THE HONG KONG
POLYTECHNIC UNIVERSITY
Faculty of Business

For Immediate Release

The Hong Kong Polytechnic University Announces the Third Research Report on "Customers' Perceived Value of Hong Kong's Retail Service"

27 September 2005, Hong Kong: The Faculty of Business of The Hong Kong Polytechnic University (PolyU) today announced the third research findings on "Customers' Perceived Value of Hong Kong's Retail Service". Since its inception in February 2005, this four-year research project aims to assess shoppers' perceived values towards local retail services in order to provide far-reaching implications for further improvement of the service standards of local retail sectors.

Followings are the research highlights 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. Over half of the expenditure is on fashion items; footwear; jewelry, watches and similar goods; products sold 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 resulted in a rapid increase in the number of tourists from Mainland China who accounted for about 60% of total Hong Kong visitors during 2004. The "Individual Visit Scheme", together with "Golden Week", has stimulated Hong Kong retail sales and the Disneyland effect will further increase sales in the next few years. 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 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, the second phase covered the period from January to March 2005 and the third phase from July to August 2005. The findings summarized below were obtained during the third 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.
- To establish a customer perceived value index to monitor the performance of global retailers.

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	12%
- Mainland China	48%
- Asia	20%
- USA & Canada	6%
- Europe	10%
- Australia & New Zealand	4%

A total of 2333 respondents were successfully interviewed and 2292 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, IT, 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, Angels, Shiseido, New Metropolitan Plaza, and Yue Hwa China Goods.

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 slightly 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 store service more highly than Asian shoppers (including local shoppers). Many tourists complained that they had to spend more time waiting and need to put greater effort into shopping and service consumption than desirable. Staff performance consistently received relatively low ratings. Further deterioration in the language ability (Mandarin) of frontline service employee was reported. Obviously, retailers in HK must pay attention to improve performance in these areas in order to enhance HK's image as a "Shopper Paradise".

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. However, tourists interviewed in this phase (July to August 2005) reported higher levels of satisfaction as compared to those interviewed in the previous phase (July to August 2005).

4. **Relationship between perceived value, customer satisfaction, and behavioral intention:**

   How "Customers' Perceived Value" impacts 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. A strong correlation between perceived value and loyalty is reported (0.71).

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 Fashion Chains have been able to improve service performance significantly whereas a deterioration in services is evident in consumer electronics sectors which performed less well during the past few months.

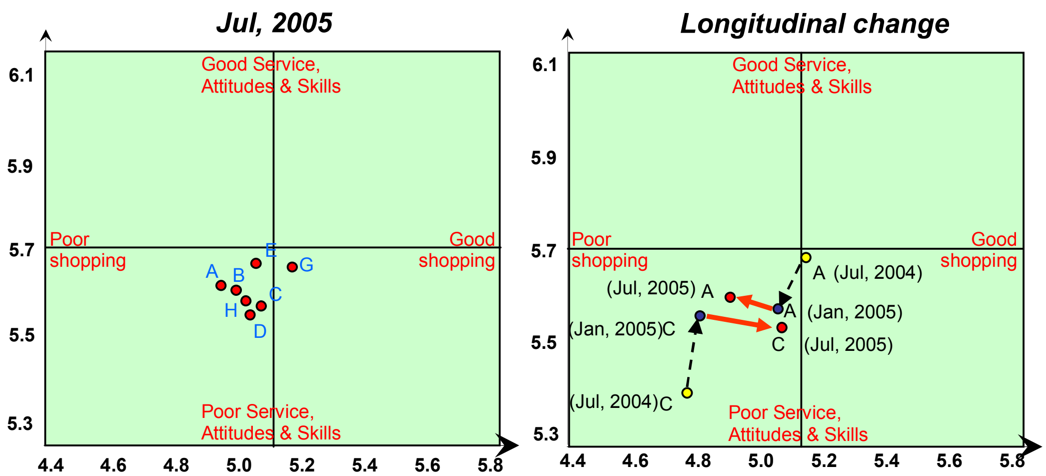
6. **Intention to shop again:**

   Overall, 21% of tourists indicated claimed that they would "definitely" shop at the same retail store or retail chain again, whereas only 2% 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:

<u>Competitive Positions Defined by</u>
<u>"Service / Attitudes /Skills" and "Shopping Environment"</u>



* *The higher up the dimension, the better the firm's performance in this area.*

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