A Study of the Relationship among Perceived Quality, Country-of-origin, Brand Loyalty, and Brand Equity at a Footwear Company in Nanjing, China.
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Abstract
The competition among brands is becoming increasingly critical in today’s market. As a valuable asset for a company, brand equity is crucial to brand management and also the development of a company. However, management is not easy as there are many factors affecting brand equity. The objective of this research is to study the relationship between perceived quality, brand loyalty and brand equity of a Chinese sportswear company, LI-NING. Consumers’ attitudes towards perceived quality, brand loyalty and brand equity are analyzed based on three demographic factors; age, income levels and educational background. 369 valid questionnaires were collected from LI-NING footwear purchasers. The results show that store image is the factor most influential on perceived quality while promotion is found to have no relationship with perceived quality. Country-of-origin image has a low positive relationship with brand loyalty, which has a stronger relationship with brand equity than perceived quality. The only difference there is in brand loyalty is when it is determined by different income levels and the only one with respect to brand equity is when it is segmented by different age levels.

Key words: Perceived quality, country-of-origin image, brand loyalty, brand equity, sportswear.

Introduction
When shopping at department stores, people often discover that although some products are similar or have some almost identical features and offer the same level of quality, they have significantly different prices by dint of being sold under different brand names. Yet, some consumers are still willing to pay a higher price for a specific brand because they believe that the products sold under that particular brand are well-known and of high quality.

Both the perceived high quality of a brand and its popularity are referred to as the brand equity of the brand. Lassar, Mittal and Sharma (1995) defined brand equity as the enhancement in the perceived function and desirability of a brand name provides in a product. It is the “consumer’s perception of the overall superiority of a product carrying that brand name when compared to other brands” (Lassar et al., 1995). For these very reasons, brand equity management is critical to a company since it will significantly affect its revenue and profitability. This is all the more true today as, with the increasing globalization, people have more brands to choose from. Building strong brand equity has thus become one of the primary tasks of many organizations in their efforts to achieve long-term healthy profits. Brand equity building enables companies to gain more market shares.

This research focuses on brand equity at one large Chinese company, LI-NING, the biggest sportswear manufacturer in China. It seeks to analyze how this company uses brand equity factors to achieve huge sales and compete with other international brands.

It also assesses how this company can strengthen its position in the Chinese sportswear market dominated by four leading international brands, namely, Nike, Adidas, Puma, Reebok, and Fila, all of them favorites among Chinese consumers, with Nike on top and always occupying the number one spot (Brand Strategy, 2006). Some of those brands are enjoying strong sales growth in the Chinese market.

LI-NING ranks 22nd in the world, far behind the leading sports brand. In China, however, it is ranked first (Source: http://wenwen.soso.com/z/q92275678.htm, 15/11/2009).

I. Literature Review
- Price
Price is typically treated as the key factor in buying behavior when people are poor and have necessary goods to buy (Kotler, 2000). Today, although non-price factors are becoming increasingly important since
people have more parameters to consider, price remains significant and essential. For a company, it is related to its market share and profitability. For consumers, high-priced brands are often perceived to be of higher quality and less vulnerable to competitive price cuts than low-priced brands (Blattberg and Winniewski, 1989; Dodds, Monroe and Grewal, 1991; Kamakura and Russell, 1991; Milgrom and Roberts, 1986). Price can be considered as a signal for quality, thus, higher price means better quality. Therefore, price is positively related to perceived quality.

- Promotion

Promotion includes all the activities a company undertakes to communicate and promote its products to the target market (Kotler, 2000). It is an activity by the company to deliver information to existing and potential customers in order to boost its sales.

According to Yoo, Donthu and Lee (2000), relying on sales promotion reduces brand association which in turn leads to decreasing brand equity. In their cross-cultural research in the USA and Korea about brand equity, they found that price promotions had a negative impact on brand equity in both countries. Specifically, price promotions negatively affected perceived quality (Ibid). This is consistent with Winer’s (1986) who argued that frequent price promotions convey a negative brand image, resulting from unstable quality and confusing price fluctuations.

Gil, Andres and Salinas (2007), on the other hand, found that frequent price promotions of the brand do not lower its perceived quality.

- Store Image

The concept of retail store image was first brought up by Martinean (1985), who described it as “the personality of the retail store.” It has been recognized that consumers form ideas and feelings related to stores and that these overall impressions strongly affect their buying behaviors.

