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Guangzhou Buyers Preference for Premium Hawaiian Grown Product Gift Baskets

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Abstract

Guangzhou buyers' preference for premium Hawaiian grown product gift baskets with conjoint analysis was examined. Relative importance of three gift basket attributes: container type, products origin, and price were examined. Expenditure equivalent index to evaluate how much more each of the gift basket attributes is worth to the buyer was estimated. Main conclusions are: products have to be 'made in Hawaii' to receive the premium price; business buyers are generally less willing to pay a high price; and individual buyers are more willing to pay the higher priced Koa gift basket.

Keywords: Chinese survey data, conjoint analysis, buyer preference, Hawaii gift baskets

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Introduction

Government and business decision makers have been striving for the past twenty years to diversify Hawaii's economy and lessen its reliance on tourism. Moreover, the decline of plantation agriculture in Hawaii gave rise to available arable land for raising unique tropical and sub-tropical agricultural products. For example, in the next decade in Hawaii, about 75,000 acres of agricultural lands are expected to be available due to the shrinking of the sugar and pineapple industries (HRS0163D 2004). It is considered that if the fallow acres are used to grow products unique to Hawaii and export to high-end niche markets, the potential returns to farmers and processors can be significant.

Small-scale entrepreneurs in Hawaii have been investing in value-added agricultural products that are competitive in the global market. However, they face many challenges such as high input labor, materials, transportation costs, and consistent supply. Therefore, many Hawaiian entrepreneurs focused on the production of high-value, low-volume agricultural products which, cater for high-income consumers, particularly those who value the Hawaiian image. Nevertheless, small companies need assistance to explore new markets and develop new distribution channels for their diverse and small-volume products in the competitive global markets. With a USDA/FAS grant of \$75,856 for marketing Hawaiian agricultural products in China, the Hawaiian Agricultural Research Center (HARC) led the effort with collaborations from the University of Hawaii, the Hawaii State Department of Agriculture, the Farm Bureau and an independent marketing consultant to strategize how, where and what are feasible Hawaiian agricultural products to export.

Exporting to China

The Chinese market is a prime candidate for importing high-value agricultural products from Hawaii. The reasons are numerous: China, with an average annual GDP growth rate of over 8%, led the economic growth across the Asia-Pacific region in recent years. China's economic boom nurtures a new middle to upper class of consumers; about 211,000 in 2002 and 236,000 in 2003 of the country's 1.3 billion people are millionaires in US dollar terms, according to the World Wealth Report (Merrill Lynch and Capgemini 2004). Their per capita disposable income growth is also remarkable. For example, Guangzhou, a city in Southern China, is one of the Chinese cities with the high annual per capita disposable income. Figure 1 shows that Guangzhou's rural and particularly urban per-capita disposable income growth has been phenomenal in the past two decades.

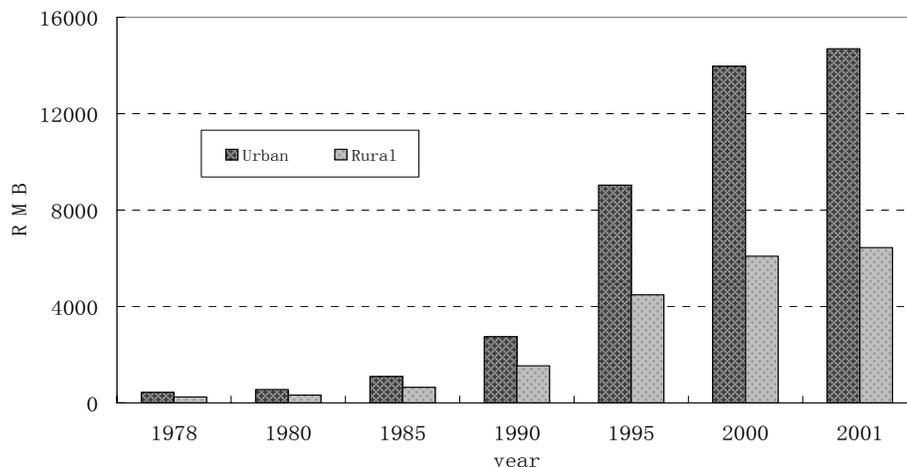


Figure 1: Rural and Urban Per capita Disposable Income in Guangzhou
 Data source: 2002 Guangzhou Statistical Yearbook

Moreover, there have been more contacts between China and the United States. Chinese are traveling more and getting more exposed to the American and Hawaiian cultures. In 2002, there were 40,000 tourists from China visiting Hawaii compared to 11,000 in 1992 (University of Hawaii 2003). Hawaii, which locates closer to Asia than mainland America and being historically influenced by the Asian culture, attracts Chinese visitors. Furthermore, the recent membership of China in the World Trade Organization (WTO) requires China to open its market for foreign trade. The mandated transparencies in public policies and trade rules facilitate increasing international trade between China and Hawaii.

