# The Hong Kong Polytechnic University Announces Sixth 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 sixth research findings report on "Customers' Perceived Value of Hong Kong's Retail Sector". Since its inception 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 phase VI of the "Customers' Perceived Value of Hong Kong's Retail Sector" project:

### I. Background

Today, the service sector accounts for over 90% of Hong Kong's GDP. The retail industry is the largest service sector comprised of restaurants, hotels, wholesale, import/export and accounts for 28.8% of Hong Kong's GDP. Total retail sales in 2006 amounted to HK$219.6 billion dollars (a 7.3% increase in value over previous year).

In 2006, visitor arrivals totaled 25.3 million (a 8.1% increase over 2005). Visitors from Mainland China contributed more than 53.8% (13.59 million), thus their views and perception of Hong Kong would have a significant influence on the city's tourism industry.

Given the strategic importance of the retail tourism industry, 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 sixth phase of data collection undertaken in January and February 2007.

### 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, particularly regarding the evaluation criteria for retail services among local shoppers and tourists from Mainland China and other countries;
- To track and monitor the Value Index and performance of Hong Kong retailers in terms of product and service quality, customer satisfaction, and perceived value;
- To discover the relationship between word of mouth effect, level of customer involvement and brand knowledge / brand preference; and
- To investigate the most effective information channel through which tourists learn about the HK's retailers.

## III. Respondents' Profile

The sampling frame 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:

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|---|---|
| • Hong Kong | 14% |
| • Mainland China, Taiwan, Macau | 54% |
| • Asia | 16% |
| • USA & Canada | 6% |
| • Europe | 7% |
| • Australia & New Zealand | 3% |

A total of 3206 completed questionnaires were used for statistical analysis. Our respondents were not guided by any travel agents / escorts. The findings reflect their shopping experience with near 400 retail outlets in Hong Kong including both local and international brands.

## IV. Highlight of the findings

### 1. Determinants of customer's perceived value

From customer perspective, perceived value of retail services are influenced by nine factors. These include perceived risk and safety, service attitude and skills, enhancement of self-image, product quality, promise and interaction, price, shop environment, ability of the merchandise mix to match the lifestyle of the shopper, and efforts spent in purchasing and consuming the service.

The findings have shown an alarming signal of deteriorating service over the previous six phases and the ratings for shop environment, ability to match life style, product quality and effort have not bounced back to the level when the project was initiated. An interesting finding shows that service elements seem to score lower in January when compared to June/July, suggesting that the service standard has not been sustained during peak season. Jewellery is the best perceived performance retail category, while telecommunications continue to be rated as the worst. Tourists from Europe tended to be more generous in rating the nine factors while local shoppers hold lower perceived performance ratings.

Shoppers commented on the need to put in greater efforts in searching and trying products. Contrast to those tourists who were guided by travel agents / escort to shop, our shoppers perceived little risk of purchasing fake products in Hong Kong and were confident of product safety. Shoppers also expressed that store image and brands available at shops did not entirely conform to their lifestyle. 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

While fashion achieved the highest rating in the areas of frontline service employees, product quality and store service, jewellery came second best. Telecommunication is the lowest among the retail categories in all areas. Shoppers from Europe in general rated all service highest except frontline staff performance and HK shoppers are still very demanding.

An overall improvement on Putonghua and English proficiency of frontline service staff has been made for all retail categories except for telecommunications. Past training effort in Putonghua is justified as seen by the substantial improvement over the past few phases. However, it's still below English. Enhancing the language skills of frontline staff certainly can improve the quality of their interactions with foreign customers and solidify Hong Kong's position as a unique, world-class and more desired shopping destination.

**3. Customer satisfaction level**

Overall, satisfaction (average 5.13, equivalent to 73.3%) is comparable to similar customer satisfaction ratings in the USA and better than that of many European countries. The jewellery category has the highest satisfaction level, followed by fashion and department store. Again, telecommunications is the lowest. European shoppers were most satisfied with our retail services while local shoppers and Mainland tourists were least satisfied. According to the Consumer Council, the total number of Mainland tourist complaints has been continuously rising, from 1,316 in 2005 to 1,468 in 2006 (+11.6%).

Amongst all retail categories, although telecommunication has shown an improvement on customer satisfaction over the previous phase, it still ranked the lowest among all other retail categories. Statistics from the Consumer Council are consistent with our findings, in which the total number of complaint cases has improved for telecommunication service (12,029 cases in 2005; 11,801 cases in 2006). However its complaint figures remained the highest amongst all other categories. These findings suggest that continuous effort should be made in the future to maintain reputation in Hong Kong.

**4. Customer perceived value (CPV)**

Customer perceived value has been quite stable over the past few phases, in which Jewellery retailers fared the best and telecommunication as the worst amongst all other categories. Shoppers from Europe gave the highest rating while tourists from other countries have similar perceived value towards the products or services they purchased or consumed in Hong Kong.

Results show that CPV is a composite measure that assesses performance of retailers in several key areas. It therefore plays a significant role on re-purchase behaviour and Hong Kong retailers will need to continually improve their customer perceived value to sustain Hong Kong's image as a "Shoppers Paradise".

**5. Customer loyalty**

Average expenditure per trip for all retail categories was HK$2,205 (+18% over the previous phase), which represents an increase in all retail categories except telecommunication. Tourists from Mainland China have the highest average spending particularly in the jewellery category ($5,562). Cosmetic retailers are also one of their major expenditure categories when compared to other shoppers (Mainland China $1,137; HK local $364; other countries $642).

Results indicate that department stores are one of the retail categories that retain Hong Kong shoppers the most. However, no single retail category stands out to be very appealing to Mainland shoppers. With the arising competition from our neighboring countries, Hong Kong retailers need to pay extra effort to attract shoppers, particularly Mainland tourists, to re-visit again in the future.

6. **Tracking of performance**

Research findings indicate that shop reputation and brand image are important means for retailers in establishing preference for their store. It has been found that greater customer perceived value leads to greater brand knowledge and preference. Thus, there is strong justification for retailers to continue strengthening their capabilities in these areas to build higher brand equity as better customer perceived value will maintain high satisfaction levels, which encourage repeat purchases. The recent counterfeit product scandals suggest that brand equity is a major concern to many local retailers. Fortunately, our findings show that shoppers from Mainland China are still confident of Hong Kong retailers as they perceived little risk of purchasing fake products in Hong Kong. A possible reason that accounts for this is that our sample is largely based on 'Individual Scheme' visitors that are free to shop at the retailers of their own choice or those that they may have heard of in their local country. As a consequence, Hong Kong Government shall spend more resources in promoting tourist about "how to / where to shop in HK".

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

New in the sixth phase of the project was the examination of shoppers' brand knowledge and preference on their evaluations of level of customer involvement, effective information channel/source and effect on word of mouth. Shoppers with stronger brand knowledge and preference tend to pay more attention to the information channel (e.g. advertisement and PR activities) and have a more positive word of mouth effect. As a consequence, higher CPV and better brand experience will be generated, which encourage repurchase behaviour. Results however suggest that a more effective communication programme is needed to strengthen shoppers' brand knowledge and preference (e.g. information about being a smart consumer and reassurances of purchasing genuine goods to mitigate the recent counterfeit products scandal) so that ultimately better perceived performance and image of HK retailers' performance will be achieved.

***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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