

# Country of origin effect in marketing



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How important is country of origin effect in marketing? Many findings of most country of origin researches are that, no matter it is directly or indirectly, country of origin effect is a very critical factor in international marketer planning process as well as the consumer evaluation process. Although there is a long tradition of country of origin research, however, attention has been given to other industrial product such as electronic devices or automobile, relatively little work has been done to determine the country of origin effect on medicated liquor.

Medicated liquor was perceived to be one of the major products in the field of health care industry and alcohol beverage industry. The trend of globalization helps marketers to sell medicated liquor from different countries to every corner of the world including Malaysia. Malaysia is one of the highest alcohol consumption markets in South East Asia. Medicated liquor was well accepted by Malaysian Chinese as a major supplement for keeping good health and longevity for long time. However, no research or statistics are related to medicated liquor so far. Researchers put their efforts on beer and wine market due to high market share occupation. For various reasons, the medicated liquor market in Malaysia has not been considered by the country of origin field's researchers. No one knows what the actual picture of Malaysia medicated liquor market is. The influence of country of origin effect on the marketing of “ medicated product” in Malaysia is remained unknown. With the respect to the influence of country of origin effect, it will be determined whether country of origin serves as important cue in medicated liquors' quality evaluation is very importance or less importance consideration in Malaysian consumer buying decision process.

The major purpose of this research was to examine how Malaysian medicated liquor consumers perceive medicated liquor imported from developed and developing countries.

This is a working based research. The intention of this research is to examine consumers' perception of product quality towards medicated liquors imported from different sources. For marketing theory, this research will highlight the value of contingency approach to understand the role of country of origin effect for consumers when they evaluate medicated liquor. For marketing practice, this study will highlight the important of country of origin image as a tool for driving consumers' product evaluation, quality perceptions of products and behavioural intentions to purchase. An understanding of whether the country of origin effects toward the perception of Malaysian consumers about quality of medicated liquor would allow international marketers and local marketers suitably to realize the Malaysian consumers' behaviour while to enhance their product offering and design their marketing and product strategies.

## 1. 2 Chapter Overview

This chapter first presents the trend of globalization and the country of origin research. After a general overview of the main evolution of country of origin effect, the picture of medicated liquor market situation in Malaysia will be illustrated. This part will be done in the initial instance by offering an empirical evidence indicating that the phenomenon of country of origin effect exist and developed during the past decades. The image a consumer has about a country and it product offering influence buying intention. Thus,

country of origin it should be seen as a factor of substantial importance when international corporation marketer want to sell their product globally and studying how global consumers react toward imported product with different country of origin.

Secondly, it will be argued that although much of research has been done in the field of country of origin effects, limited direct of evidence and lack of literature has been found at the field of medicated liquor market. Thirdly, this part looked at the relationship between country of origin effect and product quality cues on purchase intention. Specifically, the issues of country of origin claims will be addressed and a research objectives, research scope, research product, research target and research procedures will be presented in order to provide a more detailed outline of the dissertation.

### 1. 3 Research Background

The trend of globalization enables companies from every country, no matter big or small, to sell their products and services to consumers all over the world. Indeed, globalization increased of consumer's awareness of product from different countries. Thus, the need for consumers to identify and understand the quality of product is becoming critical (Netemeyer et al., 1991; Kaynak et al., 2000; Shankarmahesh, 2006).

Although globalization are making the boundaries between countries become blurred, at the same time, no one can deny that country of origin phenomenon still one of the most important effects in the international business over the last four decades. Consumer could evaluate whether the

quality of product is good or not according to the “made in” label, which is referred as the country of origin (Nagashima, 1977; Bilkey and Nes, 1982).

Past research shown that country of origin can influence consumers' product evaluation and purchase decision in a positive or negative way (Bilkey and Nes, 1982; Liefeld et al., 1993; Peterson and Jolibert, 1995). If a specific product category has a positive country-of-origin image, for example, German car, French wine, consumer might prefer buy these kinds of product from these countries rather than from other brands from developing country, such as Malaysia car and China wine.