Historically, practicing conspicuous consumption to impress friends and colleagues has been a Chinese tradition (Davis 2000). It is becoming more plausible with a rapid growth of per capita disposable income in China. Particular premium brands of food items, designer clothing and expensive banquets are often used by Chinese status seekers to impress their friends and colleagues to anchor social standing in high society. The trend has re-emerged particularly in the past decade thus creating a new-rich class of consumers in China. In addition, the traditional discreet consumption behavior that conveys political influence and cultural status has resurfaced. By the early and mid-1990s, the readily accessible foreign and high-quality goods at premium prices shifted the accent of the discreet consumption symbolism from purchasing expensive domestic goods to more expensive western made goods (Deloitte Consulting 2003). To take advantage of the economic growth and demand for niche products in China, HARC formed a Marketing Committee to devise a plan to market Hawaiian agricultural products to China.

In 2003, the Marketing Committee conducted a survey to test whether there is a high-end niche market in China for Hawaiian grown specialty food products packaged in a high-value container. Below are findings from the survey.

Market Survey

The Marketing Committee conducted a survey in a food exhibition in China to study buyers preference for attributes of premium Hawaiian grown product gift baskets, for instance, whether Chinese consumers would pay a higher price for products and the container, which are made in Hawaii. The Committee set up a booth, put together a few sample Hawaiian gift baskets, and conducted interviews with attendants of the 3rd International Food, Drink, Supermarket, Hotel, Restaurant and Food Service Exhibition held in June 23-25, 2004 in Guangzhou. This is an annual event where wholesalers and retailers of high-end food products attend. The choice of site was decided after consultations with various exporting entities in Hawaii including the Department of Business, Economic Development and Tourism (DBEDT), and the United States Agricultural Trade Office in Hong Kong and Guangzhou, China.

The Marketing Committee collected sample products from Hawaiian specialty food producers suggested by the Hawaii Department of Agriculture. Among the group of producers, the Marketing Committee identified those who were interested in exporting their products to China and were willing to supply the project with product samples. The Committee then selected three different gift containers and a variety of food samples from those supplied by the group of producers emphasizing the products are grown in Hawaii and the suppliers are small entrepreneurs.

For the survey, the Committee chose three sample containers, of which two were made of material from Hawaii, Koa and Protea. Koa is only grown in Hawaii and is a very costly material. Protea is grown in Hawaii and elsewhere and is world famous for its many colorful varieties. The third container was a bamboo basket, which in most cases is made outside of Hawaii. The mix of sample food products included chocolate coated macadamia nuts, coffee, tea, raw sugar, honey, macadamia oils, vanilla extracts and beans, chocolate coated coffee beans, macadamia rum cake, and tropical fruit jams.

Data Collection

In the 3rd International Food, Drink, Supermarket, Hotel, Restaurant and Food Service Exhibition in Guangzhou, the Marketing Committee trained a group of student researchers to conduct face-to-face interviews with attendants to collect data on buyer preference. The student researchers were chosen from the South China Agricultural University, Guangzhou, China.

Student researchers selected exhibition attendants to respond to the questionnaire by random sampling. The researchers first described to the attendants the purpose of the research, the voluntary participation and confidentiality nature of individual results. If the attendants agreed to respond, they were exposed to photographs and

description of 12 different sample gift baskets as shown in Figure 2. After the respondents were familiar with the gift baskets, they were asked a list of questions on the respondents' background and preference on gift baskets.



