

AN OPPORTUNITY STUDY FOR AN AMERICAN DEPARTMENT
STORE IN HONG KONG

by

KONG CHI HO
江志豪

WONG WAN SZE
黃韻詩

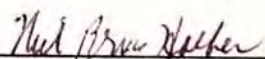
MBA PROJECT REPORT

Presented to
The Graduate School

In Partial Fulfilment
of the Requirements for the Degree of
MASTER OF BUSINESS ADMINISTRATION

TWO-YEAR MBA PROGRAMME
THE CHINESE UNIVERSITY OF HONG KONG

May 1991



Dr. Neil B. Holbert

Advisor

321144

thesis
HF
5465
H62K66



ABSTRACT

With the increasing popularity of Japanese department stores in Hong Kong, this study explores whether there is room for a new style of department store, an American department store, in this market.

To conduct this research, primary data was collected from a customer survey in Hong Kong; interviews with management personnel of department stores in Hong Kong and United States; and store visits. Background information concerning retailing in international markets, trends in retailing, and worldwide operation of department stores came mainly from academic journals, market reports, annual reports of department stores, newspapers and magazines.

After considering the favourable and unfavourable factors in opening a new department store in Hong Kong, a low-priced department store seems to be more appropriate in the present situation. The store can operate in two formats, either as a discount store like K-Mart or Target, or as a specialty store like Montgomery Ward.

However, this study is only an exploratory one. Further research on customer acceptance and operational feasibility must be conducted.

TABLE OF CONTENTS

ABSTRACT.....	ii
TABLE OF CONTENTS.....	iii
PREFACE.....	iv
Chapter	
I. INTRODUCTION	1
Project Objectives	2
II. BACKGROUND INFORMATION	3
US Department Stores	3
Overseas Expansion	4
Domestic Market Situation	6
Retailing in the Asian-Pacific Region	7
Overseas Expansion of Asian Department Stores	9
Retailing in Hong Kong	9
Why is Hong Kong Considered as an Alternative	11
III. LITERATURE REVIEW	12
Internationalisation of Retailing	12
Trends in the Retail Market	15
Store Preferences and Store Trends	16
Bibliography	19
IV. METHODOLOGY	20
V. RESEARCH FINDINGS	23
Customer Survey	23
Interpretation of Findings	34
Interviews with Department Store Personnel	36
VI. RECOMMENDATIONS	48
Selection Criteria	48
Type of Store	50
Discount Store	51
Specialty Department Store	53
Potential Problems	57
VII. CONCLUSIONS	59
APPENDICES.....	61

PREFACE

This research studies the feasibility and opportunity for an American department store in Hong Kong. In addition to being a topic of broad interest to the authors, they were exchange students at the University of California, Los Angeles and the University of Chicago for a few months last year. This give them a chance to gather more primary data through visiting American department stores themselves. By integrating their own experience and exposure in the United States, it is the hope of the authors that a more thorough study on this topic has emerged.

In this report, Chapter I introduces and defines the scope of the study.

In Chapter II, background information is given for reference. The Chapter is divided into three parts. The first part describes the style of US department stores, their overseas expansion and the current retail market situation in the United States. The second part studies the Asian-Pacific market, and the last part focuses on the Hong Kong retail market. The attractiveness of this market to US department stores is also discussed.

Chapter III is a review of the literature on the topics of internationalisation of retailing, trends in the retail market, store preferences and store trends.

Chapter IV describes the methodology of the study.

The research findings from the customer survey and the

interviews with department store management personnel are summarized in Chapter V.

In Chapter VI, recommendations are given after examining whether Hong Kong is a feasible market for an American department store.

Chapter VII presents some conclusions.

Several interviews were arranged with management personnel in department stores in Hong Kong. In relation to this, the authors would like to thank Mr. Raymond Fan of Yaohan Department Store; Miss Alison Mar of Sincere Department Store; Miss Mickey Siu of Wing On Department Store; Miss Ruby Wan of Jusco Stores Co. Ltd.; and Mr. Alexander Wong of Seibu Department Store; for their valuable time and vital information.

Last but not least, the authors would like to express their sincere thanks to Dr. Neil B. Holbert for his advice and guidance for the whole research project.

CHAPTER I

INTRODUCTION

With the constrained opportunities for growth in their mature domestic markets, a growing number of retailers are being forced to develop outside their home countries. For example, from 1980 to 1986, cumulative foreign direct investment from Europe to the US increased by over 260 %: from US \$ 3,650 million to \$ 9,754 million. Successful examples like Ikea (Sweden), Benetton (Italy), and McDonald's (US) now trade in over 30 countries. Japanese department store groups, such as Mitsukoshi and Daimaru, also continue their search for prestige sites in world capitals.

In considering location for an overseas store, retailers usually will consider among other things the culture and consumption level of the people in potential markets. In the present global environment, the European Community is often highly prioritised by international retailers, especially after 1992. On the other hand, the Asia Pacific region also has its own attractions because of its rapid economic growth in recent decades.

Hong Kong, one of the "Four Little Dragons" in the Asia Pacific Rim, had its first foreign department store, Daimaru, opened in 1960. The number of foreign department stores keeps increasing and now the market is mainly served by the Japanese, British and the local Chinese department

stores.

However, there is still no American department store in Hong Kong. Therefore the aim of this study is to see if there is opportunity for such a store (or stores) in this market.

Project Objectives

- (1) To give a general overall view of the management styles and practices of American Department Stores.
- (2) To study the shopping behaviour of Hong Kong people.
- (3) To know the styles, target customers, strategies and views of Hong Kong market of those existing department stores in Hong Kong.
- (4) To make recommendations about entry into Hong Kong to an American Department Store that might be thinking about coming here.

CHAPTER II

BACKGROUND INFORMATION

US Department Stores

The origins of modern retailing are rooted in the U.S.A., and to a certain extent in Europe. The reason for this may be attributed to the apparent relationship between retailing and the economic development and growth of these countries.

