medium-high	73	0.437	0.498	0	1
Body - heavy	16	0.096	0.295	0	1
Cabernet	54	0.327	0.471	0	1
Carmenere	6	0.036	0.188	0	1
Gamay	4	0.024	0.154	0	1
Grenache	8	0.048	0.215	0	1
Malbec	2	0.012	0.110	0	1
Merlot	41	0.248	0.433	0	1
Mixed	7	0.042	0.202	0	1
Monastrell	3	0.018	0.134	0	1
Negroamaro	1	0.006	0.078	0	1
Paez	1	0.006	0.078	0	1
Pinot	3	0.018	0.134	0	1
Sangiovese	1	0.006	0.078	0	1
Shiraz	19	0.115	0.320	0	1
Tempranillo	15	0.091	0.288	0	1

Table 3. Results of the Hedonic Analysis

Variable	Model 1	Model 2	Model 3
Adjusted R-square	0.6917	0.7180	0.5751
No. of observations	167	155	165
Alcohol content	-0.063 (0.198)	-0.127 (0.244)	0.641** (0.264)
Rating x no. Reviews	0.001**** (0.000)	0.002**** (0.000)	0.001*** (0.000)
Indicator of quality	1.0433*** (0.363)	0.792** (0.354)	2.023**** (0.387)
Reserve	-0.309 (0.400)	-0.306 (0.382)	-0.127 (0.406)
Argentina	3.100**** (0.840)	3.128**** (0.702)	
Australia	3.964**** (0.731)	4.284**** (0.800)	
Chile	3.856**** (0.669)	3.844**** (0.683)	
France	3.708**** (0.655)	4.157**** (0.664)	
Italy	3.274*** (1.063)	2.469** (1.200)	
Spain	4.722**** (0.680)	6.065**** (0.788)	
ln(price)	-0.889**** (0.269)	-0.836*** (0.275)	-1.761**** (0.324)
Heavy	1.366* (0.701)	1.224* (0.730)	1.342 (1.216)
Medium	1.975*** (0.611)	2.094**** (0.644)	2.625** (1.038)
Medium high	1.970*** (0.621)	1.935*** (0.637)	2.853*** (1.051)
Cabernet	1.013 (0.646)	-1.651** (0.673)	
Carmenere	1.411 (1.163)	-0.182 (1.124)	
Grenache	-0.310 (0.691)	-1.605* (0.945)	
Malbec	1.694*** (0.569)	-0.845 (0.699)	
Merlot	1.002* (0.612)	-1.499** (0.679)	
Mixed	-0.614 (0.615)	-1.719** (0.785)	
Pinot	0.893 (1.486)	-1.519 (1.075)	
Shiraz	0.644 (0.703)	-0.969 (0.761)	
Gamay		-2.165*** (0.775)	
Monastrell		-2.128** (1.009)	
Negroamaro		2.013** (0.934)	
Paez		-1.171* (0.695)	
Sangiovese		-1.962*** (0.695)	
Intercept	7.149*** (2.445)	6.764** (2.861)	5.497* (3.151)

Coefficients with robust standard errors listed under coefficients

**** $p < 0.001$ *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

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Estratto per riassunto della tesi di dottorato

Studente: Lala Hu matricola: 956097

Dottorato: Management

Ciclo: XXIX

Titolo della tesi: *Three Essays on International Marketing in the Chinese Market*

Abstract:

With a population of 1.3 billion, China is the world's second largest economy. It has recently entered a “new normal” phase, characterized by slower economic growth. However, the rise of the middle class and strong consumer spending continue to stimulate growth in several sectors of the world's economy. On the other hand, despite the country's modernization, China remains a developing country with specific characteristics that require foreign firms to reconsider the strategies they have developed for traditional markets. Moreover, its wide territory has not developed equally, resulting in great regional disparity. Therefore, the Chinese market represents an interesting setting for research. This thesis contributes to the recent debate about international marketing strategies in emerging markets. The aim is to analyze the key marketing issues for foreign firms operating in China, such as distribution, communication, and price, whereas product is tackled across all three studies. As the Chinese market is rapidly becoming a more competitive environment, more studies should be undertaken in this context, thus contributing to the advancement of knowledge in management studies and presenting relevant managerial implications.

Abstract (italiano):

Con una popolazione di 1,3 miliardi di abitanti, la Cina è la seconda economia del mondo. Recentemente, è entrata nella fase di “nuova normalità”, caratterizzata da una crescita economica più lenta. Tuttavia, l'affermarsi della classe media cinese continua a stimolare la crescita in diversi settori dell'economia mondiale. Dall'altra parte, nonostante il processo di modernizzazione, la Cina rimane un paese in via di sviluppo con caratteristiche specifiche che richiedono le imprese straniere a riconsiderare le strategie sviluppate per i mercati tradizionali. Inoltre, il suo vasto territorio non si è sviluppato in modo omogeneo,

creando un'elevata disparità a livello regionale. Pertanto, il mercato cinese rappresenta un ambito interessante d'indagine.

La tesi vuole contribuire al recente dibattito in tema di Marketing Internazionale nei mercati emergenti. L'obiettivo è di analizzare questioni chiave di marketing per le imprese straniere operanti in Cina, come la distribuzione, la comunicazione e il prezzo, mentre il tema del prodotto viene affrontato in tutti e tre gli studi. Il mercato cinese sta rapidamente diventando sempre più competitivo, di conseguenza maggiori ricerche dovrebbero essere svolte in questo contesto, contribuendo all'avanzamento degli studi in Management e fornendo importanti implicazioni manageriali.

Firma dello studente