However, when consumer's perception of country-of-origin toward a country is negative, their purchasing intention will become weak. For example, the outbreak of China milk crisis in September 2008 has seriously affected consumer's worldwide perceived quality of China products (Shanghai AFP, 2008; Cheung, 2009).

Given products all over the world still have to label that which country is they came from, consumers still distinguish product by country of origin reputation and evaluate a product quality according to individual subjective perception of the country-of-origin before purchase decision. Thus, all of the reported studies indicated that country of origin information affects the perceived quality of products. It is assumed that propitious or unpropitious of a country image will lead to positive or negative evaluations of quality of product from that country correspondingly (Maheswaran, 2006). If consumers have a bias on particular country or product, it might affect international company's corporate strategy, business strategy and

operations strategy significantly, while their marketing plan may need to be reviewed.

For instance, a research stated that Australian consumers shown negative feeling toward France product during and after the French nuclear testing in the Pacific in 1995 (Heslop et al., 2008). In February of 2006 following the publication of the Jyllands-Posten Muhammad cartoons, relations between the Malaysia and Danmark were greatly strained. On 10 February 2006, thousands of Malaysia Muslims carrying banners march toward Danish Embassy, for the largest demonstrations yet in Asia protesting the publication of cartoons of Prophet Muhammad in a Danish newspaper in Kuala Lumpur. They also put the Denmark production under a boycott (CBS News, 2006; Foxnews, 2006; Epochtimes au, 2006).

Therefore, the issue of country of origin effect is increasingly important to international marketers as the country where the product comes from is still playing an important role in consumer choice. However, is country-of-origin important than product quality as a stepping stone for success in international marketing strategy? Some would argue yes, saying that when information and knowledge about a product is limited, country of origin will be taken as a major cue for product evaluation. However, some will argue no as without the right product in good quality, no one will buy again. For those international marketers who wish to compete effectively in the international business arena over the long term, they have to realize that product's country of origin may suppose a non-tariff barrier (Wang and Lamb, 1983).

For attaining the above aims, not only developing product that deliver value is essential, but also have to concern the effect of country-of-origin towards consumers worldwide (Cateora & Graham, 2002). Therefore, how to measure the customer's evaluation on products' country-of-origin is becoming very important factor as well as challenging task to international marketers on marketing strategy planning. Despite it is expected that consumers will use country of origin as a indicators or quality cue to be able to evaluate the quality of products when they are lacking in product knowledge, country-of-origin effects can change over time, due to various factors, both internal (e. g. economy development, government restructuring, industrialization of nation, significant contribution of science) and external (e. g. war, conflict, international events such as GRANDPAX F1, Olympics), some slowly and some rapidly.

In the past, a great number of researches regarding country-of-origin have demonstrated that country of origin concept affects the perceptions of business buyer and consumers as researches shown that consumer use it as a major extrinsic cue for product quality evaluation (Chao, 1993; Gaedke, 1973; Heslop, Liefeld, and Wall, 1987; Johansson et al., 1985; Nagashima, 1970, 1977; Wall et al., 1991); for example, Japan-electronic, German-engineering and optical instruments, France-perfume, Italy-leather. Some researchers have indicated that country of origin effects may considered as a part of the brand equity of certain product (Shocker at al., 1994). However, a recent study associated with country of origin and brand image has indicated that country of origin did not have any significant influence on brand equity and consumers' purchase intention (Kim, 2006). It is well known that

consumers often have “goodwill” or positive feeling as well as loyalty associated with a brand or a company, termed “equity” (Gurhan-Canli and Maheswaran, 1998). In other words, consumers buy products not only because of they are presentable and performing well or they are branded, but also considered the country of origin (Maheswaran, 2006). If the brands itself is strong enough, it may outshine the country-of-origin effects identified at the country level (Leonidou et al., 2007; Ahmed and d’Astous, 1993; Kim, 1996).

