Understanding the chinese consumer inferences

Business

Introduction Many factors influence consumer preferences in any market structure and this may be due to several factors. Some factors may have negative reactions from the consumers. One of such factors is the product-harm crisis. This term can be defined as well-known events related to product defects of some products or harm associated with them. A product may be found to be defective and harmful to the customers, which will make the consumer avoid purchasing it. With a business set up, however, there are ethical bases, which act as a watchdog or guidelines to help in the operation of the company.

They, for example, specify how consumers and producers should act, their core values, expectations, missions and visions. In doing so, they avoid misunderstandings between the traders and their consumers and amongst themselves. Such measures will make producers more careful on what they produce and how they handle their clients. Business ethics is an integral part of responsible business environment and it provides the ground for business decisions and conduct. In a case, where there are no ethical bases in a business set up, there will be hostility of consumers and low levels of purchasing. Consumers will avoid interaction with the producers and their product.

This research highlights the Chinese business, their consumer inferences concerning business ethics and their negative reactions towards the product-harm crisis. China is amongst the leading economies in the world. Its economic power ranges from producing household goods, textiles, machinery, food products and electronics. It has nearly 200 million consumers. The products ranging from automobiles, global energy and

materials to financial services travel and transport and infrastructure among others use various strategies and development, which have made it the world's second largest economy.

Product-harm crises have been witnessed in China nevertheless. For example, the production companyNestlefaced this phenomenon a few years ago, which led to its drop its leading position. The company producing powder milk faces product-harm, when certain unwanted components were accidentally added to its product. The producers had to issue a public apology and station health officers in shops to assure the consumers that everything was rectified.

However, a drastic drop in sales was realized. Product- Harm Crisis Product-harm is the event when a product associated with a given brand is found to be harmful or defective. Product-harm crises have adverse effects on crisis-brand equity. Heerde et al (232) asserts that if a brand is under crisis, it may lose its base line scales and, therefore, will become a bit more sensitive to the competitor's market activities. This crisis influences brands (Heerde et al 239) and market structure.

The company or firm producing certain products will realize a drastic drop in its sales or in worst-case scenario collapse. Other products manufactured by the same organization may also be of less demand from consumers. The consumers tend to believe that if one product is defective, then the rest of the products are not of high quality either. Moreover, product-harm crisis may affect company's stock price in the stock market exchange. Sales will be affected negatively, too (Heerde et al 240).

Sales will drop because there will be less demand for the product. Consumers will go for alternative brands. In China, when Nestle faced this crisis, consumers opted for alternatives to the Nestle products are chose competitor brands. This led to a decline in sales of Nestle products. It should be noted that when a product is faced with product-harm crisis, other brands take the customer's loyalty, especially if the product is new and is being introduced to the market. Consumers will shift their loyalty from the defective product to the new product.

Loyalty to the new product will, however, remain low. When a bigger firm is faced with this undesirable crisis, the harm is less than for a small firm. In the business world it is always better to be a bigger brand and it is always bad to be a small brand (Heerde et al 236). According to the author, smaller brands are more damaged than bigger brands after a product-harm crisis. In China, this has been witnessed in the event of Nestle against its competitors. To further explain the effects of product-harm crisis, a model can be used called the NBD-Dirichlet model.

Case Study of China Following a series of product-harm crises, related studies have since commenced to carry out further research on the same issue. The effects of product-harm crises have been great and negatively influenced brand equity. The crisis also affects the brand stock prices and the general Chinese market. Nestle company is one of the leading brands of milk in China. Product-harm crisis of Nestle milk powder began on May 25th, 2005 according to ABC news. The company made milk powder that contained more iodine than what China national standards allowed for circulation in the market.

This news spread around the country, forcing the company to apologize publicly about the production of defective products. Nevertheless, many consumers stopped using the product. The Nestle Company had to remove defective milk powder from the shops and give the required samples. Doctors were then stationed in shops and supermarkets in Beijing so as to assure the consumers and address the customers' concerns (Chieh-Peng Lin 461). This totally interfered with the brand's performance and almost destroyed the company. Influences of Product-Harm Crisis A product-harm crisis influences brands an the market structure.

