The Hong Kong Polytechnic University Announces Seventh Research Report on "Customers' Perceived Value of Hong Kong's Retail Services"

Executive Summary

The Asian Centre for Brand Management (ACBM) of The Hong Kong Polytechnic University today announced the Phase VII research findings report on "Customers' Perceived Value of Hong Kong's Retail Services". 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 local retailers the directions for further improvement of the service standards and for brand building activities.

Major findings from Phase VII of the "Customers' Perceived Value of Hong Kong's Retail Sector" project and the implied service marketing and management issues and embedded opportunities are highlighted below:

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 in 2006. The retail sales in first half year of 2007 amounted to HK$120 billion dollars (a 9.3% increase in value over the corresponding period of previous year).

In first half year of 2007, visitor arrivals reached 13.1 million (a 6.8% increase over the same period of last year). Visitors from Mainland China contributed more than 54.5% (7.1 million), thus their views and perception of Hong Kong have a significant influence on the city's tourism and retail industry.

Given the strategic importance of the retail and tourism industry to Hong Kong's economy, the "Customer's Perceived Value of Hong Kong's Retail Sector" research was initiated in 2004 with an attempt to accomplish the objectives specified in Section II. 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 Phase VII of data collection undertaken in July and August 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; and
- To discover the relationship between word of mouth effect, level of customer involvement and brand knowledge / brand preference.

III. Respondents' Profile

The sampling frame mirrors 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	14%
• Mainland China, Taiwan, Macau	56%
• Asia	12%
• USA & Canada	6%
• Europe	8%
• Australia & New Zealand	4%

A total of 3554 completed questionnaires were used for statistical analysis. Our respondents were not guided by any travel agents / escorts. The findings reflect their shopping experience with nearly 400 retailers in Hong Kong including both local and international retailers.

IV. Highlight of the findings

1. Determinants of customer's perceived value

From the customer perspective, perceived value of the retail experience can be determined by five major factors being: price of merchandise, service (includes staff attitude and skills, and quality of interaction with staff), the shopping environment (covering the perceived risk of purchasing merchandise, the store environment and alignment of the shopping environment with customer lifestyle), merchandise (quality and alignment of merchandise with self-image of the customer), and lastly effort required by the customer during the retail experience.

Findings from Phase VII show deterioration in all five of these major factors with the most significant drop in a) perceived risks inherent in the purchase like financial loss and purchasing a sub-standard or faked products, b) the match between merchandise mix and the consumer's self image, and c) effort spent in buying and consuming the service. This finding signals that these core determinants of perceived value in the retail sector are on the decline. Faced with increasing competition in retail from neighbouring cities like Macao, the results show that local retailers need to take action to increase their competitive edge.

Sectors that performed relatively well in Phase 7 of the project are jewellery/watch and department stores. Consistent with the findings from the last two phases the telecommunications sector fared the worst. Tourist shoppers from long-haul markets such as USA, Australia and New Zealand rated perceived value of retailers higher than the local counterparts, who have given the lowest ratings in each phase of the project to date. Given the pivotal importance of Mainland tourists to Hong Kong's retail sector, the findings show that they have rated the factor of effort the lowest, meaning they actually experienced a greater need to spend time and effort in searching and trying merchandise during the retail experience. A similar finding is obtained for shoppers from North and South Asia. For retailers, this signals the need for better service levels during the whole purchasing process to increase efficiency. Again, tourist shoppers from Mainland and Asian regions rated the ability of merchandise to match with their lifestyle relatively low. We did alert local retailers this issue based on the findings from previous phases but perhaps local retailers have not considered it a serious threat and not done much remedial action in this area. However, further decline in the performance on brand and merchandise mix reiterates this is a potential area for improvement and differentiation.

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

   The project investigates the performance levels of the retailers in terms of their frontline service employees, product quality and service quality of the store. Results indicate that although fashion and jewellery/watch sectors have consistently been top performers in these areas, the other sectors are fast catching up with the exception of telecommunications which scores significantly lower. Local shoppers once again gave the lowest performance ratings and tourists from USA, and Europe rated performance in these areas the highest. In terms of the language proficiency of retail staff, results from Phase 7 show decline in English across all retail categories with the exception of cosmetics, while telecommunications has the largest drop in English ability. Putonghua proficiency has remained relatively unchanged from the previous phase with the sectors of jewellery/watch, consumer electronics, department stores, and footwear showing improvement. Enhancing the language skills of frontline staff is critical to improve the quality of their interactions with foreign customers and solidify Hong Kong's position as a unique, world-class shopping destination.

3. **Customer satisfaction level**

   The overall satisfaction level for the jewellery/watch sector attained the highest rating. All retail sectors achieved a higher than average rating for customer satisfaction with the exception of telecommunications which is far behind the other sectors. Satisfaction levels have shown an increase on those attained in the last phases in all sectors with the exception of telecommunications.

