The country-of-origin effect in a globalized world: a study in the fashion industry across Italy and Spain

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Introduction

In the last 30 years the globalization of the world’s economy has changed the way in which business is done. This new economic and social trend brought both advantages and challenges to the firms of the so-called developed world. In fact, on the one hand, the international expansion became a new (the only) way for western companies to grow their sales and business. On the other hand, the easiness of selling goods internationally allowed companies from developing countries to start offering their goods in the western markets. These goods are usually low priced thanks to the low production costs that these firms face in their home countries. Therefore, western companies could see their revenues eroded.

In such a globalized world, Country-of-Origin (COO) represents one of the fewest competitive advantages that western companies can exploit in order to defend their business and make it grow. The main objective of this work is to study the COO effect on consumers’ perceptions and buying decisions, both in terms of Willingness-to-Buy (WTB) and Willingness-to-Pay (WTP). In order to accomplish this objective a cross-national empirical research across Italy and Spain is developed. The first part of the study tries to understand whether consumers still perceive different countries to have different images. Both Italian and Spanish respondents perceive Italy to have a better image than Spain. However, this image is not transferred to consumers’ perceptions; COO does not influence them. Similarly, Country-of-Origin does not affect respondents’ buying decisions, neither in terms of WTB nor in
terms of WTP. Thus, there is no evidence of the presence of a COO effect, which is found to be mitigated by brand knowledge: the higher the brand knowledge the lower the effects of Country-of-Origin on consumers (the so-called Country-of-Origin Effect).

Literature Review
Schooler published the first study on COO in 1965. In the following years there was an increase of studies about the effects of COO on consumers, with a focus not only on consumers goods but also on industrial goods (Reierson, 1967; Nagashima, 1970; Wang and Lamb, 1980; Cattin, Jolibert and Lohnes, 1982).

However, the first critics about the COO effect began to arise. In fact, all the studies that had been conducted until then were single cue researches. Therefore, according to some authors, this methodology yielded significant COO effect that might have not represented what happens in the real world (Bilkey and Nes, 1982), since it was overestimating the effects of COO on consumers’ goods evaluations and perceptions (Peterson and Jolibert, 1985; Verlegh and Steenkamp, 1999; Pharr, 2005).

Following these critics, there was an increase in studies taking into account COO along with other aspects such as brand knowledge or level of consumers involvement (Johansson and Thorelli, 1985; Johansson and Nebenzahl, 1986; Han and Terpstra, 1988a; Pecotich and Ward, 2007; D’Astous and Ahmed, 1999). However, during the years, the academic world has not been able to either confirm or reject the thesis that COO effect becomes less important when taken into account along with other elements. Another focus of COO literature has been the influence of Country-of-Origin on the different steps of the consumers’ decision-making process. Some studies proved that Country-of-Origin influences consumers’ perceptions but not consumer buying decisions (D’Astous and Ahmed, 1999; Ahmed, Johnson, Ling, Fang, and Hui, 2002; Liefeld, 2004). On the contrary, other researchers found proof that COO influences consumers’ purchasing
decisions (Knight and Calantone 2000; Koschate-Fischer, Diamantopoulos, and Oldenkotte, 2012): “the linkage between COI [i.e. Country-of-Origin image] and purchase intentions appears likely to hold throughout the world” (Knight and Calantone 2000).

In the last years the relevance of COO has been studied also taking into account the globalization phenomenon. According to Usunier (2006) the relevance of COO for consumers might have decreased due to external changes caused by the increasing globalization. In fact, this may be due to the fact that more and more companies, in order to leverage the advantages of lower production costs in developing countries, while avoiding the negative effects that this can have on their image, tend to de-emphasize the origin of goods (Usunier, 2006). This may have made consumers less and less aware about the origin of the products they are purchasing (Usunier, 2006; Samiee et al., 2005; Balabanis and Diamantopoulos, 2008). On the contrary, some authors found proof that Country-of-Origin is still influencing consumers’ products evaluation and buying intentions (Josiassen and Harzing, 2008, Sharma, 2011).

