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DIFFERENCES IN CONSUMER PREFERENCES BETWEEN LOCAL AND IMPORTED GOODS IN LATVIA. EVIDENCE FROM THE BEVERAGE MARKET

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**Differences in Consumer Preferences between Local and
Imported Goods in Latvia.
Evidence from the Beverage Market**

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Abstract

The population of Latvia is known for strong national identity, which certainly has impact on consumer ethnocentrism. Consumer ethnocentrism is a preference towards local products over imported ones, which the authors explore in this study on the example of beverage market in Latvia. For this purpose, qualitative and quantitative research designs are combined, so as to provide analysis from different perspectives. Quantitative analysis provides comprehensive overview of beer consumption in Latvia for the past 4 years and applies hedonic pricing model for determination of values that consumers assign to imported and local beer brands. Qualitative analysis goes deeper into the research of customers' preferences when making purchasing decisions. The authors conduct a stated choice experiment to reveal the importance of country-of-origin factor for the buyers when choosing a brand. The paper provides insights into the market of beverages in Latvia, beer consumption trends and preferences regarding the country-of-origin. The authors conclude that Latvian population assigns higher values for the imported types of beer. However, this phenomenon can vary between different age groups and younger generation more often values locally originating brands higher, unlike older groups of people.

1. Introduction

Historical changes in the Latvian way of development and an increase in national identity allow one to discuss and analyse the concept of consumer behaviour in terms of ethnocentrism or xenocentrism. Latvian population in the last decades is salient for their strong cultural and national foundations. In the time of rapidly developing processes of globalization, it is important to follow the stream of worldwide tendencies and break barriers in pursuit of economic growth and freedom; however, that should not hurt national identity and affect self-consciousness. In this case Latvia, as a part of the European Union, follows successful integration with other countries, but as well maintains a high level of national culture and identity (Ludviga, 2012).

These processes have particular effects on business activities in the country. Thus, local and global marketers and companies that are operating in the region should take into consideration consumer ethnocentrism. Local companies should be particularly interested in this question, as they can certainly capitalize on it and construct their strategies accordingly.

This paper researches the beverage industry in Latvia, and particularly looks at the attitude of consumers to foreign products in comparison to local ones. The authors study the phenomenon of consumer ethnocentrism, use data about consumption rates of local and imported beer brands and apply hedonic price regression analysis. This is done so as to decompose the prices of presented beverages and make certain emphasis on the factor of interest – country-of-origin – as a parameter for ethnocentricity detection, *ceteris paribus*. Quantitative analysis is supported by a survey conducted through stated choice experiment. Mixed research design aims to provide fewer limitations and improve estimate precision.

2. Literature review

2.1. Consumer ethnocentrism

The term ethnocentrism was introduced and developed by Sumner in 1906. In his work “Folkways: The sociological importance of usages, manners, customs, mores, and morals” he finds a name for a phenomenon when things and objects of one particular group are considered “the centre of everything and all others are scaled and rated with reference to it” (Sumner, 1906).

In its turn, *consumer ethnocentrism* as a concept was first widely discussed and applied by Shimp and Sharma in 1987. At that time, they studied the attitude of American consumers towards domestic and imported goods. The concept reflects beliefs of consumers regarding domestic goods and their superiority over foreign ones. According to Shimp and Sharma, consumption of imported goods in this case implies negative intentions and harmful effect for domestic economy. Local population perceives that foreign products consumption is wrong and can lead to higher unemployment, to a decrease in economic development and it is generally considered unpatriotic behaviour (Shimp & Sharma, 1987).

Shimp & Sharma’s research contributed a lot to the development of a new model CETSCALE (Consumer Ethnocentrism Scale), which became a tool for measurement of purchasing behaviour and decision-making process of choosing between foreign and domestically produced goods. However, their main contribution is coining the concept of ethnocentrism. Using this concept, it is possible to evaluate the behaviour of customers, to analyse the reasons of preferences towards certain goods: patriotism, animosity, affinity, identity and belongingness etc. (Shimp & Sharma, 1987).

A number of studies provide outcomes about the way products are perceived in particular countries, depending on the country-of-origin of a product and the level of ethnocentrism in the importing state. The type of a product, however, plays a significant role as well. Clothes, electronics, coffee and tea, cars, cigarettes – all these are examples of products that bear particular impact of consumers' ethnocentrism (Papadopoulos, Heslop, & Bamossy, 1990).

2.2. The case of Latvia

A number of surveys, conducted in post-soviet countries, have indicated a case of strong consumer xenocentrism (as opposed to ethnocentrism) - the attitude towards imported goods that tends to be more positive than domestically produced ones, with the only exception of food products (Durvasula, 1997).

The Baltic states are very interesting in this regard, as they followed the path of European integration and thus ended in a mix of ethnocentric and xenocentric attitudes; at that, it has not been empirically studied whether consumers in the Baltics have a better image of imported goods rather than domestic ones. Neither has it been found out whether that kind of consumers' opinion has solid bases and what it stems from (Auruskeviciene, Vianelli, & Reardon, 2012).

In that sense, Latvia is very peculiar. As opposed to the influence of strong consumer xenocentrism in Soviet times, it is moving towards evident ethnocentrism in the last decades. The authors would like to emphasize the relevance of the research of ethnocentrism in Latvia due to evident signs of evolvement and escalation in national identity. The research made in 2012 by Iveta Ludviga: "National Culture and Identity in Contemporary Global World: Assessment in Latvia", concludes that Latvian population has very strong national identity and stands out for its high consumer ethnocentrism. Rapid development in post-Soviet times,

increase in self-consciousness, political and social issues - all this contributed to the evolvement of ethnocentrism and convinced people in the superiority of domestic products. The process of decision-making is influenced by those factors and domestic companies are expected to receive higher attention and their products – to be more popular. However, that research was made in a strongly generalized model with a relatively short time period (three years), drawing attention to the main concepts of national identity, culture, beliefs and heritage (Ludviga, 2012).

Moreover, compared to other countries Latvia shows a notable rise in national identity and culture, which implies a clear effect on consumer preferences. According to the research by Ludviga, Latvia outstrips such countries as US, Japan and Sweden by this parameter. Consumer ethnocentrism is reported to have been increasing for the last 3 years. All these facts are drawing positive conditions for local companies and the author recommends capitalizing on it and expanding domestic production. (Ludviga, 2012)

However, consumer ethnocentrism in Latvia was researched with certain limitations and generalizations. The concepts of culture and ethnocentrism are extremely difficult to evaluate and compare between countries by qualitative methods of analysis. Hence, this paper aims to continue the study of consumer ethnocentrism in Latvia, taking into consideration already available findings and expanding on the quantitative research, which, the authors believe, is going to provide more accurate information about purchasing behaviour of people.

Consumer ethnocentrism implies strong effect on export and import; it creates incentives to reject foreign products. Nowadays, in the period of globalization and widespread reduction of tariffs and elimination of barriers for the purpose of trade amplification between nations, consumer ethnocentrism is remaining a strong non-tariff barrier. The routes of it stem from social, economic, political and demographic spheres and

fields of the country (Shankarmahesh, 2006). Actually, these four categories determine the whole process of decision-making and attitudes towards a country-of-origin, as well as overall ethnocentrism or xenocentrism of the nation.

Country of origin became a category by which consumers can immediately make their decisions and attribute or associate products with positive or negative characteristics. The label “*made in*” plays a significant role in the market and affects consumer behaviour (Cateora & Graham, 1999). Hence, it is interesting to look at the attitude of the population towards different countries of origin in Latvia, which is a part of the European Union and gains benefits from free trade and liberalization.

Consequences of consumer ethnocentrism have direct effect on local companies and brands. Some researches state that quite a number of countries discernibly prefer foreign-made products, for example, Russia, China and Hungary (Papadopoulos, Heslop, & Bamossy, 1990). Other countries show high loyalty towards local brands, for example, Poland and Slovakia (Damish, 1995).

This study focuses on the research of beverage industry, which is also known for being exposed to the country-of-origin factor. A number of surveys study consumer ethnocentrism, but few of them turn to particular industries or products. However, Czech researchers applied and studied concepts of consumer ethnocentrism in the Czech Republic and focused on the beer industry in particular. Wanninayake and Chovancova (2012) implemented CETSCALE model in a classic way as it developed by Shimp and Sharma, and came to a conclusion of evident consumer ethnocentrism among Czech population. The results show that customers have negative attitude towards foreign brands and in most cases support local producers (Wanninayake & Chovancová, 2012).

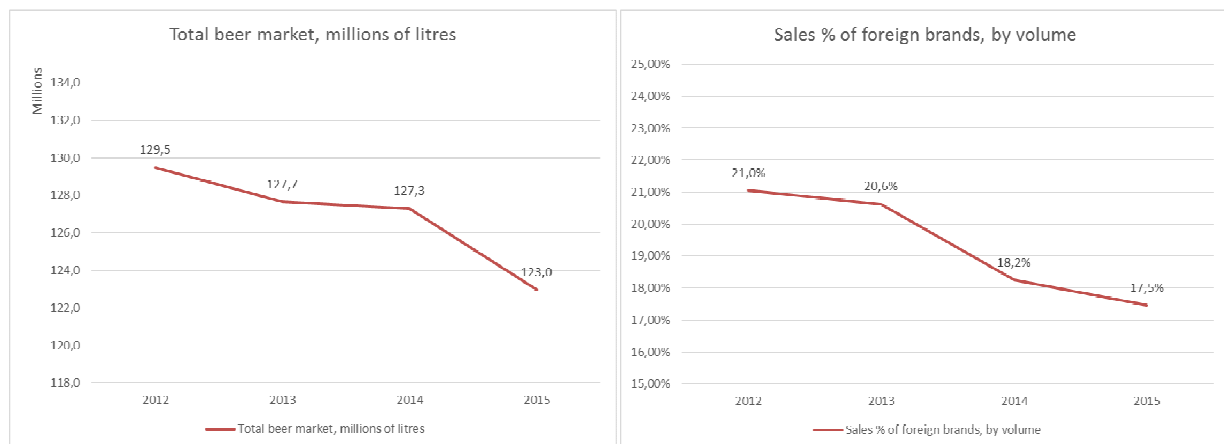
Nevertheless, the Czech Republic is renowned in the world for excellent quality and taste characteristics of beer produced in the country. Additionally, it was stated, that in the beginning of the second decade of the 21st century the Czech Republic surpasses other countries in annual consumption of beer per capita (Euromonitor, 2010). However, such qualitative studies could have a number of limitations and biases.

Before proceeding with the research question, the authors would like to provide a brief description of the beer market in Latvia, putting emphasis on the position of imported brands, in order to give a fuller picture of the consumers' preferences.

Market description

In the last 4 years, in addition to a persistent beer market size decline from 129.5 to 123.0 million litres per year, a clear tendency towards localization of consumption has been observed: the volume percentage of foreign brands' sales has been steadily falling from 21.0% in 2012 to 17.5% in 2015 (Figure 1).

Figure 1. Sales of beer in Latvia (in mln litres) and share of foreign brands in total sales in Latvia (2012 – 2015).



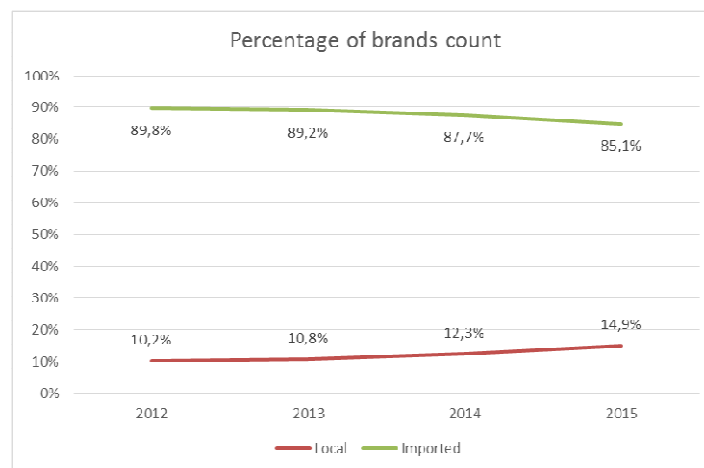
Source: made by authors.

The declining proportion of sales of foreign brands can stem from the fact that lately the market has witnessed the opening of many small local breweries, which can also be seen

in the brands count development: the total number of local brands has been absorbing imported brands' proportion and therefore sales potential (Figure 2).

Therefore, the authors can conclude that the position of imported brands in the Latvian market has been under significant pressure in this decade. But the purpose of this paper is to find out what lies behind consumers' choice when it comes to country of origin.

Figure 2. The number of unique local and imported brands in the market (2012-2015).



Source: made by authors.

Data from the first 2 months of 2016 displays the continuation of the trends, even though it should not be extrapolated as a projection for the full year. All in all, the aforementioned latest tendencies in the beer market of Latvia have an effect on the vector of the authors' hypothesis, presented later in the paper.

2.3. Research question

This paper aims at clear identification of consumer ethnocentrism or xenocentrism in the Latvian beverage market. According to previous researches, this country has a certain tendency to ethnocentrism. This result was drawn from qualitative analysis and from research of national identity. However, this paper will apply *quantitative* approach while studying this issue, which is going to reflect the real purchasing behaviour. In order to fully expand on this

matter, quantitative analysis will be combined with a survey, and the mix of approaches will create the necessary effect of triangulation (a combination of methodologies in the study of the same phenomenon), to achieve better judgements due to collecting and analysing different kinds of data describing the same issue.

The research will look into the country-of-origin – as a bias factor in consumers' behaviour, and study the situation of consumer ethnocentrism in the region. With that purpose, the authors will attempt to identify whether consumers in Latvia favour to imported beverages or to local ones (*ceteris paribus*).

Taking into consideration already existing qualitative studies about consumer ethnocentrism and combining it with research of beverage industry, the authors would like to state and answer the following research question:

All other things held equal, are imported beverages in the Baltics perceived as superior to domestic ones?

Our hypothesis is that the answer to the research question is negative, implying that an average Latvian consumer is ethnocentric.

3. Methodology and data

3.1. Methodology

Hedonic Price Regression

The primary methodology the authors apply is a *hedonic price regression*, which allows researchers to determine the value of a good by breaking its characteristics into separate components and running a regression on them. This method presupposes that the value of a heterogeneous good can be delineated by its characteristics and attributes (Bartik, 1987).

A similar type of research was conducted by Combris, Lecoq and Visser on the example of wine market. Estimation of hedonic price equation was the main approach of analysis, and with that purpose the authors determined objective characteristics capable of explaining the market price of wine (Combris, Lecocq, & Visser, 1997).

As OECD describes it with regard to real estate hedonic price modelling, “the demand and supply for the properties implicitly determine the characteristics’ marginal contribution to the prices of the properties” (OECD, 2013). In our case, the beer market is one where this applies to various drinks, and each product can be described as a set of characteristics which will be listed below; in a general form, the equation will look as follows:

$$Price = f(\text{direct characteristics, other influencing factors})$$

The regression shows the "value" of each characteristic available to us. The list of them and explanations behind them can be found in *Table 1*.

Table 1. List of product characteristics used in the study.

Characteristic	Explanation
Price per litre	Price indicates the market value assigned by the aggregated

	consumers' opinion about a given product, as this figure is obtained from actual sales data. It is the dependent variable regressed on the independent variables listed below.
Package type	There are 3 principal types of beer packages that are sold in the Latvian market: <i>PET bottles</i> , <i>glass bottles</i> and <i>cans</i> .
Package size	There is a variety of beer package sizes sold in the market observed, varying from 0.25L to 5L.
ABV (alcohol, %)	Alcohol by volume is a measure of how much alcohol is contained in a set volume of a beverage (in percentages).
Beer type	There are 3 beer types: dark, light, other (including wheat beers, red beers, etc.).
Segment	This is a categorical variable that indicates the quality segment. There are the following values in our dataset: strong, economy, mainstream, premium and craft. These are generally accepted segments of beer used in most market data.
Import/Non import	This characteristic indicates if a brand is local or not.
Weighted distribution	The dataset includes information on weighted distribution of a particular product, which is a strong proxy for its availability (in rough terms, it says how big is the percentage of outlets in Latvia where the product can be purchased).

The differences in excise taxation across different countries of origin can be disregarded, as the excise is paid by the distributor according to the end consumer's state legislation, in our case – the Latvian tax code, therefore the tax conditions are the same regardless of the brand's origin.

By making emphasis on the country of origin variable, it will be possible to find out the extent to which it is significant to the consumers. This analysis appears appropriate to study the topic about consumers' xeno- or ethnocentrism.

For the categorical variables (for instance, *package type*), the authors will use the methodology suggested, among others, by the OECD. Categorical explanatory variables (as

opposed to continuous ones) are represented by dummy variables which assume the value of 1 if the product belongs to the category in question and 0 otherwise (OECD, 2013).

Limitations

Firstly, in the analysis the authors assume that individuals possess the knowledge and information about the country of origin of a particular product. It might be that, for example, some brands which are originally perceived to be from country A, are actually brewed and bottled in another country. In case a certain percentage of customers possesses that information, the perception of the brand name with regard to country of origin might be warped. For example, with Carlsberg originally being a Danish brand, a share of Latvian consumers might be aware that it is produced in Lithuania and thus treat it as less of a Danish beer, but rather a Lithuanian brew – at least to some extent.

Secondly, whereas the model might be biased if one or more significant variables were left out from the regression, the authors have tried to cover most objectively measurable characteristics of the subject of study. The authors believe the dataset used is quite comprehensive and includes most of the key beer attributes.

Ideally, the model demands that the market possesses an almost unlimited variety of beers, where a consumer can purchase the particular beer of their choosing, that has the specific combination of characteristics they need. However, it is fair to say that the choice of beers in Latvia will be limited to a certain number of products, which might not cover all segments, types, strength levels or package types. It may be that, for instance, that strong lagers will be found only in plastic bottles, while porters will tend to be present mostly in glass packages. Thus, it will not be possible to separate package type and beer type characteristics accurately.

However, despite the presence of the limitations mentioned above, experience of previous researches, a combination of two research approaches and robust data the authors are inclined to believe that the results are credible for solid conclusions.

Stated Choice Experiment

In addition to *hedonic price regression*, the authors are intending to employ an alternative qualitative approach, the so-called *stated choice experiment*, conducted in the field. Stated choice methods are usually applied to explore intermediate stages in the process of making a purchase decision, and then integrated with revealed preference from actual market data (Louviere, Hensher, & Swait, 2000).

The method implies the following:

- a. taking sets of two "anonymous" products from the same segment with identical characteristics, and country of origin being the only different parameter;
- b. inquiring the consumers what they prefer – the “local” or the “imported” beverage, and the price they would be willing to pay for each of the samples. Using this approach, the authors can estimate the "additional value" of the fact that the good is imported (or local), which the consumer is ready to pay extra for.

The result of the experiment will be a price coefficient, indicating what is the marginal added value of a variable in a way identical to the one the authors employ in *hedonic price regression* to account for local or foreign origins of a product.

To get a full picture on the issue and make a solid conclusion, the authors compare the results of both approaches, as they believe they might enhance and expand each other.

There are possible limitations of this methodology. Ideally, the experiment would need to include stated choice questions with all possible types of beer (brews, packages etc.)

to identify whether the potential bias is reliant upon the type of the product. However, in this case, the authors have conducted the experiment using 4 different types of drinks.

3.2. Data

3.2.1. Data type

The data for *hedonic regression model* presents a panel dataset on total beer sales in Latvia from 2012 to 2015 years by months by products. The dataset includes volume (in units and litres) and value sold (in local currency) of a particular product in the indicated period, as well as the following characteristics of each product: producer company, brand, sub-brand, package type, strength, size, multi-pack indicator, beer type, segment, distribution measure, country of origin.

Table 2. Data summary.

Time period	4 years' sales data by months (2012-2015)
Number of observations	25 795
Number of unique brands	379 (43 local and 336 imported)
Total value of sales during observed period	590,5 mln EUR
Total volume of sales during observed period	507,4 mln litres
Proportion of volume of sales for local / foreign brands during the period	81% local and 19% foreign

Source: AC Nielsen and authors' calculations.

The data for the *stated choice experiment* presents a cross-sectional dataset that includes the answers of respondents from the sample as for what is the price premium they would be ready to pay when making consumer choice between two nearly identical types of beverages with common characteristics except for the country of origin – local or imported.

3.2.2. Data sources

The data the authors possess and use for *hedonic price regression* is collected by AC Nielsen, a global marketing research firm. The authors use the data with a permission from the data owner – AS Aldaris, for this paper’s purposes.

For the *stated choice experiment*, the data was obtained through fieldwork conducted by the authors of this study using the methodology described above. The process of the experiment is described in more detail later in the paper.

4. Analysis of results

4.1. Hedonic price regression

The authors processed and analysed the data and conducted a regression analysis according to the methodology described above. The analysis includes the following models:

- Ordinary least squares (OLS) regression model with cross-sectional data by product, i.e. number of observations – all combinations of beer characteristics listed, consumed in Latvia from 2012 to 2015;
- OLS regression model with same cross-sectional data including interaction and square terms for higher significance and explanatory power;
- OLS regression model with panel data by months. Number of observations – all combinations of beer characteristics listed, consumed in each month from 2012 to 2015.

Regression 1. The number of observations is 1 241. The authors include 7 main types of variables (found in Table 2) that contribute to the determination of beverage prices.

$$\begin{aligned} \text{Price per litre} = & \alpha + \beta_1 \cdot \text{abv} + \beta_2 \cdot \text{packagesize} + \beta_3 \cdot \text{multipackID} + (\beta_4 \cdot \text{canID} + \beta_5 \cdot \text{glassID}) + \\ & (\beta_6 \cdot \text{darkID} + \beta_7 \cdot \text{otherID}) + (\beta_8 \cdot \text{economyID} + \beta_9 \cdot \text{mainstreamID} + \beta_{10} \cdot \text{premiumID} + \\ & \beta_{11} \cdot \text{craftID}) + \beta_{12} \cdot \text{importID} + \beta_{13} \cdot \text{wtd} \end{aligned}$$

Table 3. List of variables.

<i>Variables</i>	<i>Abbreviations</i>	<i>Modalities</i>
Price per litre	<i>PPL</i>	Continuous
Package type	<i>petID, canID, glassID</i>	Dummy
Package size	<i>packagesize</i>	Continuous
Multipack	<i>multipackID</i>	Dummy

ABV (alcohol by volume)	<i>Abv</i>	Continuous
Beer type	<i>lightID, darkID, otherID</i>	Dummy
Segment	<i>strongID, economyID, mainstreamID, premiumID, craftID</i>	Dummy
Import/Local	<i>importID</i>	Dummy
Weighted Distribution	<i>wtd</i>	Continuous (0-100)

According to the methodology and with regard to the theoretical framework of hedonic price regression, the authors came up with the results displayed in *Table 3*.

Table 4. Hedonic price regression results.

Regression 1. Cross-sectional data	
Variable	Coefficient (95% CI deviation)
<i>Abv</i>	0.279 (0.0395)
<i>Packagesize</i>	- 0.074 (0.0353)
<i>multipackID</i>	- 0.342 (0.1281)
<i>canID</i>	0.252 (0.0726)
<i>glassID</i>	1.039 (0.0810)
<i>economyID</i>	0.277 (0.1581)
<i>mainstreamID</i>	0.403 (0.1668)
<i>premiumID</i>	1.258 (0.1901)
<i>craftID</i>	0.930 (0.1776)
<i>darkID</i>	0.041 (0.1103)
<i>otherID</i>	0.441 (0.1483)
<i>importID</i>	0.214 (0.0800)
<i>wtd</i>	- 0.008 (0.0015)
Constant	- 0.794 (0.3134)
Number of observations	1241
R2	0.4128

All variables significantly influence the price of the products. The only variable *darkID* (beer type) is statistically not significant, with respect to the 3rd categorical variable from “beer type” – *lightID*. R-squared of 0.41 shows that our assumptions and set of variables are relevant and have high explanatory power. As discussed in the section 2.3 of this paper, the hypothesis is as follows:

Hypothesis: All other things held equal, local beer is more valuable for Latvian population than imported beer.

Primary results show that the fact that beer is *imported* (independent variable *importID*) increases its price with all other characteristics being equal. In other words, people assign a higher value to imported beer, and hence are ready to pay more for it than for local beer, with the same qualitative characteristics, such as sort, package dimensions and others.

Hedonic price regression shows the most significant parameters that influence the price of beer that is formed in the market. However, turning to the point of ethnocentrism/xenocentrism, the dummy variable *importID* can be used as a proxy for the readiness of Latvian population to pay more only for the fact that the beer brand originates in another country.

Hence, it is concluded that the population of Latvia values imported beer more than local; therefore, the Hypothesis is **rejected**.

Regression 2. In the following regression the authors included one interaction term and one squared term after having checked various combinations for sense and significance:

$$\text{Impwtd} = \text{importID} * \text{wtd}$$

In the case when the brand is foreign, with the increase of its availability in stores, its price per litre decreases.

$$Abv2 = abv * abv$$

ABV (alcohol level) squared term displays a non-linear relationship and shows that the effect of ABV on price per litre varies across different levels of alcohol in the beverage.

This provided higher explanatory power (R-squared increases to 46%); all variables stay significant. Import characteristic (*importID* beta) stays positive in the range of 0.40 – 0.64 with a confidence interval of 95% (Table 4).

Table 5. Hedonic price regression results with interaction and square term

Regression 2. Cross-sectional data	
Variable	Coefficient (95% CI deviation)
<i>Abv</i>	- 0.271 (0.0735)
<i>Abv2</i>	0.064 (0.0106)
<i>packagesize</i>	- 0.411 (0.0354)
<i>multipackID</i>	- 1.946 (0.1164)
<i>canID</i>	0.247 (0.0719)
<i>glassID</i>	1.034 (0.0806)
<i>economyID</i>	0.888 (0.1867)
<i>mainstreamID</i>	1.018 (0.1931)
<i>premiumID</i>	1.768 (0.1978)
<i>craftID</i>	1.572 (0.1919)
<i>darkID</i>	0.002 (0.1051)
<i>otherID</i>	0.402 (0.1438)
<i>importID</i>	0.521 (0.0630)
<i>impwtd</i>	- 0.0218 (0.0032)
Constant	- 0.564 (0.2370)
Number of observations	1241
R2	0.4534

Regression 3. Panel data. In this case the authors use panel data with the same variables including consumption of beverages by months for the period of 2012-2015. The number of observations is 25 795. R-squared is 41.09%. The coefficient of *importID* variable

does not change its sign. However, the coefficients of variables deviate slightly from previous models, but all of them stay significant and give robust results.

Table 6. Comparative regression analysis.

Independent variables	Regression 1. Cross-sectional data	Regression 2. Cross-sectional data	Regression 3. Panel data
<i>abv</i>	0.279 (0.0395)	- 0.271 (0.0735)	0.238 (0.0085)
<i>abv2</i>	-	0.064 (0.0106)	-
<i>packagesize</i>	- 0.074 (0.0353)	- 0.411 (0.0354)	- 0.106 (0.0102)
<i>multipackid</i>	- 0.342 (0.1281)	- 1.946 (0.1164)	- 0.319 (0.0340)
<i>canid</i>	0.252 (0.0726)	0.247 (0.0719)	0.415 (0.0188)
<i>glassid</i>	1.039 (0.0810)	1.034 (0.0806)	1.152 (0.0203)
<i>economyid</i>	0.277 (0.1581)	0.888 (0.1867)	- 0.682 (0.0379)
<i>mainstreamid</i>	0.403 (0.1668)	1.018 (0.1931)	- 0.592 (0.0403)
<i>premiumid</i>	1.258 (0.1901)	1.768 (0.1978)	0.172 (0.0453)
<i>craftid</i>	0.930 (0.1776)	1.572 (0.1919)	- 0.165 (0.0393)
<i>darkid</i>	0.041 (0.1103)	0.002 (0.1051)	0.191 (0.0255)
<i>otherid</i>	0.441 (0.1483)	0.402 (0.1438)	0.474 (0.0344)
<i>importid</i>	0.214 (0.0800)	0.521 (0.0630)	0.169 (0.0172)
<i>impwtd</i>	-	- 0.0218 (0.0032)	-
<i>wtd</i>	- 0.008 (0.0015)	-	-0.008 (0.0003)
_cons	- 0.794 (0.3134)	- 0.564 (0.2370)	0.399 (0.0645)
R-squared	0.4128	0.4534	0.4109
Number of observations	1,241	1,241	25,795

Regression models show us coefficients of variables that determine the price of beverages according to hedonic pricing model. Variable *importID* (proxy for ethno-/xenocentrism and value assignation) remains positive in all models and varies from 0.152 in Model 3 (lowest value) to 0.584 in Model 2 (highest value) within 95% confidence interval.

Results show particular patterns, the regression models are constructed on a representative data sample and according to hedonic pricing model methodology provide high explanatory power with R-squared above 0.41.

According to these results the authors can make certain conclusions and discuss results in the following section.

4.2. Stated choice experiment

Following the methodology described in Part 3, the authors have conducted a *stated choice experiment* with 291 respondents using CAPI (computer-assisted personal interviewing). The experiment was held in one of the biggest department stores in Riga (Latvia) next to the beverage section for a total of 9 hours on two different days. The experiment can be described as follows.

Step 1. Degustation

The authors offered every respondent to taste two samples of beer, stating at first that those are two similar types of beer, but one is imported, and the other one is Latvian-

Figure 3. Stated choice experiment questionnaire

The screenshot shows a mobile application interface for a survey titled "BSc Thesis". At the top, there is a header bar with a hamburger menu icon, the text "Fill in form", and a checkmark icon. Below the header, the survey is divided into three sections, each with a question and a list of radio button options. The first section is titled "Which of the beers would you choose?" and has two options: "Local" and "Imported". The second section is titled "How much would you pay for it?" and has eight options ranging from "0.80 EUR" to "1.20 EUR" in increments of 0.05 EUR. The third section is titled "How much would you pay for the other beer?" and has three options: "0.80 EUR", "0.85 EUR", and "0.90 EUR".

produced. In fact, the beers were poured from the **very same bottle**; the beer type was altered between the respondents, but one respondent always tasted the same type both in the cup labelled “imported” and the cup labelled “local”.

Step 2. Choice

The authors subsequently inquired the respondent which of the beers they would prefer if the price is the same.

Step 3. Assigning value

The respondents were inquired as for what price they would be ready to pay for the beer of choice, and what price they would pay

for the other type, from a list of 9 options varying from 0.80 EUR to 1.20 EUR per bottle with a step of 5 euro cents.

Step 4. Demographics

Additional questions were asked to identify the gender and age group in order to seek for possible patterns of result variance across demographic groups.

5. Discussion of results

5.1. Hedonic price regression

According to the methodology and obtained regression results the authors can state that the population of Latvia assigns certain value to the country of origin characteristic when it comes to choosing beverages – in particular, beer. The results of the regressions show that consumers are ready to pay a higher price for imported beer and according to the assumptions stated above, perceive it being of higher quality, with all the regarded characteristics remaining equal.

These outcomes contradict the authors' initial hypotheses and show that *ceteris paribus*, local population prefers foreign brands, which indicates their *xenocentric* preferences.

Previously discussed papers (Ludviga, 2012) indicate manifestation of general ethnocentrism among Latvian population. However, according to quantitative analysis in the beverage industry, empirical findings reflect quite the opposite: rather *xenocentric* attitude of the consumers. This might be connected with the specificity of the product: perhaps, the general belief is that brewing traditions are more well-established abroad, then in Latvia – at least in the opinion of an average consumer.

In order to find out what people standing in front of the beer shelves actually think, the authors support their quantitative analysis with a qualitative survey conducted in the field (Stated Choice Experiment). The results described below bring up new considerations with certain inferences to the matter in question.

5.2. Stated choice experiment

In this experiment the hypothesis is aligned with the one the authors applied in *hedonic price regression*. (H: All other things held equal, local beer is more valuable for Latvian population than imported beer).

When the data was collected, what the authors looked at was the margin that the customer is ready to pay for the beer he or she believes to be imported. The “margin” was calculated as a quotient of the price assigned to imported beer and the price assigned to local beer.

$$Margin = p_{imp} / p_{loc},$$

where p_{imp} is the price assigned to imported beer and p_{loc} is the price assigned to local beer.

The logic applied is as follows: if the result is above the value of 1, the consumer is xenocentric; if it is below 1, the consumer is ethnocentric. An average value of 1 would imply no credible bias of the consumer on average.

The split of respondents by age group and gender was normally distributed (Figure 4), which implies that selection biases in the results are unlikely.

Figure 4. Age and gender split.



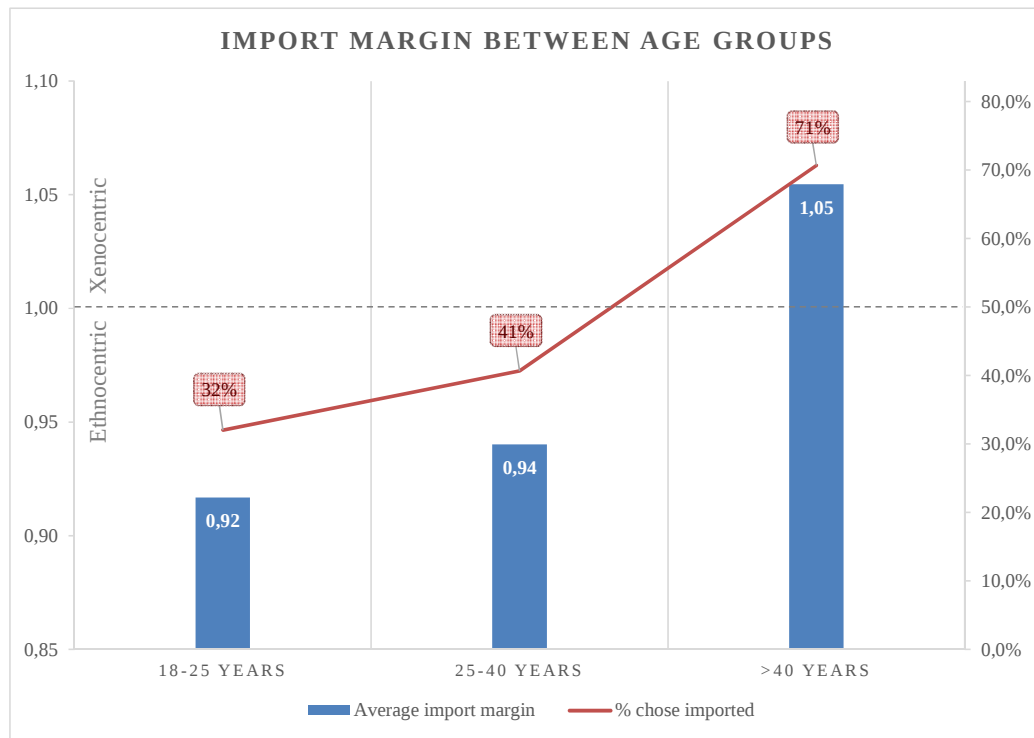
Source: authors' survey results

The results suggest that the consumers are *ethnocentric*, and the total pool of respondents on average pays for imported beer 0.968 (96.8%, or by 3.2% less) of what they would be willing to pay for local beer, although the samples tried are *absolutely identical*.