   The project has compared the overall satisfaction level for Hong Kong's retailers against other similar indices in other countries and found that our satisfaction level with retailers are comparable to the ratings in the USA and better than some Northern European countries.

4. **Overall customer perceived value (CPV)**

   CPV has been quite steadily declining over the past few phases, in which jewellery retailers fared the best and telecommunication as the worst amongst all other categories. Consumer electronics is the only sector to demonstrate improvement in overall perceived value in this phase. As in previous phases, 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.

   Our findings have demonstrated that CPV is a composite measure that influences repurchase behaviour. Our results have consistently demonstrated that higher levels of CPV lead to more repurchases by consumers. In addition, the findings disclose a positive linear relationship between CPV and sales growth rate. Retail firms got higher ratings in CPV in fact experienced better sales growth rate in the all phases. Retailers can make use of the CPV index as a means to track their performance over time and also as a benchmark for comparison with other retailers in the same sector.

5. **Customer loyalty**

   This project examines customer loyalty by finding out the intentions of both local and tourist shoppers in revisiting retail outlets, and their intended expenditure by retail category. Cosmetics and jewellery/watch retailers are attractive to Mainland shoppers who expressed a high intention of revisiting these retail categories. Although recent statistics on retail sales released earlier this month indicate a jump in retail sales, our results have shown overall spending per transaction has dropped noticeably for footwear, cosmetics and department store categories. The only sector to experience an increase in the overall spending per transaction is fashion. In line with findings from the previous phase, Mainland shippers have the highest average spending in comparison to Hong Kong and other non-Mainland shoppers at HK$2,471.80 compared with HK$1,971.6 and $1,865.3 respectively. Mainland shoppers also spend at least twice more than other foreign shoppers in the jewellery/watch category.

6. Shopper confidence

In light of the counterfeit product scandals earlier this year, our study asked shoppers about their confidence in shopping in Hong Kong. Findings show that overall, more than half of tourist shoppers were aware of the counterfeit product scandals but the effect of the scandals on perception of Hong Kong's retail service varied across different groups of shoppers of different country origin. Perhaps Hong Kong consumers heard the scandals everyday and they gave the lowest rating to the value of the city's retail service. Shoppers from southeastern Asian countries also heard of the scandals and report these had negative impact on their expectations of Hong Kong's retail service. They consequently became more cautious when rating the quality and value of the service consumed at local retail outlets. Shoppers from mainland China were more alert of the scandals but some of them also heard about the positive actions taken by the authorities and trade associations of concern in Hong Kong. Though this group of shoppers also rated down the perceived value of Hong Kong's retail service as compared to ratings in previous phases, the majority of them still remained confident of shopping in Hong Kong. However, mainland shoppers placed the highest importance of shopping in quality assured stores (e.g. those that display the Quality Shopping sign) to boost their confidence. This observation indicates the need of launching corrective advertising/PR campaigns mainly to Asian shoppers to change their expectation on Hong Kong's retail service.

7. Importance of branding

Consistent with the previous phase of the project, we undertook an examination on the importance of branding issues on shoppers' evaluation of company reputation, brand information channels and word-of-mouth. Shoppers' who are familiar with a retail brand as they have purchased from them in their home country have more favourable perceptions about the company reputation and are more willing to spread positive comments about the retailer to others. Shoppers' familiar with the retail brand are found to be more receptive to advertisements and PR activities of the retailer than those who have no prior buying experience. However, findings from Phase 7 show a slight decline from those in the previous phase indicating that retailers need to invest more in their brand building activities to enhance brand recall. Similar findings are also obtained for shoppers who possess strong brand knowledge versus those with weak brand knowledge.

The results further support the advantage of establishing brand preference with findings indicating that shoppers who hold a brand preference for a particular retail brand have favourable perceptions towards the retailer, are willing to make positive comments regarding the retailer and in general have higher ratings on satisfaction and perceived value in comparison to shoppers who have less favourable brand preference. Shoppers' with more favourable brand preference have been found to have a higher spending per transaction. These findings further strengthen the need for retailers to build strong brands given its critical impact on several behavioural outcomes.

8. Tracking the CPV Index

There has been a steady decline in the overall CPV index from July 2006 onwards. This finding signifies shoppers feel that value in Hong Kong's retail sector is decreasing. With the intensifying competition from neighbouring cities like Macau, which is fast blooming into an integrated gaming and convention destination city that is becoming an ever increasing threat with its burgeoning retail sector, Hong Kong retailers need to urgently take stock of how to maintain their competitive edge. Recent declines in the CPV index and its various factors suggest that shoppers perceive that goods sold by different retailers are very similar and that stores lack their individual identity as they are too similar. The project has consistently demonstrated over time that the key drivers of value for the customer lie in the three core areas of service, product and branding. These are three areas that require careful planning and long-term investment to nurture and sustain the attractiveness of Hong Kong's retailers.

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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