The most commonly accepted academic definition is that of Baker et al., (1994) who depicted it as “an individual’s cognition and emotions that are inferred from perceptions or memory inputs that are attached to a particular store and which represent what that store signifies to an individual consumer.” Therefore, customers' perception of retail store image is a combination of a store’s functional qualities and the psychological attributes which consumers link to these (Mazursky & Jacoby, 1986).

Store image can greatly influence consumers’ attitude or image toward the brand and the product itself because retailers are the most important channel that customers encounter and the store provides the basic environment and direct experience for consumers to see, touch and interact with the product. In real situation, a favorable store image can positively influence customers’ buying decision and behavior while unfavorable store image negatively influence their behavior. As Dodds et al. (1991) mentioned, there is a positive relationship between store image and perceived quality.

- Advertising Spending

“Advertising is paid, non-personal communication through various media by business firms, non-profit organizations, and individuals who are in some ways identified in the advertising message and who hope to inform or persuade members of a particular audience” (Dunn and Barban, 1982). Advertising has also been defined as any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor (Kotler, 2000). It is an effective means used by many organizations or companies to create awareness of a new product or brand, inform customers of features of this new product or brand, create the desired perceptions of them, create a preference for them, and persuade customers to purchase them (Bendixen, 1993). In the long term, these objectives are aimed to achieve profitable sales.

As Milgrom and Roberts (1986) pointed out, advertising is an important extrinsic cue signaling product quality. It is a channel for most customers to know or become interested in a certain product. Therefore, heavy advertising spending shows that the firm is investing in the brand and implies superior quality (Kirmani and Wright, 1989).

- Perceived Quality

Perceived quality is defined as a “customer’s perception of the overall quality
or superiority of a product or service with respect to its intended purpose, relative to alternatives” (Zeithaml, 1988). As this definition indicates, perceived quality is not necessarily related to the real quality of the product but, instead, refers to a customer’s perception of quality based on his/her experience of the product or its comparison with other competing products. However, it is necessary to point out that the perception of quality is not only based on one’s experience but also the perception of some heuristics, such as price or some of the product’s physical attributes (Rafael, Elena and Eva, 2007).

Since quality is a very critical factor affecting customer buying behavior, perceived quality has undoubtedly become the main element influencing customer’s measurement of brand equity. In order to achieve higher brand equity, companies can adopt strategies designed to increase perceived quality by investing in product quality. Therefore, high perceived quality can affect a customer’s buying decision and as such lead to the increase of brand equity.

- **Country-of-origin Image**

Nagashima (1970) defined country-of-origin image as “the picture, the reputation, and the stereotype that businessmen and consumers attach to products of a specific country. This image is created by variables such as representative products, national characteristics, economic and political background, history, and traditions.” Country-of-origin image plays a vital role in affecting customer’s brand choice. Brands from countries with a favorable image usually find they are more easily accepted than those from countries with an unfavorable or a less favorable image. Therefore, country-of-origin image is one factor affecting a consumer’s decision-making process (Khachaturian and Morganosky, 1990; Knight, 1990; Piron, 2000).

The country-of-origin image is usually set by the ‘Made in’ or ‘Originated from’ labels which contribute to the customers’ buying decisions. Country-of-origin can “act as a salient attribute in consumer product evaluation (Johansson, 1989), stimulate consumers’ interest in the product (Hong and Wyer, 1989), affect behavioral intentions through social norms (Fishbein and Ajzen, 1975) and influence buyer behavior through affective processes as in the case of consumer’s patriotic feelings about their own country” (Han and Terpstra, 1988).

- **Brand Loyalty**

Aaker (1991) defined brand loyalty as “the attachment that a customer has to a brand.” It is “a situation which reflects how likely a customer will be to switch to another brand, especially when that brand makes a change, either in price or in product features” (Ibid).

Keller (2003) depicted brand loyalty as “brand resonance,” i.e., the extent to which customers feel they are “in sync” with the brand. Brand loyalty also refers to the nature of the relationship between customer and brand. Customers with a high level of brand loyalty will interact actively with the brand and be willing to share their experiences with others.

- **Brand Equity**

Brand equity has been defined as the value endowed by the brand to the product (Farquhar, 1989). This implies that the value is derived from the brand which should be well-known.

Brand equity comes into play when customers are willing to pay a higher price for similar quality because of the attractiveness of the name of the brand (Bello and Holbrook, 1995). It incorporates several components. “Brand equity comes from customer brand name awareness, brand loyalty, perceived brand quality and favorable brand symbol and associations which provide a stage for a competitive advantage and future earning streams” (Aaker, 1991).

