

## **B. Study 1: Building Retailer Brand Equity Based on Perceived Brand Globalness: The Role of Country of Origin**

### **1. Introduction**

Retailing was originally regarded as a local business with a national scope (Gielens and Dekimpe 2007; Treadgold 1988). However recently dynamically internationalizing retailers like Walmart, Zara, and Starbucks shift their attention to emerging, psychic distant markets, driven by opportunities in these countries, such as high growth rates, growing middle-class, and low concentration rates (Goldman 2001). To expand their business to an emerging market, retailers must reconsider major differentiation criteria (e.g., price and quality) to distinguish themselves from domestic competitors in often restricted and diverse markets to attract customers from the top to the bottom of the pyramid (Pan and Zinkhan 2006). Additionally, domestic firms are under pressure and are being taken over by foreign investors. For example, the U.S. giant Yum! took over the Chinese service retail brand Little Sheep.

Emerging countries are becoming a turbulent marketplace for retailers and consumers. For example, Tesco rebranded its acquisitions in China, Walmart entered Africa, and Carrefour introduced a global rebranding strategy. Consumers watch for cues to access new and existing retail brands in this intangible and turbulent changing business domain. The core differentiation criterion may arise from positioning as a global retail brand (Alden, Steenkamp and Batra 1999, 2006; Strizhakova, Coulter and Price 2011). Globalness is perceived in the mind of consumers and is called perceived brand globalness (PBG; Steenkamp, Batra and Alden 2003); PBG acts as a general impression that provides access to quality and price value so that consumers may evaluate retail brands in the intangible domain without necessarily having prior personal experience. Thus far, PBG has been researched mostly in the fast-moving consumer goods sectors in highly developed countries (Dimofte, Johansson and Ronkainen 2008; Steenkamp, Batra and Alden 2003), whereas the effect on retailer brand equity in emerging countries remains unclear. Previous re-

search shows that brands that are perceived as global are more likely to be chosen based on the criteria of quality, prestige, safe choices, credibility, and responsibility (Dimofte, Johansson and Ronkainen 2008; Özsomer and Altaras 2008; Steenkamp, Batra and Alden 2003). The mechanism of how PBG is translated into retail brand equity is uncertain and parallels the internationalization of originally local retailers. According to Steenkamp, Batra and Alden (2003), globalness and localness are perceived as opposite points on a continuum. In contrast to the perceived success of global positioning, Schuiling and Kapferer (2004) find higher awareness and stronger image ratings for local brands than for global brands. Cui and Liu (2001) even conclude that local brands in emerging countries will outperform global competitors. Whether global or local positioning leads to success or not remains unclear (Alden, Steenkamp and Batra 1999, 2006), especially in the context of retail internationalization. Moreover, PBG and a brand's country of origin are distinct concepts but are often used interchangeably (Batra et al. 2000; Zhou, Yang and Hui 2010). Some emerging giants (e.g., Chinese Li Ning, Malaysian Parkson, Thai Lotus) have already grown internationally and have raised the question of whether such retailers can also benefit from PBG, even though their country of origin is an emerging country. In general, the research on country of origin in retailing is underexplored (Baldauf et al. 2009; Chaney and Gamble 2008), and we know little about how domestic giants in developing countries benefit from PBG, compared with foreign competitors.

The purpose of this research is twofold. First, we examine the key underlying mechanism through which PBG affects retailer brand equity, i.e., the consumers' perceived quality value and price value. Our rationale is that PBG is not automatically translated into brand equity, as found in previous studies (e.g., Schuiling and Kapferer 2004). We propose that for PBG to become an asset for a retailer, the PBG needs to provide superior quality value and price value. Our proposition is consistent with prior research findings that quality and price are the two most important attributes that drive consumer traffic to retailer stores (Pan and Zinkhan 2006; Sweeney and Soutar 2001). Second, we also investigate the moderating role of a retailer's country of origin on the effect of PBG on brand equity. Currently, emerging giants have already established their footprints in global markets, which is different from the past when all

global brands only originated from developed countries. These firms are also perceived as global brands in their home markets (Zhou, Yang and Hui 2010). How PBG and country of origin intervene to create brand equity is still an underexplored issue in our field.

