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Master Thesis U.S.E.

How Discounts, Product Innovation, and Customer
Ethnocentrism Affect
Customers' Coffee Purchase Decisions in China
(To Take Starbucks and Luckin Coffee as examples)

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Statement of originality

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Abstract

This thesis is going to investigate how discounts, product innovation, and customer ethnocentrism affect customers' decisions to purchase coffee in China by using Starbucks and Luckin Coffee as examples. Also, it tries to check whether these two companies have used suitable strategies by comparing their present strategies with corresponding results. In specific, this thesis sets some hypothesis and designs a questionnaire based on previous studies. After these, the questionnaires have been distributed online to collect the first-hand data. Then, the SPSS analysis has been used to yield results. According to the results, this thesis gains the following main findings. First, both discounts and product innovation have significant impacts on customers purchase decisions, either for Starbucks or Luckin Coffee. Also, these consequences are consistent with part of hypothesis. Moreover, customer ethnocentrism has different impact on Starbucks and Luckin Coffee. In other words, customer ethnocentrism has a significant impact on customers' purchase decisions in Luckin Coffee, but it almost has no impact on that of Starbucks. Thus, the results of this thesis suggest that there is some room for improvement in Starbucks' strategy, while Luckin Coffee's strategy is sufficiently appropriate. Finally, some concrete improved suggestions are listed in the end of this thesis.

Key words:

Discounts, Product Innovation, Customer Ethnocentrism, Purchase Decisions, Starbucks, Luckin Coffee

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1. Introduction

This thesis is going to discuss how the customers' purchase decisions are influenced by discount, product innovation, and customer ethnocentrism between Starbucks and Luckin Coffee. Specifically, for customers, buying coffee or other beverages is a common nowadays. Meanwhile, for merchants, attracting customers and earning profits can be regarded as an appropriate way to keep companies sustaining. In China, both Starbucks and Luckin coffee are well-known coffee companies nowadays. In order to achieve this goal, both brands try to explore how the factors of discounts, product innovation, and customer ethnocentrism could affect purchasing decisions of customers, and make their own commercial strategies according to their management layers' understanding and market information. In this context, this thesis is going to investigate if these two companies are using suitable strategies at present. Thus, the research question focuses on how discounts, product innovation, and customer ethnocentrism affect customers' purchase decisions between the two coffee brands.

When reviewing past research, various studies have explored what factors could affect customers' purchase decisions. For example, Budiono and Rajagukguk (2021) took Starbucks as a case and discussed the influence of service quality, discounts, services cape and brand image on purchase decisions of Starbucks in Indonesia. They have concluded that service quality, service cape and brand image have an effect on purchasing decisions, but the discounts have no effect on purchasing decision. However, some scholars have different opinions about if discounts have an impact on consumers' purchase decisions. For example, Monroe and Krishnan (1985) and Zeithaml (1988) have stated that consumers perceive that high discount often represent low quality, which may lead to fewer purchase decisions. In contrast, Honea and Dahl (2005) and Schindler (1998) have argued that heavy discounts can generate a positive impact on consumers' purchase decisions. Additionally, Lee and Chen (2018) have creatively pointed out an 'affective effect' as a bridge between price discounts and price perception, which can help people to understand how customers perceive the discounts. Importantly, this thesis is going to use Lee and Chen's (2018) concept 'price perception' to measure

‘discounts’, which will be illustrated specifically in the literature review and methodology part.

In addition, some scholars have reached different conclusions and explanations in terms of whether product innovation influences` purchase decisions. For instance, Hatta et al. (2018) have pointed out that promotion and product innovation will not affect the purchase decision, but the quality and the price of the product will. However, studies done by Lupiyoadi and Hamdani (2006) and Novitasari et al., (2021) have indicated that product innovation can produce a positive impact on customers` purchase decisions. Specifically, David and Peter (2010) have coined a new concept, which is called ‘reputation for product innovation’ or ‘RPI’ for short. Also, they have created the ‘RPI scale’ to measure customers` RPI perception. Additionally, another influencing factor is customer ethnocentrism. After Shimp and Sharma (1987) defined the new concept ‘customer ethnocentrism’, there is huge amount of research has focused on this new area. To be specific, Thomas et al. (2020) have believed that customers ethnocentrism has a significant positive effect on their purchasing decisions. However, Kaynak et al., (2000) have explained that the level of customer ethnocentrism may vary according to different culture, individuals and countries.

As some previous academic literature has mentioned, various factors would affect customers before making their purchase decisions. In this context, the research is generally done by collecting and analyzing data locally in order to gain specific conclusions. Moreover, it is worthy to notice that most papers choose Starbucks as an example, as it is a representative multinational company, whose main industry and production is coffee. However, the limitation of these papers is also obvious as most of them only choose Starbucks to illustrate and discuss. As a prosperous multinational coffee brand, it is indeed necessary to analyze how and why it can affect customers` decisions when buying Starbucks production. Nevertheless, with the growth of coffee demand, there are an increasing number of coffee brands emerging and competing with Starbucks in the market (Primahendra et al., 2021). For example, Luckin Coffee make a progress and become a fierce competitor with Starbucks in China. Therefore, it is worth considering whether the factors that affect Starbucks will affect other ‘new-born

brands' as well; whether those factors generate similar impacts on customers purchasing decisions between domestic brands (Luckin Coffee) and foreign brands (Starbucks); or whether Starbucks' present strategies and those of Luckin are working as those two companies intend to. In other words, these characters and details above should be reconsidered before drawing a new conclusion.

In terms of scientific relevance, previous articles and studies mainly focused on 'how some factors affect customers purchasing decisions at Starbucks'. In other words, those papers usually discussed this topic by using the case of a successful multinational company - Starbucks, but they may have ignored the domestic competitor nowadays, which can also play an important role. Thus, they should be taken into consideration as well. Thus, this thesis is going to choose Luckin Coffee as a domestic competitor, and compare its present strategies with those of Starbucks'. Then, it is believed to discuss the topic more specifically about how discount, product innovation, and customer ethnocentrism affect customers purchasing decisions. Moreover, it is believed that this paper can narrow the literature gap on this topic to some extent. In order to achieve this goal, this thesis is going to collect first-hand data through online questionnaires in China. Based on the result of the survey, this paper intends to analyze how discounts, product innovation, and customer ethnocentrism affect customers' purchasing decisions on Starbucks and Luckin Coffee respectively.

As for social relevance, China has a great potential coffee market so that the competition becomes increasingly fierce. It is known that Starbucks is a foreign brand in China but Luckin Coffee is a domestic one. Despite this, both of them are extraordinary in China, with different strategies implemented. Thus, this thesis is going to compare the survey results with the strategies that these two companies use right now to analyze if these two companies' strategies work as they intend to. In other words, the result of the survey can indicate if their present strategies are working well. In other words, if the result shows that present strategies cannot reach their original goals, Starbucks and Luckin Coffee could improve their strategies according to this thesis. Moreover, other coffee brands who intend to enter China can gain some suggestions and experience as well.

Based on the discussion above, the structure of this thesis is going to be introduced. To be specific, the first part of the rest of the thesis includes the literature review, which lists the present academic literature results and inspirations. The next part is the methodology, which describes the contents of the data collection, and introduces the measurement scales, preparation works, and the software of analysis and methods. The third part contains hypothesis and framework, which introduces Starbucks' and Luckin Coffee's present strategies. To be specific, this thesis has made six hypothesizes and draw two frameworks for Starbucks and Luckin Coffee respectively. Then, the results and interpretation are presented in the fourth part, which uses the collection data to complete descriptive analysis, reliability analysis, validity analysis, correlation analysis, and regression analysis sequentially. The last part is the discussion and conclusion as well as implications and limitations. To be specific, this part summarily illustrates how this paper result contributes to present literature and why policy makers or other stakeholders should consider.

2. Literature Review

2.1 Purchase decisions

When it comes to the term 'purchase decision', Wibowo and Karimah (2012) define it as a kind of procession that customers make their decisions between several brands or productions. They also point out that the process includes needs analysis, seeking information, information evaluation, making purchase and then evaluate decision after purchase. Qazzafi (2019) also illustrates that there are five mainstream stages, but he points out these five stages include problem-recognition, information-searching, evaluation alternatives, purchase decision, and post-purchase behavior. Although various studies named these processes differently, these thoughts are still proved correctly and tested in some industries, like the tourism and hospitality industry (Bai, Law, & Wen, 2008; Sparks & Browning, 2011).

In general, before making a purchase decision, customers consider step by step, but special circumstances can influence their decisions. On the one hand, customers would like to skip one or some steps when they intend to buy low involvement products, like daily milk (Kotler et al. 2017). On the other hand, the customer would like to consider every single stage when they intend to buy a high involvement product, like an automobile. In addition, Kotler (2000) finds that location, time, payment method, and other factors would influence customers to make their purchase decisions, because of the variation of customers' preference. Moreover, Wang and Chen (2019) indicate if customers can perceive justice or fair of a brand or an organization, they are going to trust that brand or organization, which will stimulate them to make their purchase decisions of that brand or organization. Thus, Qazzafi's paper (2019) points out that each stage is possible to affect customer's purchasing decisions.