From a customer’s perspective, it is consumer knowledge, familiarity, and associations with respect to the brand (Washburn and Plank, 2002). It ensures that a brand can have value only when the brand is valued by consumers, or the value is meaningless.

Keller (1993) defined customer-based brand equity as “the differential effect of brand knowledge on consumer response to the marketing of the brand.” As this scholar also explained, positive customer-based brand equity “can lead to greater revenue,
lower cost, and higher profit; it has direct implications for the firm’s ability to command higher price, a customer’s willingness to seek out new distribution channels, the effectiveness of marketing communications, and the success of brand extensions and licensing opportunities.”

2. Conceptual Framework and Research Hypotheses

Figure 1 - Modified Conceptual Framework

Source: Created by the author for this study

This research aims to study how LI-NING, a Chinese sportswear company can build up its brand equity and strengthen its market position and to analyze how it can control and manage perceived quality and influence customer brand loyalty. A total of 17 hypotheses were made. They can be grouped as follows:

Group 1 tests the relationship between price, promotion, store image, advertising spending on the one hand and perceived quality on the other.

H1o: There is no relationship between price and perceived quality.
H2o: There is no relationship between promotion and perceived quality.
H3o: There is no relationship between store image and perceived quality.
H4o: There is no relationship between advertising spending and perceived quality.

Group 2 explores the relationship between country-of-origin image, brand loyalty and perceived quality.

H5o: There is no relationship between perceived quality and brand loyalty.
H6o: There is no relationship between country-of-origin image and brand loyalty.

Group 3 investigates the relationship between perceived quality, brand loyalty and brand equity.

H7o: There is no relationship between perceived quality and brand loyalty.
H8o: There is no relationship between brand loyalty and brand equity.

Group 4 tests the difference in terms of perceived quality, brand loyalty and brand equity with respect to the demographic factors

H9o: There is no difference in perceived quality among different age levels.
H10o: There is no difference in perceived quality at different income levels.
H11o: There is no difference in perceived quality at different educational levels.
H12o: There is no difference in brand loyalty at different age levels.
H13o: There is no difference in brand loyalty among different income levels.
H14o: There is no difference in brand loyalty at different educational levels.
H15o: There is no difference in brand equity at different age levels.
H16o: There is no difference in brand equity among different income levels.
H17o: There is no difference in brand equity among different educational levels.

3. Research Methodology

This descriptive research was conducted by using questionnaires. Descriptive research is typically used to determine the frequency with, which something occurs or the relationship between two variables (Churchill, 1991) and it can be used as a method to seek the answers to ‘who, what, when, where and how’ questions(Zikmund,2004).

The questionnaire for this research is a self-administered one, which means it is filled in by each respondent rather than by an interviewer (Zikmund, 2004). Also, a self-administered questionnaire is a data collection technique in which the questions need to be answered by the respondents (read and answer) themselves (Saunders et al., 2007). The respondents in this research
are people who have purchased LI-NING footwear products at any of LI-NING franchised stores at least once so that they have experienced the factors selected in this research. Since this research was conducted in the city of Nanjing, the researcher chose the most bustling shopping area in the city which is the Xinjiekou area. This area has a customer flow up to 0.4-0.5 million per day and, on holidays or weekends, it can go up to 1 million per day. The retail sales in this area have a 77.57% market share in the city (Source:http://www.anyescape.com/dissertation/focus.asp, 23/09/09).

Three steps were used to collect the data. First, judgment sampling to choose eight LI-NING stores in the Xinjiekou shopping area because all the shopping malls in this area cover most of the retail market share in the city of Nanjing and the selected eight have LI-NING franchised stores. Data collected in this area can be a good and reasonable representative of the whole sample.

Second, quota sampling was used to split the total 400 questionnaires among the eight chosen franchised stores. Quota sampling is a non-probability sampling procedure for making sure certain characteristics of a population sample will be represented to the exact extent that the researcher needs (Zikmund, 2004). In this study, the researcher divided the 400 questionnaires among eight stores with each one getting 50 questionnaires (See Table 1, Appendix One).

Third, convenience sampling was utilized to directly distribute the questionnaire to consumers at LI-NING franchised stores, that is, consumers who had purchased the footwear product and were willing to answer the questionnaire. Zikmund (1997) stated that convenience sampling is used to collect data or information by obtaining units or consumers who are most conveniently available. This method can secure a large number of completed questionnaires quickly and economically (Zikmund, 2004).

