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# **The Contribution of Store and Customer Characteristics to Perceived Value and Customer Loyalty in a Chinese Retail Context**

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## **ABSTRACT**

Resulting from a developing economy, deregulation and direct foreign investment, the past two decades have seen a spectacular growth in market forces and consumerism in China. Because of the huge population and market potential of China, understanding consumer preferences and likely behaviours provide rich areas for research. This paper reports on a study that tested the relationships between store and customer characteristics with perceived value and customer loyalty in retail stores in Tianjin, China. The sample consisted of 400 actual shoppers in three department stores (n=200) and three supermarkets (n=200). Multiple regression analysis showed that service orientation, customer orientation, and price consciousness were the best predictors of both perceived value and customer loyalty. A major implication of the findings is that managers can use the relevant store characteristics to enhance the likelihood of their retail success.

## **INTRODUCTION**

The past two decades have seen enormous growth in retail activity in China, facilitated by the transition to a market economy, deregulation and direct foreign investment. Similarly, the standard of living of the population has increased markedly (Wong and Yu, 2002), providing the opportunity for a 'shopping lifestyle' evident in a recent study that compared consumers from Xi'an and Hong Kong (Tsang, Zhuang and Zhou, 2003). In 1992, the central government opened China's retail market to foreign investors, providing the impetus for retail development and access to more than a billion consumers (Wong and Yu, 2002). The retail sector is reported to be growing at 7% per annum, much faster than in other developing countries (Mai and Zhao, 2004). This growth has involved a shift of focus for supermarkets and department stores from overseas visitors to the local community and a resultant increase in the importance of these stores to the retail industry (Lo, Lau and Lin, 2001). As Wong and Yu (2002, p. 371) stated "With the largest consumer market in the world in terms of population, understanding the consumption and shopping patterns of China's huge population is crucial to the success of existing retailers and potential investors."

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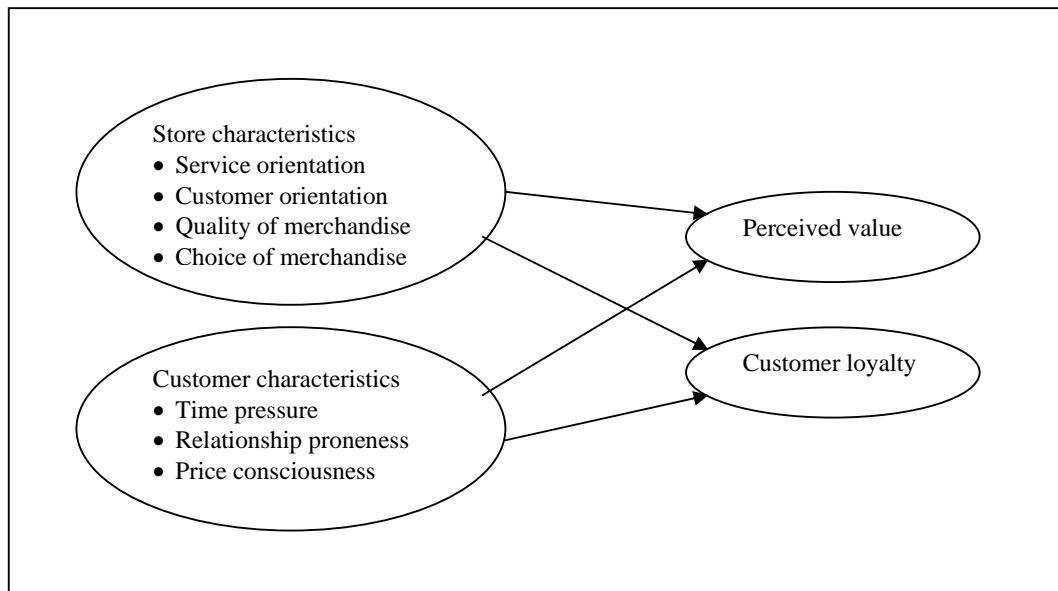
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Expanding economies provide choices for consumers and, in China, the spending power of urban residents has risen dramatically with a fivefold increase of real income over the past two decades (Veeck and Burns, 2005). Scholars acknowledge that consumer needs vary considerably with the socio-economic and cultural differences among consumer markets, and they change over time as the personal situation and environment of the consumer changes (Kim et al., 2002). Hence, marketers need to identify and accommodate the role of shopping and the major concerns of Chinese consumers. Until recently, a wide variety of consumer goods was simply not available to the average Chinese citizen and consumption was limited but social and economic change is producing a strong market in China (Kim et al., 2002). Chinese consumers are indulging in the purchase of new appliances, household goods, fashion products, and types of food previously unavailable to them. Food choices now include processed foods, including canned, frozen, dried, and vacuum packed (Veeck and Burns, 2005). However, we have few studies that address fundamental questions of the expectations and priorities of Chinese consumers.