Figure 2: Sample of Gift Baskets Shown to Respondents

The survey questions on buyer preference followed an established data gathering method for conjoint analysis. Respondents were asked to rate their preference on gift basket profiles based on different container and other product attributes and their levels. (Green and Srinivasan 1978, Green and Wind 1975, Cattin and Wittink 1982). The three attributes differentiating the baskets were price, container type, and product origin. The range of the gift basket price was estimated by summing the wholesale price of the container and food products, and transportation cost from Hawaii to Guangzhou through Federal Express. The food products put in each basket and the transportation cost for each basket were the same, thus the difference in price among gift baskets was the container price.

The selected gift baskets' attributes and attribute levels are presented in Table 1:

Table 1: Gift Basket Attribute and their Levels

Basket Attributes	Attribute Levels
Price	800 RMB
	1,200 RMB
	2,800 RMB
Container Type	Koa
	Protea
	Bamboo
Origin	Made in Hawaii
	Not Made in Hawaii

Since there were three price levels, three types of containers and two options for origin, there were theoretically 18 possible combinations of product profiles. However, there were some constraints, which reduced the possible combinations to 12, for example, Koa containers were only made in Hawaii; Koa and Protea baskets would not be sold for less than 800 RMB. The final selected profiles used for evaluation by respondents are shown in Table 2. The actual gift baskets were displayed at the exhibition booth for the respondents to examine. The respondents then rated their order of preference of the gift basket profile: one being the least preferred and ten the most preferred.

Table 2: Gift Baskets Profiles Evaluated by Respondents

Profile number	Price (RMB)	Container Type	Origin
1	1,200	Koa	Made in Hawaii
2	2,800	Koa	Made in Hawaii
3	1,200	Protea	Not Made in Hawaii
4	2,800	Protea	Not Made in Hawaii
5	1,200	Protea	Made in Hawaii
6	2,800	Protea	Made in Hawaii
7	800	Bamboo	Not Made in Hawaii
8	1,200	Bamboo	Not Made in Hawaii
9	2,800	Bamboo	Not Made in Hawaii
10	800	Bamboo	Made in Hawaii
11	1,200	Bamboo	Made in Hawaii
12	2,800	Bamboo	Made in Hawaii

Survey Results

164 surveys were completed during the three-day exhibition. Of the 164 surveys, 119 were responded by business representatives and 45 by individuals so classified as their firms do not buy those particular food products or they are simply attendees. As the two groups of respondents are assumed to state different buying patterns, results of business respondents and individual respondents were analyzed separately and compared.

Table 3 shows the profile of business respondents: the majority of them were small national traders in food wholesale, retail and service industries. Over 40 percent of the businesses were engaged in food wholesale business, 30 percent in food retail business and 17 percent in food service business. 97 percent of the business respondents focused on national trade only. Over 80 percent of them represented companies with 20 or less employees. 76 percent of the business respondents worked for companies with an annual sales turnover of 10 million RMB or less.

Table 3: Profile of the Business Respondents

Business Type	%	Location	%	Employees	%	Annual Gross Sales	%
Wholesale	43.0%	Specific city in China	34.8%	1 to 5	37.8%	< 2 Million RMB	33.0%
Retail	30.1%	Specific region in China	45.7%	6 to 20	45.6%	2-10 Million RMB	43.2%
Food Service	17.2%	All of China	16.3%	21 to 50	7.8%	10-20 Million RMB	12.5%
Other	9.7%	International	3.3%	> 50	8.9%	> 20 Million RMB	11.4%

Table 4 shows the socio-demographic profile of the individual respondents. Most respondents were young educated individuals engaged in trade, management and sales and personnel services. 55 percent were male respondents. Over 50 percent of the respondents were between the ages of 20 to 29. Most individuals have household members between 3 and 4. And 77 percent of the respondents have some tertiary or completed tertiary education.

Table 4: Socio-demographic Profile of the Individual Respondents

Gender	%	Age	%	Household Members	%	Education Level	%	Occupation	%
Female	44.8	< 19	3.0	1	4.5	Finished secondary School	14.5	Professional	12.1
Male	55.2	20-24	28.4	2	6.0	Some tertiary Education	45.2	Trading	28.8
		25-29	29.9	3	34.3	Tertiary educated	32.3	Management	19.7
		30-34	17.9	4	41.8	Completed some post-graduate school	4.8	Sales and personal services	22.7
		35-39	10.4	5	6.0	Other	3.2	Clerical	4.5
		40-49	9.0	6	6.0			Homemaker	0.0
		50-59	1.5	7	0.0			Laborers and workers	1.5
		60-69	0.0	8	1.5			Plant and machine operator	0.0
		70 >	0.0	9	0.0			Self-employed	3.0
								Retired	1.5
								Other	6.1