Department stores in the US can mainly be grouped into high-end, medium, low-end stores, discount stores and specialty stores. In the high end market, representative stores are Saks Fifth Avenue, Nordstrom, and I.Magnin. The May Department Store, J C Penney, Broadway and Macy are in the middle of the market, while Woolworth positions itself at the lower end. Discount stores like K-Mart, Wal-Mart and Target have enjoyed significant growth in sales during these years. Examples of specialty stores include Toy "R" Us, the Gap (casual wear), Brooks Brothers (men's apparel) and the Athlete's Foot (sport shoes).

Many American department stores do not carry a full range of products as compared with the Japanese stores. Inside an American department store like Nordstrom, or Broadway, the apparel department is so large that it occupies more than half of the total store space. These stores do not have a toy department or a stationery department, and some even do not sell household goods. They

are usually located in shopping centres, and the stores are very spacious.

A very distinct service offered in American department stores is that goods sold are refundable and exchangeable. Generally speaking, good services are provided. For example, in Nordstrom there is a piano performance that makes customers feel more relaxed when they do shopping, and normally there are sofas placed around the store for resting. The display of goods in an American department is quite different from that of Japanese stores and it is very common for stores to sell private label products, mainly apparel.

Overseas Expansion

Despite the dominant position of the U.S.A. in retailing, global retailing still represents a small proportion of its total activities. No large retail chains operating in North America have gone to developing countries in a major way. There have been, however, some attempts to expand the U.S. department stores overseas. Some are quite successful while some are not.

For example, the third largest retailer in U.S., Sears Roebuck & Company, expanded its operations to overseas markets back in 1942 when its Latin American operations began with the establishment of a retail store in Cuba. Afterwards, it had made some success in building up subsidiaries in Canada and in Mexico. In 1967, it had further entered into the European market by opening its first retail store in Barcelona, Spain. Four years later,

it had acquired an old retailing company in Belgium, which was at that time experiencing financial problems. However, due to unprofitable operations and dampened economic conditions in Europe, it sold back these two operations to its domestic businesses. Nevertheless, Sears was also involved in the export of management technology to other overseas retailers. In 1976, it signed a 10-year contract with the Seibu group of retail enterprises in Japan for the exporting of management technology. In 1982, it also set up subsidiaries to handle similar deals and the export and import of goods with Japan and other East Asian countries.

A successful example is J.C. Penney. Penney, ranked as the fourth largest retailer, acquired the Belgian Sarma company in 1969, after having held a minority share in it for one year. Right after the acquisition, the Belgian operations had proven to be a cash-generator for Penney. In 1981, a ten-year program to reposition and expand the Belgian retail operations was announced by the company.

K-Mart, the largest U.S. retailer, is also an active player in the internationalisation of retailing. It has its operations in both Canada and Puerto Rico. In the mid 80s, it bought a 44 percent interest in a Mexican retail chain, Astra, a subsidiary of Gentor Group. In 1983, it headed in a new direction by starting a trading company, K-Mart Trading Services, to engage in the import-export business, concentrating primarily on the export of U.S. consumer goods to retailers and wholesalers worldwide.

Although a few U.S. chains did move across the border

to selected Latin American countries, Canada or Mexico, their number remains very small. Most of them are believed to have little incentive to move to other developing countries, mainly for two reasons :

(1) The advantage of a large domestic market in the home country; and

(2) Comparatively greater risks perceived in the overseas retail business.

Domestic Market Situation

Currently, retail sales in the United States are sluggish. Sears Roebuck, for example, has tried offering "everyday-low-prices". Nevertheless, their sales have not risen.

In accordance with the change in consumer buying behaviour, the structure of the retailing industry has changed sharply. The tendency towards dual income families and families headed by a single adult has made the traditional shopping activity more difficult, and has led to the growing sales of mail-order companies. At year end 1988, about 27% of Americans used mail-order services and the sales of these companies grew at 13% over the past three years on average.

A host of famous American stores have filed under Chapter XI of America's bankruptcy code. These include Bloomingdale's and Bon Marche. Also, B.A.T.'s 46 Saks Fifth Avenue are up for sale. This illustrates that ability to adapt to change is more than ever crucial to the success of a department store.

Coupled with the effect of recession, there are huge amounts of labour lay-offs. For example, Sears Roebuck has laid off 20,000. Obviously, the market in U.S. is mature and it seems like the right time for these stores to consider global expansion.

Retailing in the Asia-Pacific Region

Generally, the development of retailing in developing countries has lagged about twenty years behind its development in the U.S.A. But by now these countries, especially in the Asia area, have already undergone drastic changes in social, economic, cultural and technological conditions. This also has resulted in a change in consumer habits and expectations among these countries. The following are some selected data for the four smaller well-developed Asian nations, the so-called "Four Little Dragons". (Japan is not included here because of its protectionism, the Big Retailer Law, and the strongly-based Japanese department store network.¹ It is not easy for a foreigner to enter the Japanese market and hence we will not consider this market here)

¹. Research Department. A General View of Japan's Distribution System for Consumer Goods. Hong Kong: Trade Development Council, May 1987.

	(90)	(90)	(90)	(90)
	Singapore	Hong Kong	Taiwan	South Korea
Population	2.7 mil	5.9 mil	20.5 mil	43.0 mil
GNP (US\$)	28 bil	65 bil	154 bil	214 bil
GNP per capita (US\$)	10,521	10,939	7,509	4,968
GNP growth	8.5%	2.3%	5.2%	8.6%
Inflation rate	2.4%	10.1%	5.0%	9.4%

Among the four countries, Korea has the largest population but its GNP per capita is the lowest despite its highest GNP growth rate. In addition, foreign products only account for about 5% of the sales of its largest department store, Hyundai.²

Singapore has only half of the population of Hong Kong. Also its GNP per capita is still less than that of Hong Kong.

The Taiwan economy has grown dramatically during the recent years. However its GNP per capita still falls short of Hong Kong. Moreover, an important characteristic of the department stores in Taiwan is the practice of subletting a large proportion of their floor space to individual operators.³ This practice has led to the loss of store

². See Research Development. Market Report on the Republic of Korea. Hong Kong: Trade Development Council. September 1989.

