The Hong Kong Polytechnic University Announces Tenth Research Report on "Customers' Perceived Value of Hong Kong's Retail Sectors"

Executive Summary

The Asian Centre for Brand Management (ACBM) of The Hong Kong Polytechnic University announced the Phase 10 research findings on "Customers' Perceived Value (CPV) of Hong Kong's Retail Services". Launched in 2004, the CPV is a biannual study which aims to assess local shoppers' and tourists' perceived value towards Hong Kong's retail services. The study provides local retailers with direction for improvement in service standards and brand management, and assists local Government and trade organizations to develop a better strategy to promote retailers' service and the image of Hong Kong. Major findings from Phase 10 of the CPV project in regards to service marketing and brand management issues and opportunities are highlighted below:

I. Background

The service sector accounts for over 90% of Hong Kong's GDP. The major contributor to the service sector is retail industry, comprising of restaurants, hotels, wholesale and import/ export. In the second half year of 2008, the retail sector experienced a 1% decline in sales (HK$134 billion dollars) over the corresponding period in 2007. However, further expansion of Mainland's cities under the 'Individual Visit Scheme' has provided more opportunities for local retailers. In particular, Mainland visitors comprise 57% of the total visitors to Hong Kong, representing an increase of 8.9% in 2008. Their numbers are predicted to increase further with the expansion on more inland cities in Mainland under the Individual Visit Scheme.

Given the strategic importance of the retail and tourism industry to Hong Kong's economy, the "Customer's Perceived Value of Hong Kong's Retail Sector" attempts to accomplish the objectives specified in Section II. The project is longitudinal in nature and involves large-scale survey interviews with shoppers, both local and foreign twice a year. The findings summarised below were obtained during Phase 10 of data collection undertaken between January to February 2009.

II. Research Objectives

- To understand how both local shoppers and tourists evaluate the services and determine the value of Hong Kong's retailers;
- To explore satisfaction level of both local shoppers and tourists;
- To assess the likelihood tourists will come back and shop again in Hong Kong;
- To compare differences in shopping behaviour and spending, particularly regarding the evaluation criteria for retail services among local shoppers, tourists from China Mainland and other countries;
- To track and monitor the Value Index and the performance of HK's retailers in terms of product and service quality, customer satisfaction, and perceived value; and
- To discover the relationships amongst brand knowledge, customer perceived value, brand preference and brand loyalty.

III. Respondents' Profile

The sampling frame mirrors the distribution of tourists from different countries in the past twelve months. The respondents' profile, including tourists and shoppers from Hong Kong is shown below:

• Hong Kong	11.9%
• USA/ Canada	5.3%
• Europe, Africa, ME	6.4%
• Australia & New Zealand	2.6%
• N. Asia & S. Asia	13.5%
• Mainland China	60.3%

A total of 2,656 completed questionnaires were used for statistical analysis. The findings reflect the shopping experience with more than 300 retailers in Hong Kong including both local and international retailers.

IV. Highlights of the Findings

1. Trend and performance of CPV index and CPV factors

According to the survey, the CPV index has improved from 97.0 (Phase 9), to 98.4 (Phase 10), rebounding from its lowest point since the study began at baseline (100) in 2004. The CPV index is composed of nine factors; **(a) perceived risk and safety, (b) enhancement of self-image, (c) service attitude / skills, (d) product quality, (e) promise and interaction, (f) price of product, (g) shopping environment, (h) effort spent in purchasing and consuming the service, and (i) the ability of the merchandise to match the lifestyle of the shoppers.** Out of these factors, service-related factors are always the most important to CPV. However, impact of 'price' factor is becoming stronger, particularly under the financial crisis. It suggests that customers are more sensitive to the 'price of products' and imposing pressures on Hong Kong's retailers.

