

Chinese Retail's Consumer Psychology and Competitive Advantage: The Fat Donglai Case

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Abstract: This study explores how Fat Donglai leverages consumer psychology to achieve competitive advantage in China's retail market. Through case analysis and structural equation modeling (SEM), it examines Fat Donglai's effective store management, cultural integration, emotional resonance strategies, and supply-chain efficiency. Results reveal that emotional value, cultural triggers, and exceptional service significantly enhance consumer loyalty. The research concludes that psychological engagement offers a more sustainable competitive advantage than traditional price competition, providing practical insights for retailers seeking deeper consumer connections.

Keywords: Consumer psychology, Emotional resonance, Cultural triggers, Retail competitiveness, Fat Donglai

1. Introduction

According to the data of the National Bureau of Statistics, the total retail sales of consumer goods in China have maintained a growth trend for many consecutive years [1]. Online channel penetration has increased significantly over the past five years, with online retail penetration reaching 42% in 2023 [2]. However, the offline business format has not completely declined, and some physical retail enterprises have achieved countertrend growth by strengthening consumer experience and providing high-quality goods and services. In this context, "psychological value" is becoming an important selling point of physical retail - consumers pay more and more attention to scene experience and emotional identification in the shopping process.

Fat Donglai is deeply cultivated in Henan province, which has a population of nearly 100 million. Its economic development is stable and improving, and the trend of residents' consumption upgrading is obvious. According to the data of Henan Provincial Department of Commerce, Fat Donglai's retail market share in prefecture-level cities reached 28%, far exceeding other similar competitors [2]. Fat Donglai's contrarian growth, driven by refined management practices, community cultural integration, and flexible pricing backed by robust supply chains, provides a representative case to explore how consumer psychological mechanisms can enhance competitive advantage. By examining this case through theories of consumer behavior and neuroeconomics, this study aims to clarify the psychological processes influencing consumer decision-making and loyalty, thus offering actionable insights for China retail enterprises seeking differentiation beyond price competition.

2. Consumer Psychology Research

2.1. Value perception and cognitive load

Traditional consumer behavior theory states that consumers usually rely on price-quality heuristics to quickly judge the quality of goods [3]. However, consumers face a significantly increased cognitive load in a retail environment with information overload and proliferation of promotions [4]. Research shows that when consumers struggle to make effective decisions through price or promotions, emotional factors and brand trust will become key influencing points.

The importance of excellent after-sales assistance as a foundation for customer retention. For example, research by Zeithaml, Bitner, and Gremler highlights its critical role in fostering lasting customer loyalty [4]. This concept is embodied in Fat Donglai's operational strategy, where the company has demonstrated significant proficiency in providing excellent customer service, both in physical and online interactions. The core tenet of Fat Donglai's customer service strategy is to resolve customer issues quickly and effectively. This responsiveness is a key indicator to measure customer satisfaction, and resolving customer issues quickly will significantly improve customer retention, and this service attitude also means that Fat Donglai can provide emotional value to consumers, increase consumers' dependence on the Fat Donglai brand and establish good recognition. In Fat Donglai's retail environment, detailed and diverse labels and complaint boxes are displayed next to product shelves. This commitment is exemplified by this. These labels provide comprehensive product information, including details about purchase channels, instructions for use, and recommended product combinations. This enhances the shopping experience and strengthens feedback by providing buyers with knowledge and facilitating easier purchasing decisions, deeply linking the relationship between the company and the individual. As noted in the Nielsen report, providing transparent and readily available product information is associated with increased consumer trust and satisfaction, which is a key determinant of repeat customers. This level of service is not only in line with consumer rights but also has the effect of significantly enhancing the emotional interaction of customers with the brand, increasing satisfaction and loyalty, and building brand trust, as customers will feel a sense of value and respect.

2.2. Mental Accounts and Cultural Triggers

By establishing a high-end, high-quality brand image, Fat Donglai targets two main groups: on the one hand, middle- and high-income consumers who prioritize quality and excellent shopping experience, as proposed by Kim and Sullivan[5], this group tends to allocate more of their budget to quality goods and services that can improve their quality of life and overall well-being; On the other hand, price-sensitive consumers are extremely concerned about discounts and promotions, and their purchasing decisions are mainly influenced by price and promotional factors [6]. Based on Thaler's theory of mental accounts, people will classify and differentially allocate funds in different accounts according to the purpose of consumption and brand recognition - when they choose to shop in high-end supermarkets instead of traditional markets, it means that their "daily consumption" mental account has increased their spending limit, so that they are more willing to pay for high-quality goods and services [7]. On this basis, by providing products and services with both high quality and promotional discounts, Fat Donglai not only satisfies the pursuit of quality of life of middle and high-income people but also satisfies the desire of price-sensitive consumers for cost-effectiveness, and finally successfully establishes a unique and strong brand image in the highly competitive retail market and wins the favor of many loyal customers. However, this model adapts well to traditional Chinese cultural practices (such as filial piety and festival consumption). For example, Fat Donglai launched a series of products such as filial piety gift boxes and intangible cultural heritage handmade