³. Research Department. Market Report on Taiwan. Hong Kong: Trade Development Council, April, 1987.

identity and the reliance on price cutting as a way to compete. In some extreme cases, some stores have offered discounts as deep as 70% in order to boost sales.

Overseas Expansion of Asian Department Stores

Most of the department stores in the Asia Pacific region are not active players in terms of globalisation. Nevertheless, they are becoming more active and open-minded nowadays.

The Japanese department stores are getting much more aggressive and active in the worldwide retailing market. Jusco⁴, became the first Japanese company to enter into US retailing by acquiring Talbots.

Some of the Hong Kong department stores are also entering into the global retailing market. In 1986, Sincere opened its first overseas branch in Taiwan.⁵ Wing On has teamed up with Seiyu recently. It stands to benefit from Seiyu's expertise in running retail chains.

Retailing in Hong Kong

Japanese department stores now account for 40% of the total sales of Hong Kong department stores.

The three leading local "Chinese" department stores in Hong Kong, Sincere, Wing On and Shui Hing, because of their long history, usually have comparatively conservative

⁴ Treadgold, Alan D. "Developing Internationalisation of Retailing." International Journal of Retailing & Distribution Management 18 no. 2:4-11

⁵ Capital Magazine. August, 1990.

images. The only British store, Marks & Spencer enjoys a good reputation of its quality products under the brand name of St. Michael. There are now eleven different Japanese department stores operating a total of seventeen stores. Usually with large food plazas and supermarkets, they are well accepted by Hong Kong customers.

Department stores like Yaohan, Jusco, Seibu and Seiyu, have been newsmakers. Yaohan is aggressive in Hong Kong and has already opened branches in Shatin, Tuen Mun, and Hung Hom and later will open in Tsuen Wan and Lam Tin. In order to show its commitment to the Hong Kong market, Yaohan has even moved its headquarters to Hong Kong. At present, it has over 30 department stores all over the world. A preliminary study about opening a new branch in Shenzhen has been undertaken.

Jusco entered the Hong Kong market in 1987. It now operates a general merchandise store in City Plaza and a specialty store in Tsimshatsui, Harbour City. It plans to open two new stores this year, one in Tsuen Wan and the other in Lok Fu. Seibu opened its first overseas branch in Hong Kong at the Pacific Place in Admiralty, while Seiyu acted in a different way by teaming up with Wing On department store (by holding 40% of its stake). Seiyu opened its first store in Shatin last year in October, directly competing with Yaohan. Around the same time the British giant, Marks & Spencer opened its fifth store, the largest one in Hong Kong, also at Pacific Place. The competition in the retail business has hence been further

intensified.

Why is Hong Kong Considered as
an Alternative ?

Although Hong Kong now has a slower pace of growth, it has other points of attractions compared with other places. This includes :

- (1) The stability of the foreign exchange rate, as the HK dollar is linked with the US dollar;
- (2) Comparatively low tariffs;
- (3) The import regulations are not as tight as other countries;
- (4) Comparatively low rent of shopping malls; and
- (5) It has the highest GNP per capita among the "Four Little Dragons"; that is, it has the greatest consumption power.

Many US department stores like Sears & Roebuck, J. C. Penney, R. H. Macy, or K-Mart have set up their buying offices in Hong Kong for many years. Some even started their operations in Hong Kong as early as the 60s. This indicates that they already have good understanding of the Hong Kong market and the quality of Hong Kong products is high enough to meet their standards. Therefore Hong Kong is really an ideal place for US department stores to establish their first operation in the Asia Pacific Region before possibly expanding extensively in this market.

CHAPTER III

LITERATURE REVIEW

Internationalisation of Retailing

In Salmon and Tordjman, three types of strategies for the internationalisation of retailing have been identified. The first one is the investment strategy. This involves obtaining a financial stake in retail abroad, and thus consists of a transfer of money from the country of origin to the host country, with the intention of buying all or part of a working retail chain. Secondly, there is the multinational strategy, which involves the implantation of autonomous affiliates operating comparably to the parent company, but adapted to the local market. Last of all, the global strategy is a strategy which corresponds to a reproduction outside their national frontiers of a formula which is known to be successful in the country of origin.

By comparing the global strategy and the multinational strategy, certain differences can be identified. For the global strategy, the organisation of operations becomes strongly centralised. Besides an effective, permanent information system is required in order to control the activities of the network. These global retailers are capable of very rapid expansion and the standardisation of their activities enables them to benefit from economies of scale as much from the point of view of sales production,

advertising, etc.

For the multinational retailers, their management will be much more decentralised than their global counterparts. In order to remain true to their original concept, while taking local nuisances into account, the multinational retailers use mixed management teams, composed of both native and expatriate executives. Moreover, they have a weaker development capacity than their global counterparts and they do not benefit much from economies of scale. However, the diversity of experience encourages a transfer of techniques and an enrichment of the global know-how of the organisation.

By comparing cases of global strategy and multinational strategy, Levitt goes further to the conclusion that well-managed corporations have changed their emphasis from customising items to local needs, to offering globally standardized products that are advanced, functional, reliable and low-priced. Those firms that are unable to capture the essence of this phenomenon and concentrate on tailoring customer needs to the local communities will not achieve long-term success comparable to those global companies.

Treadgold has also identified a number of forces that drive the trend of internationalisation of retailing. These include :

- (1) Enhanced data communication technologies;
- (2) The growing professionalisation of senior management;
- (3) The international mobility of senior retail

management;

(4) Accumulation of in-company experience of trading internationally;

(5) The presence of other international retailers as role models;

(6) The growth of support service providers and advisers, market researchers, consultants, etc;

(7) "Bandwagon" effects and imitative activity;

(8) New forms of international financing;

(9) Lower barriers (actual and perceived) to growth internationally; and

(10) The growing scale and internationalisation of supplier companies.

