Chinese Firms in Global Markets - Round 3 -

- Country of Origin Effect
- Liability of Foreignness
- Jewelry and Wine

Benedikt Lasar

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AGENDA

Country of Origin Effect

Liability of Foreignness

Chinese Investment in Jewelry

Chinese Investment in Wine

Quiz Time!

Enter the socrative room via the QR code please!

AGENDA

Country of Origin Effect

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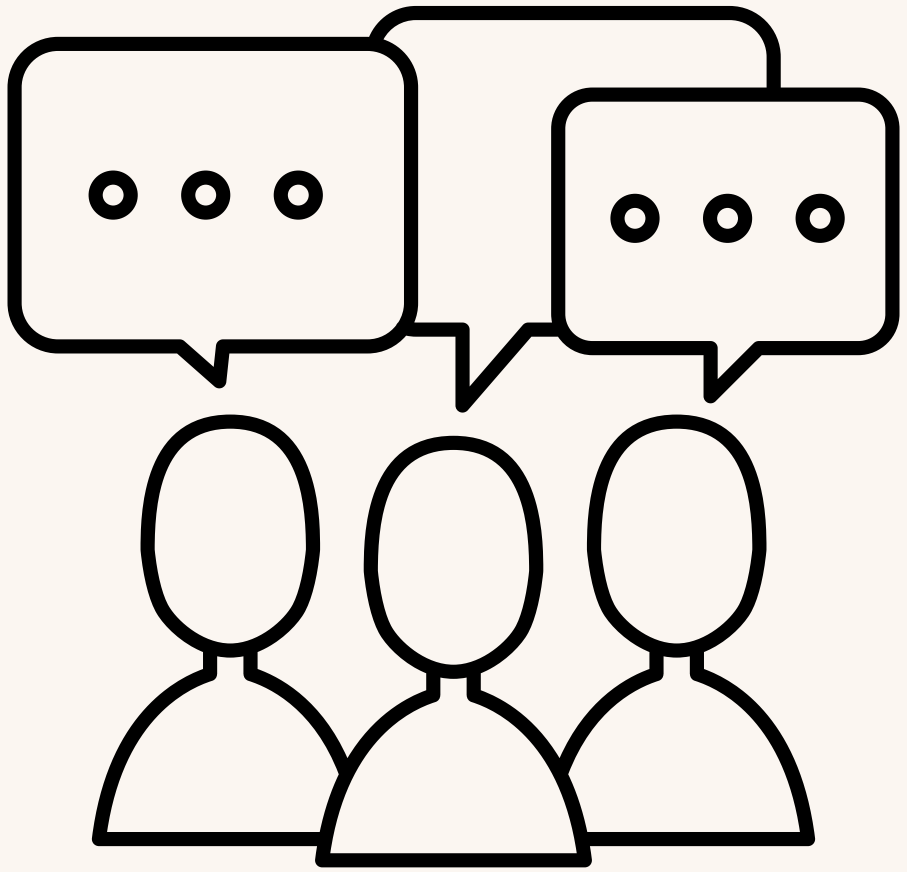
Chinese Investment in Wine