moon cakes with local cultural characteristics during festivals such as the Mid-Autumn Festival and the Spring Festival. The "filial piety" theme moon cakes have significantly stimulated consumers' "emotional accounts". Some studies have highlighted the role of cultural symbols in reshaping consumer decision-making [5]. In China, both mid-to-high-end consumers and price-sensitive consumers voluntarily pay for goods that are endowed with special meaning, for the beautiful vision of reunion behind the Mid-Autumn Festival, and for traditional culture, which is a cultural touch specific to Chinese consumers. This phenomenon is a testament to the power of cultural touchpoints in reshaping psychological accounts.

3. Neuroeconomics and Retail Competitive Advantage

Iacoboni's study of mirror neurons has shown that when an individual observes the emotions or behaviors of others, there is a corresponding neural activation in the brain, which triggers emotional resonance [8]. When retail companies introduce empathy experiences in advertising or service scenarios, they can often promote the emotional connection between consumers and brands. It can be inferred that "humanized service", and "emotional experience" may have great value in China's retail sector. Fat Donglai is well versed in the marketing opportunities and implements relevant strategies and means. For example, the low-sugar mooncakes produced by Fat Donglai are one of these strategies. Fat Donglai will arrange for contrasting advertisements to be set up next to the product shelves, and arrange for slender salesmen to wait next to them. When consumers pass by the product, the optic nerve will involuntarily think about the picture they see through feedback (low-sugar health and slim salesmen), and they will involuntarily think that they will become thinner if they eat low-sugar mooncakes, and adhere to the trend of focusing on health by maintaining low-sugar levels, which undoubtedly increases the marketing volume of low-sugar mooncakes. The Nielsen analytics team confirmed that products that cater to health and wellness trends tend to perform well, suggesting that Fat Donglai's low-sugar mooncakes may appeal to a wide range of health-conscious consumers, exhibiting a special emotional resonance [9].

4. The Case of Fat Donglai: Reshaping of value perception

According to the breakthrough survey of the price-quality paradox, the average annual growth rate of sales of high-end goods (such as imported fresh food and brand-name cosmetics) in the past three years has reached 18%, and its price index has no obvious disadvantage compared with other large supermarkets (see Table 1). In addition, this study uses Structural Equation Modeling (SEM) to explore how price transparency, service satisfaction, and in-store experience impact brand loyalty. Figure 1 shows price transparency directly increases loyalty ($\beta=0.53$, $p<0.01$). When prices feel fair, customers trust the brand more. It also boosts service satisfaction ($\beta=0.59$, $p<0.01$). Honest pricing improves the shopping experience, aligning with Fat Donglai's stable pricing strategy that builds trust without flashy discounts. Service satisfaction has the biggest impact on loyalty ($\beta=0.59$, $p<0.01$). While price matters, great service keeps people coming back. Fat Donglai wins customers with friendly staff, reliable service, and a welcoming space. Price transparency also improves in-store experience ($\beta=0.45$, $p<0.05$). Fair pricing makes customers feel at ease, encouraging store visits. In-store experience itself strengthens loyalty ($\beta=0.45$, $p<0.05$). A clean, inviting store, personal touches like free tea, and a relaxed atmosphere all help. Through the above analysis, customer loyalty is not only dependent on a single factor, but also on the comprehensive effect of price, service and experience. Fat Donglai's success proves that trust, experience, and connection—not just price wars—create lasting competitive advantage.