However, he emphasised that it is the difference between countries in the aspirations and expectations of the bulk of their consumers which are essential to the trend than any identifiable similarities. Turning to the scale of international retailing, the European-based retailers are much more active than the US retailers in expanding to the overseas market. Besides, there are noticeable trends of retailers expanding to other countries, for example, into the Asia-Pacific Basin and the European Community. With the opening-up of Eastern Europe, the striving for expansion will certainly grow.

Treadgold furthered his discussions by looking at the strategies adopted by retailers in a different perspective. Basically, there are the franchising strategy and the formation of alliances with retailers in other countries.

This type of alliance formation will be of either one of the following forms: (1) development-led alliances that aim at exploiting joint development opportunities (2) purchasing-led alliances that aim at enhancing the purchasing power of the participants through joint buying or to develop jointly new product-sourcing opportunities (3) skills-based alliances that emphasize on the exchange of knowledge or expertise between participating retailers (4) multi-function alliances that aim at combinations of the reasons above.

Trends in the Retail Market

In Levy, the entire retailing environment has been re-examined. A list of current trends and market conditions have been identified. These include, the changing role of a retailer from a merchant to a marketer, fragmented markets, shifting in consumer purchasing priorities, the globalisation of business and the speed of encapsulating trends have both narrowed the edge of the innovator, private label in retailers' inventory as an indication of greater control over their merchandise directions and margins, and vendors of merchandise become retailers themselves, etc.

In order to respond to the current environment, management of retailing businesses must focus more in what is happening externally than internally. As their roles are changing from being a merchant to a marketer, they should try to generate ideas/concepts that are new and innovative. Moreover, timing is very important in a sense that they

should respond to the customers much faster and be the earliest one in bringing a trend to the market. They must also be able to package concepts such that the physical setting and the merchandise combine to clearly project the underlying idea/theme.

Pellow comes into similar conclusion that to expand internationally, retailers should extend and develop their quality and range of added-value services such as packaging, labelling, merchandising, systems design and traffic planning. Besides, retailers will be expected to depend on advanced systems technology to enable them to implement new international distribution operations.

Store Preferences and Store Trends

Auken and Lonial conducted research on store preferences and the following propositions were formed: (1) Consumers' overall general merchandiser preferences are not invariant across a spectrum of merchandise departments (i.e. preferences for stores do vary among alternative merchandise lines); (2) Consumers' store preferences for certain merchandise departments are likely to correlate with overall store preferences, especially those of a "non-specialty" nature.

Under these results, the strategic options for retailers will be: (1) develop contextual store preference in "speciality" merchandise areas; (2) develop overall store preference in "non-speciality" merchandise areas; (3) develop a hybrid strategy consisting of both of the above.

Bates has identified five factors that are important to the retailing trends. These include :

- (1) Fragmentation of consumer markets which creates an expanded opportunity for tightly focused specialty stores;
- (2) Scarcity of time which leads to the development of greater use of mail-order, the growth of shopping services and a general distaste for shopping;
- (3) Personal computer technology which has resulted in sophisticated POS/inventory control systems, especially for small stores;
- (4) Interactive video which still has the potential to provide the basis for precise marketing to sub-groups of consumers; and
- (5) Service worker shortages which has increased salary costs, reduced customer service levels and lead to further customer complaints about shopping experience. This implies that it is necessary to provide methods to increase perceived customer service without producing a labour intensive environment.

He also predicts that the "extended specialty store" image will emerge from the current trend. This concept involves marrying conventional specialty store retailing with a new technology for facilitating sales outside of the store itself. The approach will focus on specific needs of customer base and this customer base must be one willing to absorb slightly higher prices in exchange for greater service. There are five trends underlying the concept: interactive combination of in-store/outbound sales, clear

target market, localised PC technology for marketing purposes, massive customer support services and an "intrapreneurial" organisation structure. Bates has also predicted that the localized specialty stores, national specialty stores and department stores will be the ones that will most likely apply this concept into practice.

Bibliography

Books

Berman, B. & Evans, J. R. Retail Management : A Strategic Approach. Macmillan Publishing Co., Inc., 1979.

Kaeher, Madhar P. Transatlantic Trends in Retailing. Quorum Books, 1985.

Kaynak, Erdener Transnational Retailing. Walter de Gruyter, 1988.

Kotler, Philip Marketing Management : Analysis, Planning, Implementation & Control. Prentice Hall International, Inc., 1988.

Periodicals

Auken, Stuart and Lonial Subhash C. "Relating Store Preferences for Departments to Overall Store Preferences." International Journal of Retailing 4 (1989 no.3):31-40.

Bates, Albert D. "The Extended Specialty Store: A Strategic Opportunity for the 1990s." Ibid., p.379-388.

Levitt, Theodore. "The Globalisation of Markets." Harvard Business Review 61 (May-June 1983):92-102.

Levy, Walter K. "The End of an Era: A Time for Retail Perestroika." Journal of Retailing 65 (Fall 1989):379-388.

Pellow, Martyn. "Physical Distribution in International Retailing." International Journal of Retailing & Distribution Management 18 (March-April 1990):12-15.

Salmon, Walter J. and Tordjman, Andre. "The Internationalisation of Retailing." International Journal of Retailing 4 (1989 no.2):3-15.

Sloan, Pat and Graham, Judith. "International Intriguing." Advertising Age (January 29 1990):S1-2.

Treadgold; Alan D. "The Developing Internationalisation of Retailing." International Journal of Retailing & Distribution Management 18 (March-April 1990):4-11.

CHAPTER IV

METHODOLOGY

The data and information required for this project come basically from the following sources:

- (1) Literature Search : the literature came from
 - (a) Journals in retailing management;
 - (b) Journals in international marketing;
 - (c) Other journals in marketing management;
 - (d) Reports published by the Hong Kong Trade Development Council;
 - (e) Annual reports of some American Department Stores, etc.
- (2) Information Collection : The sources of information are from newspapers, business magazines, etc. This can help us to update our knowledge about the industry itself and we can also know more about the movements and changes of different department stores.