To explain this, the NBD-Dirichlet model will be provided to highlight on numerous issues later in the research. Product-harm crises can be classified into three categories. The first one has descriptive checklists, which suggests the strategies work or do not work in terms of business practices. It provides limited guidance to how the product-harm works. The second one focuses on research on laboratory experiments, which has theories and research.

It aids in understanding the part, in which moderators play a role. The last one is the NBD-Dirichlet model, which qualifies the effects caused by product-harm crisis. These effects include market share penetration, market structure and purchase frequency. NBD-Dirichlet model is based on a stationary market assumption. According to Siomokos Kurzbad (36), the model can be used to audit performance of the established brands.

NBD-Dirichet Model The model was developed by Chartfield and Goodhardt in 1975, and was later on improved by Ehrenberg in 1988. The NBD-Dirichet is a model, which shows statistics that are based on two well-established and

defined assumptions. The first one states that customers have a steady habit of personal purchase and the second one claims that brands are characterized with purchase probabilities and their market shares. In many business firms, this model has been embraced and relied on to describe observable brand performance patterns and used to explain these performances patterns. It was even employed to predict the performance patterns.

When a product is faced with product-harm crisis, the brand is stressed a lot and the market share and penetration drops. After or during post-crisis period, the brand recovers but it will still be lower than pre-crisis levels. This is predictable when producers use NBD-Dirichlet's model. Those brands that do not face crisis end up benefiting greater with higher penetration. Crisis is therefore said to influence the purchase frequency.

Estimation Using NBD-Dirichlet MethodologyThe market will no longer be stagnant because of the product-harm crisis and this leads to some discrepancies or differences between the theoretical or predicted and real values that have been observed. This difference will be used to show that the stagnant market was disturbed. The performance of the brand, and the purchase frequency decrease when a product faces this crisis. Loyalty of the customers to the product goes down. When Nestle Company faced product-harm crisis, there were more than 70 other milk powder brands in the market.

The market before May 2005 is assumed to have been stable or stationary. Twelve months before the crisis a year between April 2004 and April 2005.

This can fit in NBD-Dirichlet model, which can be used to predict the normal brand performance and market structure. From October 2005 to December 2005 the post-crisis took place. Each period, that is, pre-crisis, crisis and post-crisis were estimated using the fitted NBD-Dirichlet model with estimated values compared to observed values.

This helps to detect any deviations because of the product-harm crisis. Competitors during Product-Harm Crisis When faced with product-harm crisis, business organizations ought to identify potential allies and competitors among their stakeholders, which may include competitors, the media, consumers and regulatory agencies. Competitors become more aggressive and active during product-harm crisis and, therefore, interfere with the situation of the defective product. They weaken the product facing the crisis by financing their advertisements and lowering the prices of their items in a bid to lure more and more customers. This is a strategy to benefit from the chance to take up greater market shares. They destroy public image and reputation of the product involved in this crisis, making the consumers lack confidence in their products.

Negative information about the product undergoing product-harm crisis spread around to consumers and the affected company as a whole. In some cases, this becomes such a major issue and impact on the viability of a company. Some businesses close down or are declared bankrupt due to their unsuccessful operations, which achieved limited number of customers. Media sources such as national televisions, radios and the Internet can be used to defame companies, which have been discovered to have defective products. This consists of a very fast means of sending information.

Competitors take advantage of the vacuum created during product-harm crisis and advertise all over the media houses in order to get attention of the customers. Some even ridicule and publicize the company facing this crisis. Siomkos and Kurzbard claim that negative information spreads (41) and it not only affects the brand under turmoil but also influences other brands of the same company (39). However, the manner, in which a company will handle this crisis, will determine its future success. Siomkos and Kurzbard (34) argue that a crisis is measured by a company's reputation during the crisis.

Conjoint analysis can also be done during the pre-crisis and post-crisis period. Conjoint analysis is a technique that is used to approximate how respondents develop preferences for products, services or ideas and measure the trade-offs that consumers make when making a decision. Consumers, who shift from the well-established product in the market structure to other products, may after all not be habitual consumers to the alternative products. They change from one product to another without remaining loyal to one product. Interestingly, during post-crisis time of recovering, the initial consumers might still start using the very product though otheers remain reluctant. A firm undergoing product-harm crisis may experience an increased sensitivity to rival firms' marketing activities, too.