Discussion

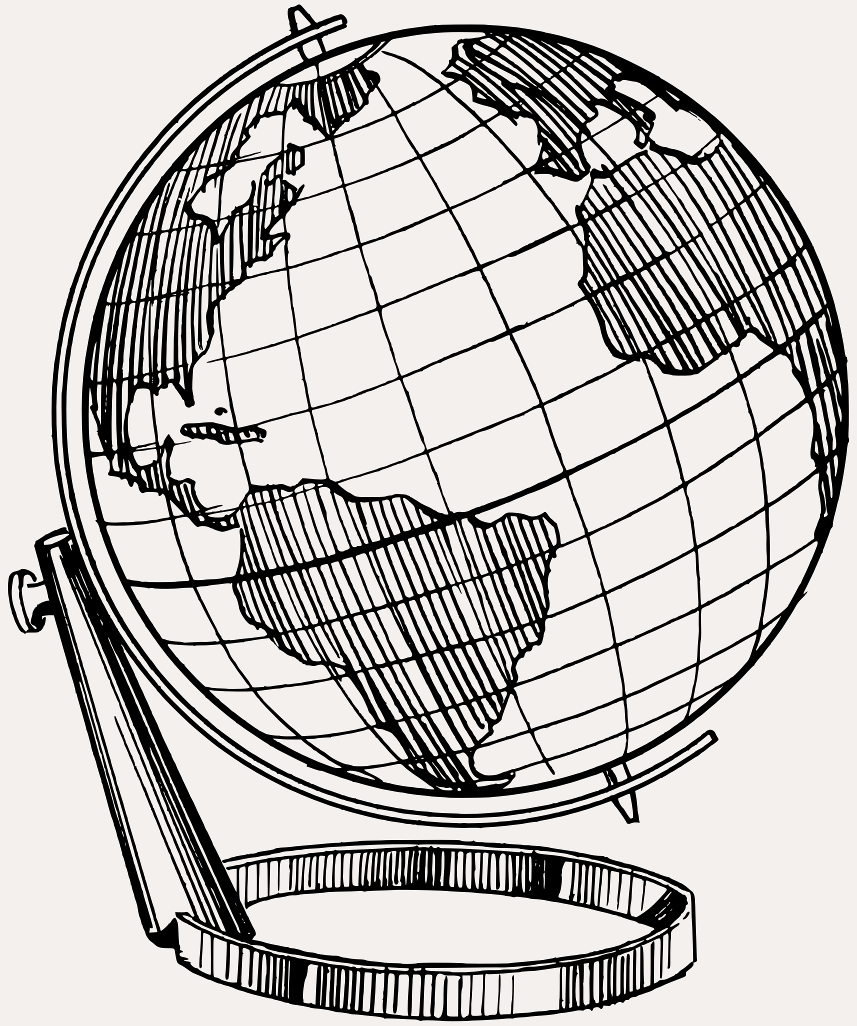
What does the country of origin tell you about a product?

Is the country of origin important to you?

What is your first impression when you think of products from China?



Country of Origin Effect



- Studies show that the CO influences consumers' purchasing decisions
- When consumers think of a country in positive terms, they overestimate the price of products
- When consumers think of a country in negative terms, they underestimate the price of products

Country of Origin Effect

- The country of origin influences brand evaluation
- Companies can profit from positive COE
- ‘Halo Effect’
- Free competitive advantage
- Consumers perceive less risk when buying a product from a ‘positive country’
- Consumers are more weary when purchasing products from a ‘negative country’