- (3) Observations :

Observations are made on some of the local department stores as well as some of the American department stores. The focus is on the type of goods/services provided, their pricing strategies, the design of their layouts and the shopping environment, the brands that they sell (Are they high-class or low-class goods ?), their locations, their product quality, promotion techniques, etc.

(4) Interviews:

(a) Department store managers in Hong Kong: No matter whether these department stores are locally-based, UK-based or Japanese-based. The internal practices and management styles of these stores are emphasised. (Appendix 1)

(b) Strategic Planning managers of American department stores: The purpose of these interviews is to know if there is any overseas explanation plan of these department stores and to understand more about their opinions on the Asian market, especially their interest in the Hong Kong market.

(c) Mailed Questionnaire: If personal interviews could not be arranged with those American department stores, then a questionnaire was sent to these stores instead (Appendix 2).

(5) Customer Survey :

A customer survey (Appendix 3) was conducted to better understand the buying behaviour in and opinions of department stores in Hong Kong. 203 people (109 males and 94 females) aged between 18-44 were interviewed. There were 66 males 18-29, 43 males 30-44, 50 females 18-29 and 44 females 30-44. The interviewees were selected randomly in shopping areas, such as, Tsimshatsui, Mongkok, Causeway Bay and Shatin.

The objectives of this customer survey were:

(a) To learn more about the buying behaviour of the customers;

(b) To understand how they value some of the existing/potential services provided by the department stores;

(c) To know their perceptions on different department stores;

(d) To know their comments on the department store industry in general; and

(e) To explore their perceptions of a "typical American department store".

CHAPTER V

RESEARCH FINDINGS

Customer Survey

Q1. The department store you visit most frequently.

DEPARTMENT STORES	AGE				TOTAL	
	18-29		30-44		#	%
	#	%	#	%		
YAOHAN	46	40	25	29	71	35
WING ON	17	15	30	34	47	23
SOGO	16	14	5	6	21	10
MITSUBUKOSHI	11	9	2	2	13	6
JUSCO	5	4	3	3	8	4
UNY	4	3	2	2	6	3
SINCERE	2	2	5	6	7	3
MARKS & SPENCER	2	2	-	-	2	1
DAIMARU	1	1	5	6	6	3
LANE CRAWFORD	1	1	1	1	2	1
NO SPECIFIC ONE	7	6	6	7	13	6
OTHERS	4	3	3	3	7	3
TOTAL	116	100	87	100	203	100

DEPARTMENT STORES	INCOME							
	\$0-4,999		\$5,000 - 9,999		\$10,000 - 14,999		\$15,000 +	
	#	%	#	%	#	%	#	%
YAOHAN	11	37	37	40	16	30	7	27
WING ON	8	27	21	22	12	23	6	23
SOGO	2	10	10	11	6	11	3	12
MITSUKOSHI	3	10	5	5	3	6	2	8
JUSCO	1	3	4	4	1	2	2	8
SINCERE	-	-	1	1	5	9	1	4
UNY	-	-	5	5	1	2	-	-
DAIMARU	1	3	1	1	1	2	3	12
MARKS & SPENCER	-	-	2	2	-	-	-	-
LANE CRAWFORD	-	-	2	2	-	-	-	-
NO SPECIFIC	2	7	5	5	6	11	-	-
OTHERS	2	7	1	1	2	4	2	8
TOTAL	30	100	94	100	53	100	26	100

Q2. How important are the following factors when you choose a department store ? (Very Important = 1; Not Important = 6)

FACTORS	PERCENTAGE OF RESPONSES FOR EACH RATING					
	1	2	3	4	5	6
PROXIMITY	29	20	22	12	8	9
CHEAPER PRICE OF GOODS COMPARED WITH OTHERS	23	21	32	15	6	3
LARGE VARIETY OF GOODS	42	36	13	3	3	3
GOOD SERVICE	37	28	21	8	6	-
STORE IMAGE	15	28	30	15	6	6
ADVERTISING	1	10	18	22	21	28

FACTORS	MEAN VALUE
LARGE VARIETY OF GOODS	1.93
GOOD SERVICE	2.17
CHEAPER PRICE OF GOODS COMPARED WITH OTHERS	2.68
PROXIMITY	2.76
STORE IMAGE	2.87
ADVERTISING	4.34

A number of interviewees mentioned other important factors:

- Product quality (9 persons)
- Discounts (9)
- Word of Mouth (6)
- Products meet personal tastes (5)
- Clean, spacious store (3)
- Nice display of merchandise (2)
- Gifts (2)

Q3. What type of market are these department stores targeting ? (Read percentage across)

DEPARTMENT STORES	UP MARKET		MIDDLE CLASS		LOW MARKET		DON'T KNOW	
	#	%	#	%	#	%	#	%
SEIBU	105	52	45	22	3	1	50	25
YAOHAN	6	3	84	41	111	55	2	1
WING ON	7	3	83	41	113	56	-	-
JUSCO	11	5	102	50	83	41	7	3
MITSUKOSHI	46	23	136	70	20	10	3	1
LANE CRAWFORD	175	86	23	11	3	2	2	1
SINCERE	8	4	95	47	99	49	1	-
SHUI HING	58	29	102	50	37	18	6	3
MARKS & SPENCER	61	30	103	51	33	16	6	3

Q4. If a department store can provide you with the following services, how important are these services to you?