There are a large number of scholars attempt to find the essence of purchase decision. Annafik and Rahardjo (2012) point out that purchasing decisions refer to the behavior when customers make their decisions between some brands and buy one of them in the end, or the process considered by customers into determining the services or products that will buy towards various choices. In addition, Musay (2013) expresses that making

purchase decisions integrates the information to assess and determine two or more alternatives. Later, Aditya and Wardana (2017) express a similar opinion in their study, which indicates that marketing is developing so dynamically all over the world as well as customers that companies should notice this phenomenon and implement proper marketing strategies to adapt it. The reason is that appropriate marketing strategy could attract customers' attention and guide customers to make their purchasing decisions. Information seeking is one of the various ways influencing customers' purchasing decisions (Hermiyenti & Wardi, 2019). Kotler and Keller (2012) think the main resources to gain the product information is from commercial channels. Meanwhile, companies should offer such information in commercial ways, such as promotion or advertisement. Hermiyenti and Wardi (2019) suppose that better promotion information will cause more positive customers' attitudes and guide customers make their purchasing decisions. Otherwise, the company is possible not to be noticed by customers, even though it has high-quality products (Brata, Husani & Ali, 2017).

2.2 Discounts

Nowadays, there are various types of business competitions that an increasing number of companies try their best to gain more market share to maintain their profit (Graciola et al., 2018). Among these types price is a very essential role in market competition, (Zielke, 2006). Because for price, the stimulate system is sophisticated; and for customers, the way to perceive price is broad (Lichtenstein et al., 1993). Generally, price discount has been a very universal marketing strategy to attract customers though offering extra discount or value, which could encourage customers to purchase products (Xu & Huang, 2014). Also, Lal and Staelin (1984) believe that price perception has a positive effect on quality perception. This means a good value perception has a positive effect on purchase willing. Moreover, Zielke (2011) finds that negative emotions may result in negative purchase intentions and positive emotions may result in positive purchase intentions.

There are two well-known theoretical models that have been developed and used on exploring the relationship between the customers' perception of the productions and

price, i.e., the price-quality-value model (Monroe & Krishnan, 1985) and the means-end model (Zeithaml, 1988). According to these two models, customers often link low price to low quality and regard high price as high quality. In other words, those intensively discounted products are usually poor in quality, as customers can trade-off between how much they sacrifice and what quality they get.

However, other scholars have proposed different opinions. For example, Garretson and Clow (1999) claim that high price discount can also lead to the perception of low quality. However, Huang et al. (2014) and Rungtrakulchai (2013) express an opposite attitude that high price discount leads to high quality perception. Grewal et al. (1998) even find that there is no relationship between price discount and quality perception. Chandon et al. (2000) further identify the concept of hedonic benefits of price promotions.

Despite the controversy above, Lee and Chen's paper (2018) based on the price-quality-value model (Monroe & Krishnan, 1985) and the means-end model (Zeithaml 1988) to develop a new conceptual model, which creatively focus on 'affective effects' of the three promotion effects (Informational, Economical, and Affective Effects; Raghubir et al. 2004). To be specific, Lee and Chen (2018) point out that 'affective effect' is a significant mediating role between price discounts and cognition perception, which can help people understand the forming procession of customers perceptions. In addition, the price-quality-value model (Monroe & Krishnan 1985) and the means-end model (Zeithaml, 1988) argue that the more money customers save, the less production quality they can get. However, in other two studies (Honea & Dahl 2005; Schindler, 1998), those scholars believe that positive 'affect' will increase as price discount increase; price discount could lead customers positive feelings, including excitement, delight, satisfaction, and pleasure. What Lee and Tsai (2014) finds also prove the same point. To be specific, they suppose that when customers make their purchase decisions by their emotions, those customers will pay more attention to if this purchase can bring happy feelings or satisfied experience but the quality or details of the production. The reason is that 'the affective effect' could change customers perceptions about the impact of price discount on production quality. In other words, from customers' perspective, when it comes to this situation, low price or high price discount will not represent low

quality anymore, instead of positive feelings and experiences (Lee & Chen, 2018).

2.3 Product Innovation

In the past few years, a number of papers and studies argue that there is a kind of relationship between product innovation and enterprise performance and indicates that enterprise performance depends on product innovation to some extent (Henard & Szymanski, 2001; Henard & Dacin, 2010). For example, Wheelwright and Clark (1992) indicate that a company which is quicker and clearer in recognizing and providing its customers with what they really want will be more desirable to consumers than its competitors. Product innovation ability has played a critical role in this situation as a company which owns more unique creativity will own more advantages and opportunities (Amit & Schoemaker, 1993; Calantone et al., 1995; Nonaka & Takeuchi, 1995).

Nevertheless, thanks to an increasing amount of empirical research, there is some evidence supposed that the impact of product innovation on enterprise performance may have much more relationships than present studies show (Brown & Dacin, 1997; Rao, 1994; Weigelt & Camerer, 1988). Vandelo (1998) claims that in general, customers are going to form a social memory based on their previous product experience and attribute it to the company. This kind of memory may become the reputation that lasts for a long period once acquired (Russo & Fouts, 1997; Vergin & Qoronfleh, 1998). In addition, a company which enjoys a good reputation will be favorable in customers (Hall, 1992). In summary, the reputation for product innovation will exist in customer's mind and will be perceived by customers in various ways (Brown & Dacin, 1997; Fombrun & Shanley, 1990).

Based on previous academic contributions, David and Peter (2010) coined a new concept named 'reputation for product innovation' (RPI). Also, they design the 'RPI scale' to explore how RPI affects customers. To be specific, they point out that those companies that enjoy a good reputation for product innovation have had good records for new productions, and in this situation, customers regard those companies as industry creative leaders. This means that customers probably believe that those companies will

generate more creatively productions continuingly.

Based on the definition, by using 'RPI scale', David and Peter (2010) draw several conclusions. First, customers who perceive the reputation of product innovation will be psychologically appealed by the company, and they may strongly expect next new productions. Moreover, purchasing in companies with good reputation of product innovation will bring customers pleasure and positive purchasing experience. Furthermore, customers can gain more loyalty and more tolerance to those companies with the reputation of product innovation. Finally, customers are likely to give more opportunities when those companies release product failures.

Some other scholars express similar opinions in their studies. For example, Lupiyoadi and Hamdani (2006) believe that product innovation influences purchasing decisions. This means a company needs to keep creative to arouse the purchasing passion of customers. The reason is that by keeping creative, the company would be unique and attract customers, otherwise, customers may gradually feel disappointed and turn to other competitors as a result. Also, Novitasari et al. (2021) think that product innovation has a significant effect on purchasing decisions.

2.4 Customer Ethnocentrism

Before introducing the definition of customer ethnocentrism, some vital contexts are listed first. To be specific, Hill and Hult (2019) argues when a company intends to conduct international business, it should notice that international business is different from domestic one, because of the variation of cultures. Those various cultures will affect many aspects, including economy, languages, thinking methods and so on. In reality, many multinational companies have realized this sense of culture difference so that their senior managers try to transfer and execute in different countries to keep touching different cultures and against the danger of ethnocentrism. In this context, ethnocentrism has become important and non-negligible when scholars study international or multinational business. There are a number of papers and researchers exploring in this area.

Ethnocentrism was introduced for first time in 1906 by Willian Graham Sumner in his book named *Folkways*. Sumner (1906) explains that ethnocentrism is a kind of tendency making people believe that their culture or ethnic is significant and measure other groups' culture or ethnic to their own. Thus, influenced by ethnocentrism, people treat different groups from their own perspective, which allows them easily accept those similar and refuse those different (Netemeyer et al., 1991; Shimp and Sharma, 1987). Based on this, it is worthy noticeable that customer ethnocentrism was abstracted in 1987 by Shimp and Sharma, who pointed out that customer ethnocentrism is a unique form in economy area of ethnocentrism, which was formulated as a specific concept in customer behavior in marketing study areas (Shimp and Sharma in 1987).

Also, Shimp and Sharm reveal that customer ethnocentrism has several following characteristics (1987). First, it roots in the concern and love on one's own country, and it worries about the imported may result in some the feeling of loss or bad effects on economic benefits of one's country. Second, it contains the intentions and willing to not purchase those foreign productions. Because of those extremely customer ethnocentrism, they think it is not only an economic issue but also a moral issue to purchase foreign productions (Sharma et al., 1994). Last, it indicates the level of prejudice of the imported productions of an individual. As a result, these features above could lead to different behaviors and attitudes to foreign productions in some certain situations. Based on Sumner's research (1906), ethnocentrism may cause customers overestimate the quality of the domestic productions and underestimate the quality of foreign productions. Wall and Heslop (1986) also think that it is obligated to support domestic economy and cultivate preference on domestic productions.