Country of Origin Effect

MADE IN

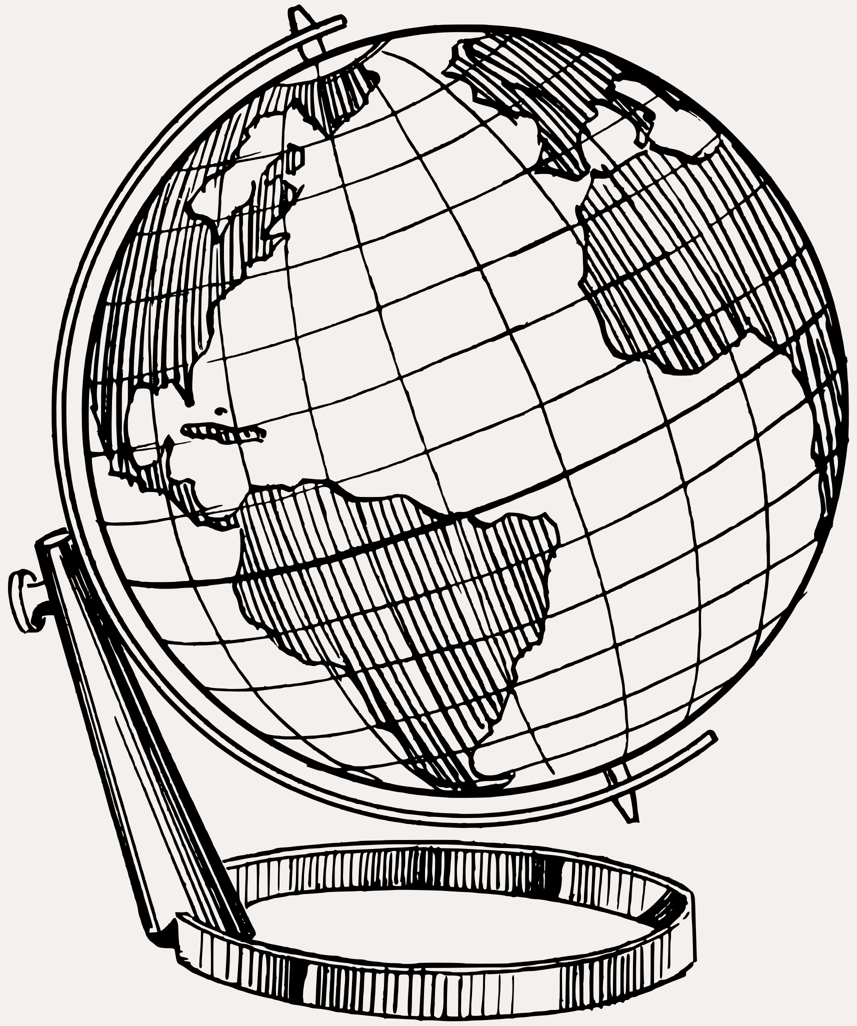
CHINA

- China has built its economy on cheap labor: COE has suffered
- Means it has a hard time breaking into ‘luxury’ markets and competeing with reputable luxury brands
- COE is multidimensional and dynamic: consumer perception changes
- Triggers of change can be socio-political, technological, or personal

Country of Origin Effect

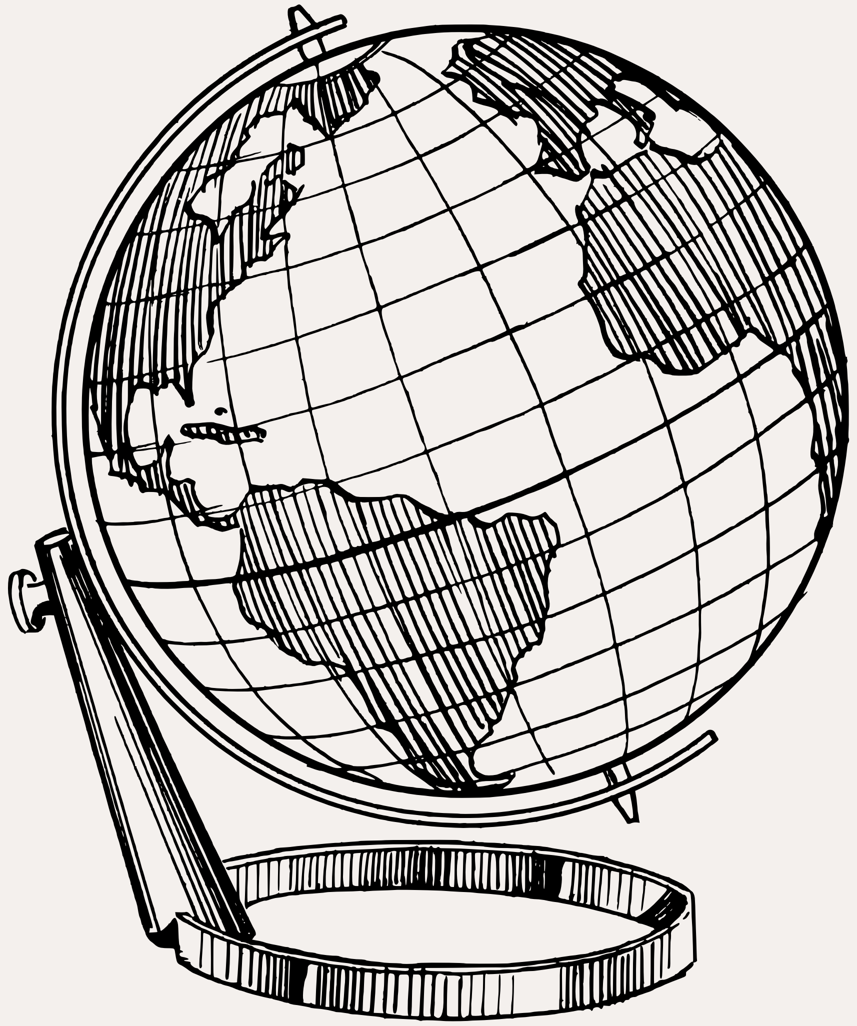
- A country's cultural identity, political climate, language, history, landscape, economy, technological development, and people can contribute to positive and negative perceptions
- Countries can have a positive image for certain products and a negative image for other products
- Consumers are capable of cognitive dissonance