(Very Important = 1; Not Important = 6)

SERVICES	PERCENTAGE OF RESPONSES FOR EACH RATING					
	1	2	3	4	5	6
MAIL ORDERING	3	9	21	20	19	28
ACCEPT CREDIT CARDS	49	30	16	1	3	1
ACCEPT DEBIT CARDS	28	23	26	8	5	10
ISSUE CREDIT CARDS OF ITS OWN STORE	3	12	19	22	17	27
TV ORDERING	6	15	21	20	20	18
COMPUTERISED DIRECTORY TO CHECK INFORMATION ON GOODS	14	32	26	10	9	9
COMPUTERISED DIRECTORY TO CHECK DEPARTMENTS LOCATIONS	24	30	25	8	6	7
NEWSLETTER	12	32	23	16	10	7
TRANSNATIONAL ORDERING/DELIVERY	10	22	23	13	10	22

SERVICES	MEAN VALUE
ACCEPT CREDIT CARDS	1.86
COMPUTERISED DIRECTORY TO CHECK DEPARTMENTS LOCATION	2.66
ACCEPT DEBIT CARDS	2.71
COMPUTERISED DIRECTORY TO CHECK INFORMATION ON GOODS	2.94
DEPARTMENT STORE NEWSLETTER	3.03
TRANSNATIONAL ORDERING/DELIVERY SERVICES	3.60
TV ORDERING	3.87
ISSUE CREDIT CARDS OF ITS OWN STORE	4.19
MAIL ORDERING	4.28

Q5.If you want to buy the following goods, which type of stores will you prefer? (Read percentage across)

TYPE OF GOODS	DEPARTMENT STORES		SPECIALTY STORES	
	#	%	#	%
TOYS	135	67	68	33
APPAREL	126	61	80	39
LEATHER GOODS	110	54	93	46
SHOES	91	45	112	55
SPORT GOODS	38	19	165	81
ELECTRICAL APPLIANCES	36	18	167	82
DRUGS/HEALTH-CARE PRODUCTS	29	14	174	86
FURNITURE	28	14	175	86
WATCHES	9	4	194	96

Q6. Can you think of anything unsatisfactory about department stores in Hong Kong ? Do you have any suggestions for improvement ?

No Comment (73 persons)

Bad Service (43)

Existing Service quite satisfactory (24)

Not enough variety as compared with specialty stores (16)

Stores are not spacious enough (16)

Price quite high (12)

Sales people too aggressive/ look down on you (4)

Dirty Restrooms (3)

No rest area (3)

4 interviewees suggest longer business hours and 4 suggest to have more food services.

Q7. Are you aware of any American-based department store in Hong Kong ? Which one ?

141 reported don't know or no idea. 49 say no American department store existing. 7 confuse with Marks & Spencer, Lane Crawford or others.

Q8. How do you think an American department store would be different from other foreign-based department stores ?

No idea (62 respondents)

Like existing department stores (28)

Merchandise mainly from US (22)

Higher price (16)

Larger variety (15)

More spacious store (14)
Merchandise from different country of origin (12)
Free shopping atmosphere (9)
American style (8)
New and more special merchandise (8)
Cheaper price (6)
Reasonable price (5)
Like a supermarket (5)
Like Marks & Spencer (5)
Goods in better quality (5)
Using high technology (5)
Better service (4)
Goods in poorer quality (4)
Goods not so fancy as that of Japanese (4)
Like Japanese stores (3)
Computerized Service (3)

Demographics

A total of 203 interviews were conducted. Detailed information of the interviewees are shown as below:

SEX 109 M (54 %) / 94 F (46 %)

AGE 18 - 29 116 (57 %)
 30 - 44 87 (43 %)

OCCUPATION	#	%
CLERICAL	42	21
ADMINISTRATION/MANAGEMENT	39	19
OTHERS	28	14
PROFESSIONAL	27	13
PRODUCTION/TECHNICIAN	23	11
SALES	16	8
STUDENTS	15	7
SERVICES	13	6

MONTHLY INCOME (HK \$)	#	%
0 - 4,999	94	46
5,000 - 9,999	53	26
10,000 - 14,999	30	15
15,000 OR ABOVE	26	13

Apart from simple statistical tabulation of our results in the customer survey, we have also done crosstabs for each variable with the data in demographics, i.e., with sex, age, occupation and salary. We have not found any significant differences by demographics.

Two sets of T-tests were carried out. One is on the relative importance of the factors in choosing to visit a department store / to buy goods from a department store. Another is on the relative importance of the services provided / may be provided by a department store. The results are as follows :

(a) For the first set of T-tests, the factors A (Proximity), B (Cheaper price of goods), C (Store image) have means of 2.7586, 2.6798 and 2.8670 respectively. By doing a t-test on factors A & B, we get a 2-tail probability of 0.512. For factor A & C, the 2-tail probability is 0.466. For factor B & C, the 2-tail probability is 0.184. If the desired significant level is 0.05, we get the priority of the factors as follow :

- (1) Large variety of goods,
- (2) Good service,
- (3) Proximity, Cheaper price of goods and Store image,
- (4) Advertising.

(b) For the second set of T-tests, the services A1 (Accept debit cards), A2 (Computerised directory in checking goods/inventory), A3 (Computerised directory in indicating

departments locations) have means of 2.7094, 2.9409 and 2.6552 respectively. The services B1 (Mail ordering) and B2 (Credit Cards of its own store) have means of 4.2759 and 4.1872. The T-tests results are :

<u>T-test of two services</u>	<u>2-tail Probability</u>
B1 and B2	0.430
A1 and A2	0.077
A1 and A3	0.718
A2 and A3	0.011

Again, using the desired level of significance, i.e. 0.05, we get the following priorities of the different services :

- (1) Accepting credit cards,
- (2) Accepting debit cards, Computerised directory to check inventory of goods and Computerised directory to check departments locations,
- (3) Newsletters,
- (4) Transnational ordering/delivery,
- (5) Television ordering,
- (6) Mail ordering and Credit cards of its own store.

Interpretation of Findings

Q1. Store preferences:

Japanese stores like Yaohan, Mitsukoshi, Sogo, are much more accepted by the younger people, aged between 18-29. The ratio is 2 to 1 for Yaohan.

The two local stores, Wing On and Sincere as they are positioned, attract the older group of customers, aged over 30.

For Yaohan, Sogo, Wing On and Uny, monthly incomes of their customers are mainly in the range of \$5,000-9,999.

Q2. Large variety is the most important factor among the respondents, with a mean value of 1.93, followed by good service, with a mean value of 2.17. The least important factor is advertising. Proximity, cheap priced of goods and store image have about the same importance, with mean values of around 2.7.