The questionnaire contains five parts. Part I is a screening question designed to get the targeted population qualified for answering the whole questionnaire. This questionnaire is in a nominal scale. Nominal scale means that the numbers or letters assigned to objects serve as labels for identification of classification (Zikmund, 2004). Part II contains questions about the factors affecting perceived quality (price, promotion, store image and advertising spending) and Part III three questions designed to measure the effect of country-of-origin image from a consumer’s perspective. Part IV includes questions about perceived quality, brand loyalty and brand equity with five questions for each item.

Part II to Part IV comprise a total of thirty questions using interval scale for the respondents to indicate their opinions. All of them use a five-point Likert-scale to measure consumers’ attitude. It ranges from ‘strongly disagree’ to ‘strongly agree’ with the precisely designed questions listed in the questionnaire (Zikmund, 2004). Close-ended questions are included in Part IV to gather information about the demographic profile and analyze the behavior of a certain group. Close-ended questions mean that respondents are given limited answers and they can select the closest to individual recognition (Zikmund, 2004).

Results and Conclusions

As shown in Table 1 (see Appendix 1), it can be concluded that the respondents aged between 21 and 25 have the highest percentage of all the respondents (32.2%) and those above 40 have the lowest percentage (4.1%). What this means is that most of the customers of LI-NING footwear products are young people aged between 21 and 25. Respondents who earn 2501 to 3000 yuan have the highest percentage at 23.6% and consumers who earn 4501 to 5500 yuan have the lowest percentage with only 10.3%. And the respondents with a bachelor degree have the highest percentage (46.3%) while those with a doctoral degree have the lowest (3.5%). It can thus be concluded that most of the purchasers of LI-NING footwear products are young people who hold a bachelor degree and command on average a monthly income between 2500 and 3000 yuan.

The data was analyzed by SPSS (statistical package of social science) to test the 17 hypotheses in groups 1, 2, 3 and 4. The outcome of group 1 shows that there was a relationship between price, store image, advertising spending and perceived
quality. However, no relationship was found between promotion and perceived quality.

The results with respect to group 2 indicate that there is a relationship between perceived quality, country-of-origin image and brand loyalty. The findings pertaining to group 3 show that there is a relationship between perceived quality, brand loyalty and brand equity and those of group 4, that there is a difference with regard to brand loyalty when segmented by income levels and brand equity when determined by age levels. Hypothesis testing is summarized in Table 2 (see Appendix Two).

Recommendations

The following recommendations can be made:

The results of Group 1 hypothesis testing show that store image is the most important factor of the four elements considered (price, promotion, store image and advertising spending). Based on this result, LI-NING should carefully consider where to open its new franchised stores and how to decorate them so as to make sure that its customers feel satisfied and, as a result, have a better perception of the quality of LI-NING footwear products.

Also, advertising spending has been shown to be capable of strongly affecting perceived quality, which suggests that LI-NING should invest more in advertising so as to improve consumers’ perception of quality with respect to their products. Advertising spending is considered to have a medium positive relationship with perceived quality. Price can affect perceived quality although the relationship is not very strong. Therefore, if necessary, LI-NING can develop a pricing strategy to influence consumers’ perceived quality because price is found to have a low positive relationship with perceived quality.

The results of Group 2 hypothesis testing shows that brand loyalty can be affected by both perceived quality and country-of-origin image. LI-NING should thus develop a marketing campaign designed to improve perceived quality. Such initiatives would positively influence and strengthen customer brand loyalty in respect of its footwear products.

In addition, since country-of-origin image can also positively affect brand loyalty LI-NING’s marketing should focus on stimulating – and capitalizing on - people’s pride in their own country through sponsorship by household names and by using their good images at home and abroad to advertise and compete with international brands.

The results of Group 3 hypothesis testing shows that brand equity can be affected by both perceived quality and brand loyalty. This finding re-enforces the fact that LI-NING can use marketing activities to achieve better perceived quality and thus enhance its brand equity. Loyalty programs should be designed to ensure that customers become more loyal to the brand. More investments could also be made for brand loyalty enhancement since brand loyalty has a stronger relationship with brand equity than that with perceived quality.

The findings of Group 4 hypothesis testing show that consumers’ attitudes towards perceived quality will not vary significantly with age, income and educational levels. Therefore, when LI-NING make marketing plans, it is not necessary to consider factors such as age groups, income levels and educational backgrounds.