Country of Origin Effect



- COE has huge implications for brand positioning
- Brand origin: (perceived) place or country of origin in the consumers’ perception
- Brand positioning is one way to overcome ‘negative’ COEs
- Brand positioning: designing the company image to target a distinct place in the consumers’ mind
- Need to attain positive brand equity by overcoming ‘negative’ COEs

Country of Origin Effect



- Consumers prefer familiar brands
- Barrier to market entry for new participants: consumers in a foreign market will probably not be familiar with the brand
- COE becomes even more important as this is one of the aspects of a brand that consumers check first
- Multinational brands might be an exception

Country of Origin Effect

cognitive

affective

normative

Country of Origin Effect

cognitive

- The perceived quality of a product from a certain country
- Rational mental mechanism that assists consumers in evaluating products
- Two dimensions: design quality and manufacturing quality
- Think of ‘Designed in China’ vs. ‘Made in China’

Country of Origin Effect

cognitive

- Two dimensions: design quality and manufacturing quality
  - Design quality evaluates the process from the conceptual idea to the product’s engineering stage (appearance, features, ...)
  - Manufacturing quality evaluates the materials used, process of assembly, durability, reliability, and safety

Country of Origin Effect

cognitive

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Country of Origin Effect

affective

- Attaches symbols or emotions to a product
- Formed through direct or indirect experiences with a country
- Stereotypes contribute to forming an image
- Consumers match self-awareness and ideal identities with the perception of a country
- Brands can create affinity by matching or emphasizing similarities between a country and the target group
- Animosity will have detrimental effects on consumers purchasing decisions