This improvement in the CPV index was mainly driven by high ratings from Mainland customers on the factors of 'effort spent during the shopping process' and 'perception of product safety and the risk inherent in the purchase'. The greatest improvement on 'effort' (a 3.82% increase), may possibly be due to the pressure for frontline service staff to perform better in light of higher unemployment rates under the economic downturn. The 'perception of safety' rose by 1.49%, and was likely to be propelled by product scandals (e.g. tainted milk powder, fake eggs) throughout the year in China, **indicating that Hong Kong is still perceived as a safe, reliable, and low risk shopping city.**

In comparing the three factors: frontline staff performance, product quality and service performance, the frontline staff service performance (an average 4.71, 7 being the highest) is still the worst performer, suggesting that more frontline staff training is needed. Australian and New Zealand customers were the most satisfied with Hong Kong retailers' frontline staff (5.03) whilst the local customers were the least satisfied (4.61).

Another hint on the lack of service staff is the misalignment of growth rates in the retail industry. Between 2005 and 2008, there has been a 40% increase in the number of visitors to Hong Kong and a 30% increase in retail sales, in contrast to a 7% increase of persons engaged in retail. This misalignment of growth rates suggests a limitation on the quality of service, which may explain why the service performance of frontline service staff is still low. Therefore, **retailers need to pay more attention and focus more resources on staff training.**

Amongst the Mainland customers, the highest frontline service staff rating was given by those from Beijing, Tianjin and Heibei. One possible reason is that the service standard in Northern cities may still lag behind when compared to Hong Kong.

2. Customer satisfaction level and perceived value

The improvements in the CPV factors are opposed by a notable drop in overall satisfaction and perceived value by non-Mainland customers. Customer satisfaction level of Hong Kong retailers has declined to 5.18 (from Phase 9: 5.22). In particular, this level has dropped for all non-mainland shoppers. Shoppers from USA / Canada, Australia / New Zealand and Asia account for the biggest drop, suggesting that Hong Kong retailers have placed more attention on Mainland shoppers while neglecting visitors from other countries.

The same phenomena has been observed for perceived value, with the biggest drop in perceived value given by Australians and New Zealanders (from 5.55 in Phase 9 to 5.16 in Phase 10), in contrast to an increase of perceived value of Mainland customers (from 5.19 in Phase 9 to 5.27 in Phase 10). However, despite the general increase in perceived value by the Mainlanders, the more frequent visitors from Guangdong (from 5.18 in Phase 9 to 5.23 in Phase 10) and Fujian (from 5.14 in Phase 9 to 5.10 in Phase 10) declined in ratings, possibly due to the proximity of their locations to Hong Kong and therefore have become familiar with Hong Kong service standards. As a result, higher expectations will be developed. On other hand, the more infrequent visitors from Shanghai, Jiangsu and Hubei (from 5.23 in Phase 9 to 5.32 in Phase 10) and other cties (from 5.29 in Phase 9 to 5.45 in Phase 10) show improvement in satisfaction levels. One possible reason is these groups of visitors have less shopping experience in Hong Kong, and being in a new shopping environment they perceive excitement, hence the higher ratings.

The disparity of findings between Mainland and non-Mainland customer groups indicate a need for local retailers to refocus, rethink and revise their sales and service strategies, as well as to balance their focus on a variety of customer segments in adapting to different customer expectation levels.

3. Brand loyalty, brand preference and brand trust

Brand loyalty involves the willingness of customers to share their shopping experience, their likelihood of recommendation and repurchase intent. A positive relationship is found among customers with strong brand preference, brand trust and brand loyalty, i.e. customers with higher brand preference or brand trust, are more likely to have higher repurchase intention and recommend the brand to others.

Higher brand loyalty was also measured against willingness to pay more in a 10% price increase. **Shoppers who were willing to pay more are also more loyal to the brand**, suggesting that loyalty results in lower price sensitivity. This is most evident in the fashion category where customers with a strong brand preference spent an average of $1,538, being 127% more than those with low brand preference ($677).

