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Research summary on "Customers' Perceived Value of Hong Kong's Retail Service"

I. Background

The service industry accounts for 89% of Hong Kong's GDP, with retail business the 2nd largest sector. About half the of expenditure is on fashion items; jewellery, watches and similar goods; commodities in department stores; electrical goods and photographic equipment; and medicines and cosmetics. Total annual sales of these items in 2004 increased from between 7% to 13%.

There has been excellent growth in the number of tourists visiting Hong Kong since late 2003 (40.4% increase in 2004). In particular, the "Individual Visit Scheme" has shortly increased the number of tourists from Mainland China to account for about 60% of total Hong Kong visitors during 2004. The "Individual Visit Scheme", together with "Golden Week", has stimulated Hong Kong retail sales. Thus, attracting more tourists to come to Hong Kong has become a key concern of the Hong Kong Government and retailers. We believe that excellent service that delivers premium value to tourists should be a first priority for Hong Kong's retail service providers. As a response, we commenced research on Customers' Perceived Value in HK's Retail Service sector last year. This project is longitudinal in nature and involves large-scale survey interviews with shoppers, both local and foreign, twice a year. The first phase of interviews was conducted from June to August, 2004 and the second phase covered the period from January to March 2005. The findings summarized below were obtained during the second phase of data collection.

II. Research Objectives

- To understand how both local shoppers and tourists evaluate the services of Hong Kong's retailers;
- To measure the satisfaction of both local shoppers and tourists;
- To investigate in what way local shoppers and tourists determine the value of Hong Kong's retail services;
- To assess how likely tourists are to come back and shop again in Hong Kong;
- To compare differences in shopping behaviour, particularly regarding the evaluation criteria for retail services, among local shoppers and tourists from the Chinese Mainland and other countries.
- To track the performance of Hong Kong retailers in terms of a number of measures like product and service quality, customer satisfaction, and perceived value.

III. Respondents' Profile

The sampling frame for tourists was formed based on the distribution of tourists from different countries in the past 12 months. The respondents' profile, including shoppers from HK, is shown below:

- HK	10.8%
- Mainland China	59.3%
- Asia	15.4%
- USA & Canada	5.5%
- Europe	6.4%
- Australia & New Zealand	2.4%

A total of 2151 respondents were successfully interviewed and 2118 completed questionnaires were used for statistical analysis. The findings reflect their shopping experience with more than 300 retail outlets in Hong Kong, which include Giordano, Baleno, G2000, U2/UWN, Gucci, Burberry, Esprit, Bossini, Sportshouse, Marathon, Polo Jean, Chow Sang Sang, Chow Tai Fook, TSL Jewellery, Luk Fook, JustGold, City Chain, Broadway, Fortress, Gome, SOGO, Time Square, Grand Century Place, Ocean Terminal, Lane Crawford, Wing On, Seiyu, New World Centre, Marks & Spencer, Watsons, Mannings, DFS, SASA and Toys'Rus.

IV. Findings to be reported in the press conference

1. Determinants of customer's perceived value:

Perceptions of the value of retail services, on the part of both local shoppers and tourists, is strongly influenced by 9 factors. These include perceived risk and safety, enhancement of self-image, service attitude and skills, product quality, promise and interaction, price, shop environment, efforts spent in purchasing and consuming the service, and ability of the merchandise mix to match the life-style of the shopper.

Tourists from different countries can be differentiated according to the perceived relative importance of these nine factors; and there is discussion of which factors are most influential for tourists from different countries. This information is crucial for those retail shops wishing to target tourists from specific countries.

2. **Perceived quality of retail service and performance of frontline service employees:**

   Retailers in Hong Kong were able to improve somewhat the quality of their service in the past few months. However, shoppers perceived the service quality and performance of frontline employee services as only just about average. Shoppers from the mainland perceived little risk of buying fake products in Hong Kong. Non-Asian shoppers rated service quality and staff performance more highly than Asian shoppers (including local shoppers). Many tourists complained they had to spend longer time waiting and put more effort into shopping and service consumption. A deterioration in the language ability of frontline service employee was reported, particularly in Mandarin.

3. **Overall satisfaction level:**

   Satisfaction with retail services, the perceived value of services and the overall ability to satisfy needs was found to be just above average with ratings of 6.09, 6.08 and 6.11 (on a 9-point scale) respectively. However, tourists interviewed in this phase (January to March 2005) reported higher levels of satisfaction as compared to those interviewed in the previous phase (June to August 2004).

4. **Relationship between Perceived Value, Customer Satisfaction, and Behavioral Intention:**

   How "Customers' Perceived Value" impacts service quality, the level of satisfaction and loyalty (likelihood of re-visit) was investigated. In particular, we focus on Hong Kong local shoppers and Mainland China visitors.

5. **Index of service quality, customer satisfaction, and customers' perceived value**

   Using the performance level defined by the findings obtained in Phase I as the base, we develop an index for measuring service quality, customer satisfaction, and perceived value to track the performance of HK retailers. These indexes reveal that department stores have been able to improve service performance significantly whereas a deterioration in services is evident in the jewellery and consumer electronics sectors which performed poorer during the past few months.

6. **Intention to shop again:**

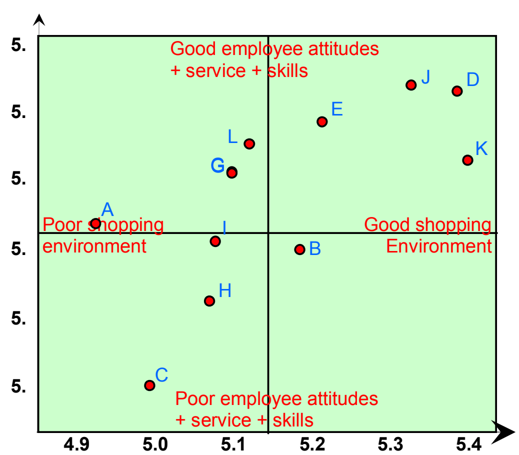
Overall, 19% of the tourists claimed they would “definitely” shop at the same retail store or retail chain again, whereas only 1% would “definitely not”. A positive correlation between the intention to patronize and satisfaction level is observed.

7. **Competitive position of individual retailers in each product market:**

We use customers’ perceived value factors to assess the performance and define the competitive position of major retailers for different retail categories. This is illustrated visually as follows:

Competitive Positions Defined by “Service / Attitudes / Skills & Service” and “Shopping Environment”

Mar, 2005



Mar, 2005 vs. Aug, 2004