Country of Origin Effect

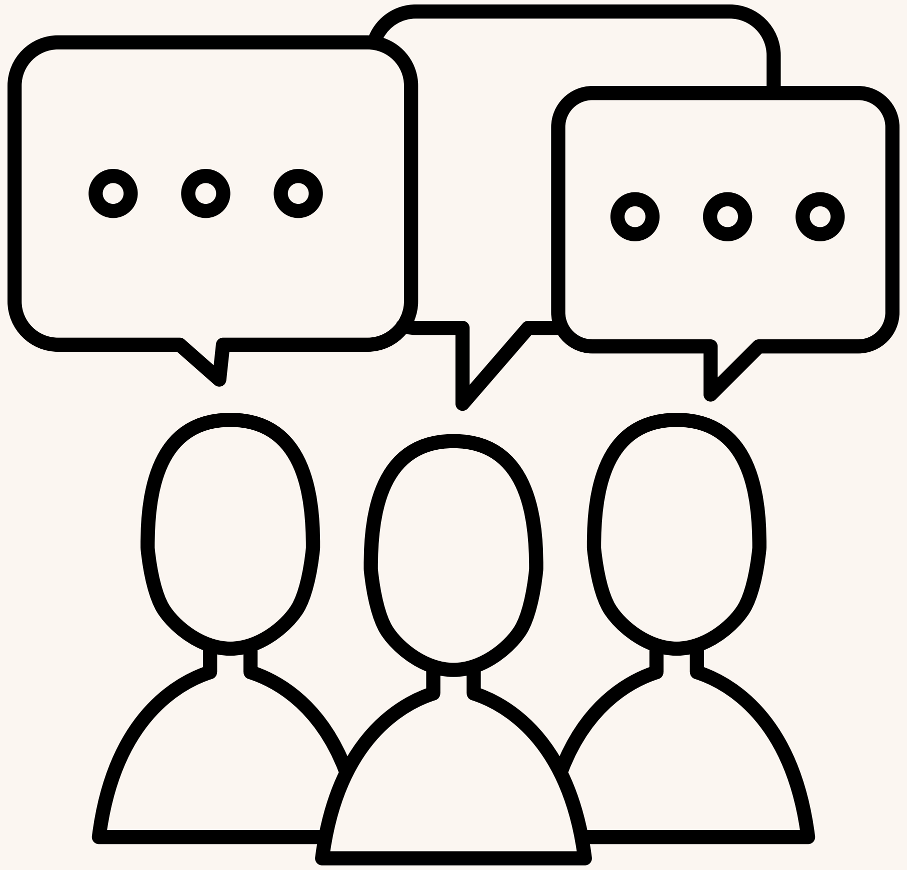
normative

- How a country's values and belief system affect purchasing decisions
- Ethnocentric factors: degree to which a consumer is willing to purchase foreign products ('everything we have here is perfect')
- Disidentifying factors: degree to which a consumer opposes home country products ('everything foreign is awesome')

Discussion

How do cognitive, affective, and normative COEs influence your perception of Chinese products?

How do the people around you perceive them?



cognitive

- The perceived quality of a product from a certain country
- Rational mental mechanism that assists consumers in evaluating products

affective

- Attaches symbols or emotions to a product
- Formed through direct or indirect experiences with a country and stereotypes

normative

- Ethnocentric: ('everything we have here is perfect')
- Disidentifying: ('everything foreign is awesome')

AGENDA

Country of Origin Effect

Liability of Foreignness

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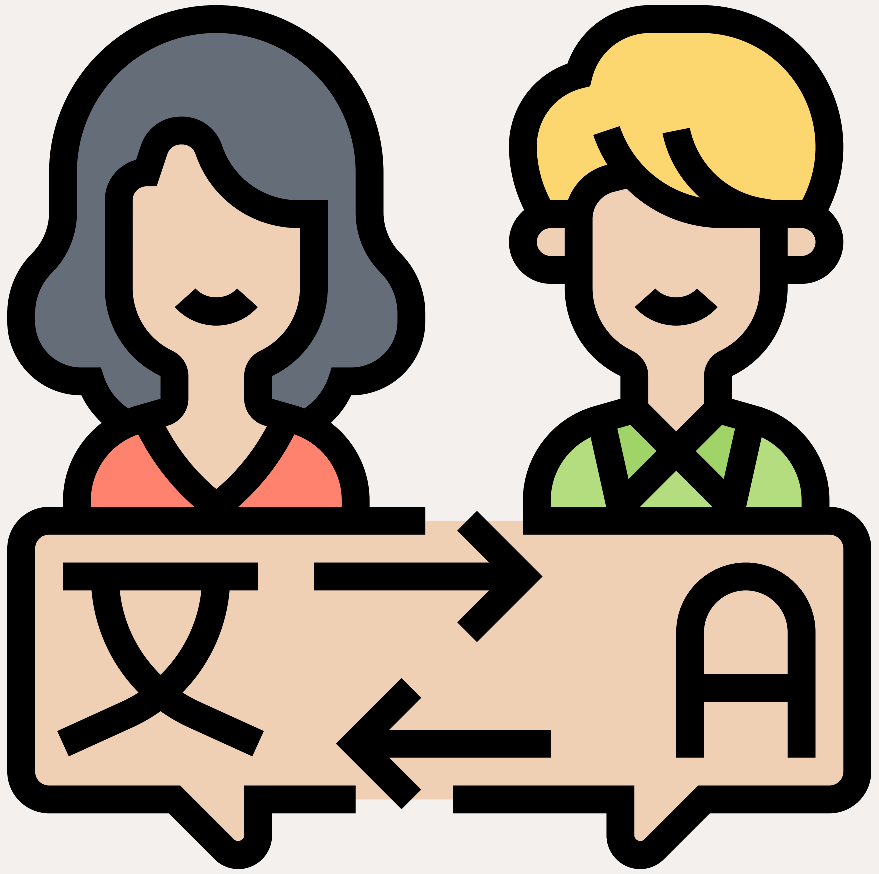
Chinese Investment in Wine