Specification and Estimation in Conjoint Analysis

Stated preference model¹ is used to estimate the importance of food basket attributes from respondents' stated preferences through their ratings of the sample product profiles. Conjoint analysis assumes that each respondent makes one's choices to maximize utilities, which can be measured by preference rating (R). This study assumes that the preference rating is a function of the product attributes such as: types of container (C)² container origin (G), and purchase price (P):

$$1) R = f(C_1, C_2, G, P)$$

Where:

- R = preference rating given to hypothetical food gift baskets by survey respondent
- C1 = container made with Koa wood or not
- C2 = container made with Protea material or not
- G = container origin (made in Hawaii or not)
- P = purchase price (800 RMB, 1,200 RMB and 2,800 RMB)

The preference rating can be expressed in terms of utility. If U^0 is the utility level of the least preferred choice and U^* is the utility level of the most preferred choice, then the relationship between utility (U) and preference rating (R) can be presented as follows:

$$2) R = (10 - 1) \frac{U - U^0}{U^* - U^0} + 1$$

Qualitative attributes generally are presented by 'part-worth' or dummy variable specification in marketing studies (Halbrendt et al. 1995). In this case, qualitative attributes are types of container and product origin.

Stated preference model data derived from the conjoint model are excellent for describing hypothetical or virtual decision contexts such as one of this study's profile of premium specialty foods in a Koa wood basket. The model also can include existing and/or proposed and/or generic choice profile such as the bamboo basket with Hawaiian food products. Also, the data are especially rich in attributes tradeoff information. Finally, another merit for using stated preference model is that it yields multiple observations per respondent at each observation point. Two major limitations for using stated preference models are the reliability of the responses and the attributes interactive effects. Responses are more reliable when respondents understand, are committed to and can respond to the tasks. Face-to-

¹ Since the Hawaiian gift basket is new product concept that consumers are not currently purchasing, the stated preference model result could be interpreted as likelihood of purchase (intention to buy).

² Two dummy variables (C_1 , C_2) are used to specify the types of container attribute

face interviews which this study used intended to offset the potential limitation. Although main attribute effects are of primary interest in practical applications of state preference methods which typically, the main effects already account for over 70 to 90 percent of the explained variations, but they are not the only effects that may be of interest. In particular, two-way interaction effects frequently are of theoretical interests and without them may under and over predict the model (Louviere, Hensher and Swait 2000). This study did not include any interactive terms between the qualitative attributes as they are not logical. For example, Koa wood could not grow outside of Hawaii and it would be meaningless to interact with the container origin attribute. A linear functional form is selected for the purchase price as the squared-term of the price variable was not significant.

Least square method is used as our dependent variable as preference rating is interpreted as metric (interval scale) variable. Furthermore, the weighted least square approach is used to estimate the model because of within-respondent correlation problem (Grizzle, Starmer and Koch 1969). Since each respondent was asked to rate multiple product profiles in the survey, the ratings given by the same respondent were likely to be correlated. Such possible correlation is taken into account in the estimation by using the weighted least square estimator. Two models were estimated, one for business respondents and another one for individual respondents.

Estimation Results

Table 5 shows the mean preference ratings for the 12 sample products along with their standard errors and standard deviations.

Table 5: Statistical Description of Respondents' Ratings

Rating	Individual Respondents	Business Respondents
Mean	5.210	5.174
Standard Error	3.067	3.147
Standard Deviation	3.069	3.148

Businesses rated profile #1 (Koa basket, made in Hawaii at 1,200RMB) the best, followed by #5 (Protea basket, made in Hawaii at 1,200RMB) and then #10 (Bamboo basket, made in Hawaii at 800RMB). Individuals rated profile #1 the best followed by profiles #2 (Koa basket, made in Hawaii at 2,800 RMB) and profile #5 (Protea basket, made in Hawaii at 1,200RMB) (See Table 2). Business buyers are less willing to pay higher than 1,200 RMB, while individuals are willing to pay more for the Koa baskets than businesses. In all of the above situations, all of the top three gift baskets preferences are 'made in Hawaii'.