Even though on aggregate the respondents are only slightly biased towards a locally produced good, the import margin's standard deviation of 0.176 stated by different respondents in the sample suggests that *there is* a bias on individuals' level, but the aggregated result is set off by different directions of the bias among different groups of people. Therefore, the authors decided to look into the data a level deeper, in an attempt to find out if there is a persisting ethnocentricity pattern across age or gender groups.

The authors intended to disclose if there is a correlation between the respondent's age and the beer of choice, as well as the margin they pay for it. Interestingly enough, the level of ethnocentricity is indeed reliant upon the age group: young consumers tend to value local beer higher than imported, unlike those born before the 1980s (Figure 5).

Figure 5. Import margin across age groups.

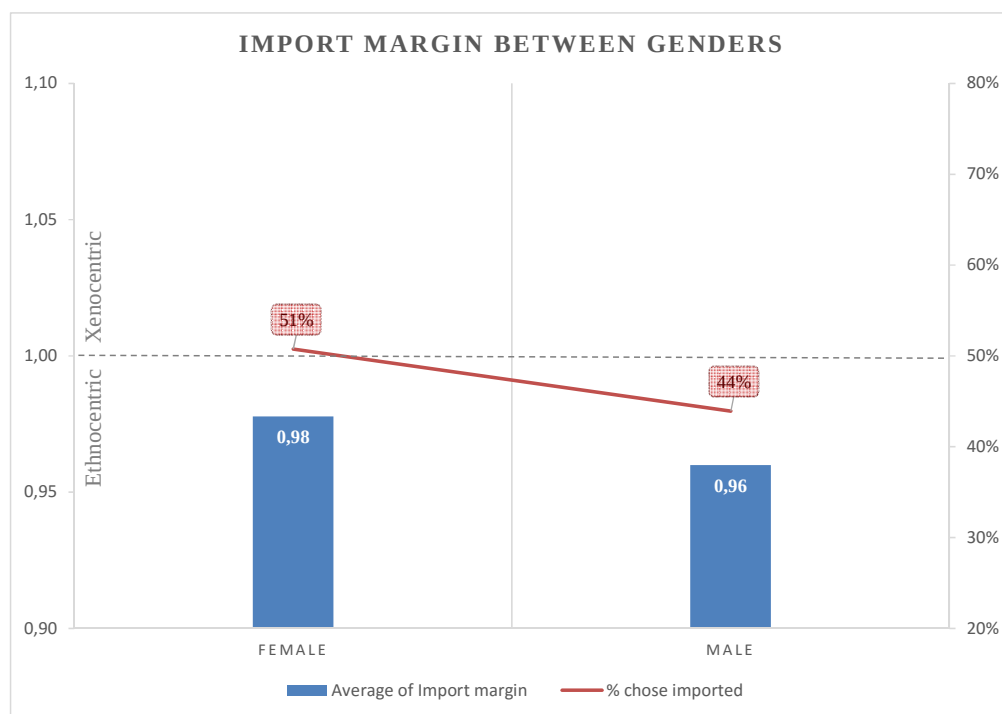


Source: authors' survey results

This means that people aged 40 years and more are actually likely to be xenocentric, while the younger generations believe that Latvian-produced beverages are superior to those brought from abroad. This might stem from the fact that for people brought up in the times of the Soviet Union, national identity plays, at large, a less significant role. However, this is simply a conjecture.

Nevertheless, there was barely any significant variance across gender groups (Figure 6).

Figure 6. Import margin across genders.



Source: authors' survey results

Therefore, the authors conclude that in terms of stated choice the population in Latvia is:

1. On average ethnocentric;
2. Dominantly biased towards either local or imported beverages on *individual* level;
3. Described by growing xenocentricity as we move up in the age group.

6. Conclusion

As the coefficient next to *importid* variable in all regressions conducted is positive, the authors are inclined to conclude from the primary methodology (hedonic price regression) that beer consumption habits in Latvia tend to prove that on aggregate the consumer is xenocentric, which means that foreign beer brands are perceived to be of higher quality – or, in other terms – are assigned a higher value by the consumer pool, than local brands – all other parameters held equal.

However, the stated choice experiment conducted suggests that on average there is no clear bias of the total population (limited by the representativeness of the sample). Still and all, there are reasons to believe that a bias on an individual level is existent, even though present in different mutually offsetting directions. In addition, there is a growing ethnocentricity pattern among older age groups.

There is a number of reasons the results of the two methodologies appear to be contradictory. First of all, the aggregated market data indicates that the consumers who assign higher value to imported brands might simply constitute a larger proportion of buyers, than those who tend to be ethnocentric. Additionally, the quantitative methodology explores the *actual* consumption choice made, whereas the other methodology is merely a *stated* choice, which often tends to be different from the actual purchase. Moreover, both methodologies had certain limitations that might have resulted in the difference. As an example, the stated choice experiment was conducted only in one location in Latvia – Riga, whereas the consumer preferences might differ across various parts of the country.

All in all, relying on the primary method, the authors conclude that a Latvian beer consumer perceives imported brands as superior to local ones and that in the case of the beer

market, the consumer is xenocentric. The authors also suggest further researchers to explore the issue on a deeper level to find out the reasons of such tendencies.

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