Table 1: Fat Donglai's partial operating data (audited)

index	2018	2019	2020	2021	2022	2023 (First Half)
Sales of high-end goods (millions)	320	375	445	520	610	355
Average order value (RMB)	85	88	92	98	105	110
Festive schedule increase (%)	18	20	22	25	27	28

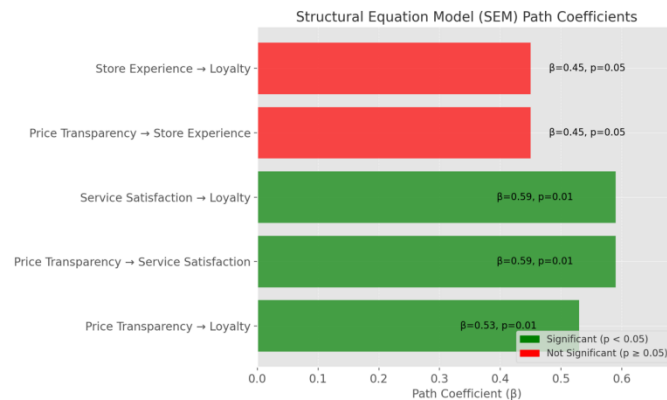


Figure 1: Fat Donglai's business data (audited), consumer survey data and industry research

5. Operational synergies

5.1. Supply chain efficiency

Fat Donglai's pricing strategy mainly relies on its advantages in supply chain management and cost control. The company works directly with upstream manufacturers, including producers and large wholesalers, to reduce intermediate links and procurement costs. This direct sourcing model allows Fat Donglai to obtain goods at a lower cost, thus being competitive in pricing. For example, Fat Donglai and three other regional supermarket chains jointly established the "Four-Party Joint Procurement" alliance, through joint procurement, members share high-quality supply chain resources, expand the scale of procurement, and reduce costs. Another example is that Fat Donglai was able to negotiate a much lower price of gold grams than is observed in the market by trading directly with gold producers in block trades. As a result, low-margin and high-turnover strategies have the potential to significantly improve retailers' market competitiveness and profitability. This strategy not only encourages consumers to buy more often, which leads to a larger customer base, but also enhances competitiveness and ensures a larger market share in the gold price, which puts the company in a strong position in a competitive market.

5.2. Digital Channels & Private Domain

Donglai's marketing efforts are worth emulating, and they effectively deploy digital transformation strategies to increase brand awareness and consumer engagement. As Chaffey and Ellis-Chadwick [10] assumed in their digital marketing strategy, the shift to online media as the primary source of consumer information has prompted a fundamental shift in advertising strategy, highlighting a significant shift in the consumer information landscape. Fat Donglai has demonstrated a savvy ability to capitalize on this trend by implementing a multifaceted content marketing strategy. Fat Donglai's approach involves creating a variety of content formats, including Weibo threads, TikTok videos, and REDnote copy, which are then strategically disseminated across numerous digital platforms. This approach ensures broad reach and caters to different consumer preferences, resulting in increased accessibility and engagement with their content, increased consumer stickiness, and expanded sales

scale and channels. In addition, Fat Donglai's collaborations with well-known vloggers also prove the effectiveness of this strategy. The reason is that partnering with self-media can increase consumer trust and expand coverage. These vloggers visit the mall and offer a favorable comparison between Fat Donglai's products and those of the competitors, emphasizing the freshness and quality of the former. Social proof is provided through the authentic performance of the product by these influencers, which can be defined as a psychological phenomenon whereby people assume the behavior of others to reflect the right behavior in each situation. This enhances the multi-scenario interaction between customers and the brand, further consolidating the competitive advantage.

6. Conclusions

In the Chinese retail environment with huge consumption potential, this article shows through the actual success of Fat Donglai: Sustainable competitive advantage comes by appealing to the psychology of consumers. Through a series of different aspects of Fat Donglai's analysis, retailers can "win" online by fostering trust, emotional connection and community relationships, in addition to offering good quality products at low prices. Price wars and heavy promotions may temporarily boost sales, but they are easily replicable and fail to foster enduring loyalty for businesses. Instead, strategies that resonate with the values and emotions of consumers create a bond. For Chinese retailers, this means something profound: activating the hearts and minds of consumers through impeccable service, cultural resonance and continuous delivery of unique value. Using digital tools isn't just about selling, it's about forming an ecosystem where consumers feel like they're part of the brand community. And maintain operational excellence so that this psychological engagement is backed up by actual performance (product quality, convenience, reliability). By doing so, even in a competitive market, retailers can create a virtuous cycle of customer satisfaction and loyalty that could drive economic growth as well. As consumer expectations continue to rise, companies that understand and invest in consumer psychology - from mental accounting to mirror neurons - will be most likely to thrive. The key to really building a competitive advantage over the long term is to understand and effectively tap into consumers' psychological needs. Fat Donglai's case shows that when a company truly cares about the customer experience and is aligned with their psychology, customers will be rewarded with lasting loyalty, so that they can obtain higher competitive stickiness.

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