For the least preferred basket profiles, business respondents rated profile #9 (Bamboo basket, not made in Hawaii at 2,800RMB) as the least preferred, followed by #4 (Protea basket, not made in Hawaii at 2,800RMB) and #8 (Bamboo basket, not made in Hawaii at 1,200RMB). These three baskets were not Hawaiian made. In addition, the results showed that business respondents were less willing to pay a higher price of 2,800 RMB for a container, which was not made of Koa wood. They were also less willing to pay 1,200RMB for a Bamboo basket not made in Hawaii.

Individual respondents also rated profile #9 as the least preferred followed by profile #4, but they rated profile #6 (Protea basket, made in Hawaii at 2,800RMB) to be the third least preferred basket, which was different from business respondents. Individual respondents also preferred products made in Hawaii; however, they were less willing to pay 2,800 RMB for a Protea container even though it was made in Hawaii. It seems that individual buyers are willing to pay for the premium quality gift basket or get the cheaper one.

Model parameters estimated by weighted least square approach are reported in Table 6. The estimated parameters of both the business group and individual group are all significant at the 0.01 level. The sign of the parameters were as expected: positive for the Koa and Protea containers when compared with bamboo containers; positive for gift baskets made in Hawaii versus not made in Hawaii; and negative for price which is consistent with consumer price theory. When comparing the relative effect of the different explanatory variables (types of container and price) on the basket preference rating between the business group and the individual group, the individual group placed a higher weight on Koa container (1.9 vs. 1.2); while the business group placed a higher weight on price (-.0008 vs. -.0006).

Table 6: Estimated Conjoint Model Parameters

Variable	Estimate	
	<i>Business Group</i>	<i>Individual Group</i>
Intercept	5.6105 (0.238)	5.4177 (0.267)
Koa Container (C1)	1.2884 (0.278)	1.9096 (0.314)
Protea Container (C2)	0.7622 (0.208)	0.6332 (0.233)
Hawaii Origin (G)	0.8294 (0.199)	0.7177 (0.223)
Price (P)	-0.0008 (0.000)	-0.0006 (0.000)
WLS Estimate	Obs. = 1109	Obs. = 823
R-Square	0.081	0.095
Adj R-Sq	0.078	0.091

Note: All results are significant at the 0.01 level. The values in the bracket are standard error.

Relative Importance (RI) of Gift Basket Attributes

Marketing representatives and managers are interested in which features of their products attract their consumers. Measuring the relative importance of different basket attributes is a way to examine buyers preference. In this case, the RI of four gift basket attributes, Koa Container (C1), Protea Container (C2), Hawaii Origin (G), and price (P) level, are examined separately for the business group and the individual group. The methodology of estimating the RI is detailed in the article by Halbrendt, Wang, Fraiz and O’Dierno (1995).

The formula for estimating relative importance is as follows:

$$3) RI_i = 100 \times \frac{UR_i}{\sum_{j=1}^n UR_j}$$

Where RI_i is the relative importance of attribute i , UR_i is the utility range of attribute i .

The RI estimation results suggest that price is very important in their decisions for the business group (35%). The next most important attribute is the Koa container (29%), followed by the Hawaiian origin attribute (19%), and then Protea container (17%). For the individual group, however, Koa container is the most valued attribute (42%), followed by price (28%), the Hawaiian origin attribute (16%), while the least valued attribute is Protea container with an importance value of 14%. The results are presented in Table 7.

Table 7: Estimated Relative Importance (RI) in percent

Basket Attributes		Business Group	Individual Group
		RI	RI
Koa Container	(C1)	29.1	42.1
Protea Container	(C2)	17.2	14.0
Hawaii Origin	(G)	18.8	15.8
Price	(P)	34.8	28.2
Total		100	100

The results suggest that businesses make their decisions more so on prices while individual consumers placed more value on containers made of Koa wood. This discrepancy shows that businesses have a different perception of what their consumers want. It is likely because businesses would add a profit margin to the wholesale price and they considered that the retail price after profit might be higher than their customers could bear.

Basket Attributes Quality and Expenditure Equivalent Index (EEI)

Further to the relative importance of gift basket attributes, tradeoffs between the attributes are examined. The tradeoff depends on the change in quality that has occurred as a result of a change in the attribute. For example, if the type of container was changed from Koa to Protea, how much the consumer is willing and able to pay, keeping utility constant?