4. Corporate social responsibility, brand preference, brand trust and loyalty

Corporate social responsibility (CSR) in relation to consumer attitudes is also examined. **Brands with a higher CSR rated higher in brand preference and brand trust**. The difference in brand preference and loyalty between the brands with a high CSR versus low CSR ranged from 0.7-0.8 (on a 7-point rating scale). Differences in brand trust are even bigger (almost 1.0) between brands with high CSR and brands with low CSR, reflecting that CSR is a vital element in brand building and is a worthwhile element for local retailers invest in as a means to sustain the company's brand image.

Within the retail categories, the best performers in CSR are department stores (5.29, 7 being the highest), consumer electronics (5.22) and jewellery (5.17). Footwear is the worst performer (5.00) indicating insufficient attention was paid to the CSR aspect, followed by fashion (5.07) and cosmetics (5.07). A low CSR is also rated for many well-known brands, suggesting that companies have not paid adequate attention to this element during brand building and greater effort should be exerted to reinforce the importance of CSR in brand building strategy.

5. Sales promotions and marketing communications

In terms of communications, only 38% of customers have been exposed to the company's ad and 14% have attended the company's PR activities. Visitors with prior shopping experience in their home country are generally more favourable towards the brand's advertisements and PR activities. However, these low ratings question the effectiveness of information channels abroad and there is **a strong need for local retailers to proactively convey the right message to its target customers** when building the company's brand.

Retailer's sales promotions strategies are also covered in the study to assess their impact on brand preference and customer spending. The most favoured strategy by retailers is price promotions (77.5%), followed by free gifts (20.7%) and coupons (6.3%). Within the seven retail categories, it is most common for footwear retailers to offer sales promotions (65.9%), followed by consumer electronics (60.2%). Consumer electronics used the most diverse strategies, with pricing (53.2%) and free gifts (50.5%) making up the majority of its promotions. Despite being the most popular tactic, price promotion only generated little difference in loyalty between customers who are aware of sales promotions prior visit versus those who are unaware. This questions the effectiveness of the retailer's advertising strategies as well as the impact of sales promotions on brand loyalty.

In terms of VIP programmes and transaction sizes, there is a difference in spending of 78.3% between existing local VIP customers ($4,620) and local non-VIP customer ($2,591). This shows a clear positive impact on spending of customers engaged in VIP programmes. In contrast to the VIP programme's strong effect on spending, the impact on communication, trust and preference is less prominent. For example, there is only a 0.52 difference in rating between VIP and non-VIP customers in making positive comments. There is an even lower gap in brand preference of 0.30 and brand trust 0.34. The low variation in scores reflect that **VIP programs only work in encouraging more customer spending but not in generating positive consumer attitudes and encouraging loyalty** as it is ineffective in differentiating the brand.

The effectiveness of a retailer's advertising strategy is examined and results show that less than one-third of customers are drawn to shop by the sales promotion encountered prior to store visit. Price promotion is the most attractive promotion type; however its effect on brand loyalty is doubtful as there is little variation among shoppers who are aware of the promotion prior store visit versus those who are unaware. The difference in repurchase intention between customers aware of versus those unaware of sales promotion is only 0.41 (between 5.03 and 4.62). The difference between consumer's intention to spend more between these two groups is 0.25 (between 4.58 and 4.33). The minor differences between the attitudes of the two groups show that sales promotion is less effective as a promotion strategy in boosting consumer's repurchase intention. **Therefore, a more effective strategy is required to influence consumers and improve their attitudes towards the brand through enhancement of brand experience, brand identity, and investing in a variety of promotional tactics.**

6. Average spending per transaction

Overall transaction size increased by 29.7%, (from $1,863 in Phase 9, to 2,416 in Phase 10), reflecting little impact on retail sales during Chinese New Year. However, the figure is distorted by the 44.5% increase of spending by the Mainlanders, encouraged by the strengthened RMB during the Chinese New Year.