## 1. 4 Malaysia Medicated Industry Introduction

### 1. 4. 1 Definition of Medicated Liquor

Medicated Liquor is defined as a kind of transparent medicated liquid obtained by using wine or distilled liquor as a solvent to soak out the effective components of herbs (Song et al., 2001). Plants have always been a source of medicine and a major resource for human health care. However, some herbal medicines taste bitter and it is difficult to taste (Thomson 2007). By addition of alcohol can make many nasty, bitter and herbal medicines to improve the taste. Sometime, people also put crystal sugar or honey into the medicated liquor in order to make taste better.

Alcohol has over 5000 years of written history. Alcohol has played an essential role in almost all human civilization since Neolithic times (Morris, 1998). The medicinal function of alcohol itself is not overlooked in ancient times when medical science was still primitive. Food and beverage histories of the ancient world shown that alcohol was one of the principal medicines of



Ancient Egypt, Babylonia, Greece, Roman empire and ancient China (Burke, 1984; Cai, 1994).

Alcohol has many effects such as promoting the natural activities of the body, by promoting strong blood circulation, improving one's appetite and indigestion, strengthening the condition of body, regulating your physical and mental functions to maintain good health, etc (Yu and Bao, 2001). By adding the medical potency of herbs into alcohol, it can exert more beneficial efficacy than alcohol alone (Cai, 1994; Song et al, 2001). In traditional medicine culture of China a medicated liqueur also known as “wine agent”. It is believed that alcohol supports the efficacies of medicines and enable medicinal power penetrates throughout the human body immediately and efficacy (Cai, 1994; Song et al. 2001). Thus, medicated Liquor is considered as the principal of all medicines that can lead other medicines to the place of disease. (Xiao, 1995; Zhang et al., 1996; Shen and Wang, 1998; Hao and Young, 2000).

Medicated liquor and wine is inseparable from the origin. Evidence from “Stratagems of the Warring States”, a history book during BC 403 to BC 221, noted that China is the first country of artificial wine in oriental. Another ancient history book, Book of (Former) Han (BC 206 to AD 43), indicated that medicated liquor has been enjoyed since the Han Dynasty (Xiao, 1995; Shen and Wang, 1998). With some traditional medicated liquor formulations and ingredients having been in use for more than 2000 years, Malaysian Chinese like to use precious herbs to produce medical liquor. For centuries, the Chinese have infused herbs in alcohol to bring out their health benefits, as it is believed that alcohol can channel the effects of herbs throughout the body

so that the benefits are enhanced. Drinking habit of medicated liquor has been existence in Malaysia Chinese for hundred years since the British brought in Chinese to work the tin mines (Jernigan and Indran, 1999; Fang, 2008; Lim and Loh, 1984). Medicated liquor not only consider good for man and elders, but also offer benefits to Chinese women, especially those postpartum women. A group of medicated beverage, such as China Changyu Ling Zhi Chiew, Franch Benedictine D. O. M., Japan Yomeshu and England Wincarnis, are targeted specifically to female consumer as their core customer, also claimed themselves to contain the Chinese herbs traditionally taken by women in the sixty days following giving birth (Jernigan and Indran, 1999). The easy availability of medicated liquor in Traditional Chinese Medicine Hall, supermarkets, Hai-O chain store outlet and Hai-O e-shops together with aggressive advertising and promotions are guiding Malaysians to drink medicated liquors for health.

#### 1. 4. 2 Medicated Liquor Market Overview

Malaysia, though a small country, is one of the top ten alcohol consumption market in the world. Malaysians spend over USD \$ 500 million on alcohol annually. Regarding alcohol consumption per capita of Malaysian, a total of 7 liters alcohols were brought by consumer annually. Man drink far more than women (Asunta, 2001).

Malay are innate Muslim and Muslim is reputed not allow to drink, thus Chinese and Indian are the major consumers of alcohol beverage in Malaysia (Jernigan and Indran, 1999; Asunta, 2001). According to Euromonitor International, 149 million of alcohol beverages were consumed in Malaysia in

2008. Alcohol beverages consumed in Malaysia can be grouped into four categories, namely beer (88 percent), spirit and “samsu” (7 percent), wine (4 percent) and ready to drinks (1 percent) (Clark, 2009). Chinese consumers dominate the beer market and spirit as well as samsu, the high end of the market (Jernigan and Indran, 1999).