Liability of Foreignness

- Recognizes COE for FDI
- Additional costs that foreign enterprises encounter relative to indigenous competitors
- Why do foreign firms perform worse than indigenous firms?
- Tacit and social costs decline over time as foreign company becomes more embedded in the host country
- Difference to CO: perspective



Liability of Foreignness

unfamiliarity hazard

discrimination hazard

relational hazard

Liability of Foreignness

- When a company knows too little about a host country's business environment
- A company may incorrectly assess market potential in foreign countries
- A company possesses insufficient or erroneous information on a host country's culture, norms, institutions, values, and business practices

unfamiliarity hazard

Liability of Foreignness

- Company suffers negative bias in new market, possibly due to COEs
- Discrimination can be from the host country's government or consumers
- Linked to ethnocentricity
- Political reasons (China-US trade war)

discrimination hazard

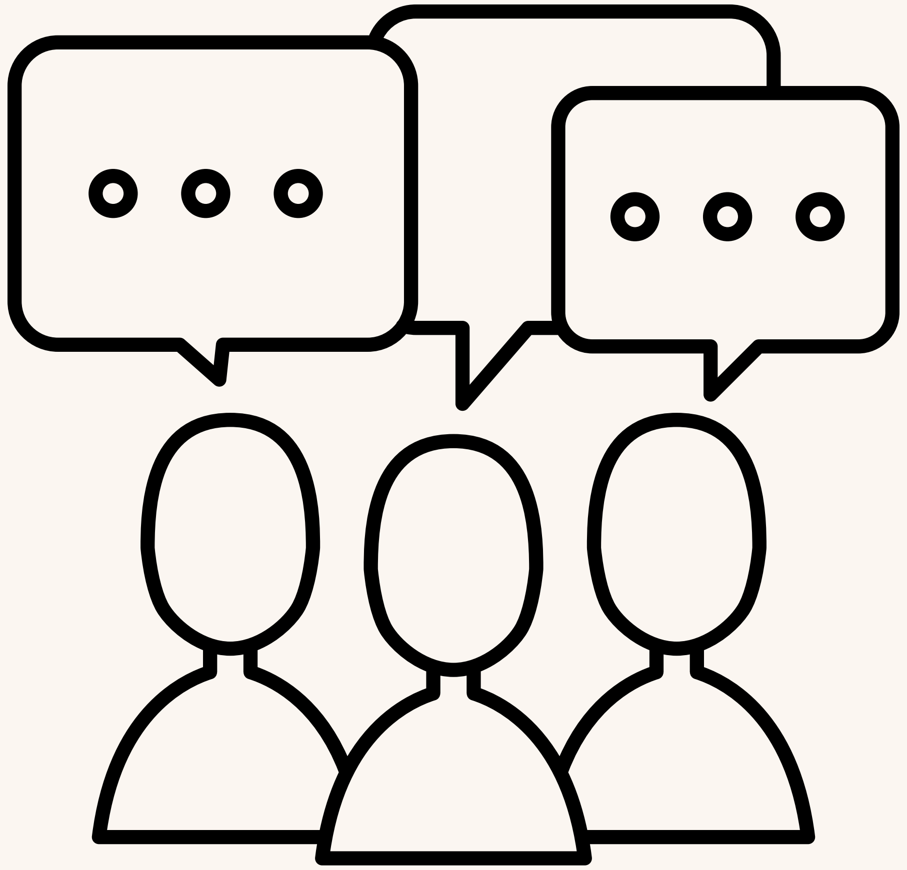
Liability of Foreignness

- Triggered by high costs of running a business over long distances
- Includes transaction costs (lower levels of trust), managerial costs, and operational costs (logistics, supervision, or training costs)
- Intrinsic to a company
- Likely to be overcome the fastest after the company becomes embedded in foreign market

relational hazard

Discussion

Come up with examples for the liabilities of foreignness for China in any country of your choice - and vice versa!