After formulating the new concept of customer ethnocentrism and to measure the level of customer ethnocentrism, Shimp and Sharma developed a special scale in 1987, which is specifically called the customer ethnocentrism tendencies scale (CETSCALE for short). After that, an increasing number of scholars and researchers have adopted ethnocentrism to conduct their studies since 1980s (Shimp and Sharma, 1987). To be specific, Jiménez-Guerrero et al., (2014) did a comprehensive review about the CETSCALE. They point out the validity and the reliability of the CETSCALE and it

has been tested in many studies. After the CETSCALE was developed, the tested by Netemeyer et al. (1991) confirms the validity of the CETSCALE's international applicability. However, the one-dimensionality of the CETSCALE has not been proved, which means the CETSCALE is consisted by different dimensions when it is applied in other countries except the United States. Moreover, the standard version or adapted version of the CETSCALE has been applied in various different countries across the world, including but not limited to China, Iceland, Turkey, The Netherlands, Poland, Russia, France, Japan, Germany etc.

As the ethnocentrism theory develops, various arguments also emerge. For example, Shimp and Sharma (1987) suggest that ethnocentrism is a sense of superiority that puts one's own culture over foreign culture. In practice, it is a prevalent phenomenon for international businesses nowadays. It may contain specific behavior when customers have a tendency toward domestic productions over abroad productions. Also, Rawwas et al., (1996) believe that customers holding ethnocentrism prefer to focus on the positive sides and advantages on domestic productions meanwhile prefer to focus on the negative sides and disadvantages on foreign productions. Moreover, Balabanis and Diamantopoulos (2004) point out the preference for domestic production and a bias toward foreign production exists. Furthermore, the findings in Shankarmahesh (2006) prove that ethnocentrism affect customers' feelings and attitudes towards productions' quality and purchase intention. Thus, various scholars including Amri & Prihandono, (2019) and Thomas et al., (2020) confirm that customers ethnocentrism has a significant positive effect on customers' purchasing decisions especially when they choose between domestic and foreign brands.

However, Kaynak et al., (2000) claim that the level of customer ethnocentrism may not be stable as it varies according to different cultures, individuals and countries. In other words, ethnocentrism only affects customers' attitude and decision when they intend to purchase foreign productions (Klein, 2002). Roth and Romeo (1992) and Sharma et al., (1994) prove this point in their studies that customer ethnocentrism influence customers differently across different production categories and production brands. When it comes to high involvement productions, such as automobiles, customer ethnocentrism has

more obvious effect on customers than on those who buy low involvement productions, such as toothpaste.

There are some other studies prove that, to general productions, higher degree of customer ethnocentrism will cause higher preference of domestic productions and lower preference of foreign productions. However, others may believe that customer ethnocentrism will only affect the preference on domestic productions and will not affect the preference on foreign productions (Netemeyer et al., 1991). Although it is obvious that a few research shows that the ethnocentrism leads customers to have different behaviors and attitudes towards local productions and foreign productions (Balabanis & Diamantopoulos, 2004; Pecotich and Rosenthal, 2001; Shankarmahesh, 2006), yet those studies have not been tested in some developing counties such as China (Wong, Polonsky, & Garma, 2008).

3. Methodology

3.1 Data collection and description

This study is designed to use a quantitative method with several steps. First, it is going to deploy a survey to collect the first-hand data. To do this, questionnaires have been designed and they are to be distributed online randomly to ensure that a comprehensive range of groups and samples can be covered. Moreover, the survey region is China. Also, according to Hair et al., (2009) and Tran et al., (2020) when it comes to ‘Exploratory Factor Analysis’, the minimum sample size should be at least five times the number of items. Thus, as there are three independent variables in this research, the ideal number of samples is set as 150. In order to gain enough data to analyze in next step, this paper intends to distribute 200 questionnaires via the internet.

3.2 Measurement

In order to investigate how discounts, product innovation, and customer ethnocentrism influence customers’ purchase decisions, this paper has compared a variety of previous research and attempt to use an appropriate scale to measure.

In terms of the questionnaire design (See details in Appendix 1), it includes four parts. To be specific, they are Starbuck part, Luckin Coffee part, Customer Ethnocentrism part, and Demographic Characteristics part. Among them, both Starbuck part and Luckin coffee part contain purchase decisions, price perception, and product innovation scales. Also, the coffee brands will be the subject and all questions are asked around the Starbucks and Luckin Coffee separately. The third part is about Customer Ethnocentrism. The last part asks about the candidates’ basic individual information, including gender, age, monthly income, and education level. Except the ‘Demographic Characteristics’ part, respondents are asked to choose their agreement level about the descriptions of the purchase decisions, price perception, product innovation, and customer ethnocentrism between Starbucks and Luckin coffee. To be specific, a 5-point-Likert-type scale will be used to help measure, from 1 point meaning ‘strongly disagree’ to 5 points meaning ‘strongly agree’ (Chang & Cheng, 2011).

In this research, there are six items in the purchase decision scale, which are adapted from Natasha and Subakti (2021). About discounts, there are six items and set up them in five aspects, which are mainly inspired by Graciola et al., (2018) and Lee and Chen (2018). Additionally, the product innovation scale is inspired and adapted from Wang (2020). As for measuring customer ethnocentrism, this paper uses and adapts 7 items from the ‘CETSCALE’, which included 17 items developed in 1987 by Shimp and Sharma to test the level of customers ethnocentrism in the United States. The full content of questionnaires can be seen in the end of this paper (Appendix 1).

To measure factor of ‘discounts’, this paper looks into five aspects about concept ‘Price Perception’, including ‘Perceived Value’, ‘Price Level’, ‘Price Fairness’, ‘Positive Emotions’, and ‘Price Sensitivity’. This method is backed by various studies. For example, ‘Discount depth perceptions’ is adapted from Grewal, Marmorstein, and Sharma (1996); ‘Value of discount’ is adapted from DeLVecchio, Lakshmanan, and Krishnan (2009). Moreover, this paper uses number 1, 4, 6, 8, 10, 11, and 14 items of the 17 ‘CETSCALE’ items. As the development of research about ethnocentrism, the CETSCALE has been used in various countries and areas to test the level of customers’ ethnocentrism. Not only Shimp and Sharma, but also other scholars have proved its reliability and validity. For example, Bawa (2004) indicated that item number 2, 4, 5, 6, 7, 8, 11, 13, 16, and 17 is a shortened version of the CETSCALE; Poon et al. (2010) used 7-item number 1, 2, 5, 6, 10, 15, and 16 to do research; Reardon et al. (2005) used 4-item number 4, 7, 11, and 17. Thus, this paper chooses a part of the CETSCALE as scale to measure the level of customer’ ethnocentrism about coffee purchase decisions. Thus, this paper is going to use the Customer Ethnocentrism Scale (CE) to measure customer’ ethnocentrism level in the following steps.

3.3 Preparation works

In terms of the language used, the original scales and questionnaires from other studies are all English versions. However, this paper accepts part of them at first and then translates them into Chinese. The reason is that the questionnaire will be distributed and completed in China and collected first-hand data, but not all those Chinese candidates

are able to read and finish this questionnaire in English version. Thus, before delivering questionnaires, the author has translated the questionnaire into Chinese from English, and invite several scholars who major in similar program and have fluent English and Chinese to ensure the translated questionnaire is easily understood, accurately described, without distorting the original meanings.

Before formal data collection, a pilot pre-test has been launched online to check whether respondents can understand entire questionnaire adequately and whether this questionnaire is feasible and reliable. The pre-test has divided 40 questionnaires online to Chinese and 36 valid answers have been received. The SPSS shows that, in this pre-test, the reliability is 0.919 ($\alpha=0.919$) and validity is 77.52% (Cumulative Variance Interpretation Rate= 77.52%), which indicates the questionnaire is appropriate. Then the final version questionnaire is delivered and distributed online.

3.4 The Outline of Specific methods

This paper uses the SPSS for data analysis. First, a descriptive analysis is going to be conducted on the collected data samples, which aims to briefly summarize and describe the percentage of each gender, age distribution, and monthly income situation of the respondents. The second step is the reliability and validity analysis. This step is to ensure that the collected data are true, reliable, and valid, as this is to ensure that the study is meaningful. The next step is called the correlation analysis. This aims to determine the correlation between the independent and dependent variables and to prepare for the regression analysis that follows. In the final step a linear regression analysis is conducted to show specifically whether and how each of the three independent variables (discounts, product innovation, and consumer ethnocentrism) affect customers purchase decisions of Starbucks and Luckin Coffee.

4. Hypotheses and Theoretical Framework

In this part, it is going to list current strategies that Starbucks and Luckin Coffee are using. Then, it is going to the theoretical framework and hypothesizes based on their strategies and previous studies.

