The Hong Kong Polytechnic University Annouces Fifth Research Report on "Customers' Perceived Value of Hong Kong's Retail Sector"

Executive Summary

The Asian Centre for Brand Management (ACBM) of The Hong Kong Polytechnic University today announced the fifth research findings report on "Customers' Perceived Value of Hong Kong's Retail Sector". This research was jointly-supported by The Hong Kong Polytechnic University and the Hong Kong Quality Assurance Agency. Since the inception of this major project in early 2004, this research project aims to assess both local shoppers' and tourists' perceived value toward local retail services in order to provide far-reaching implications for further improvement of service standards of local retail sectors.

The following are the research highlights from the "Customers' Perceived Value of Hong Kong's Retail Sector" research:

I. Background

The service industry accounts for 90% of Hong Kong's GDP with retail business ranking as the first largest service sector comprised of restaurants, hotels, wholesale, and accounts for 27.5% of Hong Kong's GDP. Total retail sales for 2005 amounted to HK$206.4 billion dollars and the retail sector employs a workforce of over 220,000 persons.

In the first six months of 2006, visitor arrivals totaled 12.19 million. More than 6.7 million of these visitors were from Mainland China and traveled to Hong Kong under the "Individual Visit Scheme". The Tourism Board has projected that annual visitors figure at 27 million for 2006.

Given the pivotal importance of the retail sector and tourism, the "Customer's Perceived Value of Hong Kong's Retail Sector" research was initiated in 2004. 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 the fifth phase of data collection undertaken in July and August 2006.

Research Objectives

- To understand how both local shoppers and tourists evaluate the services of Hong Kong's retailers;
- To explore the 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, particularly regarding the evaluation criteria for retail services among local shoppers and tourists from Mainland China and other countries;
- To establish a Value Index to measure the performance of HK's retailers

Respondents' Profile

The sampling frame for tourists was formed based on 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 13%
- Mainland China 54%
- Asia 16%
- USA & Canada 5%
- Europe 9%
- Australia & New Zealand 3%

A total of 2780 completed questionnaires were used for statistical analysis. The findings reflect their shopping experience with more than 300 retail outlets in Hong Kong including both local and international brands.

II. Fifth Survey Findings

1. Determinants of customer's perceived value

Perceptions of the value of retail services are influenced by nine 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 lifestyle of the shopper.

The findings from this phase of the study show that of the nine factors, notable improvement has been made in the factors of service attitude and skills as well as perceived risk and safety. The factor showing most decline was shop environment. Performance in the remaining factors has been stable. Retail categories that showed the best perceived performance in this phase were department stores and fashion. The lowest perceived performance was found in the retail category of telecommunications. Findings also show that tourists from Australia and New Zealand gave consistently higher ratings to each of the nine factors while local shoppers tended to hold lower perceived performance ratings.

Results show that retailers have room for improvement in four factors namely: shop environment, ability of the merchandise mix to match the lifestyle of the shopper, product quality and efforts spent in purchasing and consuming the service by the customer. This information is critical for retailers as it identifies important areas for improvement of the entire retail experience for shoppers.

2. Perceived performance of frontline service employees; product quality and store service level

Fashion achieved the highest rating in all three areas of frontline service employees, product quality and store service. The findings also show that telecommunications received the lowest ratings in the areas of product quality and store service. Cosmetics achieved the lowest rating in the area of staff performance. Shoppers from Australia and New Zealand rated staff performance and store service the highest, whilst shoppers from Europe gave a high rating on product quality of retail stores in Hong Kong.

The findings show an overall improvement in Putonghua proficiency of frontline service staff; however English proficiency had deteriorated compared to results from the previous phase. Enhancing the language skills of frontline staff particularly in English can improve their interactions with foreign customers and solidify Hong Kong's image as Asia's World City. Shoppers complained of the need to put in greater efforts in searching and trying products. They perceived little risk of purchasing fake products in Hong Kong and were confident of product safety. Shoppers also expressed that store image and brands did not entirely conform to their lifestyle.

3. Customer satisfaction level

Satisfaction with the majority of retail services was found to be almost or at average level. Fashion and electronic products fared above average. Australian and New Zealand shoppers were most satisfied with retail services while local shoppers gave the lowest ratings. Customer satisfaction was the lowest for telecommunications. Consumer complaint statistics for 2005 released by the Consumer Council have also shown telecommunications services and equipment topping the list of complaints.

4. Perceived value

Perceived value has generally declined for most retail categories compared to the previous phase of research. Fashion retailers fared the best in terms of perceived value and shoppers from Australian and New Zealand gave the highest rating in perceived value of retailers in Hong Kong. Hong Kong retailers need to be aware of this information and continue offering quality products at good value to sustain Hong Kong's image as a "Shoppers Paradise".

5. Customer loyalty

Results show that satisfied customers of fashion retail outlets were most likely to revisit the same store and recommend the store to others traveling to Hong Kong. Telecommunication shoppers expressed they were least likely to revisit the same store or recommend the store to others. Australian and New Zealand shoppers showed the highest likelihood of repeat visits to the same store. Average expenditure per trip for all retail categories was HK$1,869.00; however average expenditure particularly for jewellery and electronic products were highest at HK$4,148.00 and HK$3,147.90 respectively.

6. Tracking of performance

Research findings indicate that shop image and the brand are important focus areas for retailers in establishing preference for their store. It has been found that greater customer perceived value leads to greater brand preferences. Therefore, there is strong justification for retailers to continue strengthening their capabilities in these areas to build higher brand equity. Better customer perceived value will maintain high satisfaction levels and encourage repeat purchases.

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7. **Asian shoppers' attitude towards proposed introduction of a goods and services tax (GST) in Hong Kong**

   The first public consultation of the Hong Kong SAR Government proposal for the introduction of a 5% GST to be imposed on almost all goods and services is underway. In light of these recent events, additional data was collected from Asian shoppers to determine their attitudes towards the introduction of GST. Findings show that shoppers' response to the introduction of GST was neutral, possibly due to the availability of tax refunds for tourists. Hong Kong shoppers' attitudes were also mostly neutral and slightly negative towards the introduction of GST. For retailers, the possible introduction of GST would mean the need for frontline staff to be equipped with the knowledge to answer customer queries about GST related issues such as the mechanisms of the tax refunds. Introduction of GST may lead to initial potential increases in administrative costs due to changes needed in processing transactions.

8. **Impact of prior buying experience in home country of shoppers**

   New in the fifth phase of the project was the examination of shoppers' prior buying experience on their evaluations of brand trust and brand performance. Results indicate that shoppers' with previous buying experience with a particular retailer in their home country tended to show a higher degree of brand trust and brand preference towards the same retailer in Hong Kong compared to shoppers' with no buying experience. For retailers wanting to expand into other markets this information is constructive.

9. **Market segmentation**

   Retailers were further segmented into high-end versus mass market brands in three industries. Findings show high-end fashion and footwear retailers performed better in the factors of shop environment, ability of the merchandise mix to match the lifestyle, and enhancement of self-image. Shoppers rated the factor of efforts spent in purchasing and consuming the service lower in high-end retailers. In the high-end department store category, shoppers rated product quality and enhancement of self-image higher.

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.

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