Samsu is a Malay word, which referred to locally distilled potent spirit with an alcohol content of between 37 per cent and 70 per cent. The market size of samsu is worth approximately USD \$ 43. 3 million (Clark, 2009). Medicated liquor, no matter locally brewed or imported, were included into this category by Royal Custom of Malaysia. In Malaysia most of the medicated liquor was imported. China, Japan, France and England were the four major sources of medicated liquor.

According to the statistic of Royal Custom Malaysia (Matrade, 2010a), Malaysia imported over 1 million litres of medicated liquor from these four countries in the last 12 month ended December 2008. Hai-O Group is the biggest medicated liquor importer and distributor in Malaysia with about 50 per cent of the import CIF value (5, 133, 440. 70 or 48. 96 percent) against industry for year 2008 (10, 486, 000. 00 or 100 percent) (Matrade, 2010b). There are over 200 brands of medicated liquor available in the market. However, general population surveys of medicated liquor in Malaysia as well as drinking habit of Malaysian consumer are unavailable.

## 1. 5 Research Motive

A number of empirical studies on the effects of country of origin toward consumers' purchase intension and decision making has been examined in <https://assignbuster.com/country-of-origin-effect-in-marketing/>

the business and marketing literature for many years (Hong and Wyer, 1989; Johnsson and Thorelli, 1985; Papadopoulos and Heslop, 2002; Dannie, 2004). The findings of country of origin effects are majority from the studies on electronic and automobile products.

However, the research literature in the area of alcohol beverage, especially medicated liquor is particularly rare. Medicated liquor is one of the most critical components of international alcohol beverage trading and it is one of the key products in Asian health care business.

In here, someone may wonder why studying the country of origin effect on medicated liquor product from different countries in Malaysia. It is true that, Malaysia, which has been considered as an emerging modern Muslim country, is one of the highest alcohol consumption countries in the region of South East Asia. Although beer and spirit have dominate the alcohol consumption of Malaysia market, however, medicated liquor has plays important role on Malaysian Chinese cluster's health concept due to better understanding on the benefit of herb serve with addition of alcohol.

Medicated liquor business in Malaysia is a very competitive market due to high profit margin. The Malaysia medicated market of medicated liquor is continues to growth annually.

According to Malaysian custom statistics, the industry is growing by 4 percent (Matrade, 2010b). There are four major brands of Medicated liquor in the market, which is Changyu LingZi Chiew (China), Bénédictine D. O. M. (France), Yomeishu (Japan) and Wincarnis (England). With the growing of

health conscious of people and the efficacy of advertisement and marketing activities, most of the medicated liquor has experiencing a stable growth.

As a force of the globalization of business and marketing activities, the growing importance of health and wellness as well as food safety has alerted consumer purchase intention to products of which the country of origin is come from (Howell, 2004). Especially those who import and distribute product from countries which are high risk in food safety while having negative nation image, such as China, will have to raise their concern towards the effect of country of origin. However, there are no empirical evidence to explain Malaysian consumers' perception of country of origin image towards medicated liquor and how such perception influenced their product evaluation, attitudes and product choices. When consumers are buying medicated liquor, does everyone know how important is it for them to know where this product was made? In this instance, no one could give the answer as no relevant research are conducted on the field of medicated liquor.

In this respect, there is a need to take a good look at consumer behaviour towards medicated liquor products. Given empirical researches for past four decades has demonstrated that country of origin effects are relevant for the marketing of product. Thus, it is very important for those medicated liquor importers, distributors, wholesalers and retailers in Malaysia to explore; to understand and to explain the factors that consumers are familiarity with a country's products, their perception toward product quality of multiple countries of origin and how country of origin effect influence their purchase behaviour.

## 1. 6 Research Questions

The research questions for the topic are formulated as follows:

Does the Malaysian consumer's stress the importance of the "country of origin" effects when purchasing medicated liquor for own consumption?

