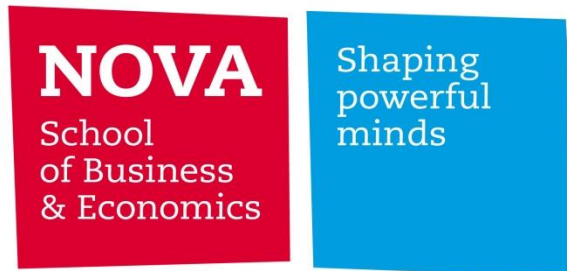


NOVA SCHOOL OF BUSINESS AND ECONOMICS



# Work Project

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Chinese consumer behavior, Trust issue, and  
the 1979 *"One Child Policy"*

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06/03/2014



*Individual report based on the MIM Business Project with Daymon  
Worldwide: What strategies should a Chinese retailer use to  
influence consumers to buy Private Brand?*

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## **PART 1- Context of the Business Project**

### **1.1. The Client: Daymon Worldwide**

Daymon Worldwide was founded over 40 years ago as a Private Brand pioneer. The company delivers innovative solutions and relevant strategic tools to its clients (retailers) (1).

### **1.2. Private Brand in China: Market Overview**

Private Brand (PB), formerly called white label or private label, can be characterized by three factors: (i) produced by a 3<sup>rd</sup> party manufacturer, (ii) owned by retailer, and (iii) exclusive distribution by the latter. PB penetration is usually greater where consumers' sophistication is high, and the retail market is consolidated. In a nutshell, PB is a retailers' brand that offers low prices for good quality products (food and non-food categories) for value conscious educated consumers. Private Brand in China has one of the lowest market shares in the world (4%) despite price oriented Chinese consumers (Appendix 1). The low penetration can be explained by the following circumstances: (a) Chinese consumers are brand conscious ; (b) Lack of awareness of PB existence and concept; (c) PB has only appeared in China very recently; (d) fierce competition from national brands; (e) low concentration of retailers; (f) lack of maturity in retail operations by local retailers; (g) inability to adapt to Chinese market by international retailers, (h) problematic supply chain in China; (i) difficulty in assuring consistent product quality in China. Starting in the 1990s, foreign retailers enter the Chinese retail arena, but most of them only introduced PB around 2004 experiencing rapid expansion (Appendix 2). Still, since 2008 many retailers (foreign and local) are facing challenges regarding PB profitability (e.g. Wu-mart discontinued PB in 2009) or quality control issues (e.g. Wal-Mart China donkey meat scandal in 2014 (7)) (2-6) (Appendix 3).

### **1.3. The Business Project Challenge**

China offers an enormous market opportunity being the 2<sup>nd</sup> largest and fastest growing retail market worldwide (8) (Appendix 4). Still, as previously mentioned, it has one of the lowest PB penetration rates. As consolidation occurs and loyalty shifts towards retailers a successful Private Brand will be decisive for the future. Since 70 percent of purchase decisions are still made in-store (Appendix 5-6), the challenge Daymon proposed to us was:

How can retailers influence consumers to buy PB? The business project aimed at helping the client to get insights from Chinese consumers on PB (food/non-food) retail market in order for them to make more informed decisions when counseling clients or pitching them ideas. Simultaneously there was also a cross-cultural managerial challenge in experiencing a real client project in a Chinese-International team. The business project methodology was based on desk research (Chinese and International reports and articles), observations from store walks (visits to 10 of the biggest hypermarkets in Beijing), insights from managerial interviews, and ethnographic research with 7 target consumers followed by F2F interviews.

#### 1.4. Summary of Conclusions

China is hard to generalize as a developing PB market. Geographical differences (tastes, food culture), economic development stage of a specific city (tiers) and store sizes are key variables to consider when drawing conclusions. Therefore the final outcome of our business project focused and limited to hypermarkets and the current target consumer for PB in China which can be described as upper-middle class, educated mothers, 30-35 years old, living in 1<sup>st</sup> tiers (e.g. Beijing retail market- Appendix 7). The results from the business project can be divided into three categories: (a) enunciation of consumer behavior trends that need to be addressed by retailers; (b) hypotheses to be tested regarding Chinese consumer behavior; and (c) practical recommendations for retailer POS tactics (Appendix 8). Firstly, the main Chinese consumer trends found: highly brand- price- and quality-conscious consumers, which creates a challenging environment for PB; PB awareness is low amongst consumers and retailers' staff; up-trading is a strong phenomenon alongside with the rapidly increasing consumption power; and e-commerce, organic and healthy products, O2O tactics and imported categories are existing tendencies that will develop in the future. Secondly, the proposed hypotheses regarding Chinese consumer behavior were: the child is often an important influencer even though the mother has the role of decision making; and leisure shopping or shopping with friends are both common Chinese shopping patterns. Lastly, the recommendations for POS tactics for immediate execution were: multi-package promotions and "temporarily on promotion" as tools for introduction of new PB products (leverage on bargain-seeking behavior); and educate consumers on PB concept and introduce PB incentive programs for staff (shop assistants act as relevant influencers in Chinese consumer purchasing decision) (2-6).