4.1 Analysis of the Present Strategies of Starbucks

According to Starbucks official website (2022) and some previous research, this paper summarizes the current strategies of Starbucks as followed. First, Starbucks, as it states, loves its customers and hopes to offer high-quality Starbucks' coffee services. Moreover, Starbucks is keen on the creation of the third space, which refers to its offline stores, as a key strategy of Starbucks is experiential marketing. Specifically, Starbucks believes that people should take the time to enjoy a high-quality cup of coffee in an elegant environment. Also, Starbucks believes that enjoying coffee should be refined, noble and elegant, which is in line with their brand image. Therefore, when choosing a location, Starbucks usually chooses to locate their stores in busy commercial centers or financial centers. By doing so, Starbucks intends to reflect the elegance and class they need in the decor of their offline stores. Corresponding to this, the price of Starbucks coffee is at a high level. In addition, Starbucks emphasizes innovation and individualized services as well, as it attempts to bring customers surprise and pleasure consecutively. Finally, as a foreign coffee brand, Starbucks make certain efforts cater customer ethnocentrism. For example, Starbucks keeps trying to combine their store design, products, and styles with localized China features to show its respect to Chinese history and traditional culture (Chang, 2020).

Based on what has been listed above, this thesis proposes the following hypotheses:

Starbucks

H1. Price perception (PP Starbucks) has a significant positive effect on purchase decisions (PD Starbucks).

H2. Product innovation (PI Starbucks) has a significant positive effect on purchase

decisions (PD Starbucks).

H3. Customer Ethnocentrism (CE) has a significant negative effect on purchase decisions (PD Starbucks).

4.2 Analysis of the Present Strategies of Luckin Coffee

On the official website of Luckin Coffee (2022), there are some differences between its strategies and those of Starbucks. Specifically, First, Luckin Coffee is an emerging company with a very short brand history, founded in November 2017. However, according to public information, Luckin Coffee has earned tens of millions of dollars in April 2018. As of April 2019, a total of \$550 million in financing was gained. At present, there are more than 5,300 stores nationwide. As it states, high-quality coffee beans and advanced technology are the reason why Luckin Coffee has continuously won international awards and won the love of consumers, which undoubtedly shows that it is a successful coffee business. At the same time, in Luckin Coffee's view, Starbucks, which was founded in 1971 and entered China in 1999 and has been a leader for 20 years, is undoubtedly its biggest competitor.

What should be noticed is that the pricing strategy of Luckin Coffee is very attractive. To be specific, One of Luckin Coffee's strategies is to give every customer who downloads the Luckin coffee app for the first time a free cup of coffee. Moreover, these users also get a 50% coupon to be used on their next purchase. In addition to these, Luckin Coffee frequently give discounts, up to 80%. In addition, when each registered user invites a new unregistered user to download and sign up for the Luckin Coffee app he or she can also get a 50% coupon. Through this pricing strategy, Luckin Coffee keeps stimulating and attracting consumers to consume repeatedly, make purchase decisions. Regarding product innovation, Luckin Coffee's attitude is also very clear, as its slogan is continuous innovation. According to Luckin Coffee's official website, in terms of technology, Luckin Coffee uses cutting-edge international technology, with a full set of imported advanced equipment, and being committed to applying the latest technology to their coffee products. As for products, Luckin Coffee achieves product innovation by constantly introducing new ones. For example, they frequently introduce seasonal

limited coffees and new different flavors to please new market demands. Finally, since Luckin coffee is a local Chinese brand, this thesis supposes that Luckin Coffee is not negatively affected by consumer ethnocentrism when facing Chinese consumers in the Chinese market (Yang & Lv, 2019).

Based on what has been discussed above, the following hypotheses are proposed:

Luckin coffee

H4. Price perception (PP Luckin) has a significant positive effect on purchase decisions (PD Luckin).

H5. Product innovation (PI Luckin) has a significant positive effect on purchase decisions (PD Luckin).

H6. Customer Ethnocentrism (CE) has a significant positive effect on purchase decisions (PD Luckin).

4.3 Theoretical framework

After data collection, a regression analysis with SPSS is going to be used. The initial regression model is designed to be a cross-section model and formulated as

$$Y = \beta_0 + \beta_1 * X_1 + \beta_2 * X_2 + \beta_3 * X_3$$

Y= Dependent variable ‘Purchase Decision’

β_0 = Estimate for the constant parameter

X1= Independent variable ‘Price Perception’

X2= Independent variable ‘Product Innovation’

X3= Independent variable ‘Customer Ethnocentrism’

It is worthy to note that there are six items to measure Purchase Decision; six items to measure Pirce Perception; six items to measure Product Innovation; and seven items to measure Customer Ethnocentrism. Thus, this thesis is designed to use the function of the ‘AVERAGE’ function from the SPSS to combine those shared factor item scales

into one dimension. In addition, it generates several new variables, i.e., AVG PD (Starbucks), AVG PP (Starbucks), AVG PI (Starbucks), AVG PD (Luckin), AVG PP (Luckin), AVG PI (Luckin), and AVG CE. They are used to establish frameworks as below and to be used in the correlation analysis and the linear regression analysis. Additionally, as this paper is going to compare whether Starbucks' and Luckin coffee's present strategies fit their real situations, this paper has established two frameworks (Figure 1 and Figure 2) and intends to test and analyze them separately in following step.

Figure 1 Starbucks Theoretical Framework

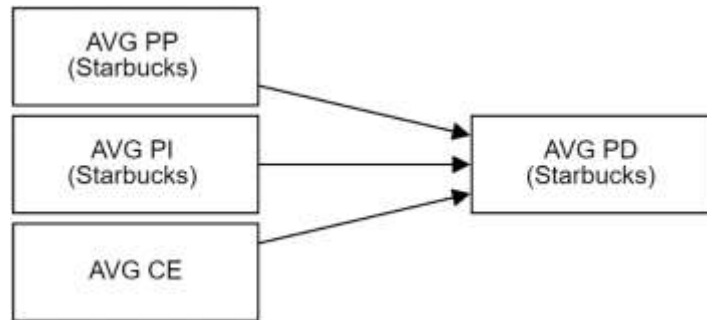
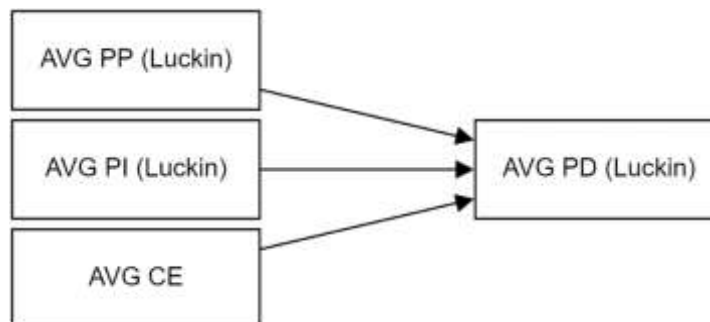


Figure 2 Luckin Coffee Theoretical Framework



5. Results and Interpretations

5.1 Descriptive analysis

Table 1 illustrates the distribution of demographic characteristics. Specifically, the results of questionnaire survey show that among the respondents who answered the questionnaire, 154 were female and 50 were male. The female sample accounted for 75.49% of the total survey sample and the male sample accounted for 24.51% of the total survey sample. In addition, the age distribution of the respondents is mainly concentrated in the age between 18 and 40. Among them, most of the respondents are young generation, in the age between 18 and 25, accounting for 62.75% of the total number of respondents. In this survey questionnaire, none of the respondents are over 60 years old, so that the percentage of respondents over 60 years old was 0%. In the survey of monthly income, 65 respondents chose a monthly income of 0 RMB as they are currently full-time students without income. This data feature is consistent with the results in the age survey, where a large proportion of respondents were aged 18-25. The monthly income of the remaining respondents was normally distributed, except for 28 respondents who said they did not want to disclose their monthly income.

Table 1 Distribution of Demographic Characteristics

Items	Categories	Frequency	Percentage (%)	Cumulative Percentage (%)
Gender	Male	50	24.51	24.51
	Female	154	75.49	100.00
Age Group	Under 18	2	0.98	0.98
	18-25	128	62.75	63.73
	26-30	28	13.73	77.45
	31-40	29	14.22	91.67
	41-50	15	7.35	99.02
	51-60	2	0.98	100.00
	0 RMB (Student)	65	31.86	31.86
	Under 3.5k RMB	20	9.80	41.67
Monthly Income	3.5k-5.5k RMB	36	17.65	59.31
	5.5k-7.5k RMB	22	10.78	70.10
	7.5k-10k RMB	15	7.35	77.45
	Above 10k RMB	18	8.82	86.27
	Prefer not to say	28	13.73	100.00
	Total		204	100.0

5.2 The Reliability Analysis

The Reliability analysis is used to test reliable accuracy of responses to quantitative data, especially attitude scale questions. According to the rules of the reliability analysis, alpha coefficient analysis is first conducted, and the analysis is mainly based on the value of alpha coefficient. To be specific, if the alpha coefficient is higher than 0.8, the reliability is high; if this value is between 0.7 and 0.8, the reliability is good; if this value is between 0.6 and 0.7, the reliability is acceptable; if this value is less than 0.6, the reliability is poor.