Research Questions

It has been shown how Country-of-Origin has always attracted a lot of research and how a common agreement on it is far from being reached. Some authors state that COO works only when it is considered alone while loses power when other elements are present. Moreover, researchers do not agree on the presence of a linkage between COO and consumers’ perceptions and on the linkage between Country-of-Origin and consumers buying decisions. Lastly, globalization may have further changed the importance that COO has for consumers.

This work aims at understanding whether, in a globalized world, COO still matters in consumers’ minds and whether it is still an effective way to differentiate from competition.
In order to analyze these topics the following research questions have been developed.

1. Do consumers still attach importance/perceive differences between countries?
   Before studying COO effects on consumers it is important to understand whether, in such a globalized world, consumers still perceive a difference between different countries.

2. Is Country-of-Origin still important for consumers?
   a. Does the Country-of-Origin have an impact on consumers’ perceptions?
   b. Does Country-of-Origin have an impact on consumers’ buying decisions in terms of Willingness-to-Buy?
   c. Does Country-of-Origin have an impact on consumers’ buying decisions in terms of Willingness-to-Pay?

Methodology: Research Design

In order to analyze the Country-of-Origin effect and to answer to the research questions a study across Italy and Spain has been developed. The sector chosen in which to develop the study was the fashion industry, for two main reasons. First of all, the fashion industry is a global industry. Therefore all the respondents have a similar knowledge of it (Magnusson, Westjohn, and Zdravkovic, 2011), regardless their nationality. Secondly, in this industry the Country-of-Origin is a very important aspect. Thus, on the one hand, consumers are used to search for Country-of-Origin indication on goods and therefore it would be easier to stimulate them. On the other hand, it will be possible to draw relevant managerial implications from data analysis.

After having selected the industry, the brand on which to focus the research and that would have served as stimulus had to be chosen. The brand chosen
was Oysho, an underwear clothing company part of the Inditex Group. Two main reasons drove this decision. Firstly, Oysho is a brand that may be better known by Spanish respondents rather than by Italian ones since it is part of a very famous group in Spain. This will allow checking the influence of brand knowledge in the research. Secondly, Oysho was chosen due to its price level. In fact, the brand offers products that are accessible to all the people. Therefore, all the respondents, regardless their monetary resources, could imagine themselves in buying an Oysho product. This would avoid any bias in expressing their perceptions and buying decisions.

The targets of the study were young women from 19 to 30 years old. The survey was conducted only on women since they are Oysho’s main consumers. The specific age range was chosen for two main reasons. Firstly, this age range represents a fully globalized generation. Secondly, young people represent the Oysho target.

**Methodology: Data Collection**

Before starting collecting data for the analysis, 15 pre-tests questionnaire have been conducted with the primary objective to check the clarity of the questions. More specifically, 10 Italian women and 5 Spanish women composed the sample. Moreover, the pre-tests confirmed the validity of the hypothesis that Oysho is better known by Spanish respondents rather than by Italian ones.

Data were collected through a quantitative questionnaire online (CAWI method) managed and developed through the website qualtrics.com. The types of questions used included: multiple choice, text entry and 10-point scale. Instead of using the well-known and established 7-point Likert scale, an even scale has been used. In fact, in an even scale there is not a middle

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value that allows the consumer to say: “for me is indifferent”. Therefore, consumers are forced to take a clear decision and the probability to identify relevant findings increases.

The first section of the questionnaire was focused on consumers’ general habits related to Country-of-Origin and purchasing of clothes. In the second section, the focus shifted towards the analysis of consumers’ perceptions of brand Oysho and their knowledge of it. After the study of consumers’ perceptions, their WTB and WTP related to an Oysho product were analyzed.

In the third and in the fourth section, consumers’ country perceptions and COO effect on consumers were investigated. In the third (fourth) section consumers were firstly exposed to an Italian (Spanish) flag and then to questions measuring their perceptions of the country. Consequently, consumers were exposed to the same questions as for the brand Oysho analysis (i.e. questions measuring perceptions, WTB and WTP), but with the “Made in Italy” (“Made in Spain”) indication.