Mainlanders from Northern and Eastern cities had the highest average transaction amounts of $10,659 and $10,718 in the jewellery and watch category. In general, Mainlanders from Northern cities spent more than visitors from the South as they were infrequent visitors to Hong Kong. The majority of visitors from China, Taiwan and Macau were revisiting (81.4%) as opposed to first time visitors. Within the Mainland, 75.8% of Guangdong visitors were revisiting. The least number of Mainland visitors revisiting Hong Kong were from Fujian (3.0%) and Beijing, Tianjin and Hebei (4.8%). They also had the least first time visitors at 4.2% and 10.9% respectively. This suggests more opportunities are available at non-Guangdong regions and **further promotion can be targeted toward these inland cities to boost tourist arrivals to Hong Kong.**

In contrast to the generous Mainland spenders, locals were less keen on shopping with a 14.5% decrease in spending from $1,630 (Phase 9) to $1,393 (Phase 10). Similarly, Australian and New Zealand visitors have reduced their transaction sizes by almost half from $2,032 (Phase 9) to $970 (Phase 10), reflecting their price sensitivity from the currency depreciation.

In terms of spending by Mainlanders, all categories except fashion had risen in transaction sizes. Spending by Mainlanders on fashion declined by 17.5%, suggesting that most retailers in Hong Kong have already penetrated major cities in Mainland, where visitors can be more conveniently purchase fashion goods in their home countries instead of buying in Hong Kong. Overall spending on footwear was the lowest, with a drop in transaction size by 3%

from $775 (Phase 9) to $752 (Phase 10). The highest transaction values were found in the jewellery and watch category with a 48.1% increase, peaking at $6,651 this year, a significant increase compared to the previous year of $4,491.

7. Financial Situation

The current context also prompted a study on shopping behaviour during the economic downturn. Shoppers were asked about their financial status in the coming year. 89.3% of all shoppers are either financially well off or living under same budget while only 10.7% are living on tight budget. In contrast, only 8.0% of Hong Kong local shoppers claimed to be financially well off and 16.7% are living on relatively tight budget. The remaining 75.3% despite being financially well off, had some worries and concerns. These results suggest that HK consumers seem to be affected most by the economic crisis compared to shoppers from other countries.

The CPV study during this phase has captured **more than 300 brands** in the local retail industry, with 15.7% classified as luxury and up-market brands; **42.9% upper-middle market brands and 38.1% mass market brands**. Customers who are financially well off and do not worry about their financial situation this year (total of 343) invested mostly in upper middle market brands (56.0%) and up-market brands (16.3%). Customers living under a tight budget purchased mostly on mass market brands but had the highest percentage of purchases in luxury brands of 6.7%, over 0.9% higher than those in the highest income group (5.8%). This interesting phenomenon suggests that the segment of customers with comparatively lower incomes will also seek luxury brands and therefore, favoured brands will be appeal to such consumers and are able to overcome the financial situation during tough economic times.

About the Asian Centre for Brand Management

The Asian Centre for Brand Management (ACBM) conducts rigorous academic research on branding issues that have practical value for improving business performance. As a regional centre for branding and retail studies, ACBM focuses on creating and improving brand value, and organizing research projects on the management of brands as market-based assets. The ACBM brings together brand practitioners, consultants, business leaders and academics to stimulate research on methodologies and approaches for assessing brand strength and performance. ACBM places great importance in broadening the vision and knowledge of entrepreneurs and managers through knowledge transfer enabling the development of creative and innovative branding programmes in the Region. Asian Centre for Brand Management would like to express our heartiest gratitude for receiving support from HKQAA, Ambassadors of Design and Giordano for our research on brand management.

For further enquiries, please contact:

Wendy Wong (general enquiries)
Executive Officer
Faculty of Business
Tel: (852) 3400 2582
Fax: (852) 2333 6476
Email: fbmkwong@inet.polyu.edu.hk

Kannass Chan (for research project & findings)
Senior Project Officer
Asian Centre for Brand Management
Tel: (852) 2766 4542
Fax: (852) 2311 4129
Email: mskchan@polyu.edu.hk