This research contributes to the literature in several important ways. From a theoretical perspective, this study addresses an important issue that remains underexplored within retailer internationalization: Should retailers introduce a global brand into an originally local business in which the customers' heterogeneity and cultural needs force retailers to adapt their marketing instruments (Burt, Johansson and Thelander 2011; Wigley and Chiang 2009)? What is the underlying mechanism of how a retailer in an emerging market translates its globalness into retailer equity? Answering this question is important to resolve conflicting findings in the literature regarding whether global or local brands are more successful (Cui and Liu 2001; Dimofte, Johansson and Ronkainen 2008; Schuiling and Kapferer 2004; Steenkamp, Batra and Alden 2003). Focusing on the Chinese retail market, our field study clearly shows that perceived quality value and price value are the critical mechanisms underlying the effect of PBG on brand equity. In addition, the retailers' country of origin provides boundary conditions for such effects. These findings advance our understanding of retail internationalization, which is dominated by a management perspective (Gielens and Dekimpe 2001, 2007; Goldman 2001) but rarely researched from the consumers' point of view (Chaney and Gamble 2008; Hu and Jasper 2007; de Mooij and Hofstede 2002). In particular, the question of how retailers may benefit from their country of origin is seldom analyzed (Baldauf et al. 2009; Chaney and Gamble 2008). In addition, this study is of interest for retail managers who have recently entered emerging markets. In contrast to the spreading of investments over various retailer attributes, a specific investment in the global appearance of the retailer may promise leveraging effects for retailer brand equity.

Furthermore, we intend to contribute to the literature methodologically with a multilevel approach to address the effects of PBG on brand equity. Previous research in this area has mainly asked each consumer to assess multiple brands and has examined the effects of PBG with aggregate measures of brand evaluations, attitudes, or purchase intentions across all participants. The

main problem with the aggregation is that all within-individual information is lost, and the statistical analysis loses power (Judge, Scott and Ilies 2006). Moreover, the value of a brand is highly individualized (Rust, Lemon and Zeithaml 2004). Assigning an aggregated value across consumers obscures the fact that brand value or equity is idiosyncratically perceived by the customer and is thus hardly a useful marketing management tool (Rust, Lemon and Zeithaml 2004). In response to this important limitation, we incorporate two levels of investigation in this study by disentangling the variance of brand equity into individual-level (within-brand) and brand-level (between-brand) components. The individual-level variance is explained by the heterogeneity among consumers, whereas the brand-level variability is explained by the differences across different brands. This approach also allows us to investigate potential cross-level effects in our data, that is, how brand characteristics may affect the strength of the relationships found at the individual level.

This study is organized as follows: Following a literature review, we develop a theoretical framework that takes individual- and brand-level variables into account, drawing upon the accessibility-diagnostics theory (Feldman and Lynch 1988). Then, we apply a two-level analysis to consumer data from China ( $n = 990$ ) nested in 30 foreign and domestic retailers across three industries. Finally, the results are discussed, followed by the conclusions and limitations.

## **2. Conceptual Foundation and Hypotheses**

### *2.1. Individual Level: The Effect of PBG on Retailer Brand Equity*

PBG refers to the extent to which a firm is viewed as a 'global' player in the minds of target consumers (Steenkamp, Batra and Alden 2003). PBG is primarily achieved through the use of global symbols (e.g., brand name, symbols, themes, brand logo, and spokesperson) in marketing communications. McDonald's advertising campaign in China, for example, shows a young business executive purchasing breakfast from McDonald's in a western-style suit, whereas its advertisement in India features a young 'Baby Ronald', which symbolizes a global icon of the restaurant chain.

Steenkamp, Batra and Alden (2003) were among the first to explore the positive effect of PBG in terms of quality and prestige on the likelihood of consumers' purchases. The study was conducted in the USA and Korea and indicates that prestige and quality are essential aspects across countries for consumers' demand for global brands. Holt, Quelch and Taylor (2004) identified quality, global myth, and social responsibility to be associated with global brands. Previous research shows mixed findings on the effect of PBG on brand equity. Some researchers suggest that quality plays an important role by influencing consumers' choices (Holt, Quelch and Taylor 2004; Steenkamp, Batra and Alden 2003), whereas others indicate that quality is an artifact of the use of actual brand names (Dimofte, Johansson and Ronkainen 2008). We argue that quality value is a critical mechanism; when PBG does not enhance the quality value in the minds of target consumers, the retailer cannot fully benefit from enhanced brand equity.

Further contradicting results emerge in the question of whether a global or local brand appearance is most beneficial (Alden, Steenkamp and Batra 2006; Steenkamp and de Jong 2010). Some studies show that compared with global brands, local brands better address the customers' needs and therefore score higher in awareness and trust (e.g., Schuiling and Kapferer 2004), whereas other studies have found that global brands are preferred based on brand trust and prestige (Johansson and Ronkainen 2005; Steenkamp, Batra and Alden 2003). Cui and Liu conclude that for emerging countries, global brands are "not sufficient to capture the opportunities" (Cui and Liu 2001, p. 99). These contradicting results indicate the value of exploring the effect of PBG on retailer brand equity.

The aforementioned findings are empirically based on the FMCG and durable sectors. Therefore, it is debatable whether such results can be generalized to service industries and especially to the retailing sector (Steenkamp, Batra and Alden 2003) in which, for example, price-oriented firms, e.g., Walmart and IKEA, build strong brands. In contrast to other business sectors, retailing was originally known as a local business, and because of the heterogeneity of customers' tastes and habits, even 'global replicators' are forced to adapt locally (Jonsson and Foss 2011). However, some retailers tend to ignore cultural differences when entering foreign markets (de Mooij and Hofstede 2002). This

behavior may relate to patterns of relatively dynamic international expansion and limited foreign knowledge, especially in emerging countries (Goldman 2001). Although PBG is useful for consumer durables (especially luxury items) among consumers in emerging markets (Zhou, Yang and Hui 2010), it is less clear how PBG can be used in the retailing industry.

### *2.1.1 Main effect*

Building retailer brand equity leads to consumers being willing to pay (Bello and Holbrook 1995), more favorable responses to marketing instruments (e.g., quality and price), and increasing revenue and profitability (Ailawadi and Keller 2004), and such equity is used by retail managers as a performance indicator (Pappu and Quester 2006). When consumers perceive a retailer's name more positively, the retailer becomes more relevant to the consumers' choices. Thus, the retailers' brand equity consists of two components: the image as a set of associations in the consumers' minds and the consumers' awareness of the retailer, i.e., how easily the consumers remember the retailer (Keller 1993).

We expect that PBG is positively related to retailer brand equity. To understand the effects of PBG, we implement Feldman and Lynch's (1988) accessibility-diagnostics theory, which identifies the information that consumers rely on in their evaluations and under what conditions they use this information. The accessibility-diagnostics theory indicates the conditions in which retailers can benefit from PBG to build retailer brand equity, because we assume the PBG to be an accessible piece of information that becomes diagnostic for retailer brand equity through quality and price values.

The theory consists of two mechanisms: accessibility represents the ease of retrieving an input from memory, and diagnostics refers to the usefulness of the retrieved information for evaluating a target (e.g., a retailer). The likelihood of using information for an actual evaluation of a target is described as a function of the accessibility and diagnostics of the input in memory (Lynch, Marmorstein and Weigold 1988). In addition, a high degree of accessibility can serve as a proxy for diagnostics (Menon and Raghubir 2003; Schwarz et al. 1991). Affective based information is highly accessible and leads to immediate responses (Verplanken, Hofstee and Janssen 1998).