Liability of Foreignness

Little knowledge on the host country, incorrectly asseses market potential, missunderstandings of the (business) culture

unfamiliarity

COE can lead to discrimination by the government or consumers for ethnocentric or political reasons

discrimination

Additional transaction, managerial, and operational costs triggered by running a business in a far away location

relational

AGENDA

Country of Origin Effect

Liability of Foreignness

Chinese Investment in Jewelry

Chinese Investment in Wine

- Transmissions, Traditions, Fortune
- Founded by Frank Wu in Shenzhen in 2002
- Tough first couple of years
- Change in business values: high quality in design and manufacturing
- Portrais nature in jewelry
- Main market outside of China

Picture Source: uspto.report/TM/79161869

TTF opened their flagship store on the Rue de la Paix in Paris in 2014

Picture Source: thedreamteam.fr/luxe/ttf-la-premiere-boutique-dun-grand-joaillier-chinois-a-paris/

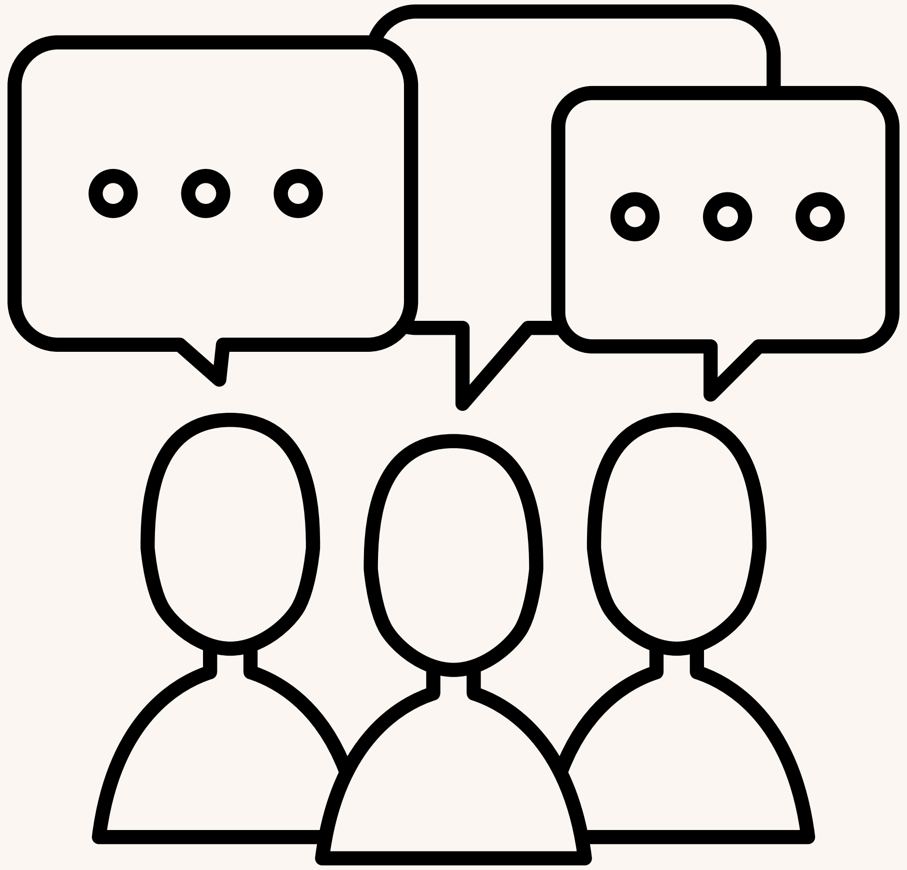
- Different from competitors: jewelry in futuristic design that captures Chinese cultural elements
- Chinese culture, poetry, and nature
- Proud of their origin
- Leverages the most well known (and liked!) elements of Chinese culture
- 2014: TTF wins Paris' 'Best International Investor' award

Picture Source: legemmologue.com/en/2019/07/23/fashion-week-asia-pulls-out-all-the-stops/

Discussion

What aspects of TTF's brand building reflect theoretical concepts from the COE?

How has TTF used ethnocentricity and disidentification to its advantage? How have they confronted the issue of the COE?