In order to measure Countries’ perceptions two different methods were employed. On the one hand, a 10-point scale question was developed based on the work of Roth and Romeo (1992), whom, by homogenizing the previous literature, developed 4 factors (Innovativeness, Design, Prestige and Workmanship) from which a the image of a country in relation to its products can be extracted. On the other hand, respondents were asked to evaluate the clothes produced in each of the two countries investigated (i.e. Italy and Spain). In developing this question it was chosen to think of the country as a brand that affects clothes. Therefore, the perceptions related to the clothes produced in a specific country were investigated according to five out of the six Keller’s Customer Based Brand Equity (CBBE) building blocks (Keller, 1993).

In order to measure perceptions of Oysho consumers were shown the Oysho logo and afterwards they were asked two different questions. On the one hand they had to answer to the straightforward question: “How much do you
like the Brand Oysho from 1 to 10?”. On the other hand, they have to rate from 1 to 10 different elements developed on the basis of the Keller’s CBBE building blocks (Keller, 1993). In the second section the Oysho logo did not have any “made in” indication while in the third and in the fourth ones the Oysho logo appeared with two different made in indications, as indicated in the Figure 1.

Figure 1: Oysho’s logos with Made in indication

OYSHO OYSHO
made in italy made in spain

Source: Author’s elaboration

In order to analyze consumers’ WTB, respondents were asked to state from 1 to 10 their willingness to buy an Oysho product. This question was presented three times, after each of the three different logos utilized in studying perceptions. In order to analyze WTP consumers were shown an underwear product with the three different logos under it. An example of the underwear product used can be seen in Figure 2. They were then asked to write down the amount in Euros that they would have been willing to pay for that specific product.

Figure 2: stimulus used to study consumers’ WTP

Source: Author’s elaboration
Lastly, in the fifth section of the questionnaire consumers’ psychographics has been analyzed.
Data were collected from June 2012 to September 2012 both in the case of Spanish and Italian questionnaires. In Italy (Spain) 174 (67) questionnaires were collected and among these 7 (3) were discarded since they did not have any answer filled in. Therefore 167 (64) cases were kept for the analysis.

Results
The results suggest that Country-of-Origin may have still the potential to influence consumers (research question number 1). All the respondents agreed that Italy has a better image than Spain along three out of four of the Roth and Romeo (1992) dimensions (please refer to Figure 3 and Figure 4). Similarly, the second approach showed how both Spanish and Italian women perceived Italian clothes as being better along the dimensions of the Keller’s CBBE (Keller, 1993).

Figure 3: Italian Respondents’ Country’s Perceptions

Figure 4: Spanish Respondents’ Country’s Perceptions
Therefore, it has been found how Italian and Spanish consumers may perceive a difference in the image of Italy and Spain related to their products. The answer to the research questions 2a, focused on studying COO effects on consumers’ perceptions, showed that Country-of-Origin information seems not to influence consumers’ perceptions. In fact, as Figure 5 shows, regardless the fact that Italian and Spanish respondents agreed on the better image of Italy, Italian respondents showed a preference for “Made in Italy” products (a value equal to 5.64) when compared to “Made in Spain” ones (a value equal to 5.33) while Spanish consumers answered in the exact opposite way (values equal to 6.14 and 6.52 respectively). The method based on Keller’s CBBE building blocks showed the same trend (Keller, 1993).

![Figure 5: Consumers’ General Perceptions](chart.png)
Talking about WTB and WTP, consumers showed how COO did not influence them in developing their buying intentions. In fact, as Figure 6 shows, Italian consumers showed a higher WTB for the “Made in Italy” Oysho (a value equal to 6.23) than for the “Made in Spain” one (a value equal to 5.61). On the contrary, Spanish consumers preferred “Made in Spain” Oysho (values equal to 6.50 and 7.05 respectively).

Source: Author’s elaboration
Similar results were found when analyzing consumers’ WTP, as Figure 7 shows (please refer to the following page). In fact, regardless their common preference for Italy, respondents showed different buying decisions. On the one hand, Italian women were willing to spend more for a “Made in Italy” product rather than for a “Made in Spain” one (24.27 Euros and 22.10 respectively). On the other hand, Spanish women showed exactly the opposite intentions: they were willing to spend 47.79 Euros for the “Made in Italy” product and 48.75 Euros for the “Made in Spain” one.