Q.3 According to the customers, both Lane Crawford and Seibu are high end stores. Yaohan, Wing On, Sincere and Jusco are all positioned in between the middle and the low end market. Mitsukoshi and Shui Hing position slightly above the middle market.

Nearly 25 percent of the respondents have not heard of Seibu department store before, while Wing On has 100 percent awareness. Sincere and Yaohan also have 99.5 percent of awareness. This indicates that because of their

long histories, the two local department stores have successfully built up their own images among the Hong Kong customers, while not many people know about the newly opened store, Seibu.

Q4. Among the services listed, the acceptance of credit card is most welcomed by the customers. It has a mean value of importance of 1.86. The newly suggested services of a computerized directory for checking inventories and department locations receive quite good response from the interviewees, with a mean value of 2.94 and 2.66 respectively. On the other hand, people generally think that transnational ordering, mail ordering and TV ordering are not so important to them. This probably because Hong Kong is such a small place that there is no problem for customers to have a look at their desired merchandise first before they make any buying decision. In addition, credit card issued by department store itself is not so necessary for customers as Visa Card or Master Card is already very popular in Hong Kong.

Q5. People much more prefer to purchase watches (95.6 percent), furniture (86 percent), health care products (85.2 percent), home electrical appliances (81.8 percent), and sports goods (81.3 percent) in a specialty store. However, they have no special store preference when they purchase leather goods (54.2 percent in a specialty store), leather shoes (55.2 percent) or apparels (60.1

percent). 66.5 percent of the interviewees prefer buying toys in a specialty store.

Q.6 From those answers given by the respondents, it is our feeling that the services provided by the department stores are not satisfactory. Respondents mainly complained about the variety of goods, prices of goods sold, not spacious stores, as well as the poor attitudes of store assistants. Only 24 said they are satisfied with the services now being provided.

Q7. Over half of the respondents are not very clear whether there is an American department store in Hong Kong. This implies that people either do not care much about the countries of origin of the existing department stores in Hong Kong or the only thing they know is there are a lot of Japanese department stores in Hong Kong.

Q8. People expect that an American department store will be a store that is more spacious. It sells merchandises from different countries, or mainly from US and has a very free shopping atmosphere, like a supermarket.

Interviews with Department Store Management Personnel

In this chapter, the findings from our interviews are summarized. Interviews were conducted with local department stores like Wing On, Sincere, Jusco, Yaohan and Seibu.

When the two authors were in the US, they had

contacted management personnel of May Department Stores and Broadway Department Stores by phone. They had explained the purpose of their study to the personnel and had asked for an personal interview. However, the management personnel responded that up to their knowledge there was still no overseas expansion plan for their department stores. Hence, they could not give them further information concerning this study.

Besides the authors had also written to management personnel of Sears Roebuck, Montgomery Ward and Marshall Fields asking for an interview. Only Sears Roebuck had responded but they were too busy to grant them an interview. The other two did not respond. As a last resort, the authors therefore sent questionnaires to the management personnel of these department stores. In addition, the authors had also mailed the same questionnaire to J.C.Penney, Saks Fifth Avenue, Wal-Mart and K-Mart as the headquarters of these department stores are not in California and Illinois. Three of them replied that they had no overseas expansion plan, and the rest did not respond. Only J.C. Penney returned with a detailed answer as shown in Appendix 4.

This section will be divided into six parts. The first part will be on the stores' criteria for selecting a country to expand their department store business. In the second part, the summary will be about their opinions on whether the Hong Kong retail market is saturated. The third part will be on whether the specialty store is a threat to

the existing department stores in Hong Kong. The fourth part will be on how these stores deal with the problem of recession. The fifth part will be on whether the stores are optimistic about the future of Hong Kong. The final part will be on the individual strengths and weaknesses, marketing tactics and expansion plan for each department store.

(A) We have asked Yaohan, Jusco, and Seibu about the factors that they have considered in choosing Hong Kong to expand their department store business. In general the factors listed are :

- (1) population growth,
- (2) economic growth,
- (3) market needs,
- (4) development of nuclear families / increase of number of households,
- (5) good infrastructure.

As to J.C. Penney, it has a comprehensive list of factors for considering whether a country is a feasible candidate to expand their business into. These include :

- (1) Acceptance of American Products,
- (2) Consumer Expenditures,
- (3) Consumer Psychographics,
- (4) Demographics,
- (5) Economic/Financial Stability,
- (6) Ethical Barriers, Image,
- (7) GDP (Retail Sector Especially),
- (8) Income Taxes,

- (9) Inflation,
- (10) Infrastructure (Roads, TV, Distribution, Information Systems, etc),
- (11) Legal Environment,
- (12) Local Barriers of Entry,
- (13) Political/Cultural Stability,
- (14) Profit Repatriation,
- (15) Relationship with U.S.,
- (16) Retail Competition,
- (17) Tourism,
- (18) Trade Balance,
- (19) Trade Policies,
- (20) Trade Unions,
- (21) VAT, Duties, Quotas.

We have chosen this list to assess a country's attractiveness. In other words, we will use this list in considering whether Hong Kong is a feasible market in the next chapter.

(B) When we talk about whether the retail market is saturated, the overall comment is no. Only Sincere replied that they feel the market is saturated. Maybe that is the reason for its not-too-active strategy. Others comment that there is only regional saturation, for example, in Causeway Bay or Tsimshatsui, where there are a lot of tourists and department stores. As a result, the sales for these department stores may fluctuate due to intense competition and the instability of the tourism business. Jusco, Wing On

and Yaohan go further, and say that the new town areas still have a great potential.

(C) Are specialty stores a threat? Yaohan comments that they are not because of different buying behaviour. Instead, they think that rent will be a threat to the specialty store because they usually pay a higher rent. This is probably due to the fact that Yaohan has an advantage in getting different type of contractual agreement in which the rent will remain quite stable instead of fluctuating. In summary, half of the interviewees agree that it is a threat while the other half do not.