Consumers in China are a rapidly expanding and relatively untested market with respect to the retail context, although some studies exist (see, for example, Tsang et al., 2003; Zhou and Wong, 2003). Drawing on literature developed in other cultures, a number of customer factors emerge as potentially important in the Chinese market. These factors include increasing time pressure and price considerations (Homburg, Hoyer and Fassnacht, 2002). According to household-based theories of economic efficiency, the two most critical resources that households manage are time and money (Veeck and Burns, 2005). Time and money are fundamental to the concept of value, and Berry (1996) argues that retailers must compete on value, which measures the benefits received for the burdens endured. Benefits include quality and choice of merchandise, caring personal service, after-sales warranties, convenience and relationships. Burdens are reflected in costs, which include price, opportunity costs of time, disinterested or uninformed employees, and poorly merchandised stores (Berry, 1996). To achieve competitive advantage, managers need to understand the characteristics of the Chinese consumer segments and how they interpret value (Wang et al., 2004). Consequently, value was adopted as a key outcome variable in the current study.

The other outcome variable adopted in the study was customer loyalty, because much scholarly work has demonstrated the importance of customers' perceptions of value and their loyalty to achieving growth and profit in retailing (for example, Berry, 1996). Additionally, shopping plays a significant role in consumers' lives and how they interact with the shopping environment influences their experiences and patronage decisions (Mai and Zhao, 2004). For example, Mai and Zhao (2004) found that Beijing supermarket shoppers make small purchases and frequent visits to the same store. There exists some uncertainty regarding the extent to which Chinese consumers are inclined towards relationships with providers (de Wulf, Odekerken-Schroder and Iacobucci, 2001).. However, it is clear that value drives loyalty in different cultures (see, (Sirdeshmukh, Singh and Sabol, 2002; Wang et al., 2004) and it is necessary to understand the store and customer characteristics that lead to such positive outcomes. Understanding store characteristics is, perhaps, more important than customer characteristics because they can be changed and controlled (Homburg et al., 2002). In view of the above, this study aims to further understanding of the emerging consumption patterns in China by testing the relative contribution of store and customer

characteristics to perceived value and customer loyalty. Figure 1 shows the conceptual model guiding the study.



**Figure 1: Conceptual Model**

## **RESEARCH METHOD**

The mall intercept procedure was used to collect data in Tianjin, China, identified as one of the major cities for retail spending (Samiee, Yip and Luk, 2004). Survey questionnaires were randomly distributed to actual consumers of three department stores (n=200) and three supermarkets (n=200). Department stores and supermarkets are selected as the context for this study as they are the first two categories in the retail format of the Chinese government (Samiee et al., 2004). The sample consisted of 55.9 percent females, average age between 20 to 30 years old, and monthly household income of 2001 to 3000 Yuan. A check with the managers of the retail stores confirmed that the sample was representative of their expected clientele.

To remain consistent with past research, the measures were selected from previous studies in marketing, management, and psychology. These measures are grouped accordingly: store characteristics, customer characteristics and outcome variables. Following Deshpande, Hoyer, and Donthu (1986), the back translation method was adopted in the construction of a Chinese version of the questionnaire. First, the original English version was translated into Chinese. Second, one of the authors back translated the Chinese version into English. Third, the Chinese version is pre-tested with Chinese individuals to ensure clarity and accuracy and to obtain feedback for any changes necessary. Minor changes were made accordingly.

Store characteristics were measured in terms of four variables: Service Orientation, Customer Orientation, Quality of Merchandise, and Choice of Merchandise. All variables used 7-point Likert scales for measures which were adopted

from Homburg, Hoyer, and Fassnacht (2002). Service Orientation involved ten items. Typical items asked customers to assess how “actively” retail store XYZ emphasizes their service with respect to information/advice concerning merchandise, customer service/information desk, and extended guarantee/warranty on merchandise. Customer Orientation was measured by a three-item scale which asked customers the extent of their agreement with statements about retail store XYZ’s commitment to them, the creation of customer value, and understanding of customer needs. Quality of Merchandise employed three items to assess customers’ views on how retail store XYZ compared to competitors with respect to quality, fashionability and general price of merchandise. Finally, the measure for Choice of Merchandise utilized a five-item scale. Customers were asked to assess how retail store XYZ compared to competitors on items such as the quantity of merchandise within categories, the number of different categories and the variety of price levels.

Customer attitudes were measured with respect to Time Pressure, Price Consciousness and Relationship Proneness. As for store characteristics, all measures used 7-point Likert scales anchored with descriptors at each end. The first two scales were adopted from Homburg et al. (2002). Time Pressure used two items which sought customers’ level of agreement with statements about whether they feel pressed for time during shopping and whether shopping is a time burden for them. Price Consciousness also used two items. Customers were asked to assess the extent of their agreement with statements about being willing to go to extra effort to find lower prices, and being prepared to shop at more than one store to take advantage of low prices. The measure for Customer Relationship Proneness used a three-item scale adopted from De Wulf, Odekerken-Schröder, and Iacobucci (2001). Respondents were asked to assess the extent of their agreement with statements such as liking to be a regular customer of the store and someone who is willing to ‘go the extra mile’ to purchase at the same retail store.

Two Outcome variables were measured. Perceived Value used a four-item, 7-point scale adopted from Sweeney and Soutar (2001). Customers were asked to indicate their agreement with statements about the products at retail store XYZ in terms of being reasonably priced, offering value for money, good products for the price and being economical. Customer Loyalty was measured with a four-item, 7-point scale adopted from Parasuraman, Zeithaml, and Berry (1994). Typical items asked customers to indicate whether they say positive things about retail store XYZ to other people, encourage friends and relatives to shop at retail store XYZ, and consider retail store XYZ to be first choice in the next few years.

## **RELIABILITY AND VALIDITY OF MEASURES**

The items constituting the nine constructs were subjected to confirmatory factor analysis (CFA) using LISREL 8.3 (Jöreskog and Sörbom, 1993) to verify unidimensionality. Five items were deleted from the initial set where the standardized residual covariances were above the absolute value of 2. These items were first examined and compared with the original conceptual definitions of the constructs to ensure their deletion did not significantly change the domain of the construct. This process resulted in  $\chi^2 = 1209.44$ ,  $df = 398$ ,  $p < 0.001$ , and GFI of .836, CFI .911, NFI .872, and RMSEA .0715.

To establish reliability of the measures, composite reliability (CR) and average variance extracted (AVE) using the procedures outlined by (Fornell and Larcker, 1981) were calculated. As shown in Table 1, all the standardised loadings and their associated t-values for the multi-item scales are significant, demonstrating adequate convergent validity. Furthermore, the CRs range from .60 to .92, indicating acceptable levels of reliability for the constructs, and the AVEs range between 53 percent and 74 percent, above the recommended 50 per cent level (Fornell and Larcker, 1981).

**Table 1: Evidence for Reliability and Unidimensionality of Measures**

Construct	Number of items	Cronbach's alpha	Range of Loadings in CFA	Range of t-values in CFA	Composite Reliability	Average Variance Extracted
Customer Orientation	3	.86	All .84	20.14-20.23	.88	71%
Service Orientation	8	.87	.67 - .83	14.88– 19.92	.92	58%
Quality of Merchandise	2	.79	.84-.85	19.13-19.19	.83	71%
Choice of Merchandise	5	.88	.72-.87	16.07-21.33	.90	64%
Time Pressure	2	.80	.74-.97	14.37-18.88	.85	74%
Relationship Proneness	2	.60	.69-.70	14.04-14.26	.60	53%
Price Consciousness	2	.78	.82-.84	18.71-19.36	.82	69%
Perceived Value	4	.88	.81-.86	19.09-21.17	.90	69%
Customer Loyalty	3	.86	.78-.92	18.10-23.22	.90	70%

## RESULTS AND DISCUSSION

The intercorrelations for the nine constructs showed that multicollinearity was unlikely to be a problem in regression analyses as no associations between independent variables exceeded .7 (Tabachnick and Fidell, 2001). The largest correlations between independent variables with perceived value and customer loyalty were observed for service orientation ( $r=.45$ ,  $.49$ ) and customer orientation ( $r=.43$ ,  $.53$ ), suggesting that store characteristics may influence outcomes more than customer characteristics. This finding was subsequently confirmed by multiple regression analysis (see Tables 2 and 3). As expected, perceived value and customer loyalty were highly correlated ( $r=.66$ ).

Table 2 shows that service orientation and customer orientation contribute to both value and loyalty, with choice of merchandise also contributing to loyalty. These three dimensions were therefore used for store characteristics in subsequent analyses.