Do the Malaysian consumers stress the importance of the "country of origin" effects when purchasing medicated liquor for consumption for a gift?

Does the Malaysian consumers perceived quality to be closely related to the product's "country of origin"?

Is the state of economic development of a producer country related to quality?

Do Malaysian consumers prefer to use "country of origin" factor as first piece of information when evaluating quality of medicated liquor at the point of purchase?

Do the characteristics of Malaysian consumer – drinking habit and use experiences with the product – have relationship with product evaluation on medicated liquors of different countries?

## 1. 7 Research Objective

According to the reasons and motivations stated in the previous section, the researchers want to discuss whether the country of origin effect will affect consumer's perception toward the country and brand image, and its

influence on purchasing intentions. This research would like to achieve objectives as follows:

The objectives of this research are as follows:

To examine how country of origin evaluations are influenced on Malaysian consumers' medicated liquors consumption in differ situation of own consumption and gift giving.

To fully understand the relationship between country of origin effects and product evaluation.

To identify how state of economic development of a producer country influence consumers' products' quality evaluation.

To identify whether Malaysian consumers' prefer or not prefer to use country of origin as first piece of information for medicated liquors' quality evaluation.

To identify how the characteristics of the consumer influence a consumer decision with regards to the “ country of origin” effects.

To make recommendation to marketers and identify future research needs based on the findings.

## 1. 8 Research Scope

### 1. 8. 1 Research Product

In order to study the influence of country of origin effects, medicated liquor from five countries have been chosen for the experiment used. The reasons

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of selecting medicated liquor for testing whether the country of origin would influence consumers' evaluation, attitude and purchase intention of the products are as follows:

Medicated liquor is a product abundant in ethnic culture and traditional value as well as country image.

Most of the medicated liquors in Malaysia market are imported and it condition is tallied with the objective of this research, which is to examine the country-of-origin effect on consumers perception and evaluation on product from different countries.

Past research has provided strong empirical evidence of country-of-origin effects on automobile, electronic appliances, soft drink and wine (such as d'Astous and Ahmed, 1999; Josiassen, 2009; Thanasuta et al., 2003; Balestrini and Gamble, 2006), however, experiment of country of origin effects on medicated liquor do not exist. Thus this research is worth for experiment and its finding will be considered significant and representative.

Given there are over 150 types of medicated liquors in the market (The list of medicated liquor in Malaysia is presented in Appendix 1). It is impossible to experiment all products in one research due to limited resources and manpower as well as time constraint. Therefore, this study is only focus on 4 brands which are imported from China, Japan, France and Great Britain. These four brands are identified as Changyu Ling Zhi Chiew from China, Yomeishu from Japan, Bénédictine D. O. M. from France, and Wincarnis from Great Britain.



### 1. 8. 2 Research Target

The investigation is being carried out in peninsular Malaya (West Malaysia). Eligible respondents were individual aged between 18 to 55 years old. They must be a habitual medicated liquor drinker, residing in west Malaysia. Qualified respondents will be asked about their perception on these countries and likelihood to buy these six brands of medicated liquor from different sources. Given drinking is prohibited for Muslim, thus this research will targeted Chinese as investigation cluster due to their traditional medicated liquor consumption habits. The region (West Malaysia) was chosen due to its proximity and the high density of Chinese population, especially Klang Valley, which include Capital of Malaysia, Kuala Lumpur and Selangor state.

### 1. 8. 3 Research Procedure

This research is divided into seven chapters. Chapter 1 is introduction, stating the background, research motive; identifying research objectives; research scope and setting the tone for the research. Chapter 2 is literature review, discussing theories of country-of-origin effect and related bibliographies as well as the finding of past researches conducted by domestic and foreign scholars. Chapter 3 is the research setting, describe how is the research was conducted, these chapter will include establishing research framework, questionnaire design and data collection. Chapter 4 is data analysis and discussion, comparing the research premises with survey result. Chapter 5 contains conclusions, discussion, managerial implications, recommendation, limitation and future development, presenting concrete

solution based on research results. This research follows the procedure as shown in figure 01 on below: