

BUYING LOCAL? ETHNOCENTRICITY AND ITS IMPACTS IN THE RELATIONSHIP OF PERCEIVED VALUES AND LOYALTY: CASE OF HEALTH FOODS IN THE DRUGSTORES

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ABSTRACT

Taking health foods or dietary supplement is getting popular in Taiwan, and thus attract tremendous number of brands compete in the market. Based on the wisdom from the literature that perceived values drive customer loyalty, the current research examine the relationship in the health foods market in Taiwan. To advance our understanding regarding the nature of the competition between the local producers and the imported, this research adds consumer's ethnocentricity as a new construct to see how it may affect the relationship. The sample was 150 female customers who are family housewives. Test result shows that brand with foreign equity received more favorable value in average. The strongest association between the customer's loyal behaviour is the emotional values for local brand. The current research confirmed the effects of perceived value on the customer's loyalty, and best for foreign brand. Combined the consumer ethnocentricity and perceived value is the best to explain the loyalty for local brand, but not for foreign brands. One of the niche the local supplier may take as a measure against international giants is the consumer ethnocentricity.

Keywords: Health foods, Consumer ethnocentricity, Perceived value (PERVAL), Customer loyalty, international joint venture (IJV), Wholly-owned subsidiary (WOS).

INTRODUCTION

Along with the national trend of health promotion campaign, regularly taking vegetarian diet became popular in Taiwan recently. It is now highly acceptable and sometimes were suggested or prescribed by the physicians, and consequently attracts new business adventures into the market (Street, 2015). Healthy foods and dietary supplement in Taiwan have already enjoyed more than 100 billion annual market after 50 years since the introduction of yeast products in a form of candy in 1960s by Taiwan Sugar Corporation (Taisugar).

Although international suppliers are superior to their local counterparts in several aspects, including a larger sales volume (and thus stronger bargaining power in front of producers) and better financial accessibility (Chen & Sternquist, 1995), this does not mean that all retailers need to internationalized, and not every one of them is appropriate in doing so (Akehurst & Alexander, 1995; Simpson & Thorpe, 1995). A trend has just emerged recently along with the sluggish economy in Taiwan, of which may drive local consumers to buy more domestic for the reasons of better value for price, and may help the society conquer economic and associated social threats, such as the high unemployment rate. As a result, consumer ethnocentricity brings certain effects on consumer's decision of purchasing.

Literature has now shown that customer may not become loyal simply because s/he was satisfied (Bloemer & De Ruyter, 1999; Garbarino & Johnson, 1999; Bowen & Chen, 2001; Peltier, Schibrowsky & Cochran, 2002; Roman, 2003; Albert & Merunka, 2013; Kumar, Dalla Pozza & Ganesh, 2013; Agyeiwaah, Adongo, Dimache & Wondirad, 2016); there are additional factors to building customer loyalty beyond satisfaction.

Like as other business, firms in the healthy foods industry who supply products with high homogeneity, low involvement (Bloemer & De Ruyter, 1999; Roman, 2003), or low switching costs (Ganesh, Arnold & Reynolds, 2000) face challenges of retaining old customers. Just like commodity, both dissatisfied and satisfied customers are thus likely to switch form one brand to another (Andre & Saraviva, 2000; Ganesh, et al., 2000).

Compared to local brand, international brands are introduced to the market with strong marketing supports in building corporate image, in creating comprehensive distribution system and market penetration. Doubtlessly, the country of origin is more than often used as part of promotion campaigns to assure the quality of products, especially for those brands from developed countries such as USA, Japan and other Europeans. In the other hands, local suppliers may have potential advantages in terms of lower pricing, sufficient stock, rapid response to the market demand and as this research concerns the effect of buying local. To examine the possible effects of consumer ethnocentricity in the relationship of perceived values and customer loyalty to brands of vitamin, this study takes three major brands representing different origins. These are brand A for local producer, B for foreign brand that direct import and operate by a wholly-own subsidiary (WOS), C for brands that cooperate with local manufacturer (so-called international joint venture, IJV). This paper assumes the levels of perceived values and customer loyalty will vary from one brand to another, and that consumer ethnocentricity may bring additional power to explain the customer loyalty together with perceived value. The main contribution of this paper is to confirm the role of consumer ethnocentricity in the consumer behavior of healthy foods..

LITERATURE REVIEW

Customer loyalty is the key to profit

Customer satisfaction remains important in every business, yet it has very little to do with loyalty (Neal, 1999; Lee, 2003). Moreover, it is customer loyalty, rather than customer satisfaction that brings profit (Garbarino & Johnson, 1999; Bloemer & De Ruyter, 1999; Bowen & Chen, 2001; Peltier et al., 2002). Like other business, loyal customers to a brand means lower customer retention and operating costs, of which in turn the brand may exploits strong relationship to gain better profit.

Customer perceived value is the key to customer loyalty

Value as a term is used to describe the ratio between customers gained and customers sacrificed. Customer satisfaction is not equivalent to value (Bloemer & Kasper, 1995; Eggert & Ulaga, 2002), the key to customer loyalty is the value that the organization provided (Neal, 1999) as perceived by the customers (Parasuraman & Grewal, 2000; Chao, 2008). This study hence proposes that perceived value has an impact on customer's loyalty to the brand.

Consumer ethnocentrism and loyalty

Consumer ethnocentricity contributes power to shape consumer behavior (Sharma, Shimp & Shin, 1995; Brodowsky, 1998; Alden et al., 1999; Zeugner-Roth, Žabkar & Diamantopoulos, 2015; Balabanis & Siamagka, 2017), when facing foreign brands (Durvasula, Andrews &

Netemeyer, 1997; Klein et al. 1998). CETSCALE is a reliable tool that has been widely used in several countries in measuring the levels of consumer ethnocentricity.

The main purpose of this paper is to provide a better understanding of the impact of consumer ethnocentrism in brand choice when shopping for healthy foods, shown as Figure 1. This paper initially revisits the correlation between customer satisfaction, perceived value, and loyalty toward respective brands of healthy foods in the drugstores. Next, this study aims to examine the effects of consumer ethnocentric forces as well as the perceived value on the loyal behaviors toward different brands. We thus propose three hypotheses as follow.

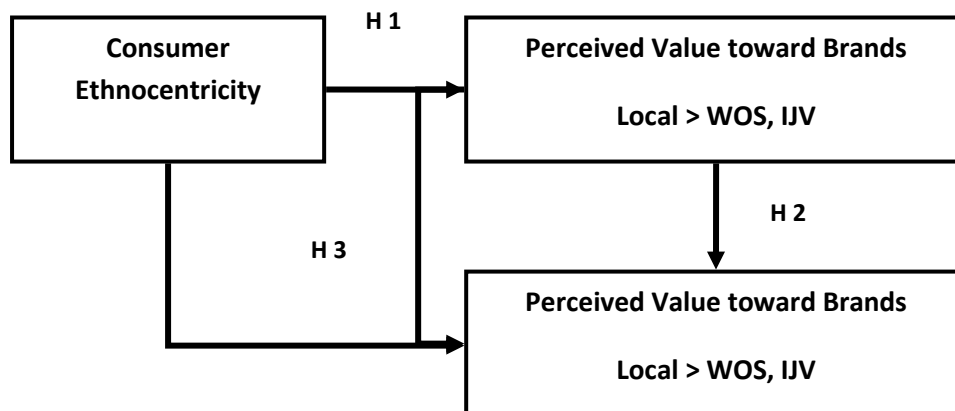


Figure 1 Conceptual framework

Hypothesis 1: Customers' ethnocentricity positively correlates with perceived values for local brands than those of foreign and joint-venture brands in the drugstores.

Hypothesis 2: Perceived value positively affect the consumer's loyalty.

Hypothesis 3: Together with perceived values, consumer ethnocentricity brings additional capability in predicting the loyalty for the local brands..

METHODOLOGY

Samples

Three famous brands with different equity sources are used in this study: Brands are limited to those brands distributed through brick-and-mortar channels, because the conventional stores allow more space and time for consumers to consider and compare when shopping. The effects of consumer ethnocentricity thus have better opportunity to emerge when it exists. Brand A represents the domestic equity of Taiwan, B is a wholly-owned subsidiary (WOS) of United States, and C is an international joint-venture (IJV) of Taiwan and USA under a license arrangement that packs and distributes in Taiwan.

Housewives or those who are acting as housekeepers are generally the purchasing agent for the entire family (Berkowitz, 2016). Respondents in this study were selected from senior university students of night classes who are housekeepers.

The majority of these 150 respondents (85%) were between 30 and 40 years old, and expected to be the main decision makers for most of the family's purchase decisions (Berkowitz, 2016). Results from these respondents would clearly indicate the general trends of purchasing decisions made for the family.

Measurements

Perceived value

Since the value has been regarded as the core and key for customer satisfaction, customer perceived value is measured by PERVAL (Sweeny & Soutar, 2001). All four dimensions of PERVAL (Sweeny & Soutar, 2001), quality, emotional, price, and social aspects, have acceptable internal reliability that higher than 0.7 (Nunnally & Berstein, 1995), as shown in table 1.

Loyalty

Loyalty in this paper is simply defined by two widely accepted aspects in business practices, repetitive purchasing and referral (e.g. Bloemer & De Ruyter, 1999; Peltier et al., 2002). Respondents are inquired to grade their intentions for repurchase or referral with certain stores to obtain the average values for loyalty.

Ethnocentricity

The simplified 10-item CETSCALE (Shimp & Sharma, 1987) is used as the instrument to examine the levels of consumer ethnocentricity (Shimp & Sharma, 1987; Kotler & Gertner, 2002)..

RESULTS

Customers perceived varied value perceptions and loyalties are varied

Value scores are not high, among which the WOS leads in average value, as shown in table 1. As far as the individual value concerns, the WOS leads the quality and social values, the local brand earns emotional and price values, whereas the IJV is perceived as the second in both quality and emotional values. Compare the scores in a statistical way, WOS is better than IJV in quality value, the local brand perceived as having better emotional value than WOS and IJV respectively, and the local brand has better price value than the IJV brand. As far as the social value concerns, there are no significant differences among three brands. As to customer loyalty, customers are more loyal to the local brand than the WOS brand.