Product-harm crisis affected Nestle's brand performance negatively and at the same time created opportunities for other brands producing milk. It is therefore generally or universally accepted that product-harm crisis have a negative influence on crisis-brand equity. General Attitude of Consumers Herdee et al. (241) states that attitude of an individual towards a certain

brand is the individual's general assessment of a notion pertaining to that brand. The attitude of consumers regarding the brands are usually reflected by their capability or personal likelihood to appraise brands in a consistently positive or negative manner. Conversely, researchers argued that as much as action and perception are related, and one may influence the other, it is not essential for them to be completely unchangeable.

The common sense introduces the idea that if the consumer prefers a certain brand, for instance, he would be highly likely to buy that product. This is not any different to the Chinese markets. Therefore, a positive change in consumers' perceptions of a fastidious brand is likely to lead into the growth in sales. That is why testing the attitude of the consumers provides the important contribution to the marketing research in this study. Marketers must thus realize that the attitudes of the clienteles are functionally useful in attracting consumers to brands that they feel are valuable in satisfying their needs, aspirations and wants.

The most important predecessor of brand attitude is usually influenced by advertisements that attract the buyers to purchase a certain commodity (Heerde 239). While Siomkos, and Kurzbard (39) further expounded on the influence of attitudes towards an advertisement, the attitudes towards brands have been proven to influence the purchasing less, since markers need to have ads that are based on emotions. However, a few cases prove that the consumer has a favorable perception of a brand as a result of advertisement that he/she enjoyed. This is because after looking at the ad, one finds himself or herself compelled towards purchasing a certain

commodity. Without proper advertisements, favorable attitudes towards a certain brand may diminish.

Additionally, in cases where the purchase action is right on time without delay, there is the probability of variables like the price to rule out the reliability between mindset and behavior. The other behavioral factor that affects the emotions and perceptions of brands and regulates the buying decision is motivation. In that regard, Siomkos and Kurzbad (36) state that people generally do not realize the real psychological forces that can explain the way they behave. The authors further advocate that a person has limited understanding of what exactly triggers their decision of purchasing a certain product. Further, they claim that as we grow up, many urges are repressed and such urges do not really eliminate the inside motivational forces held by each individual.

An example is the case of brands of different bottled drinking water, which are always in theme hotels, and each and everyone is compelled to buying a certain product because of taste, thirst quenching ability, reliability among other reasons. The implication here would be for a young adult, who purchases any given product with the underlying motive of the consumer, or purchase a beverage because of a certain reason. The brand thus can be used as a perception of the consumer of the image or self-presentation, since it is a function of social interaction as suggested by Siomkos and Kurzbad (38). Thereby consumption of any given product is looked at as an act of self-presentation. The consumer is compelled to link himself with a desired image or his/her lifestyle. Conclusion It should be noted that when a product is rendered defective, it therefore faces product-harm crisis, the

producers have an uphill task of bringing it back to its standard during post product-harm crisis.

Whenever this crisis occurs there will be negative reactions and huge losses incurred. It is however not very conclusive, since this research was conducted on China's reaction towards product-harm crisis. Other nations might have opposite reactions. This research has catered for only a position of China but not other countries. It however gives a general overview of an assumption, which is realistic and may appeal to many other nations. Notably, if this crisis occurs, sales will dramatically drop, stock exchange price becomes unstable to the advantage of competitors, who use this chance to publicize their products.

The prices of competitive products will be lower, which makes them appealing to the customers. This also affects brand's performance and market structure. This affects the product faced with product-harm crisis due to the negative brand publicity and a negative attitude towards it. In addition, this research provided an assessment on the attitudes of Chinese consumers in a global world and their cultural preference and distinction. In so doing it has also tried to present the branding effects on different classes of consumer purchasing activities within the Chinese market. It is vital to use numerous examples that are related to some products in order to try examining the diverse attitudes of consumer buying behavior groups in analyzing brand effects in the Chinese market.

A contingent of individuals and researchers scrutinize the concern of the firms in the marketplace and the nature of consumption. In that regard, it

was vital that in this research to utilize a number of examples to help

understand both the perception and the general behaviors of the consumers.