The next step is the Corrected Item-Total Correlation (CITC) analysis. In other words, if the CITC value of an item's question is lower than 0.3, the item can be considered for deletion. In addition, if the CITC value of an item is obviously higher than the alpha coefficient value, the item should be deleted. Finally, a conclusion can be drawn.

Table 2 Cronbach Alpha

Number of Items	Samples	Cronbach α
43	204	0.955

As can be seen from the table 2 above: the reliability coefficient value of this questionnaire survey is 0.955, which is greater than 0.9, indicating the high quality of the study data reliability. For the CITC value, in the full version of the table, only PP6 (Starbucks) corresponds to a CITC value 0.393, which is less than 0.4. In order to maintain the integrity of the questionnaire, this item was chosen to be retained in this paper. For the CITC value, there is no significant increase in the reliability coefficient when any question item is removed, thus indicating that the question items should not be removed from the treatment. In summary, the study data reliability coefficient value is higher than 0.9, which collectively indicates that the data reliability is of high quality and can be used for further analyses.

5.3 The Validity Analysis

Since this paper is going to study the current strategies of Starbucks and Luckin Coffee respectively, the validity analysis is based on the scales of the two companies separately. Generally, a validity analysis is used to test the design reasonability of quantitative data, especially attitude scale questions. Moreover, validity studies are used to analyze whether research items are reasonable and meaningful, and validity analysis is conducted using factor analysis as a method of data analysis. In this thesis, the KMO value was used to determine the suitability of the extracted information, the communality was used to exclude the unreasonable items, the variance explained value was used to indicate the level of information extraction, and the factor loading coefficient was used to measure the correspondence between the factors (dimensions) and the items. In general, the validity analysis consists of the following steps.

First, the 'KMO value' is analyzed; To be specific, if the value is higher than 0.8, the data can be regarded as very suitable for extracting information (good lateral response

validity); if the value is between 0.7 and 0.8, the study data is suitable for extracting information (good lateral response validity); if the value is between 0.6 and 0.7, the study data is relatively suitable for extracting information (fair lateral response validity) If this value is less than 0.6, it means that the data is not suitable for extracting information (average validity from side response) (if only two questions; then KMO is 0.5 in any case). Second, to examine the 'Communalities', 0.4 is generally set as the standard. Thus, when it is above 0.4, it should be retained, but if it is below 0.4, then its should be deleted. Third, as for 'Factor loadings', the correspondence between the question items and the factors are to be analyzed. In general, the factor loadings of items belonging to the same category should be correspond to the same factor. In other words, if the correspondence is generally consistent with the psychological expectation of the study, the validity is good. This means if the validity is poor; or the correspondence between the factor and the question item is seriously inconsistent with the expectation, or the corresponding common degree value of an analysis item is lower than 0.4 (sometimes 0.5 is the standard); then the question items can be considered for deletion. Fourth, if serious deviations are encountered in the correspondence between analysis items and factors, the question items can be deleted according to the 'Communalities' below 0.4 (sometimes 0.5 as a criterion). Additionally, when the KMO value does not meet the criteria, steps one to four can be repeated until the KMO value meets the criteria. Then, when the KMO value is achieved and the item-factor correspondence is as expected, this indicates good final validity.

5.3.1 The Validity Analysis of Starbucks

From the Table 3-a (PS: the full version of the Starbucks validity analysis Table 3-b is showed in Appendix 2), it can be seen that all the study items corresponded to communalities are higher than 0.4, except for the PD6 item whose communality was 0.37 ($0.37 < 0.4$), which did not meet the criteria, indicating that the information of the study items could be extracted effectively. In addition, the KMO value is 0.915, which is greater than 0.8. This means that the study data is relatively suitable for extracting information, and the validity is good from the side.

Table 3-a The Validity Analysis KMO of Starbucks and the Bartlett's Test (A shortened version)

KMO		0.915
	Chi-Square	4386.372
The Bartlett's Test of Sphericity	<i>df</i>	300
	<i>p</i>	0.000

Note: The full version of Starbucks Validity Analysis Table 3-b can be seen in Appendix 2.

Meanwhile, the variance explained values of the four factors were 24.844%, 18.026%, 16.556%, and 10.852%, respectively, and the cumulative variance explained after rotation was 70.277% > 50%. It means that the information content of the study terms can be effectively extracted. Finally, the factor (dimension) and correspondence of study items are also at a good level as seen from the factor loading coefficients. All question items of PD in Starbucks are concentrated in Factor 3; all question items of PP are concentrated in Factor 4; all question items of PI are concentrated in Factor 2, and all question items of CE are concentrated in Factor 1.

It is noteworthy that PD3 and PD4 show a concentration on both Factor 2 and Factor 3. In addition, PP1 and PP4 show a concentration on both Factor 3 and Factor 4. Meanwhile, PP6 shows a concentration on Factor 2, which is different from the trend of the whole PP items. PI6 shows a concentration on both Factor 2 and Factor 3.

Although some of the question items show some anomalies in the factor loading coefficients of the question directions, the overall KMO values of the data are up to standard, and the cumulative variance explained after rotation is 70.277%. To sum up, the validity test of Starbucks is good and can be used for the next analyses.

5.3.2 The Validity Analysis of Luckin Coffee

From the Table 4-a (PS: the full version of the Luckin validity analysis Table 4-b is showed in Appendix 3), it is obvious that the communalities of all research items are higher than 0.4, which means that the information of research items can be extracted effectively. In addition, the KMO value was 0.937, and the KMO value was greater than

0.8, which indicates that the study data is very suitable for extracting information, and the validity is good from the side. In addition, the variance explained values of the four factors were 24.561%, 20.008%, 18.995%, and 17.625%, respectively, and the cumulative variance explained after rotation was 81.188% > 50%.

Table 4-a The Validity Analysis KMO of Luckin and the Bartlett's Test (A shortened version)

	KMO	0.937
	Chi-Square	6029.879
Bartlett's Test of Sphericity	<i>df</i>	300
	<i>p</i>	0.000

Note: The full version of Validity Analysis of Luckin Coffee Table 4-b can be seen in Appendix 3.

It means that the information content of the study term could be possible to explained on 81.188% extent. Finally, the factor (dimension) and the correspondence of study items are also at a very good level as seen from the factor loading coefficients. All the question items of PD in Luckin coffee are concentrated on Factor 2; all the question items of PP are concentrated on Factor 3; all the question items of PI are concentrated on Factor 4, and all the question items of CE are concentrated on Factor 1. Although the question items PD3, PP1, and PI6 show some anomalies, a clear trend of the four factors can still be found. In conclusion, the validity test of Luckin Coffee is good and can be used for the next analysis.

5.4 The Correlation Analysis

A Correlation analysis is used to test the relationship between quantitative data, whether there is a relationship, the degree of closeness of the relationship, etc. Before correlation analysis is used for regression analysis, it is generally important to verify that there is a correlation between the explanatory variables so that the explained variables before the regression analysis can be performed in the next step. Correlation analysis is generally divided into the following three steps. First, the relationship between each Y and each X should be specifically analyzed respectively to examine whether there is a significant

relationship between Y and X. Second, the correlation is then analyzed as positive or negative; the magnitude of the correlation coefficient can also be used to indicate the closeness of the relationship. Third, the results of the analysis should be summarized. Generally speaking, there are two common types of correlation coefficients, including Pearson and Spearman. Specifically, the Pearson correlation coefficient is used in this paper. To be more specific, the correlation coefficient is used to indicate the relationship between the analyzed terms in the table of correlation analysis. First of all, it is observed and judged whether the explanatory variables are related to the explained variables. The * sign indicates a relationship, while the ** sign indicates an intensive relationship, otherwise it means no relationship. Next, it can be determined whether the relationship is positive or negative, with a correlation coefficient greater than 0 being positive, and vice versa being negative. Finally, the closeness of the relationship is judged. Usually, a correlation coefficient greater than 0.4 indicates a strong relationship.

5.4.1 The Correlation Analysis of Starbucks

From Table 5, the correlation analysis was used to investigate the correlation between AVG PD (Starbucks) and AVG PP (Starbucks), AVG PI (Starbucks), and AVG CE, respectively. Then the Pearson correlation coefficient was used to examine the strength of the correlation. The results of this analysis reveal the following information. The Pearson coefficient between AVG PD (Starbucks) and AVG PP (Starbucks) is 0.737 and shows a significance at 0.01 level, which indicate a significant positive correlation between AVG PD (Starbucks) and AVG PP (Starbucks). The Pearson coefficient between AVG PD (Starbucks) and AVG PI (Starbucks) is 0.704, which show a significance at 0.01 level, which is indicating a significant positive correlation between AVG PD (Starbucks) and AVG PI (Starbucks). The Pearson coefficient between AVG PD (Starbucks) and AVG CE is 0.199 and show a significance at 0.01 level. Thus, there is a significant positive correlation between AVG PD (Starbucks) and AVG CE.

Table 5 The Pearson Correlation (Starbucks)

		AVG PD (Starbucks)
AVG PP (Starbucks)	Coefficient	0.737**
	<i>p</i> value	0.000
AVG PI (Starbucks)	Coefficient	0.704**
	<i>p</i> value	0.000
AVG CE	Coefficient	0.199**
	<i>p</i> value	0.004

* $p < 0.05$ ** $p < 0.01$

In summary, AVG PP (Starbucks), AVG PI (Starbucks), and AVG CE have a significant positive correlation with AVG PD (Starbucks) as their Pearson coefficients in the table all have the ** sign. The Pearson coefficients of AVG PP (Starbucks), and AVG PI (Starbucks) are 0.737 and 0.704, respectively, and the Pearson coefficient of AVG CE is 0.199, which is less than 0.4. This indicates that AVG PP (Starbucks), and AVG PI (Starbucks) are more positively correlated than AVG CE is more significantly correlated to AVG PD (Starbucks). Last but not least, the correlation analysis of Starbucks indicates that there is an apparent relationship between AVG PD (Starbucks) and AVG PP (Starbucks), AVG PI (Starbucks), and AVG CE, which also suppose that it is feasible to conduct a regression analysis.

5.4.2 The Correlation Analysis of Luckin Coffee

From Table 6, the correlation analysis was used to investigate the correlation between AVG PD (Luckin) and AVG PP (Luckin), AVG PI (Luckin), and AVG CE, respectively. Also, the Pearson correlation coefficient was used to indicate the strength of the correlation. The specific analysis shows the following information. The Pearson coefficient between AVG PD (Luckin) and AVG PP (Luckin) is 0.732 and shows a significance at 0.01 level, which is indicating a significant positive correlation between AVG PD (Luckin) and AVG PP (Luckin).

The Pearson coefficient between AVG PD (Luckin) and AVG PI (Luckin) is 0.779, with the level of significance of 0.01, which is indicating a significant positive correlation between AVG PD (Luckin) and AVG PI (Luckin). The Pearson coefficient between AVG PD (Luckin) and AVG CE is 0.318, with the level of significance of 0.01, which indicates a significant positive correlation between AVG PD (Luckin) and AVG CE.

Table 6 The Pearson Correlation (Luckin Coffee)

		AVG PD (Luckin)
AVG PP (Luckin)	Coefficient	0.732**
	<i>p</i> value	0.000
AVG PI (Luckin)	Coefficient	0.779**
	<i>p</i> value	0.000
AVG CE	Coefficient	0.318**
	<i>p</i> value	0.000

* $p < 0.05$

** $p < 0.01$

In summary, AVG PP (Luckin), AVG PI (Luckin), and AVG CE have a significant positive correlation with AVG PD (Luckin), as their Pearson coefficients in the table have the ** sign. Moreover, the Pearson coefficients of AVG PP (Starbucks), and AVG PI (Starbucks) are 0.732 and 0.779, respectively, and the Pearson coefficient of AVG CE is 0.318, which is less than 0.4. This indicates that AVG PP (Luckin), and AVG PI (Luckin) are more positively correlated than AVG CE on AVG PD (Luckin) were more significantly correlated. Last but not least, the Luckin correlation analysis indicates that there is an apparent relationship between AVG PD (Luckin) and AVG PP (Luckin), AVG PI (Luckin), and AVG CE, which also suppose that it is feasible to carry out a regression analysis.

5.5 The Linear Regression Analysis

A regression analysis is used to examine the influence of X (explanatory variable) on Y

(explained variable) as well as whether there is an influencing relationship, the direction of influence and what the degree of influence situation is. Generally speaking, it includes the following steps. First, the model fit is analyzed, i.e., the model fit is analyzed by the R-squared value. For example, the value of 0.5 means that the model has 50% of the fit. Also, the VIF value can be analyzed to determine whether the model has covariance problems. Second, the model equation can be written. Third, the significance of X is analyzed; if it presents significance (p-value less than 0.05 or 0.01); it means that X has an influence relationship on Y, followed by a specific analysis of the direction of the influence relationship. This paper uses the F test to check whether the model is feasible or not. If the model passes the F test ($p < 0.05$), it means that the model is meaningful, in which at least one X has an impact on Y; if the model does not pass the F test ($p > 0.05$), it means that the model construction is meaningless and none of the X will have an impact on Y. Fourth, a comparative analysis is conducted on the extent of the effect of X on Y in conjunction with the regression coefficient values. Fifth, the analysis can be summarized to illustrate whether to receive or reject the hypothesis.

5.5.1 The Linear Regression Analysis of Starbucks

From Table 7, it can be seen that AVG PP (Starbucks), AVG PI (Starbucks), and AVG CE are the independent variables, and AVG PD (Starbucks) is the dependent variable for the linear regression analysis. From the table above, the model equation is as followed: $AVG PD (Starbucks) = 0.367 + 0.561 * AVG PP (Starbucks) + 0.363 * AVG PI (Starbucks) - 0.064 * AVG CE$, and the model R-squared value is 0.610, implying that AVG PP (Starbucks), AVG PI (Starbucks), AVG CE can explain AVG PD (Starbucks) for 61.0% of the variation. The F-test of the model found that the model passed the F-test ($F=104.327$, $p=0.000 < 0.05$), which means that at least one of AVG PP (Starbucks), AVG PI (Starbucks), AVG CE has an effect on AVG PD (Starbucks). In addition, it can be found that all the VIF values in the model are less than 5.0, which means that there is no cointegration problem; and the D-W value is around the number 2.0. This indicates that there is no autocorrelation in the model or correlation between the sample data. Thus, the model is good. The final specific analysis shows that the value of regression

coefficient for AVG PP (Starbucks) is 0.561 ($t=7.619$, $p=0.000<0.01$), implying that AVG PP (Starbucks) has a significant positive relationship on AVG PD (Starbucks). Additionally, the regression coefficient value of AVG PI (Starbucks) is 0.363 ($t=5.789$, $p=0.000<0.01$), implying that AVG PI (Starbucks) has a significant positive influence relationship on AVG PD (Starbucks). The regression coefficient value of AVG CE is -0.064 ($t=-1.824$, $p=0.070>0.05$), implying that AVG CE has no influential relationship on AVG PD (Starbucks).

Table 7 The Linear Regression of Starbucks (Summary)

	Coefficients	95% CI	VIF
Constant	0.367* (2.294)	0.053 ~ 0.681	-
AVG PP (Starbucks)	0.561** (7.619)	0.416 ~ 0.705	2.145
AVG PI (Starbucks)	0.363** (5.789)	0.240 ~ 0.485	2.156
AVG CE	-0.064 (-1.824)	-0.134 ~ 0.005	1.143
<i>n</i>		204	
<i>R</i> ²		0.610	
Adj. <i>R</i> ²		0.604	
<i>F</i> Value		<i>F</i> (3,200)=104.327, $p=0.000$	

Dependent Variable: AVG PD (Starbucks)

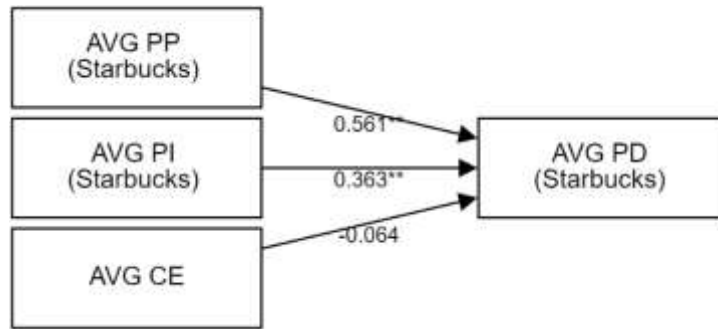
D-W: 2.105

* $p<0.05$

** $p<0.01$ *t* statistics in parentheses

To summarize the analysis, it can be seen that AVG PP (Starbucks), AVG PI (Starbucks) has a significant positive effect relationship on AVG PD (Starbucks) in Figure 3. However, there is no influencing relationship between AVG CE and AVG PD (Starbucks). Therefore, H1 and H2 can be it accepted but H3 should be rejected.

Figure 3 Starbucks Result Framework



5.5.2 The Linear Regression Analysis of Luckin Coffee

From Table 8, it can be seen that AVG PP (Luckin), AVG PI (Luckin), and AVG CE are the independent variables, and AVG PD (Luckin) as the dependent variable for linear regression analysis. From the table above, the model equation is: $AVG PD (Luckin) = -0.247 + 0.423 * AVG PP (Luckin) + 0.546 * AVG PI (Luckin) + 0.080 * AVG CE + u$, with a model R-squared value of 0.669, implying that AVG PP (Luckin), AVG PI (Luckin), and AVG CE can explain 66.9% of the variation in AVG PD (Luckin). When the F-test was performed on the model, it was found that the model passed the F-test ($F=134.673$, $p=0.000 < 0.05$), which means that at least one of AVG PP (Luckin), AVG PI (Luckin), and AVG CE would have an effect relationship on AVG PD (Luckin), which means that the model construction is meaningful.

In addition, the multiple cointegration of the model was tested and it can be found that all the VIF values in the model are less than 5, which means that there is no cointegration problem; and the D-W values are around the number 2, thus indicating that there is no autocorrelation in the model, and there is no correlation between the sample data, so that the model is good. The final specific analysis shows that the value of the regression coefficient of AVG PP (Luckin) is 0.423 ($t=5.929$, $p=0.000 < 0.01$), implying that AVG PP (Luckin) has a significant positive influence relationship on AVG PD (Luckin). The regression coefficient value of AVG PI (Luckin) is 0.546 ($t=7.605$, $p=0.000 < 0.01$), implying that AVG PI (Luckin) has a significant positive influence relationship on AVG PD (Luckin). The regression coefficient value of AVG CE is 0.080 ($t=2.139$, $p=0.034 < 0.05$), implying that AVG CE has a significant positive influence

relationship on AVG PD (Luckin).

Table 8 The Linear Regression of Luckin Coffee (Summary)

	Coefficients	95% CI	VIF
Constant	-0.247 (-1.243)	-0.637 ~ 0.143	-
AVG PP (Luckin)	0.423** (5.929)	0.283 ~ 0.563	2.227
AVG PI (Luckin)	0.546** (7.605)	0.405 ~ 0.686	2.428
AVG CE	0.080* (2.139)	0.007 ~ 0.153	1.140
<i>n</i>		204	
<i>R</i> ²		0.669	
Adj. <i>R</i> ²		0.664	
<i>F</i> Value		<i>F</i> (3,200)=134.673, <i>p</i> =0.000	

Dependent Variable: AVG PD (Luckin)

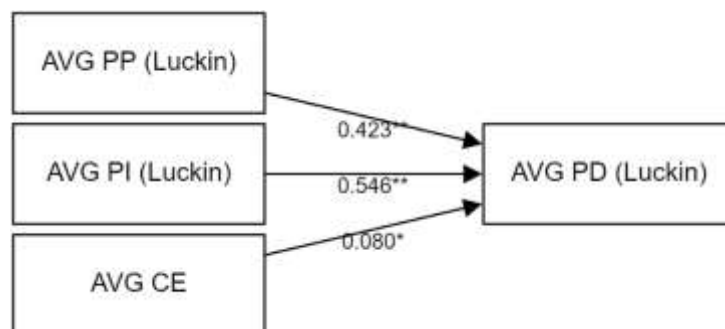
D-W: 1.639

* *p*<0.05

** *p*<0.01 *t* statistics in parentheses

To summarize the analysis, in figure 4, it can be seen that since AVG PP (Luckin), AVG PI (Luckin), and AVG CE have a significant positive effect on AVG PD (Luckin), the three original hypotheses of Luckin coffee H4, H5, and H6 should all be accepted.

Figure 4 Luckin Coffee Result Framework



6. Discussion and Conclusion

6.1 Discussion

First, the findings of this thesis demonstrates that this is a positive effect of price perception on the purchase decision. To be specific, huge discounts do not imply low quality in consumers' perceptions (Monroe and Krishnan 1985; Zeithaml 1988), thus hindering their purchase decisions. On the contrary, high discounts have a positive impact on consumers' purchase decisions (Honea and Dahl 2005; Schindler 1998). In other words, consumers perceive that huge discount can provide them with a pleasant shopping experience and happy feelings, which stimulate them to make a purchase decision.

In addition, the findings of this thesis indicates that product innovation is an important role on purchase decision (Lupiyoadi and Hamdani, 2006; Novitasari et al., 2021). It has been proved that product innovation has a significant positive effect on purchase decisions for both Starbucks and Luckin Coffee. In the existing strategies of Starbucks and Luckin Coffee, it can be found that both companies mention innovation and both of them have regrade it as their goal or mission and implemented it in their strategies. Thus, this thesis argues that this is one of the key factors for their success.

Finally, theoretically, due to the objective existence of consumer ethnocentrism (Netemeyer et al., 1991; Shimp and Sharma, 1987), consumer ethnocentrism can have a negative impact on consumers' purchase decisions on Starbucks' products, while it can be a significant positive impact on consumers' purchase decisions on Luckin Coffee's products. The reason is that for the Chinese consumers, Starbucks is a foreign coffee brand company, while Luckin Coffee is a native coffee brand.

However, the empirical results of this thesis show that consumer ethnocentrism has no significant effects on their purchase decisions on Starbucks' products; but it has a significant positive effect on their purchase decisions on Luckin Coffee's products. Also, this has proved that the results of this thesis side-step Klein's (2002) opinion that the degree of consumer ethnocentrism is diverse and influenced by cultural and individual differences. These differences can affect consumers' attitudes and make different

purchase decisions. In addition, the results also reveal that the effect of consumer ethnocentrism on consumers is not significant when they purchase low-involvement products; Roth and Romeo (1992), and Sharma et al. (1994) use toothpaste as an example, while coffee, the subject of this thesis, is also a low-involvement product.

6.2 Implication

The results of this thesis can be valuable for coffee brands, both domestic and foreign ones, who are considering to enter and operate in the Chinese market. In other words, if a coffee company wants to enter and succeed in the Chinese coffee market, neither Chinese nor foreign brands should ignore the important role of discounts and product innovation. The reason is that the results of this thesis has pointed out that high discounts create a positive and pleasant price perception for consumers and motivate them to make a purchase decision. In addition, in this thesis, product innovation is also shown to be a factor that has a significant positive impact on purchase decisions. Additionally, consumer ethnocentrism is indeed an obstacle for foreign firms to enter international markets, but for foreign coffee brands, consumer ethnocentrism may not be such an important role, because coffee is a low-involvement product that maybe unnecessary in consumers' daily life. Importantly, the evidence suggests that consumer ethnocentrism does not affect the purchase decision for Starbucks. In conclusion, when a coffee brand wants to enter the Chinese market, it should focus designing smart discounts and innovating their products than catering consumer ethnocentrism.

6.3 Limitation

It should be admitted that there are some shortcomings of this thesis. First, the sample size of this paper is only 204, and the distribution of the questionnaire lasted for only one week. In other words, the small sample size and short testing time may lead to experimental results that are not sufficiently generalizable. A larger sample size and longer testing time should be considered in subsequent experiments. Second, the consumer ethnocentrism section shows that the level of consumer ethnocentrism is influenced by different cultures and individual differences. However, limited by the

purpose of the study, this thesis has not explored how consumer ethnocentrism is actually influenced. Subsequent studies can explore on this basis. Third, although discounts, product innovation, and customer ethnocentrism are three very important factors that influence purchase decisions, there are still various factors that influence consumers' purchase decisions, such as brand image, product packaging, marketing strategies etc. This means this paper has not designed a model complex enough to contain more factors into it. Therefore, it is a good idea to explore more factors that influence purchase decisions in future research.

6.4 Conclusion

Based on the analyses and results above, this paper draws some conclusions about how discounts, product innovation, and customer ethnocentrism affect customers' purchase decisions between the two coffee brands and finds there are still rooms for Starbucks to improve its strategies. First, there is no mention of discounts in Starbucks' strategy. It is also rare to see Starbucks offer a large number of coupons from its daily operating experience. On the contrary, Starbucks has made the prices of Starbucks products high in order to achieve the experiential marketing for offline third space, in line with Starbucks' noble and exquisite brand image and marketing concept. However, according to the results of this thesis, this is detrimental to motivating consumers to make purchase decisions for Starbucks. Nevertheless, Starbucks is very innovative and committed to providing refinement and delight to its customers, a strategy that is favorable to Starbucks and consistent with the results obtained in this thesis. Finally, Starbucks has incorporated Chinese elements into the design style of its offline stores as well as its products in order to overcome the obstacles caused by consumer ethnocentrism and to show Starbucks' respect for Chinese culture and history. This is a wise approach, but as the consumer ethnocentrism does not have a significant impact on low-intervention products such as coffee, Starbucks should invest less energy and money in consumer ethnocentrism. Instead, Starbucks should focus more on discounts, which would be more beneficial to consumers in making purchase decisions for Starbucks.

As for Luckin Coffee, its strategy is well suited to the current reality. The high discount coupons mentioned in its strategy, the constant product innovation of new flavors and the use of advanced equipment and technology, as well as the Chinese brand identity of Luckin Coffee itself, all have a significant positive impact on consumers make their purchase decisions.

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Appendix 1:

Questionnaire

Dear volunteers,

Thank you for your attention and time to participate this survey. The data and information will only be used for academic research, please do not worry about it. You should answer these questions based on your real feelings and experiences.

The survey intends to explore how price perception, product innovation and customer ethnocentrism affect on customers purchase decisions. It involves Starbucks and Luckin coffee, please read patiently. Thank you so much.

(PS: There is a five-point likert Scale which is used to measure the extent about the agreement.) In formal questionnaire, there will be five options after each question except part 4. Individuals will choose one option about the agreement for the description.

Disagree

Somewhat disagree

Neither agree or disagree

Somewhat agree

Agree

Part 1 Starbucks Part

Please choose your attitude about the description about Starbucks.

Purchase Decision (PD)

1. I think, Starbucks is my first choice, when I want to buy a coffee.
2. I think, Starbucks can meet my demand for coffee products.
3. I am very satisfied with the products I purchased from Starbucks.
4. I would recommend my friends or others to go to Starbucks to buy coffee products.
5. I often go to Starbucks to buy products.
6. I can get news about Starbucks products directly from their offline stores or other social media.

Price Perception (PP)

1. I think, it is worthwhile to spend money on Starbucks products.
2. I think, the discount offered by Starbucks is very economical.
3. I think, the price of Starbucks is very low.
4. I think, the price of Starbucks products is acceptable
5. I think, the discount price of Starbucks makes me happy
6. I would like to buy Starbucks products at a discounted price whenever possible

Product Innovation (PI)

1. I think, Starbucks can always launch new products.
2. I think, the new products created by Starbucks very attractive.
3. I think, the new Starbucks product has a unique taste
4. I think, the new product of Starbucks is creative.
5. I think, the new coffee product created by Starbucks is of high quality.
6. I think, I am willing to purchase Starbucks' new product.

Part 2 Luckin coffee

Please choose your attitude about the description about Luckin coffee.

Purchase Decision (PD)

1. I think, Luckin coffee is my first choice, when I want to buy a coffee.
2. I think, Luckin coffee can meet my demand for coffee products.
3. I am very satisfied with the products I purchased from Luckin coffee
4. I would recommend my friends or others to go to Luckin coffee to buy coffee products
5. I often go to Starbucks and Luckin coffee to buy products
6. I can get news about Luckin coffee products directly from their offline stores or other social media.

Price Perception (PP)

1. I think, it is worthwhile to spend money on Luckin coffee products.
2. I think, the discount offered by Luckin coffee is very economical.
3. I think, the price of Luckin coffee is very low.
4. I think, the price of Luckin coffee products is acceptable.
5. I think, the discount price of Luckin coffee makes me happy.
6. I would like to buy Luckin coffee products at a discounted price whenever possible.

Product Innovation (PI)

1. I think, Luckin coffee can always launch new products.
2. I think, the new products created by Luckin coffee very attractive.
3. I think, the new Luckin coffee product has a unique taste
4. I think, the new product of Luckin coffee is creative.
5. I think, the new coffee product created by Luckin coffee is of high quality.

Appendix 2: Starbucks Validity Analysis (full version)

Table 3-b Starbucks Validity Analysis

Items	Factor Loadings				Communalities
	Factor 1	Factor 2	Factor 3	Factor 4	
PD1 (Starbucks)	0.114	0.205	0.805	0.178	0.734
PD2 (Starbucks)	0.045	0.107	0.859	0.225	0.802
PD3 (Starbucks)	-0.067	0.423	0.605	0.168	0.578
PD4 (Starbucks)	0.088	0.466	0.540	0.202	0.557
PD5 (Starbucks)	0.109	0.324	0.662	0.157	0.579
PD6 (Starbucks)	0.059	0.301	0.515	0.104	0.370
PP1 (Starbucks)	0.143	0.361	0.523	0.511	0.685
PP2 (Starbucks)	0.203	0.308	0.142	0.759	0.733
PP3 (Starbucks)	0.286	0.064	0.287	0.771	0.763
PP4 (Starbucks)	-0.031	0.238	0.455	0.632	0.664
PP5 (Starbucks)	0.218	0.375	0.292	0.423	0.452
PP6 (Starbucks)	-0.068	0.568	0.314	-0.125	0.442
PI1 (Starbucks)	0.202	0.639	0.369	0.283	0.665
PI2 (Starbucks)	0.047	0.698	0.183	0.279	0.600
PI3 (Starbucks)	0.221	0.792	0.250	0.069	0.743
PI4 (Starbucks)	0.194	0.753	0.278	0.258	0.749
PI5 (Starbucks)	0.161	0.823	0.169	0.236	0.787
PI6 (Starbucks)	0.140	0.519	0.506	0.376	0.686
CE 1	0.891	0.084	0.112	0.087	0.822
CE 2	0.912	0.142	0.028	0.098	0.863
CE 3	0.919	0.101	0.080	0.093	0.869
CE 4	0.928	0.119	0.024	0.094	0.885
CE 5	0.911	0.135	0.030	0.130	0.867
CE 6	0.927	0.082	0.075	0.089	0.879
CE 7	0.881	0.032	0.074	0.117	0.796
Eigenvalues (Initial)	10.229	4.866	1.421	1.053	-

Appendix 2: Starbucks Validity Analysis (full version)

Table 3-b Starbucks Validity Analysis

Items	Factor Loadings				Communalities
	Factor 1	Factor 2	Factor 3	Factor 4	
% of Variance (Initial)	40.917%	19.463%	5.684%	4.214%	-
% of Cum. Variance (Initial)	40.917%	60.380%	66.064%	70.277%	-
Eigenvalues (Rotated)	6.211	4.506	4.139	2.713	-
% of Variance (Rotated)	24.844%	18.026%	16.556%	10.852%	-
% of Cum. Variance (Rotated)	24.844%	42.870%	59.426%	70.277%	-
KMO		0.915			-
Bartlett's Test of Sphericity (Chi-Square)		4386.372			-
<i>df</i>		300			-
<i>p</i> value		0.000			-

Note: Blue indicates that the absolute value of loading is greater than 0.4, and red indicates that the communality is less than 0.4.

Appendix 3: Luckin Coffee Validity Analysis (full version)

Table 4-b Luckin coffee Validity Analysis

\Items	Factor Loadings				Communalities
	Factor 1	Factor 2	Factor 3	Factor 4	
PD1 (Luckin)	0.197	0.851	0.199	0.254	0.868
PD2 (Luckin)	0.186	0.826	0.258	0.236	0.839
PD3 (Luckin)	0.079	0.742	0.226	0.418	0.782
PD4 (Luckin)	0.134	0.715	0.393	0.360	0.814
PD5 (Luckin)	0.166	0.729	0.396	0.334	0.827
PD6 (Luckin)	0.112	0.645	0.352	0.322	0.656
PP1 (Luckin)	0.106	0.597	0.612	0.224	0.792
PP2 (Luckin)	0.031	0.297	0.838	0.178	0.823
PP3 (Luckin)	0.115	0.144	0.786	0.311	0.749
PP4 (Luckin)	0.008	0.319	0.809	0.346	0.876
PP5 (Luckin)	0.035	0.310	0.779	0.277	0.781
PP6 (Luckin)	-0.006	0.300	0.711	0.331	0.705
PI1 (Luckin)	0.179	0.298	0.310	0.759	0.794
PI2 (Luckin)	0.135	0.334	0.251	0.791	0.819
PI3 (Luckin)	0.130	0.309	0.347	0.772	0.828
PI4 (Luckin)	0.223	0.384	0.382	0.657	0.774
PI5 (Luckin)	0.217	0.292	0.319	0.732	0.769
PI6 (Luckin)	0.092	0.466	0.370	0.655	0.791
CE 1	0.891	0.081	0.050	0.148	0.825
CE 2	0.923	0.046	0.072	0.066	0.864
CE 3	0.920	0.163	0.100	0.056	0.886
CE 4	0.925	0.150	0.083	0.080	0.891
CE 5	0.914	0.104	0.062	0.130	0.866
CE 6	0.932	0.076	0.004	0.081	0.881
CE 7	0.867	0.113	-0.051	0.173	0.797

Appendix 3: Luckin Coffee Validity Analysis (full version)

Table 4-b Luckin coffee Validity Analysis

\Items	Factor Loadings				Communalities
	Factor 1	Factor 2	Factor 3	Factor 4	
Eigenvalues (Initial)	12.700	5.138	1.314	1.144	-
% of Variance (Initial)	50.801%	20.554%	5.256%	4.577%	-
% of Cum. Variance (Initial)	50.801%	71.355%	76.611%	81.188%	-
Eigenvalues (Rotated)	6.140	5.002	4.749	4.406	-
% of Variance (Rotated)	24.561%	20.008%	18.995%	17.625%	-
% of Cum. Variance (Rotated)	24.561%	44.569%	63.564%	81.188%	-
KMO		0.937			-
Bartlett's Test of Sphericity (Chi-Square)		6029.879			-
<i>df</i>		300			-
<i>p</i> value		0.000			-

Note: Blue indicates that the absolute value of loading is greater than 0.4, and red indicates that the communality is less than 0.4.