



PRESS RELEASE

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PolyU study reveals need for local retailers to refocus service strategy

According to the latest research report on “Customer Perceived Value (CPV) of Hong Kong’s Retail Sector” released by the Asian Centre for Brand Management (ACBM) under The Hong Kong Polytechnic University (PolyU)’s Faculty of Business, Hong Kong retailers made an improvement in the CPV Index from 97.0 in the last survey to 98.4 in the latest survey, but there is a disparity in ratings by Mainland and non-Mainland visitors. Visitors from Asia Pacific, North America and Europe, traditionally the bread and butter of the Hong Kong retail industry, were overtaken by Mainlanders. Mainland visitors’ significant contribution to the Hong Kong retail industry prompted retailers to rethink and revise their service tactics.

Launched in 2004, the CPV (with a baseline of 100) is a biannual study of local shoppers’ and tourists’ perceived value towards local retail services. It aims to provide retailers with directions for further improvement in service standards and for brand building activities. The latest survey was conducted between January and February 2009 with a total of 2,656 questionnaires completed by shoppers from Hong Kong, Mainland China and overseas countries. It reflects the shopping experience at over 300 retail outlets from seven major retail industries, namely, fashion, footwear, jewellery/watches, department stores, cosmetics, consumer electronics and telecommunications. In this latest study, the financial situation of shoppers under the current financial tsunami and the corporate social responsibility (CSR) performance of retailers were examined for the first time.

The CPV index is consisted of nine factors: perceived risk and safety, enhancement of self-image, service attitude/skills, product quality, promise and interaction, price of product, shopping environment, effort spent in purchasing and consuming the service, and the ability of the merchandise to match the lifestyle of shoppers. Out of these factors, the impact of ‘price’ on the CPV index was stronger under the financial crisis, suggesting that customers were more sensitive to the ‘price of products’. This factor has increased pressures on Hong Kong retailers.

The improvement in the CPV index from the last survey to the latest survey was mainly driven by high ratings from Mainland customers, who made up approximately 60% of visitors to Hong Kong in 2008, in the factors “effort spent during the shopping process” and “perception of product safety and the risk inherent in the purchase”. The improvement on “effort” (a 3.82% increase) might be due to the pressure placed on frontline service staff to perform better in light of the current high unemployment rate during the economic downturn

and, in turn, reduced the effort of shoppers in purchasing or consuming service and resulted in higher ratings. The rise of 1.49% in “perception of safety” was probably propelled by product scandals, such as tainted milk powder, fake eggs, etc. throughout the year in Mainland China, indicating that Hong Kong is still perceived as a safe, reliable and low risk shopping destination.

Unfortunately, these improvements were offset by a notable drop in the overall satisfaction and perceived value of non-Mainland customers. For this group of customers, the satisfaction level with Hong Kong retailers declined to 5.18 from 5.22 in the last survey. In particular, this level dropped for all non-mainland shoppers. The biggest drop was found in shoppers from USA/Canada, Australia/New Zealand and Asia, suggesting that Hong Kong retailers have turned their attention to Mainland shoppers and have neglected visitors from other countries. The same phenomenon occurred to perceived value, reflecting the need for retailers to refocus, rethink and revise their sales and service strategies (e.g. target mix) to improve perceived value, strengthen brand image, and maintain a favourable impression on the Hong Kong retail industry.

Throughout the study, a difference in spending patterns-related ratings was also evident between Mainland and non-Mainland customers. The overall transaction size increased by 29.7% suggesting that retail value sales were not strongly affected by the financial crisis. However, the figure was distorted by a 44.5% increase in Mainlanders spending encouraged by the strengthened RMB during the Chinese New Year. Mainlanders from Northern cities incurred the highest average transaction spending of \$10,659 and \$10,718 in the jewellery and watch category respectively. The only category showing a decline in spending by Mainlanders was fashion which shrunk by 17.5%. The reason being that most fashion retailers in Hong Kong have expanded into major cities of the Chinese Mainland and Mainlanders can make purchases at home instead of in Hong Kong. In contrast, local customers cut spending with a 14.5% decrease from \$1,630 in the last survey to \$1,393 in the latest survey. Australian and New Zealand visitors also more than halved their transaction size from \$2,032 in the last survey to \$970 in the latest survey, reflecting that they were price sensitive under currency depreciation.

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

Retailer’s sales promotion strategies were also covered in the study. The most common strategy was price promotion (77.5%) followed by free gifts (20.7%) and coupons (6.3%). Within the seven retail categories under survey, it is most common for footwear retailer to offer sales promotion (65.9%) followed by consumer electronics (60.2%). Consumer electronics used the most diverse strategies, including pricing (53.2%) and free gifts (50.5%), making up the majority of its promotion. Despite being the most popular tactic, price promotion generated little difference in loyalty between the situations where customers were aware or unaware of the promotions prior to store visits. Thus, effectiveness of the retailers’ advertising strategies and the impact of sales promotion on brand loyalty become questionable.

In addition, the CPV study examined corporate social responsibility (CSR) in relation to consumer attitudes. Brands with greater CSR were rated higher in terms of brand preference and brand loyalty. The difference in brand preference and loyalty between high-CSR brands and low-CSR brands ranged from 0.7-0.8 (on a 7-point rating scale). Brand trust had a more significant difference in rating (by almost 1.0) between high-CSR brands and low-CSR brands. The findings show that CSR is a decisive element in brand building and is fundamental to sustaining and enhancing local retailers' image.

Dr Sherriff Luk, Director of Asian Centre for Brand Management, said, "From 2005 to 2008, there was a 40% increase in the number of visitors to Hong Kong while retail sales grew by 30%. During the period, retail personnel increased by 7%. This posed a limitation on the quality of service and may explain why the service performance of frontline staff was still poor. There is a need for retailers to allocate more resources for staff training."

Prof. Judy Tsui, PolyU Associate Vice President, Dean of Faculty of Business, Director of Graduate School of Business and Chair Professor of Accounting, said, "The Hong Kong retail industry has built up a reputation for product safety. In spite of that, our position of strength may be weakened as Mainland China improves their regulation of product quality and safety, business ethics and social responsibility. Hence, we should continue to develop other competitive edges and live up to Hong Kong's image as a shopping paradise."

Dr Leslie Yip, Associate Head of Department of Management and Marketing, said, "The declining customer satisfaction and perceived value reveal that Hong Kong retailers were too focused on Mainland shoppers that visitors from other countries were neglected. This suggests that more resources on staff training, brand mix and product mix are necessary to cater for different segments of visitors."

Founded in 2005, ACBM focuses on conducting applied research on branding issues with practical value for improving business performance. As a regional centre for branding and retail studies, ACBM aims at creating and improving brand value, and organizing research projects on the management of brands as market-based assets.

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