The Hong Kong Polytechnic University Announces Eighth 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 VIII 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 service standards for brand building activities.

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

I. Background

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% of Hong Kong's GDP in 2006. The retail sales in the second half year of 2007 amounted to HK$128 billion dollars (a 16% increase in value over the corresponding period of previous year).

In the second half year of 2007, visitor arrivals reached 15 million. Visitors from Mainland China contributed more than half, 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 VIII of data collection undertaken between January to March 2008.

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.

In addition, this survey will analyze shopping orientation and further investigate the recovery of shopping confidence after effect on "counterfeit product scandal in 2007".

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 57%
- Asia 13%
- USA & Canada 6%
- Europe 8%
- Australia & New Zealand 2%

A total of 2640 completed questionnaires were used for statistical analysis. 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. Trend and performance of CPV index

The "Customer Perceived Value (CPV) in Hong Kong's Retail Sector" research study was first established in 2004. At the time a "Customer Perceived Index" of 100 was set as a base value. The study has observed the changes in the CPV index from the second half of 2004 up to early 2008 to date. The CPV index reached the peak in second half of 2006 (100.5), followed by a decline below the base level from first half of 2007 to early 2008, indicating that local and tourist shoppers are becoming less satisfied, raising an alert for the future of Hong Kong's retail sector.

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. From early 2008 figures, Hong Kong's seven main retail categories show slight improvements in service quality, staff attitude and interaction with customers. On the other hand, product quality and design, shopping environment and price of merchandise have not improved at all for the past few years. Tourists, especially those from Mainland China still love to shop in Hong Kong, as the brands and products they buy here make them feel good about themselves, and facilitate to enhance their personal image.

Comparing performance across the seven retail categories studied, results indicate the CPV index for electronics and cosmetics retailers have not gone back to the base level of 2004. For these two retail categories, a CPV index of 96.5 and 97.1 has been obtained respectively from the latest phase. Findings clearly show that poor ratings in service standard and shopping environment have led to consistent deterioration in the CPV index Fashion retailers have experienced a fluctuating CPV index whereas department stores have been steadily progressing; and have never experienced a lower CPV index than the base level.

Previous phase findings show the telecommunications retail category has always scored the lowest CPV. Out of the nine major factors that determine CPV, telecommunications fared the worst in six of them. However results from this phase show the telecommunications category has made substantial progress. For example the factor of shopping environment has been rated with the most improvement. The overall best performer in all retail categories is the jewellery/watch sector. With the highest overall CPV rating, it is the best performer in specific factors including customer attitude and skills, shopping environment, product quality and the enhancement of self image. Fashion retailers were rated the best in terms of ability of the merchandise mix to match with lifestyle of the shopper, and footwear retailers were rated the worst in the factor of effort spent in purchasing and consuming the service.

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

Of the nine factors, the worst performance is seen in the factor of effort across the different retail categories and increasingly customers tend to complain that the time spent during the entire purchase process is getting longer. Customers need to put in more effort and time to find their desired products. The study clearly shows that the factor of effort has dropped dramatically during the first half year in 2008. Many Hong Kong retailers do not yet realise the importance of this factor, some might notice the presence of the problems but are not ready to invest financially into solving them. The time and effort customers spend on shopping in Hong Kong has not improved since the past four years, in fact the ratings for the factor of effort have continually deteriorated and has reached a new low index value of 83.3, showing an unacceptable decline of 16.7. This trend is mainly caused by conservative management and marketing plans.

Following the SARS epidemic, the Chinese Government implemented the individual visit scheme policy and the number of tourists from Mainland China visiting Hong Kong each year has been steadily rising. Hong Kong's tourist arrivals have been further boosted due to economic stability and growth in Europe and other Asian countries. According to government figures, the number of visitors to Hong Kong rose from 10,978,048 in early 2005 to 15,139,925 towards the end of 2007, representing an increase of 37.9%. Moreover, in the past few years, Hong Kong people have enjoyed higher average income due to economic growth and this has led to increased spending across the retail sector. In the past three years, Hong Kong's total expenditure in the retail industry was HKD$103,310 million in 2005 and HKD$127,674 million at the end of 2007, indicating an average increase of 23.6% per year.

Despite the encouraging increases, the total number of retail salesman only increased from 224,618 in June 2005 to 239,780 in December 2007, representing an increase of 6.75%. This figure is considerably lower than the rate of increase in retail expenditure (23.6%) and tourist arrivals (37.9%). Does this suggest each customer has to wait longer until being served? If frontline retail sales insist on providing high standards of service quality and not reducing the service time for each customer, inevitably the waiting time for being served and thus the entire purchase process will be extended. As the number of customers and total retail sales rise each year, it seems that the majority of Hong Kong's retailers are rather conservative and unwilling to employ more frontline staff, even though the total retail sales amount is rising rapidly. From the customers' point of view, time, effort and vitality are their costs or sacrifices when they engage in a shopping experience. If customers find they are having to exert more effort while receiving similar or slightly improved levels of service, this will place downward pressure on the ratings of the effort factor, and affect Hong Kong's image as a shoppers' paradise, as well as diminish the attraction of future visits

3. Shoppers regain confidence in Hong Kong's retail industry

Our study shows some encouragement for Hong Kong's retail and tourism sectors as results show that Hong Kong has not only has recovered and regained its image as a safe, reliable and low risk shopping city just shortly after experiencing negative publicity from the counterfeit products scandal early last year but perceptions of the safety factor have reached its highest level to date of 102.