## PART 2 – Further development of the trust issue in China

In this section, the complexity of Chinese consumers' mindset will be defined and a description regarding the trust issue in China and its implications towards PB adoption will be provided. Next, the “*One Child Policy*” from 1979 will be introduced as a new variable changing the mindset of Chinese consumers in general and, consequently, the mentality of the current target consumer for PBs in particular. Based on literature research, I will present my hypothesis that **Private Brand penetration growth can be slower than anticipated in China due to psychological unexpected features on Chinese consumers caused by the OCP**. Namely, I will emphasize characteristics found on a recent study published in 2012 by Science Magazine. “*Little Emperors: behavioral impact of China's one-child policy*” by L.Cameron *et al* focused on Chinese consumers in 1<sup>st</sup> tier cities (Beijing) born right after the OCP (1980 and 1984), who revealed a **less risk taking behavior and lower willingness to trust** than pre-OCP born (1975 and 1978).

### 2.1. Chinese consumers' Trust issue and Private Brand

A major conclusion from the business project was that Chinese consumers are highly price-brand- and quality- conscious, all attributes with unclear weights in the purchasing decision equation, which poses a threat to PB prosperity. Indeed, besides high price sensitivity and value for money (2-4), also multi-brand preference and lower-than-western influence of pure price promotions are Chinese characteristics (9). Additionally, in a survey conducted by Mckinsey in 2010 (4), 45 percent of tested Chinese consumers believed that higher prices corresponded to better quality. These results show how difficult it is for retailers to define a Private Brand strategy which deals successfully with consumer price sensitivity across different product categories whilst assuring perception of quality across all branded products to raise brand loyalty.

Recent market developments in Eastern Europe show that PB growth is likely to accelerate when Private Brand market share enters a 5 percent to 8 percent threshold bracket (10). Market consolidation and the subsequent loyalty shift towards retailers are likely to be the main drivers for this process. Indeed, it is reported that PB loyalty can be shaped through store loyalty and PB awareness which have a positive effect on the intention of purchasing PB (11). Moreover store image positively relates to the perceived quality of Private Brand

(Appendix 9). Therefore, high store quality increases trust towards previously unknown brands or PB. Still, the opposite effect is also true, meaning store loyalty increases with PB loyalty (12). The implication is therefore that retailers cannot rely on store loyalty alone to build trust towards their Private Brand.

The trust issue from the demand-side regarding PB quality is not unfounded or speculative. Indeed, retailers have experienced some difficulties in assuring its value proposition (value for money) in the Chinese market without compromising product quality. On the one hand, challenging situations of quality scandals occur since manufacturers who are able to serve big multinational brands do not take Private Brand customers seriously. Retailers usually have to compromise with smaller suppliers (lack of negotiation power from retailers with Chinese producers). These concessions influence their supply chain efficiency and usually lead towards higher costs or lower quality, damaging PB image. On the other hand, despite manufacturers in China being able to produce high quality products, they are still inconsistent. The reasoning behind this fact is a poorly developed cold supply chain and high turnover rate of workers. Nevertheless, automation, efficient quality monitoring systems, and introduction of new technologies for products' transportation will gradually change this scenario (6).

To conclude, while there are differences towards the “trust criticality” among product categories, **trust is still the key constraint for consumers in most product categories.** Trust towards food products remains the key challenge for food PB adoption in China, restricting new product adoption. The consequence will be that non-food and non-trust-critical food items are the most promising segments for the mass-market.

## 2.2. Education: a ladder towards trust in other countries. How about China?

It is reported that customers with higher education are also more willing to trust. Therefore, food safety gradually loses relevance as an attribute in the purchasing decision. Still, in China, upper middle class educated consumers experience a growing trend of trading up food items. For instance, imported food products are experiencing a demand growth and consumers are willing to pay a premium (13-14). This phenomenon projects that trust issues are nonetheless still relevant for educated Chinese consumers when shopping.

Besides the material causes for the mistrust amongst Chinese consumers regarding Private Brand products and food products in general, (related to retailers operations, food quality, or manufacturers' reliability), it becomes apparent that there might be other causes adjacent to this behavior. Therefore, a hypothesis that might be formulated is that **Chinese consumers, with the same level of education of their western-counterparts, are more conservative decision makers when their choices involve trust or a certain level of risk.** This suggestion could explain the low penetration levels for Private Brand, since adoption of PB requires consumer trust and a risk taking behavior.

Recent literature confirms the above mentioned hypothesis and proves that attitude towards risk and trust from Chinese population in 1<sup>st</sup> tier cities changed between pre- and post- "*One Child Policy*" born. A brief contextualization of the policy will be provided below, and the recent findings regarding the changes in Chinese psychological behavior will be scrutinized. Finally, the implications for PB target consumer and PB penetration levels will be discussed.

### 2.3. The "*One Child Policy*" (OCP) – 1979

The 1979 "*One Child Policy*" finds no match in the world as the most prominent political measure taken to control population growth in a country. The policy has persisted with a few exceptions (it is relevant to note that the strength and enforcement of the policy vary between rural and urban areas and is looser for ethnic minorities, parents of severely disabled children, and parents who have had a child that died). At the end of last year, the policy was alleviated when the Standing Committee of the National People's Congress approved a resolution allowing couples to have two children when either spouse is only child (15).

The OCP was not the first attempt for birth control in China. In fact, the country has experienced family planning policies since the 1960s, with ascending level of enforcement until the strictest level of the "*One Child Policy*" was implemented. In 1963, the government launched birth control campaigns headed towards the urban population. Subsequently, in 1973, the nationwide "*Later, longer, fewer*" policy, aimed at encouraging couples to have later marriages and children later, have longer gaps between births and fewer children (16) (Appendix 10). Indeed, only children went from 8 percent of the

population to about 25 percent in 1976 (17). Following the death of Mao in 1976, the post-Mao leadership wanted to gain legitimacy through a political agenda with economic development as a priority. The measure for its success was GDP per capita, and therefore it became essential to control population growth. In January 1978, a new policy of “*One is the best and two is the most*” and “*Reward having one child and punish having three*” was introduced. The OCP was announced in the next year as an open letter for the Chinese Communist Party members and the Communist Youth League (17). By 1980, the percentage of children born that were only child increased to 82 percent, which amplified to over 90 percent by 1983 (Appendix 11).

#### **2.4. China: The land of “little emperors”**

A report published in February 2012 called “*Little emperors: behavioral impacts of China’s one-child policy*” (18), made headlines all over the world for its striking and controversial results when assessing the effects of the OCP in post- OCP born Chinese. The experiments were conducted in March 2010 in Beijing, with over 400 participants born in either 1975 or 1978 (pre- OCP born) or in 1980 or 1983 (post-OCP born). The fact that the observation years chosen for the study are so close to the policy implementation means that the impact of having a smaller extended family is not under the scope of this study (Appendix 12). Using games from economics literature the impact of OCP was tested in the individuals’ levels of altruism (dictator game), the ability to trust and trustworthiness (trust game: player 1-the sender- receives 100 yuan. Then (s)he has the option of sending some amount,  $x$  ( $0 \leq x \leq 100$ ), to player 2 -the receiver. Any amount sent is tripled by the experimenter before it reaches player 2. Both players know that this happens. The receiver then has the opportunity to send some amount,  $y$  ( $0 \leq y \leq 3x$ ), back to the sender), risk preferences (risk game: individuals receive 100 yuan and they are offered the possibility to invest in a risky option) and competitiveness (competitiveness game: after playing individuals are given the choice between different payment schemes). Lastly, it is important to note that the paper aimed at exploiting the exogeneity of the OCP, identifying therefore besides the impact of growing up as an only child, also the impact of growing up as an only child on individuals who otherwise would have had siblings.

The paper states that post-OCP born individuals are “*less trusting, less trustworthy, more risk-averse, less competitive, more pessimistic and less conscientious*”. For priority purposes, I will only focus on the relevant behavioral discoveries for the object of this project -penetration of PB in the Chinese retail market- meaning trust and risk taking behavioral changes. During the trust game, post-OCP born participants sent less to the other player (46.1 as opposed to 50.6 percent) revealing a less trusting behavior. Also, regarding the risk game, the post-OCP born participants invested less in the riskier option (58.1 contrasted with 66.4 percent). These results were statistically significant but they were based in simple mean differences (Appendix 13). An econometric model is used to generalize results controlling for variables such as being born in Beijing, gender, education. The effects continue to be statistically significant for the coefficients of these two variables at 5 percent level of significance (18).

On February 2013, Science Magazine published a response towards the controversial conclusions of “*Little Emperors: behavioral impact of China’s one-child policy*”. The authors caution “*against overgeneralization from the economic experiments and personality surveys conducted in the study*” (19) and argued that only children resulting from China’s OCP are successful relative to their peers. Still, as Lisa Cameron explains in a letter for the same magazine, the methodologies used by the different teams are not comparable (20). The little emperors’ report differs from previous studies by using experimental techniques such as conducting games from the economics literature besides survey questions and by studying these effects in adulthood. This combination is expected to give more reliable data concerning behavioral indicators. Additionally, no objections were raised regarding the results of interest (namely less willingness to trust and less risk taking behavior from post-OCP born).

## **2.5. The “One Child per Couple” policy (OCP): A blind spot on Chinese consumer behavior that can scale back expected growth in PB penetration rate**

In order for Private Brand to survive in the Chinese market, retailers have to build trust towards the brand. Since higher penetration levels of PB require new product adoption, PB relies on risk taking behavior from the consumer. **The OCP as a hidden variable that lowers willingness to trust and risk taking behavior can act as a deterrent of Private Brand penetration that is currently not expected by market players.**

Additionally, since the study was conducted only with people born right after the policy introduction it did not account for the peer effect. The peer effect can be defined as growing up surrounded by other “little emperors”. This later generation has grown up with very limited extended family. Under a society dominated by only child, the expected OCP effect on trust and risk taking behavior would be, if anything, exacerbated.

Indeed, the impact of lower levels of trust and risky behavior by younger individuals can be already having a direct impact in PB penetration. It is documented that the young generation is the most likely to adopt new products, and they increasingly affect family purchasing decisions (21). Therefore if the OCP impact is real, this means that the decision makers (or most important influencers) in trying out a new product, by being more risk averse and less willing to trust, will probably not choose Private Brand.

## 2.6. Conclusions and suggestions for further research

Trust issue is a huge problem in China and although higher education is correlated with higher levels of trust worldwide, the OCP acts as a hidden variable that counterbalances the positive effect of education on trust for Chinese consumers. **The OCP is not only the most severe population growth control measure ever taken, but potentially the epitome of government’s intervention in the economy, through interferences in society’s mindset and psychographics.** PB expected penetration levels rely heavily in consumer behavior historical data from other countries, not taking into account the OCP specific effects. My hypothesis is that **PB penetration levels will be lower than expected by players in the Chinese retail industry.** To test this hypothesis I would propose further studies, namely quantitative analysis regarding the evolution of trust towards PB (including subjects pre- and post- OCP born), quantifying the results for PB profitability. Additionally, I suggest further studying the role of children, sons and daughters in the Chinese society as influencer in the purchasing decisions. I propose to dig further on the previously mentioned “peer effect” measuring the dimension of the impact on the evolution of consumer trust, computing by how much does that affect Private Brand penetration and determining when will it happen. Only after quantifying the real impact of the trust issue in PB penetration in China, I would be confident to proceed to recommendations or suggestions on how retailers can tackle this matter.

## PART 3 –A reflection on the learning experience

### 3.1. Content applied from previous learning in the Masters program

The main tools applied from previous knowledge were both from **Marketing Planning** and **Integrated Marketing Communications** courses. Concepts that were useful include: (a) target market and target audience selection (profiling target audience as educated mothers 30-35 years old, living in 1<sup>st</sup> tier cities); (b) definition of action objectives (particular focus on trial although repeated purchase was also mentioned since the project focused on FMCG); (c) usage of behavioral sequence model to understand who is the initiator, the influencer, the decider, the purchaser and the user in the several product categories PB can offer (used in the recommendations section to distinguish between decision maker, the mother, and key influencer, the child); (d) prioritization of communication objectives for PB: (i) universal objective of brand awareness (brand recognition mostly for low involvement products or brand recall boosted brand recognition since the consumer has to remember that it needs to go to a specific brand store to get its PB), (ii) brand attitude (create a positive brand attitude for unaware target customer and change brand attitude for target customer with negative attitude), and (iii) brand purchase intention (low involvement – omit brand action intention unless there is a special promotion offer); and (e) clarification of PB positioning statement (target, frame of reference, POD, reason to believe).

### 3.2. New knowledge (new methodologies/tools)

The **store checks** were walks through 10 of the biggest store brands in Beijing: Auchan, Lianhua, Tesco, Walmart, CR Vanguard, Yonghui, 7-11, RT-Mart, Wu-Mart, and Carrefour. The goals were (a) to observe the PB products in-store positioning and other POS tactics currently applied, (b) to have a first direct contact with consumers, observe their behavior in-store and gain insights about potential purchasing drivers and (c) measure staff awareness of PB and its concept. Overall, this tool gave the team a better understanding of the market, creating a context for the project. Still, this method has limitations related to the usage of a Beijing sample only (economic development varies among cities in different tiers; varied consumer tastes and preferences in different regions; and logistic issues are all variables that would change the insights retrieved from store checks). Additionally, despite effort to remain impartial and data-driven, the team will

always have a subjective perception regarding target consumer behavior due to limited observation. The **ethnographic research** was a hybrid approach of examining consumer behavior without interruption, followed by interviews after the shopping experience. They took place at RT-Mart in Beijing (~30-60min visits). Out of 7 subjects 5 completed the experience without interruption. The team would start by targeting the right consumer: standing at the entrance, stopping incoming people and asking, whether they would accept to be in the study and whether they know and buy/not buy PB. Leveraging on student status, no prize was proposed. After choosing a willing subject that fitted the PB target consumer, the team members would follow the consumers at a small distance, taking notes on behavior with almost no interruption. After the subject(s) inform they were heading out, a questioning would start to get a deeper understanding on consumer's background, their behavior during the experience and other questions which seemed relevant regarding for instance new product adoption, private brand image, or purchase attributes. Ethnographic research proved useful and helped to understand the consumer, find and form new insights and to create buyer profiles. Still, it is worth mentioning that the fact that the team decided to approach the subjects and then follow, might have affected their behavior during the experience and therefore the results obtained as an ethnographic research.

### 3.3. Personal experience

Throughout the project I have showed good results in dealing with desk research, **synthetizing relevant information and drawing data-driven hypothesis** with potential for adding value to the client. Also, in relation to **soft skills**, specifically regarding presentations and meetings with the client, I have shown above average performance. Still, some communication challenges within the team and between the team and the client possibly minimized our team's effectiveness in delivering results. Also, in my opinion, the project's scope was too wide which led to difficulties in managing a team that sometimes did not feel any clear guidance offered by the client. After accomplishing successfully this project, my area of improvement relies on understanding more clearly **the role of leadership** in a team which is so culturally diversified. Indeed, personally I believe that the variable that added the most value to this project was the **cross cultural management experience** and also the ability to understand an otherwise extremely impenetrable Chinese retail market.

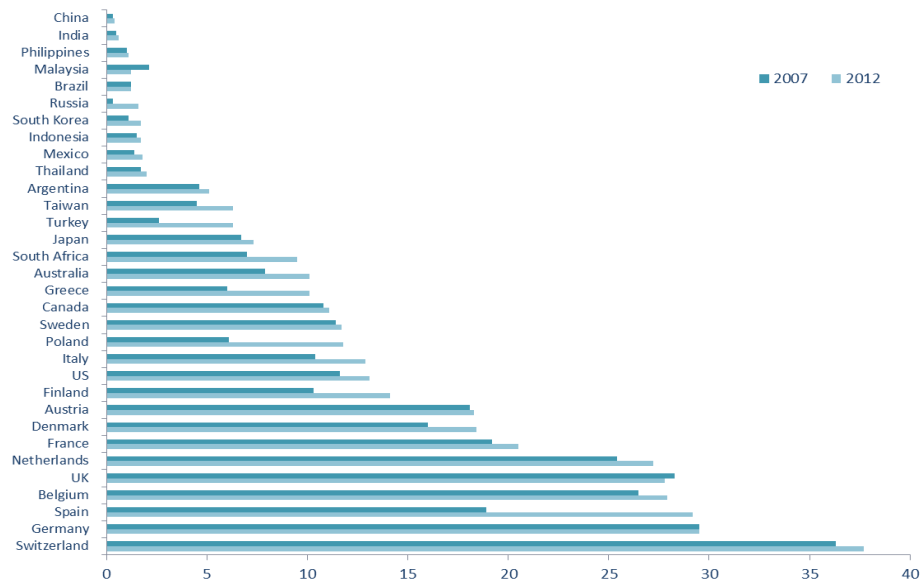
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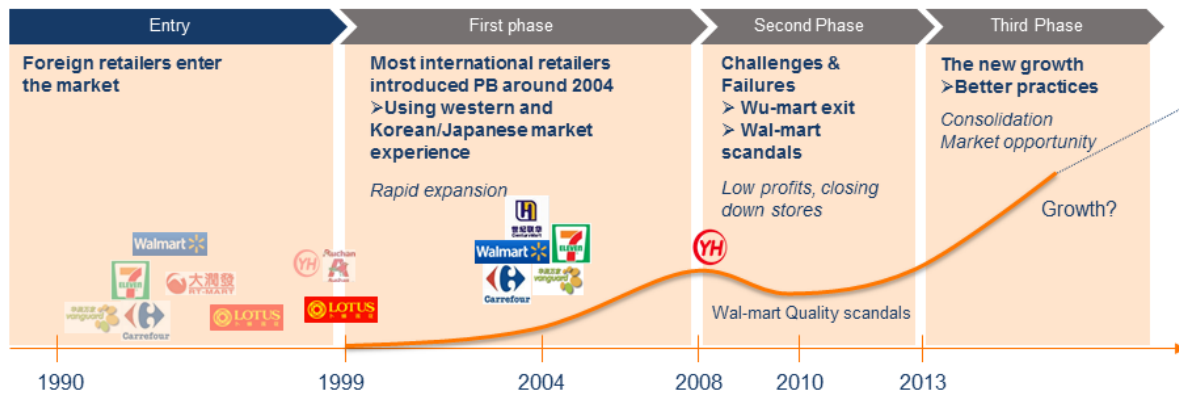
## Appendix

### Appendix 1: Penetration of Private Label by country 2007/2012



Source: Euromonitor 2014, “*The New Face of Private Label: Global Market Trends to 2018*”

### Appendix 2: Illustration of PB evolution in the Chinese Retail Market.



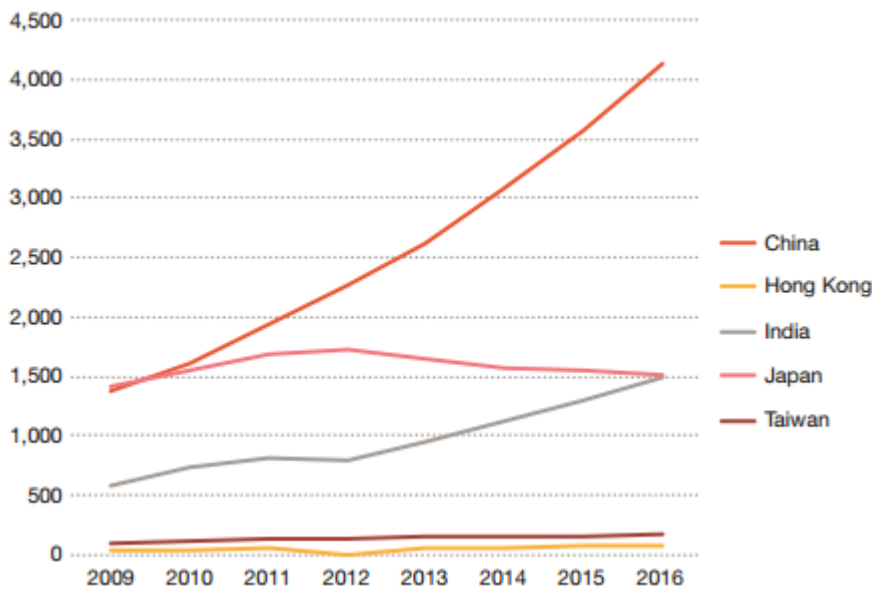
Sources: 1. Nielsen (Sept 2009). *Who will win the battle of the shelf? Branded or Private label products*, 2. Managerial interviews, 3. Rebobank (2013)

Appendix 3: Expansion slowdown by major foreign retailers after facing challenges in reaching profitability (2011-2012)



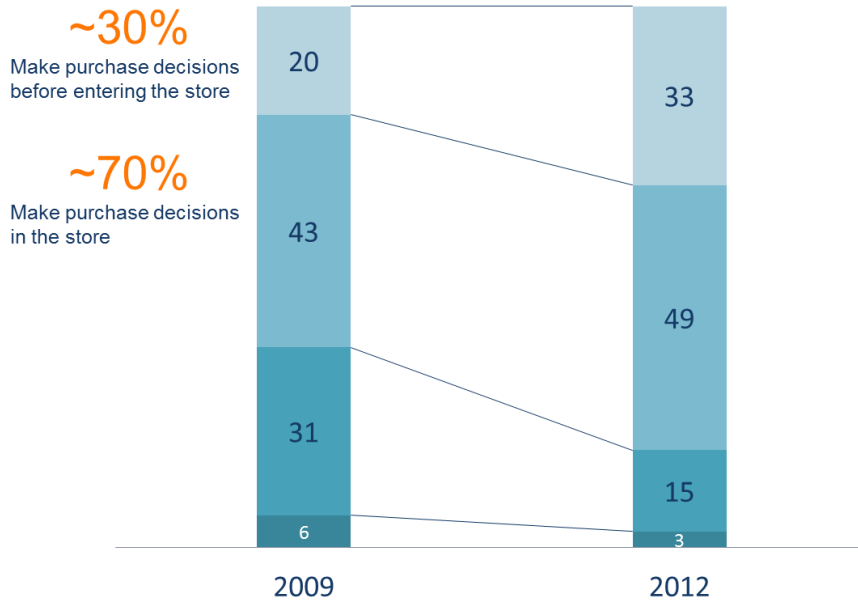
Source: China National Commerce Information Centre

Appendix 4: Retail sales in Asia (in US\$ billion). “China will overtake the US as the world’s largest retail sales market in 2016, when its retail sales are forecast to be worth US\$4.2 trillion”. (PWC (2013) *Outlook for the Retail and Consumer Products in Asia*).



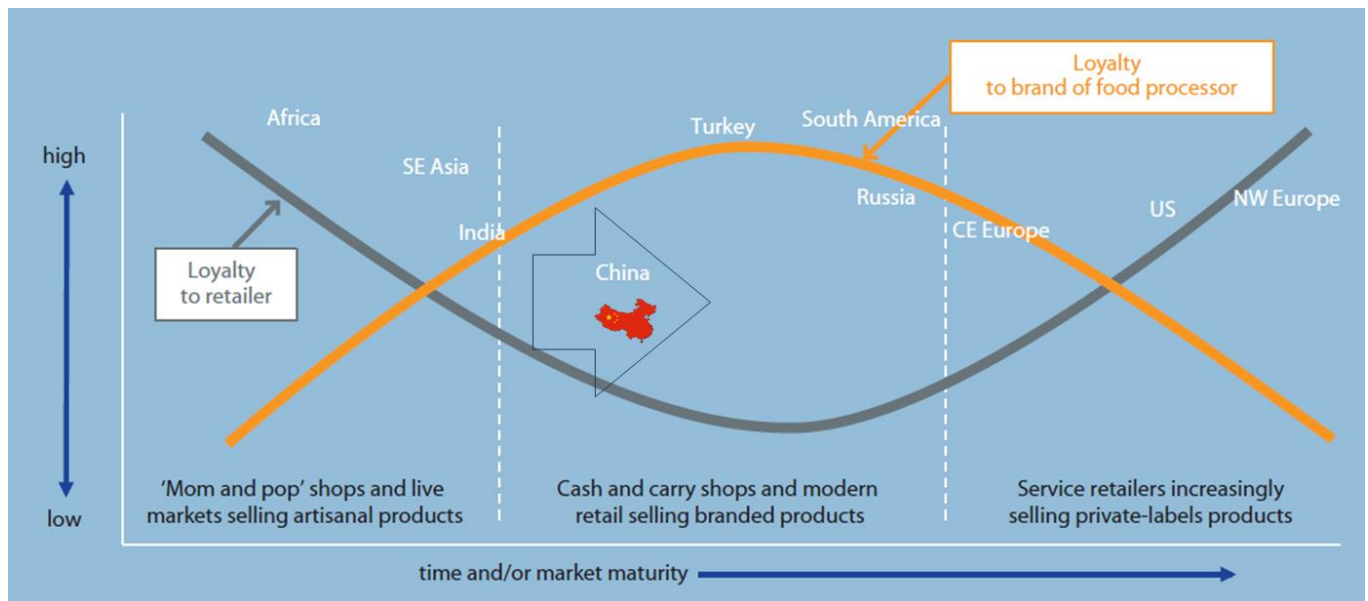
Source: Economist Intelligence unit (values for 2012 onwards are forecasts)

### Appendix 5: Timing of purchasing decisions



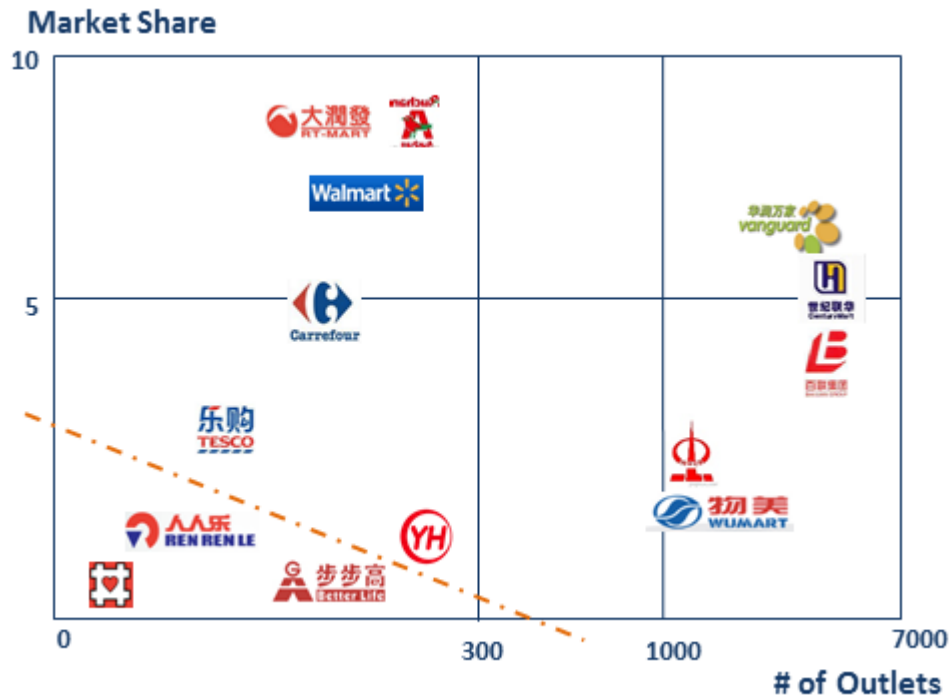
Source: McKinsey and Co 2012, “2012 Chinese Consumer Report”

### Appendix 6: Loyalty curves according to food retail market maturity



Source: Rabobank 2011, “Private Label vs Brands”

Appendix 7: Landscape of Beijing Retail Market



Source: Fung BIC (Sept 2013) on 2011 data "Retail Market in China"

Appendix 8: Summary of recommendations from the Business Project accompanied with sensitivity analysis with respect to feasibility and validity. The table should be analyzed in the following manner: e.g. The recommendation of *temporary promotions* is based mainly on store walks but also influenced by ethnographic and literature research. The validity of the recommendation regarding its potential effectiveness is medium low but it is a tool which is relatively easy to execute.

## Recommendations' Evaluation

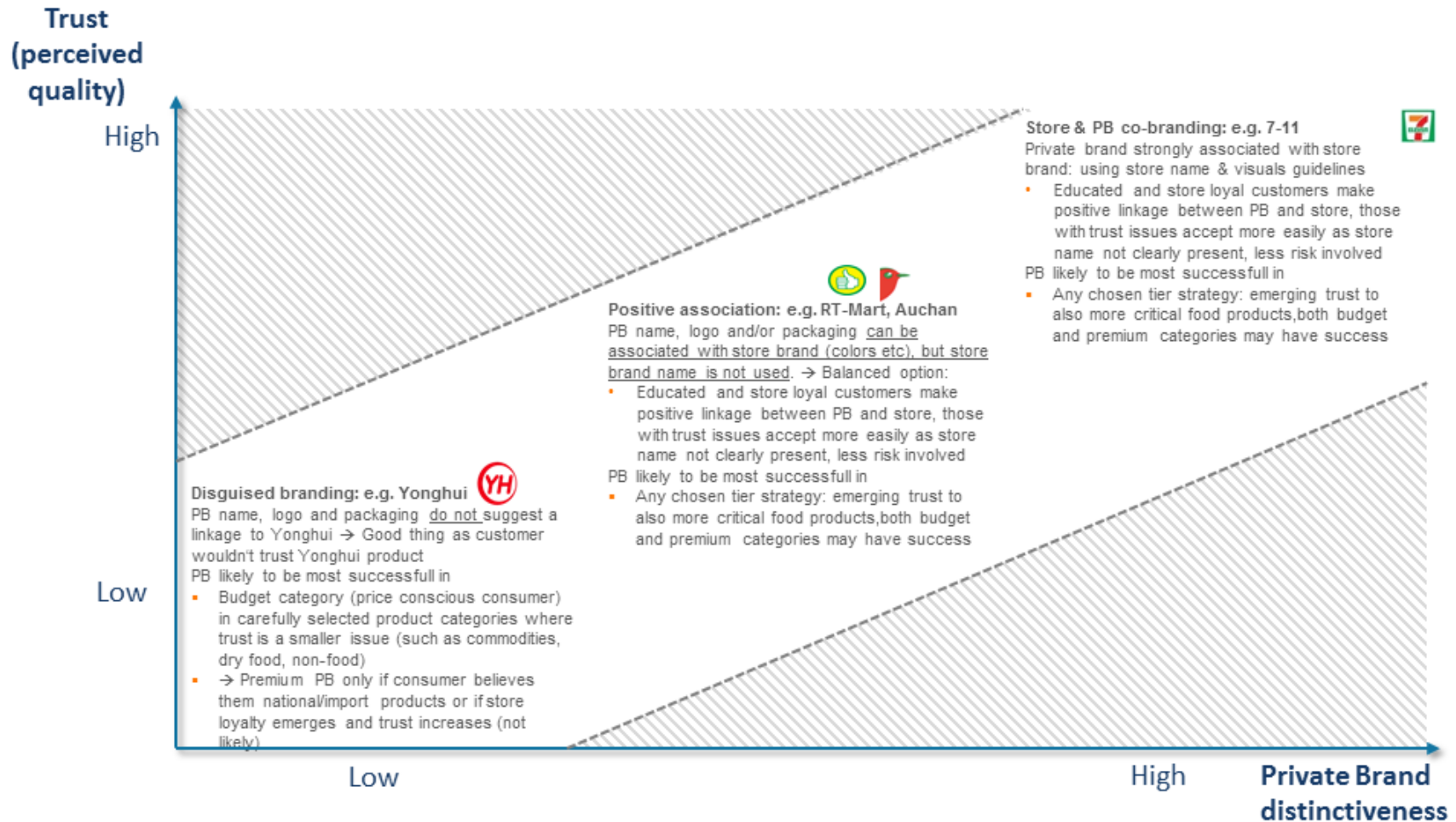


Sample base (validity)