Figure 7: Consumers’ Willingness-to-Pay

Therefore, Country-of-Origin information did not influence consumers’ buying decisions.

The findings related to COO effect on consumers’ perceptions and buying decisions proved that the differences in countries images may not affect consumers: Country-of-Origin seems not affect consumers. This confirms the thesis of those authors who criticized the presence of a Country-of-Origin effect and which stated that it was nothing more than the consequence of the implementation of single-cue studies (Bilkey and Nes, 1982; Leclerc et al., 1994; Liefeld et al., 1996; Samiee et al., 2005). Given that this research was single-cue - and therefore, in theory, this should have
made it easier the emergence of a COO effect – the fact of not having found proof of a Country-of-Origin effect gains even more importance and strength. The finding that COO may not affect both consumers’ perceptions and consumers’ buying decisions does not confirm another line of thought, that one that states that COO effect may hold in product evaluation while it does not affect buying decisions (Ulgado and Lee, 1998; D’Astous and Ahmed, 1999; Ahmed et al., 2002; Liefeld, 2004). After having found the results that did not confirm the existence of a COO effect, the investigation shifted towards investigating whether there was an explanation of this absence, even though this was not part of the research questions developed. The only variable that changed between Italian and Spanish consumers was the level of knowledge of the Oysho brand. In fact, Spanish women showed a very high knowledge of the Oysho brand in comparison to Italian women. Therefore, this aspect was analyzed to study whether it was influencing COO effects on consumers’ perceptions and buying decisions. The results of the analysis confirmed what other authors had already theorized (Pecotich and Ward, 2007; Han and Terpstra, 1988a; Hong and Wyer, 1989): the more a brand is known the less strong the COO effect is. Therefore this may be an explanation why the better image of Italy in consumers’ eyes did not translate itself into a preference for “Made in Italy” products, especially in the case of Spanish respondents.

Managerial Implications

During the analysis it has been found that Country-of-Origin may not affect consumers anymore, neither in terms of perceptions nor in terms of buying decisions, especially in the case of low involvement products. Therefore, a first important implication is that COO may not be the adequate asset to be used in order to contrast the emergence of products coming from foreign countries. In fact, these products are usually low involvement and low priced goods, which pose low risk on the consumer when buying them. Therefore,
in order to contrast the import of these goods to western countries
companies should focus on other strategies - as for example on building
powerful and meaningful brands for consumers - rather than on Country-of-
Origin.
Furthermore, this work allows drawing management guidelines related not
only to the process of preventing the loss of market share in western
countries but also, and especially, guidelines related to the export of goods
to the developing countries. This is a relevant area of action for the twenty
first century companies since to sell in these markets represents a (the only)
way to grow, especially in time of crisis where GNP of western consumers is
continuously decreasing. This research suggests that western companies
should not leverage on Country-of-Origin in order to attract consumers in
the emerging countries since they seem to be focused more on other
aspects.
The relevance of brand over COO that has been found in this work suggests
another important implication for managers: the thread represented by the
market of copycats may become more relevant due to the consumers’ focus
on brand rather than on Country-of-Origin, as consumers may be more
willing to buy a fake brand rather than a fake Country-of-Origin. In fact,
while the former is completely an intangible element, which consumers just
want to show off, the latter entails some specific elements (e.g. a detailed
method of production, a specific geographic area) that cannot be copied.
This conclusion holds both in the case of competition in the developed
countries and in the case of competition in the developing countries, where
the problem can be even greater since in these countries there are less strict
regulations protecting copyrights.
To conclude, the present work gives some indication related to companies’
outsourcing strategy. In the last years, for low involvement and low priced
products, the competition has become more and more focused on price and
this is (also) due to the increasing presence of products produced in
countries with very low manufacturing costs. The fact that consumers do not
assign high importance to the Country-of-Origin of products, would allow companies to de-locate their production without facing the loss of reputation in consumers’ eyes that may have come from being associated with those developing countries.