**Table 2: Regression Analyses of Store Characteristics on Value and Loyalty**

	DV: Perceived value		DV: Customer loyalty	
	Beta value	t-value	Beta value	t-value
Service orientation	.22	3.44**	.17	2.70*
Customer orientation	.16	2.50*	.30	5.01***
Quality of merchandise	.11	1.90	.08	1.53
Choice of merchandise	.10	1.62	.13	2.13*
	F(4,395)=32.96*** Adj R <sup>2</sup> =		F(4,395)=48.91*** Adj R <sup>2</sup> =	

\*p<.05, \*\*p<.01, \*\*\*p<.001

The importance of price consciousness to this sample of Chinese consumers is evident in the data in Table 3. It appears to be a strong predictor of both value and loyalty. Not surprisingly, time pressure is also highly significant to perceived value of purchases. Relationship proneness did not emerge as important in this study.

**Table 3: Regression Analyses of Customer Characteristics on Value and Loyalty**

	DV: Perceived value		DV: Customer loyalty	
	Beta value	t-value	Beta value	t-value
Time pressure	.19	4.00***	.09	1.88
Relationship proneness	.10	1.66	.11	1.83
Price consciousness	.31	5.34***	.34	5.85***
	F(3,396)=36.20*** Adj R <sup>2</sup> =		F(3,396)=32.98*** Adj R <sup>2</sup> =	

\*p<.05, \*\*p<.01, \*\*\*p<.001

To further address the overall research question, the significant factors from Tables 2 and 3 were entered together as independent variables in regression analyses, with value and loyalty as dependent variables. Consistent with Tables 2 and 3, service orientation, customer orientation, time pressure and price consciousness were all related to value, with beta values ranging from .11 to .19, and explaining 27.1 percent of the variance. Service orientation, customer orientation, price consciousness and choice of

merchandise were also related to loyalty, with beta values ranging from .13 to .29, and explaining 33.7 percent of the variance. These findings suggest that emphasis should be placed on service orientation, customer orientation, and customers' price consciousness, with time and choice relevant to value and loyalty respectively. Finally, because store characteristics can be controlled, while customer characteristics cannot, we decided to perform hierarchical regression analyses with value and loyalty as dependent variables. Our aim was to partial out the possible effects of customer characteristics by entering them as Block 1, before entering store characteristics as Block 2. Table 4 provides the results.

**Table 4: Hierarchical Regression Analyses of Store and Customer Characteristics**

	DV: Perceived value		DV: Customer loyalty	
	Beta (1)	Beta (2)	Beta (1)	Beta (2)
Block 1				
Time pressure	.20***	.11*	.10*	-.03
Price consciousness	.36***	.19***	.40***	.16**
R <sup>2</sup> (F)	.210 (52.70)***		.193 (47.53)***	
Block 2				
Service orientation		.16*		.14*
Customer orientation		.13*		.29***
Choice of merchandise		.09		.13*
R <sup>2</sup> change (F)		.070 (30.68)***		.152 (41.52)***
Adj R <sup>2</sup>	.206	.271	.189	.337
Degrees of freedom	2, 397	5, 394	2, 397	5, 394

\*p<.05, \*\*p<.01, \*\*\*p<.001

Table 4 shows that the change in variance explained when customer and store characteristics are considered together is much greater for loyalty than for value. In particular, the inclusion of service orientation and customer orientation increases the Adjusted R<sup>2</sup> for value from .206 to .271, an increase of explained variance of 6.5 percent. In contrast, when store characteristics are entered for the dependent variable loyalty, the Adjusted R<sup>2</sup> increases from .189 to .337, suggesting that a further 14.8 percent of variance in loyalty is explained. Therefore, store characteristics (service orientation, customer orientation and choice) seem to have a particularly important role to play in developing customer loyalty. Another interesting observation from Table 4 is the relatively large decrease in beta values for price consciousness when store characteristics are included. This finding is useful for managers because it seems to indicate that they can reduce potential problems with price by focusing on aspects of service and customer orientation and, to a lesser extent, the choice of merchandise.

Finally, the relatively low Adjusted  $R^2$  scores in Table 4 suggest the need for further research in order to understand value and loyalty in the context of Chinese shopping.

## CONCLUSION

The present study has identified consumers' priorities in a particular retail market in China, and illustrated how those priorities may affect subsequent loyalty behaviours. Price consciousness, customer orientation and service orientation contributes to both value and loyalty. These aspects of retail therefore emerge as a potential opportunity for managers to gain competitive advantage in China. There seems little doubt that understanding what constitutes superior value for Chinese consumers, how to operationalise that value, and its relationship to loyalty will remain important questions for researchers and managers in the immediate future.

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