Based on equation 4 and a set of assumptions of utility functions such as separability, Payson developed an expenditure-equivalent index (EEI) of quality change:

$$4) EEI_j = 1 - \frac{\sum_{i=1}^k \beta_i dc_i}{\gamma p}$$

Where β_i is the estimated parameter for the i th attribute, dc_i is the change in the i th attribute level, γ is the estimated parameter of purchase price, and p is the base price level.

EEI can be interpreted as the proportional change in product price with respect to the change in product attribute level, which is necessary for the consumer to be indifferent with a reference gift basket profile.

The gift basket with the lowest mean rating was selected as the reference profile for analysis. The reference profile is a bamboo basket, not made in Hawaii with a price of 2,800 RMB (product profile #9). For the analysis, the EEI for the reference gift basket profile is equal to one since the second term in equation (4) equals zero for this profile. The EEI for all other gift basket profiles compared to the reference profile is shown in Table 8. For example, the EEI of 2.47 for the individual buyer indicates that an individual is willing to pay 2.47 times more for a gift basket made out of Koa wood with products made in Hawaii, which is equivalent to 6,918 RMB.

Table 8: Estimated Expenditure Equivalent Index (EEI)

Price	Koa Container	Protea Container	Hawaii Origin	Business Group	Individual Group
				EEI	EEI
	1	0	1	1.98	2.47
	0	1	1	1.74	1.75
	0	0	1	1.38	1.40
	0	1	0	1.35	1.35
2,800	0	0	0	1.00	1.00

Concluding Remarks and Implications for Potential Exporters

This study sets out to find which product profiles Guangzhou buyers most preferred, the relative importance of gift basket attributes, and the expenditure equivalent index to evaluate what buyers are willing to pay more in comparison to the reference basket. The main conclusions of this study are: containers have to be made of Koa wood and products made in Hawaii in order to ask buyers to pay the premium price. The comparison of results between business buyers and individual buyers shows that business buyers are generally less willing to pay a high price for any gift baskets; while individual buyers are more willing to pay the higher priced Koa gift basket. The results also showed that individual buyers are willing to pay over 6,900 yuan for the most preferred gift basket. Factoring in the high import tariffs and VAT taxes in China (15-30% and 17% respectively), the net returns to Hawaiian entrepreneurs are quite attractive. Based on the results of this study, one can conclude that there is a new-rich class of consumers who possibly exhibits the conspicuous and discreet consumption behavior in China that will purchase the premium Hawaiian gift basket. An important implication for the Marketing Committee is that the study confirms that there is a market in Guangzhou for the premium Hawaiian grown gift basket. Through the course of this project, the authors have acquired extensive trade related experience and knowledge which can be shared with small specialty food exporters who want to profitably sell to China—an emerging market:

First, the results of the study show there is a potential niche market in China for premium specialty food baskets for holidays and special occasions such as Christmas, Chinese New Year, Valentine's Day, and the Moon Festival.

Second, there is definitely a need to educate Chinese consumers through marketing promotions on uniqueness and high quality premium products in order to expect the Chinese to pay a premium price.

Third, in order to charge a premium price, there is a need to develop a brand identity promoting Hawaiian grown food baskets that differentiates it from competitors. When someone eats the food it makes one think of what a special place Hawaii is, with the sun, pristine beaches and waters (Briggs, 2001).

Fourth, one must use local advertising and media firms to help promote the products since they can assist in translating and advising in marketing matters such as logos, slogans, and colors which are appropriate to the local culture. For example, this project used a beige ribbon made of coarse jute to tie the basket. Although this is suitable in the United States; in China, it is taboo since one of the uses of this material is in making special garments which relatives wear to funerals.

Fifth, to successfully distribute any products to China where written and signed contractual agreements for marketing services are the exception rather than the rule, the exporter must secure the services of a reliable agent/distributor. Exporters can accomplish this by consulting with their country's Agricultural Trade Office (ATO) in China. Generally, the ATO office has a list of recommended businesses that exporters can feel secure working with. Finally, the costs of doing business in China vary due to the wide range of import duties for different food products and the fluctuating exchange rate. One way to deal with exchange rate fluctuations is to pay a local agent's fees in Chinese RMB. Exporters can save the cost of currency exchanges paid for imported goods in both foreign and local currencies by negotiating with their distributors. The latter two insights came from the recent experiences of the authors trying to negotiate with a distributor to market the gift basket in China.

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