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Country of Origin Effect

Liability of Foreignness

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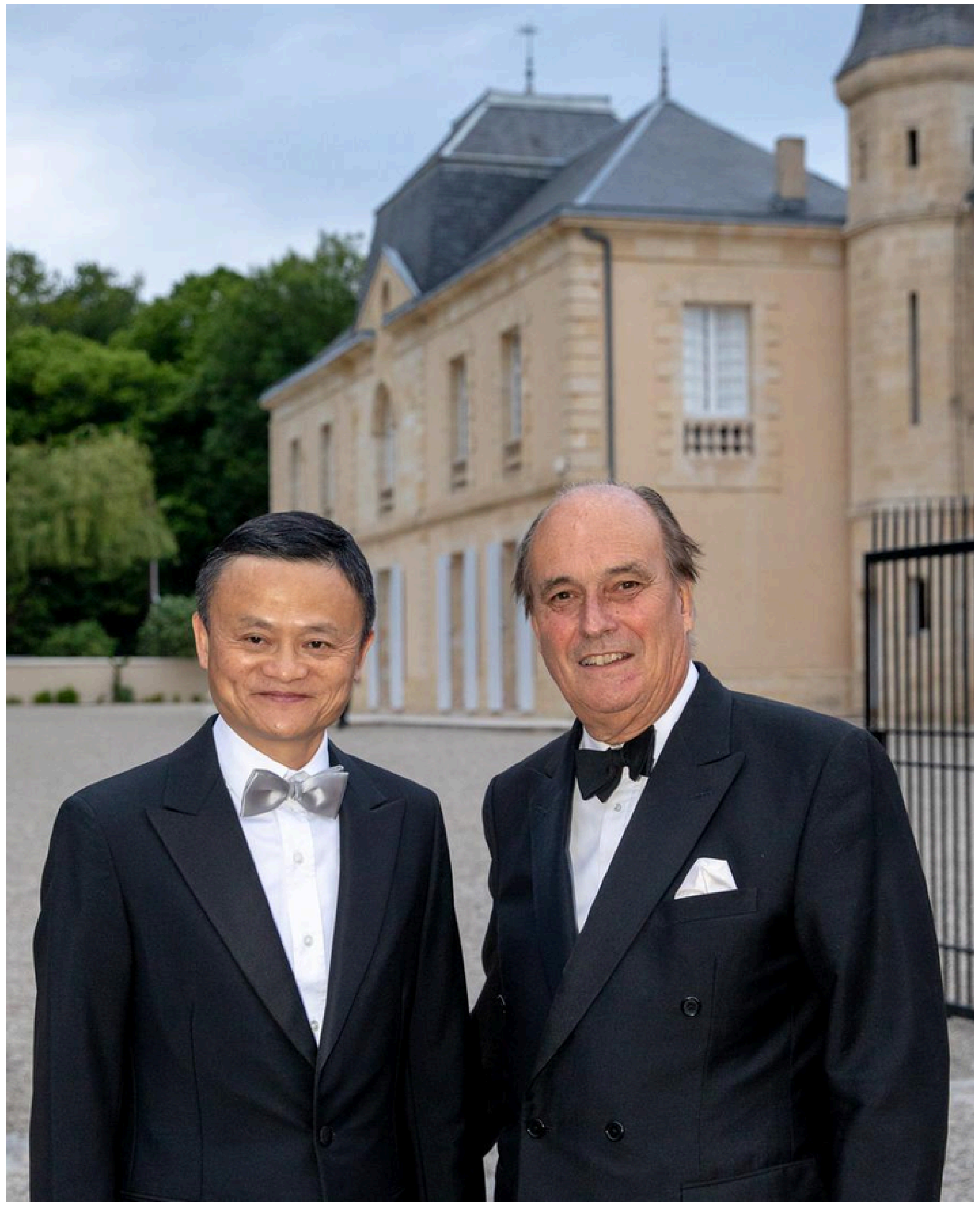
Chinese Investment in Wine

- Reasons for Chinese investors to invest in wine:
    - Diversify the investment portfolio
    - Safe asset
    - Know-how
    - Prestige
    - Brand ‘France’ or ‘Bordeaux’
    - Brand-building

- Over 175 wine estates bought up by Chinese investors in Bordeaux alone (but only 1 percent of all Bordeaux châteaux)
- Famous examples: Jack Ma and Zhao Wei



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Questions?

Homework

Please read the text for next week, we will do another quiz!