

The Hong Kong Polytechnic University Announces Ninth 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 IX research findings report on “Customers’ Perceived Value of Hong Kong’s Retail Services”. Launched in 2004, this biannual study aims to assess both local shoppers’ and tourists’ perceived value towards local retail services in order to provide local retailers the direction for further improvement in service standards and for brand building activities. Major findings from Phase IX 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 the retail sales in the first half year of 2008 amounted to HK\$139 billion dollars (a 16% increase in value over the corresponding period of previous year).**

In the first half year of 2008, visitor arrivals reached 14.2 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” attempts 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 IX of data collection undertaken between July to mid-September 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 spending, shopping orientation and shopping behaviour, particularly regarding the evaluation criteria for retail services among local shoppers, tourists from China Mainland and other countries;
- To track and monitor the Value Index and the performance of HK’ s retailers in terms of product and service quality, customer satisfaction, and perceived value; and
- To discover the relationships amongst brand knowledge, customer perceived value and 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 15.4%
- USA 5.1%
- Europe, Africa, ME 7.7%
- Australia & New Zealand 2.7%
- N. Asia & S.Asia 14.3%
- Mainland China 54.8%

A total of 2,739 completed questionnaires were used for statistical analysis. The findings reflect their shopping experience with more than 400 retailers in Hong Kong including both local and international retailers.

IV. Highlights of the Findings

1. Trend and performance of CPV index

According to the survey, **the CPV index has steadily declined, reaching a new low index value of 97.0 since the 2004 baseline study (100)**, indicating that local and tourist shoppers are becoming less satisfied, raising an alarm for the future of Hong Kong's retail sector. With the pegged currency rate, prices of products and services in Hong Kong have been forced upwards, which has a negative impact on the performance of customer 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 this phase show deterioration in four out of five of these major factors being: (a) shopping environment, (b) price of merchandise, (c) merchandise, and (d) service. This finding signals that these core determinants of perceived value in the retail sector are on the decline. However, shoppers spent less effort during the retail experience, possibly attributed to the professional service provided by the frontline staff (improvement in efficiency of service), or the familiarity of the service process by the frequent shoppers and travelers, or increase in marketing communications leading to reduced search costs.



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

The perceived performance of front line staff has improved in terms of service, attitudes and skills, despite a slight drop in promise and interaction. The improved service performance may also contribute to the improvement in effort in the process of purchase for consumers. From a company perspective, the improvement in effort may be due to an increased investment in marketing communications or in retail facilities such as better shop layout or more payment methods to reduce customer's search costs and to improve and streamline the shopper's experience. From a consumer perspective, the improvement in effort may be due to the familiarity of the service process so that less effort in search and purchase is exerted as they are accustomed to the process.

Again, Jewellery retailers and Department stores have performed best in terms of the store service delivered by the frontline service employees, and their service is highly praised by tourists from USA/Canada and Australia/NZ.

3. Customer satisfaction

Satisfaction level has been measured across and within retail categories. The overall satisfaction rating, remains highest at 5.30 in July 2005, since then the lowest rating (5.13) was obtained in Jan 2007, climbing back steadily to 5.22 in July 2008.

Within retail categories, satisfaction rated highest in jewellery and department stores corresponding with their high performance in the service dimensions. The worst performers include the cosmetics and telecom industry. Compared to previous phases, the telecommunications industry has improved the most significantly in customer satisfaction.

Customer satisfaction is a subjective measure so differences can be comprehended between shoppers of different nationalities. The most significant improvement in satisfaction is amongst Australian and New Zealand customers. There were also improvements in satisfaction levels of local and USA customers. However, a decline in levels is evident for customers of European, African, Middle Eastern, North and South East Asian origins. The mainland customers have remained steady in their satisfaction ratings.

4. Language proficiency

Consumer electronics has the best English proficiency, perhaps as this category attracts the most non-mainland customers.

Jewellery/watch retail category has the highest Putonghua proficiency, possibly as this category attracts the most mainland customers. In fashion, there has been a 10% decrease in Putonghua proficiency. In department stores there has been a 6% decrease in Putonghua proficiency.



5. Association of customer perceived value with brand preference and loyalty

A higher CPV results in a higher brand preference as a customer will derive more value from a brand, leading to a higher chance that they will prefer a particular product.

The highest CPV was evident in the jewellery/watch and department store category, corresponding with their higher customer satisfaction rating and service performance dimensions. The lowest CPV was in the footwear and telecommunication category where consistent poor performance can be seen in service/attitudes/skills, price, quality, risk/safety, self-image and effort factors

In sum, a higher CPV and brand preference, can lead to the most valuable asset for a company: customer loyalty. The research has attempted to examine customer loyalty based on a customer's intention of revisit.

For fashion, non-mainland customers are much more likely to revisit than other shoppers and retail categories. This indicates their interest in shopping for fashion in Hong Kong. In contrast, the mainland customers had the highest intention of revisiting cosmetics and department stores indicating their interest within these categories in Hong Kong.

6. The importance of branding and market communications

A relationship is also found between prior buying experience for a brand; repurchase intentions and likelihood of spreading positive word-of-mouth. Results indicate that customers with prior buying experience tend to have a higher repurchase intention and are more likely to share their positive shopping experience with others. A possible explanation for this finding is due to familiarity with a brand through prior learning and experience in the home country, the customer enjoys reduced levels of perceived risk in their purchase decisions.

In another attempt to understand overseas customers, we asked them about their service experience in comparison to experience of same brand purchase in their home country. It can be noted that customers with same brand overseas experience rated risk and safety rating as the highest indicator of service performance. Therefore, suggesting their higher expectation for better service and product offering in Hong Kong.

The study also indicates that an increasing number of customers recall company advertisements, however, the feelings towards them is higher for customers without prior buying experience in their home country. The figures indicate recall ratings are relatively low, suggesting that effectiveness of marketing communications can be improved to increase brand awareness. Adding to this a positive relationship between brand knowledge and satisfaction level and perceived value is found. Corresponding to this, shoppers with a favourable brand preference tended to have a higher likelihood of sharing their shopping experience with others and had higher satisfaction and perceived value levels.

7. Shopping orientation

In an attempt to understand the buying behaviour of customers from different geographical regions, customers have been segmented into four types by their shopping orientation: brand buyer, price-oriented shopper, leisure shopper and purpose-oriented shopper. The most brand conscious buyers are from Mainland, whereas the most price oriented are from Australia and New Zealand. North and South Asian shoppers tended to be leisure and purpose oriented.

Within the Mainland shopper group, we have further subdivided customers by provincial cities to obtain further insight. Customers from Northern cities Beijing, Tianjin and Heibei were the most brand conscious and leisurely; spending the most on jewellery/watches. In comparison, shoppers from Eastern cities Shanghai, Jiangsu, Zhejiang and Southern region such as Guangdong tended to be attracted by our Fashion retailers in Hong Kong. The most price-oriented were from Shanghai, Jiangsu and Zhejiang. The most purpose oriented shoppers were from the Southern cities, Guangdong and Fujian. A plausible explanation for this finding can be attributed to their proximity to Hong Kong, customers from these cities are able to frequently purchase in Hong Kong thereby also reflecting their relatively lower expenditure in comparison to more remote Northern mainland cities.

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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