4. Customer Satisfaction

In terms of overall customer satisfaction, results show European tourists are most satisfied with Hong Kong's retail services. Satisfaction among Mainland Chinese tourists has remained at a constant level compared to the last phase. Local Hong Kong shoppers show a higher satisfaction rating although they have consistently been the toughest raters of customer satisfaction over the years. Comparing across the different retail categories, the highest customer satisfaction rating was obtained for department stores scoring an average rating of 5.37 out of 7 (76.7%). The jewellery category came second with an average rating of 5.27 out of 7. The worst rating was for the telecommunications category with only 4.86 out of 7 (69.4%). In addition to being rated the retail category with highest customer satisfaction, department stores were also rated with the highest CPV level, with the jewellery category coming second. Worst CPV performers this phase were the telecommunications and cosmetics categories.

Countries like US and Europe (includes Finland, Sweden, Austria etc.) have conducted similar customer satisfaction survey starting in the 1990's. Asian countries such as Singapore and South Korea have also started similar surveys in 2007. In comparison, overall customer satisfaction level is relatively higher in Hong Kong (scoring 74.3, out of a 100) when compared to other countries, such as US (74.2), Europe (65-75), Singapore (68.7) and South Korea (72). In our study, satisfaction level for shoppers from US & Canada, Europe, Asia and Mainland is 76, 77.6, 74 and 74.3 respectively. Thus, HK retailers should continuously sustain such performance so as to enhance the image of a "Shoppers' Paradise" in Hong Kong.

5. Association of Customer Perceived Value with Customer Preference

Findings from this phase once again prove that the CPV index is directly proportional to customers' preference for a particular brand. Meaning the higher the level of CPV, the more favorable customers are to the brand. More importantly it has been found that customer preference for a particular brand translates into higher per transaction expenditure. The difference in per transaction expenditure between customer who has high brand preference versus those with lower brand preference can be greater than HKD$500 (23%). Therefore, the investing strategies of a retailer can make a big difference to its perceived value. Customers are willing to spend more when shops can provide a wider range of both inexpensive and expensive products. As retailers build up a better brand image and establish a stronger brand preference they will be able to reap the benefits of their investment.

6. Shopping Orientation

For the first time, our study examines the "Shopping Orientation" of local and tourist shoppers. Research on this was undertaken in fashion, jewellery/watches, department stores and footwear categories. Results show the shopping orientation of shoppers can be divided into four major groups, they are "brand buyer", "price-orientated", "leisure shopper" and "purpose-shopper". Among the groups "brand buyers" are by far the main majority. Compared with different countries, Mainland Chinese shoppers are most influenced by branded products. Whereas European and American shoppers tend to have a wider knowledge of products and brands and they are more rational, being less influenced by branded products. In general, purchasing of branded products is often a key attraction of shopping in Hong Kong. Our findings show that many shoppers feel that purchasing products in Hong Kong helps to enhance their self-image. It is recommended that retailers continue to improve their product designs and quality; and extend their brand mix by investing into new brands, thereby facilitating Hong Kong to retain its image of a shoppers' paradise for branded products. Besides being considered a place for purchasing branded products, findings show that both local and tourist shoppers are familiar with the pricing of goods and most shoppers will take pricing into consideration even if the product is from their favourite brand.

7. Language Proficiency

Frontline employees in the Hong Kong retail industry in general have mastered language ability quite well. Despite the improvement in Putonghua over the past 2 years, it is still below English proficiency. Since the inception of this study, retail categories in jewellery/watch and department store are always best performers in proficiency of both languages. As such, the Hong Kong retail industry could benchmark jewellery/watch and department store retailers when providing language training programmes to improve frontline employee's language ability.

8. Retail Sales Contribution

Same as previous phases, Mainland shoppers are the biggest spenders in the Hong Kong's retail industry. Results shows that their average transaction size is HK$2,862, well above non-Mainland shoppers ($2,145) and Hong Kong local shoppers ($1,682). Mainland shoppers are most willing to spend money on gold, jewellery / watches, with an average spending per transaction $7,034. However, our findings do show that non-Mainland shoppers are more willing to spend money on Consumer Electronic, with an average transaction size of $5,000.

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. Asian Centre for Brand Management would like to express our heartiest gratitude for receiving support from HKQAA, Ambassadors of Design and Giordano for our research on brand management.

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