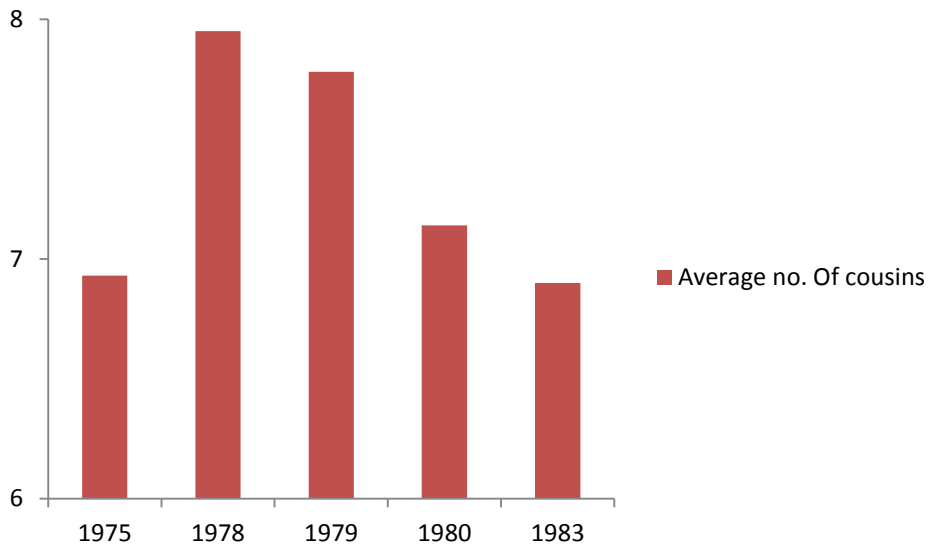
Difficulty	Tools	Recommendations	Store walks	Ethnographic research	Quantitative research	Manager interviews	Literature research	Grand total validity
	Price & Promotion		Temporary promotion	✓	✓			✓
		Incentives for staff	✓			✓		●
		Multi-package tactics	✓	✓			✓	●
		Educate about the PB concept		✓			✓	●
Place		Aisles' ends sales	✓	✓				●
		Different in-store experience	✓			✓		●
Product		Imported categories				✓	✓	●
		Impulse buying product		✓				●
		Organic and health products				✓	✓	●
		Data-based targeting (BI)			✓	✓	✓	●
		Alignment with manufacturers				✓	✓	●
Business Concept		Ecommerce				✓	✓	●
		O2O				✓	✓	●
New consumer segments		Target children or mothers		✓			✓	●

Appendix 9: Proposed framework to link trust, store image and PB strategy. As trust towards a retailer and the retailer’s store increases, the visibility of Private Brand and its association with store brand should be higher.

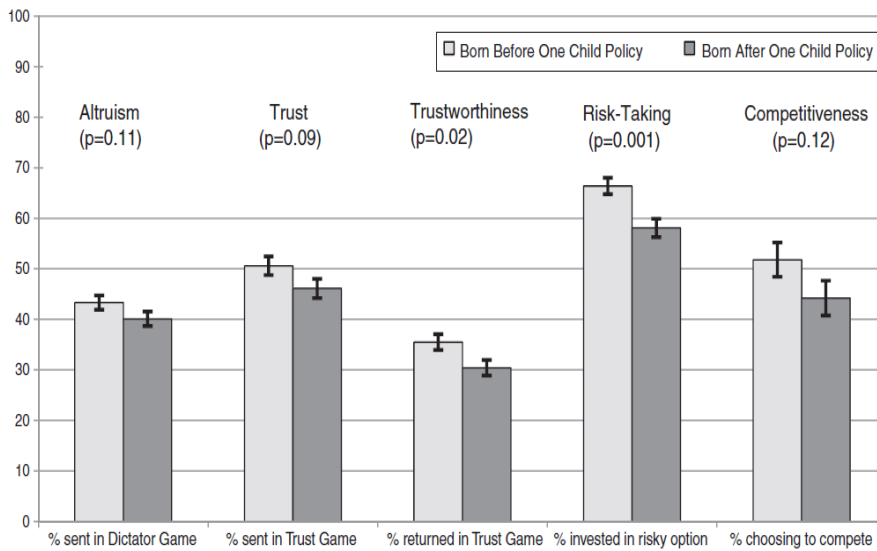




Appendix 12: Average number of cousins has seen no significant deviations in the years close to the OCP adoption year (1979)



Appendix 13: Behavioral consequences of the OCP. Mean differences in behavior between participants born before and after the OCP are shown. The P values reported in parentheses are from t tests of differences in means (null hypotheses: means are equal for pre- and post-OCP-born). Results for Trust (reject the null at 10 percent level of significance), Trustworthiness, and Risk Taking behavior (reject the null at 5 percent level of significance) are statistically significant.



Source for Appendix 12-13: CAMERON L. *et al.* (2012). *Little emperors: behavior impacts of China's one-child policy*, *Science* 339, 953.