We believe that the PBG itself is an accessible piece of 'ready-to-use' information that can be used to drive consumers' evaluations of retailer brand equity, especially in retailing as a dominantly intangible domain. In an emerging market such as China, the average consumer is fascinated with the things and places that are associated with global images (Zhou and Belk 2004). Acknowledging this interest, marketers and advertisers have directed a tremendous effort to associate their brands with desirable and shared global images through the use of global symbols (e.g., brand names, symbols, themes, brand logos, and spokespersons) in marketing communications (Alden, Steenkamp and Batra 1999). The use of such image-enhancing strategies recognizes global brands as a "passport to global citizenship" (Strizhakova, Coulter and Price 2008, 2011) that provides consumers with a symbolic language based on consuming and sharing these brands. The emotional and social power (Sweeney and Soutar 2001) of global brands to persuade consumers is especially strong in developing countries (Batra et al. 2000). Thus, the PBG should directly add to the value of brand equity because of PBG's high degree of accessibility. Previous studies support this idea with the "belongingness pathway" (Steenkamp, Batra and Alden 2003, p. 55), which represents the emotional effect of PBG on purchasing likelihood, and the self-identity signal (Strizhakova, Coulter and Price 2011), which indicates the belief and participation in global citizenship. We assume that based on the affective nature of PBG, this perception can directly enhance retailer brand equity.

From a theoretical perspective, PBG is a 'ready-to-use' piece of information that is emotionally charged (Dimofte, Johansson and Ronkainen 2008; Holt, Quelch and Taylor 2004). Emotions are generally easier to recall than cognitions (Verplanken, Hofstee and Janssen 1998) and can lead to a sufficiently high level of accessibility to override the diagnosticity threshold (Schwarz et al. 1991). Because of its affective aspect, PBG is highly accessible and can serve immediately as a diagnostic criterion for retailer equity. Thus, in the context of retailing in emerging countries, we propose the following:

**H1:** PBG affects retailer brand equity positively.

### *2.1.2 Mediating role of quality value and price value*

We assume that the key mechanisms for enhancing retailer brand equity by PBG are quality value and price value. PBG may add value directly through an affective response; however, the role of functional values is more important for retailers in emerging countries (Holt 2002). PBG may become a diagnostic piece of information to build retailer brand equity through the perception of functional values (i.e., quality and price values). Although there are several marketing instruments for how a retailer's image is built (e.g., merchandise quality, location, price, atmosphere, service), a significant body of literature indicates that quality and price are the two most important determinants for retail patronage (Pan and Zinkhan 2006). Mulhern (1997) states that the preferred positioning dimensions for retailers across industries are price and quality. Quality value and price value are functional values and are known as the ratio of salient 'give' and 'get' components (Zeithaml 1988) that drives customers' behavior, especially within retailing (Sweeney and Soutar 2001). Even when shoppers are mostly unaware of the exact prices of items, they are aware of retailers' price positioning, which becomes a crucial element and is uniquely complex within retailing (Dickson and Sawyer 1990; Mulhern 1997). When retailers consider the repositioning of the store image, Mazursky and Jacoby (1986) suggest that they concentrate on core characteristics, such as price and merchandise information, whereas peripheral facets (e.g., service, policy) are less important and are even affected by the core characteristics. Previous reviews (e.g., Lindquist 1974/75; Pan and Zinkhan 2006) support the idea that price and quality are the most influential factors for consumers' retail-er choices.

Consistent with our theory, our overarching hypothesis is that PBG affects retailer brand equity through the influences of quality and price values. Although PBG is an accessible piece of information that can help consumers to evaluate retailers, it may not be diagnostic in the retailing context unless it can influence consumers' perceptions of quality value and price value, which are the two most important attributes for retailing choices (Mulhern 1997; Pan and Zinkhan 2006). PBG comprises a signaling effect through functional aspects (i.e., quality value and price value). According to the accessibility-diagnostics theory,



consumers need to link PBG with quality and price values to make PBG a diagnostic tool for influencing retailer brand equity.