Brand loyalty, however, is susceptible to income levels. Therefore, when LI-NING launches brand loyalty programs, they should be specifically designed for people in a particular level of income as consumers with different income levels tend to have a different understanding of and attitude toward brand loyalty. On the other hand, variations in ages and educational backgrounds need not be taken into consideration.

Yet, brand equity can vary, based on consumers’ age levels, which implies that when LI-NING measures brand equity, people of different ages will tend to have different opinions. Therefore, brand equity must be considered in light of the different age levels. But, it is not necessary to take income levels and educational levels into consideration when dealing with LI-NING brand equity.

References
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Website Access date; Nov, 2009
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Appendix One

Table 1 - Demographic Factors

<table>
<thead>
<tr>
<th>Demographic factors</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td></td>
</tr>
<tr>
<td>21-25</td>
<td>32.2</td>
</tr>
<tr>
<td>40 above</td>
<td>4.1</td>
</tr>
<tr>
<td>Income per month</td>
<td></td>
</tr>
<tr>
<td>2501-3500</td>
<td>23.6</td>
</tr>
<tr>
<td>4501-5500</td>
<td>10.3</td>
</tr>
<tr>
<td>Educational level</td>
<td></td>
</tr>
<tr>
<td>Bachelor Degree</td>
<td>46.3</td>
</tr>
<tr>
<td>Doctoral Degree</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Created by the author for this study

Appendix Two

Table 3: Summary of the Results of Hypothesis Testing

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Sig.</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1o: There is no relationship between price and perceived quality.</td>
<td>0.004</td>
<td>Reject Ho</td>
</tr>
<tr>
<td>H2o: There is no relationship between promotion and perceived quality.</td>
<td>0.527</td>
<td>Fail to reject Ho</td>
</tr>
<tr>
<td>H3o: There is no relationship between store image and perceived quality.</td>
<td>0.000</td>
<td>Reject Ho</td>
</tr>
<tr>
<td>H4o: There is no relationship between advertising spending and perceived quality.</td>
<td>0.000</td>
<td>Reject Ho</td>
</tr>
<tr>
<td>H5o: There is no relationship between perceived quality and brand loyalty.</td>
<td>0.000</td>
<td>Reject Ho</td>
</tr>
<tr>
<td>H6o: There is no relationship between country-of-origin image and brand loyalty.</td>
<td>0.000</td>
<td>Reject Ho</td>
</tr>
<tr>
<td>H7o: There is no relationship between perceived quality and brand equity.</td>
<td>0.000</td>
<td>Reject Ho</td>
</tr>
<tr>
<td>H8o: There is no relationship between brand loyalty and brand equity.</td>
<td>0.000</td>
<td>Reject Ho</td>
</tr>
<tr>
<td>Hypothesis</td>
<td>p-value</td>
<td>Decision</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>---------</td>
<td>---------------------</td>
</tr>
<tr>
<td>H9o: There is no difference in perceived quality among different age level.</td>
<td>0.161</td>
<td>Fail to reject Ho</td>
</tr>
<tr>
<td>H10o: There is no difference in perceived quality among different income level.</td>
<td>0.05</td>
<td>Fail to reject Ho</td>
</tr>
<tr>
<td>H11o: There is no difference in perceived quality among different educational level.</td>
<td>0.997</td>
<td>Fail to reject Ho</td>
</tr>
<tr>
<td>H12o: There is no difference in brand loyalty among different age level.</td>
<td>0.509</td>
<td>Fail to reject Ho</td>
</tr>
<tr>
<td>H13o: There is no difference in brand loyalty among different income level.</td>
<td>0.007</td>
<td>Reject Ho</td>
</tr>
<tr>
<td>H14o: There is no difference in brand loyalty among different educational level.</td>
<td>0.991</td>
<td>Fail to reject Ho</td>
</tr>
<tr>
<td>H15o: There is no difference in brand equity among different age level.</td>
<td>0.041</td>
<td>Reject Ho</td>
</tr>
<tr>
<td>H16o: There is no difference in brand equity among different income level.</td>
<td>0.480</td>
<td>Fail to reject Ho</td>
</tr>
<tr>
<td>H17o: There is no difference in brand equity among different educational level.</td>
<td>0.994</td>
<td>Fail to reject Ho</td>
</tr>
</tbody>
</table>