Table 1 Variance analysis of perceived values and loyalties by brand

Values	α	A (Local)		B (FDI)		C (IJV)		Sig.	Sheffe's
		Means	S.D.	Means	S.D.	Means	S.D.		
Quality	0.86	3.01	0.58	3.19	0.65	3.11	0.57	0.019	B>C
Emotional	0.90	3.12	0.68	3.02	0.79	3.05	0.69	0.000	A>B;A.>C
Price	0.88	3.07	0.76	3.01	0.74	2.98	0.73	0.012.	A>C.
Social	0.90	2.67	0.73	2.81	0.76	2.63	0.72	n.s.	n.s.
Average		2.97		3.01		2.94			
Loyalty		3.27	0.66	3.03	1.06	3.01	0.90	0.041	A>B

Association of perceived value and store loyalty

The study then examines the relationship between each value and loyalty. The highest correlation coefficient is found between local brand and emotional value, and lowest in social values, as shown in table 2. The emotional factor is the common dominating value for loyal behavior to all these three brands, particularly in the case with the local brand. It is found in this study that customers will repurchase the same brand mainly because of emotional values, with which correlation coefficients are .74 for the local brand, .65 for the WOS and the IJV. The second value that links with loyal behavior is, the quality factor, except for the WOS that price comes as the second.

Table 2 Correlations of values and loyalty by sources of brand

Values / Loyalty	A (Local)	B (WOS)	C (IJV)
Quality	0.61 ^{***}	0.55 ^{***}	0.60 ^{***}
Emotional	0.74 ^{***}	0.65 ^{***}	0.65 ^{***}
Price	0.55 ^{***}	0.60 ^{***}	0.59 ^{***}
Social	0.40 ^{***}	0.40 ^{***}	0.41 ^{***}

Effects of perceived values and consumer ethnocentricity on loyalty

Regression analyses reveal the effects of perceived value alone as well as the combined effects with consumer ethnocentricity on consumer's loyal behavior, as shown in table 3. Perceived value can explain the 56%, 70%, and 51% of variance of loyalty for the local, the WOS, and the IJV respectively. It confirms that the perceived value toward a brand is a reliable predictor for loyalty, of which support the H2. Adding the ethnocentricity to the model, the variance explained moves to 58% (3 percentage points more than the model 1), 68% (3 less), and 53% (2 less). This means the ethnocentricity enhance the capability of a model in explaining the loyalty to local brand, but may weakening the ability of prediction toward WOS and IJV brands. Therefore, H3 is supported.

Table 3 Effects of perceived value, and ethnocentricity on loyalty

		A (local)		B (WOS)		C (IJV)	
		R^2	Adj. R^2	R^2	Adj. R^2	R^2	Adj. R^2
Model 1	Effects of perceived value on loyalty						
	Loyalty	0.56	0.53	0.70	0.65	0.51	0.44
Model 2	Effects of perceived value and ethnocentricity on loyalty						
	Loyalty	0.58	0.54	0.68	0.64	0.53	0.44
Changes		R^2	Adj. R^2	R^2	Adj. R^2	R^2	Adj. R^2
	Loyalty	0.03	0.02	-0.03	-0.01	0.02	0.00

DISCUSSION AND CONCLUSIONS

It is interesting to reveal that the correlation coefficient of quality value and loyal behavior of the local brand is higher than the WOS and IJV giants. Substantial improvement in quality levels of health products in Taiwan are seen and accepted by local consumers recently, as this research has just reveals.

Creating the customer values is more effective than the others in fostering customer loyalty for health foods. This research further includes consumer ethnocentrism into consideration to explore its effects on loyalty other than traditional value perceptions. This is particular helpful for local brand, when competing with international brand in the local market. Test results may imply that customers are nevertheless hold strong loyalty toward the local brand when ethnocentrism emerges.

This paper reassures the existence of the effects of consumer ethnocentrism on loyalty to the health foods brands. In the health foods market, the foreign brand (WOS) receives better value perception than the local and the IJV brands. Involvement of foreign capital may simultaneously bring to the operation particular know-how and experience, which in turn

may repress the strengths of market knowledge (as Su & Lin, 2006 suggest) that domestic marketers or domestic partners have accumulated from the local market.

This paper is the first study in this context that applying PERVAL as well as consumer ethnocentricity to explain the loyal behavior. Although the impacts of consumer ethnocentrism are found better for the local brands, the reasons behind why not better for the WOS and The IJV remained unsolved.

Similar to the diversity of consumer behavior across varied geographic areas, ethnocentrism may vary from one district to another. It is particularly true when adopting this finding into other population. It is logical to predict that the effects of consumer ethnocentricity for residents in the area that highly exposed to the international will be less than those in local-oriented areas. Health foods getting popular and popular in Taiwan market, so as the competition. To be success in gaining competitive advantage while competing with international brands in the local market, consumer's ethnocentricity could be a useful niche.

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