The international prevalence of global brands may provide consumers with an indication of quality; thus, such prevalence reduces the perceived brands' risk because the brands are accepted among a large consumer group. Previous studies document a strong relationship between global brands and quality (Dimofte, Johansson and Ronkainen 2008; Holt, Quelch and Taylor 2004; Steenkamp, Batra and Alden 2003; Strizhakova, Coulter and Price 2008, 2011). However, the examples of Walmart, IKEA, Zara and H&M indicate that price is a core competition criterion of such international retailers.

A high performance in quality does not necessarily indicate 'value for money,' and a high performance in price does not necessarily indicate low quality. Price value refers to how satisfactory the retailer's offer is to the consumer (Sweeney and Soutar 2001). PBG may add value for the customer by allowing the customer to appreciate the global appearance of the brand. Thus, the 'get' components increase and prevail over the 'give' components. In our context, global retailers compete with an attractive price positioning (Goldman 2001). Moreover, consumers may perceive a balance between price and quality based on the perceived amenities of the global image (Sweeney and Soutar 2001).

Therefore, unless PBG can enhance the consumers' perceived quality and price values, it cannot be fully translated into brand equity in the retailing context. Quality and price values are the two key intrinsic cues that facilitate the diagnostic capacity of PBG in retailing. Consumers in emerging countries may not have much personal experience with global retail brands. Thus, PBG becomes an important cue for quality and price value judgments.

**H2a:** PBG affects retailer brand equity positively by influencing quality value.

**H2b:** PBG affects retailer brand equity positively by influencing price value.

PBG becomes diagnostic for building retailer brand equity directly based on emotional responses (Steenkamp, Batra and Alden 2003; Strizhakova, Coulter

and Price 2008, 2011) or indirectly through functional values (i.e., quality value and price value). Consumers in emerging markets focus more on functional attributes, such as quality and price, than on affective values (Holt 2002). Therefore, we assume that PBG operates dominantly indirectly through quality value and price value.

- H3:** Relative to its direct effect on retailer brand equity, PBG has a stronger indirect impact on brand equity through quality value and price value.

## *2.2. Brand Level: Moderating Role of Retailer Origin*

In addition to the individual-level predictors, characteristics at the brand level also affect retailer brand equity. Our focus at the brand level is retailer origin, that is, whether the retailers' country of origin is foreign or domestic. Especially in the context of emerging countries, foreign versus domestic brand origin is significant for the consumers' evaluation (Batra et al. 2000; Han 1989; Zhou, Yang and Hui 2010). Although consumers may differentiate among different countries of origin (Pappu and Quester 2006; Roth and Diamantopoulos 2009), under certain conditions, consumers are not able to correctly identify the country of origin (Balabanis and Diamantopoulos 2008; Samiee, Shimp and Sharma 2005; Zhou, Yang and Hui 2010) or even do not differentiate among different countries of origin (Ofir and Lehmann 1986). Whether the retailer origin is foreign or domestic is determined by the location of the retailer's headquarters (Johansson, Douglas and Nonaka 1985). Previous research divides the country-of-origin effect into cognitive, affective and normative aspects (Obermiller and Spangenberg 1989; Verlegh and Steenkamp 1999) that may provide implications for our individual-level effects. The cognitive aspect is regarded as an extrinsic cue that signals quality (Bilkey and Nes 1982; Han 1989; Olson and Jacoby 1972). Consumers from emerging countries evaluate products from more developed countries (Western countries) that have higher quality than domestic products (Batra et al. 2000; Bilkey and Nes 1982; Wang and Lamb 1983). The affective country-of-origin aspect represents symbolic and affective benefits for foreign brands (Batra et al. 2000; Zhou and Hui 2003), whereas the normative country-of-origin aspects represent personal and social norms and refer to ethnocentrism and animosity (Klein, Ettenson and Morris 1998; Shimp and Sharma 1987) as reasons for consumers to pre-

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