(D) Moreover, the recent recession has quite significant effect in the sales of department stores. The ways of dealing with the recession centre on price promotion, coupled with advertising or gift-with-purchase. The sales of certain types of goods have improved while some have not after the Chinese New Year. For instance, electric goods are still offered with discount after the Chinese New Year.

(E) Both Wing On and Sincere feel quite uncertain about the future of Hong Kong. On the other hand, Seibu, Yaohan and Jusco are more optimistic about this issue. This is because they emphasise more on the long term development rather than short term profits.

(F) Below are the summaries of the individual strengths and weaknesses, marketing tactics and expansion plans for each department store :

Wing On

(1) Customer Group : Around 25-35 of ages. Middle income households. (In fact, Wing On positions itself as a family store).

(2) Strengths

(a) Strong in goods like tableware, kitchenware, tools and bath accessories and goods for babies;

(b) A rather large network (10 stores plus 1 showroom in Discovery Bay), especially in commercial areas;

(c) Loyal customers; and

(d) Weekend specials every week.

(3) Weaknesses

(a) Lacks a food plaza, although it is getting popular;

(b) Inventories are mostly old-fashioned; and

(c) Insufficient store space.

(4) Marketing

(a) Weekend specials;

(b) Price promotion / advertising;

(c) Gift-with-purchase and purchase-with-purchase (you can buy selected items in discount after buying a certain dollar-volume of goods);

- (d) Newsletters for Wing On cardholders; and
- (e) There is a "risk department" in new stores to offer new kinds of products, which is used as market testing.

(5) Expansion Plan

A new store will be opened in Whampoa Garden this year and it may open stores in overseas markets, for example, in Vancouver.

Sincere

(1) Customer Group : Age 30-45. Average household income \$8,000. Those who have been customers for generations.

(2) Strengths

(a) Offers a higher service level to the customers (the salesperson number to area ratio is larger than most stores);

(b) Customer loyalty;

(c) Strong in furniture; and

(d) Low staff turnover rate.

(3) Weaknesses

(a) Has only two branches; cannot get a good discount rate in purchasing goods and cannot serve customers in other regions;

(b) High administrative costs; and

(c) Insufficient store space.

(4) Marketing

- (a) Change in image advertising to life-style selling;
- (b) Special promotions and exhibitions, e.g. British Fortnight;
- (c) Gift vouchers / sales promotion;
- (d) Mail catalogues to VIP customers;
- (e) Carries only a few expensive items;
- (f) Has lowered the age of the target customer group, therefore customer base widened; and
- (g) Advertising to sales ratio is 2%.

(5) Expansion Plan

It will open a specialty store in furniture in Harbour City. It has already expanded to Taiwan, and is the authorised dealer of the Escada fashions in Taiwan. In general, it is quite inactive.

Yaohan

(1) Customer Group : Families with middle/low income. People living in the satellite towns.

(2) Strengths

- (a) Locations near centre point of transportation, e.g. train stations;
- (b) Many promotions; and
- (c) Large variety of goods.

(3) Weaknesses

- (a) High operating cost, low profit margin (4%);
- (b) No branch in Hong Kong Island; and
- (c) Not specialized in any one particular type of goods.

(4) Marketing

- (a) Sales promotions;
- (b) Located in satellite towns and shopping malls;
- (c) 10% Japanese goods, 90% from other countries;
- (d) Positions itself as a general merchandise store;
- (e) Has a food plaza and supermarket; and
- (f) Has opened a specialty store, Yaohan Best (H.K.) Electrical Co. Limited.

(5) Expansion Plan

Two new branches will be opened at Lam Tin and Tsuen Wan. Possibly, a store will be opened in Shenzhen.

Jusco

(1) Customer Group : People 4-40 year of age. Clearly, they are conscious of targeting children too. Middle level income people. Nuclear families.

(2) Strengths

- (a) Large variety of goods; and
- (b) Large amount of store space.

(3) Weaknesses

- (a) Not strong in its network, only 2 stores are operating;
- (b) Low profit margin; and
- (c) Cannot get a good price in merchandising.

(4) Marketing

- (a) Sales promotions;
- (b) Customer services : delivery, 6 month no-interest instalment, installation, loan and credit, space reserved for education/cultural classes;
- (c) The Jusco VISA card, that gives 5% discount at the store for goods charged on it;
- (d) Direct mailing to customers; and
- (e) Japanese goods 30-40%, European goods 10%, others are local.

(5) Expansion Plan

It plans to open five general merchandise stores and ten specialty stores in the next four years.

Seibu

(1) Customer Group : Tourists. Young executives and career women. Yuppies.

(2) Strengths

(a) High level of servicing by providing a Guest Relations Counter such that they can get feedback from customers;

- (b) Large amount of store space to accommodate customers;
- (c) Exclusive rights in certain products;
- (d) Organization culture encourages innovativeness and creativity;
- (e) Willing to gather new information; and
- (f) Constant monitoring of the sales of its goods.

(3) Weaknesses

- (a) New in market;
- (b) Target segment too small, difficult to break-even; and
- (c) Low awareness.

(4) Marketing

- (a) Promotions like fashion shows and cultural exhibitions;
- (b) Emphasis on public relations;
- (c) Emphasis on customer services;
- (d) The Seibu card (not a credit card per se but an "ID" card that gives holders discounts when they shop at Seibu);
- (e) Exclusive rights in certain products;
- (f) 65% goods from Europe, 20% from Japan, 15% local; and
- (g) Each floor is targeted to different customer groups, e.g., the Seed Shop (sells trendy fashion) and the Loft Shop (sells creative products), which are on the same floor; Studio Casa (sells furniture and housewares); High Fashion (sells high class fashion); plus an art gallery, a floor that sells food and a restaurant.

(5) Expansion Plan

Future expansion plan will be based on performance and experience gained in its first overseas store in Hong Kong.

Interviews conducted with Department Store
Management Personnel

Mr. Raymond Fan, Personnel and General Affairs Department, Yaohan Department Store (H.K.) Ltd, Interview, February 19, 1991.

Miss Alyson Mar, Marketing Vice President, Sincere Department Stores, Interview, March 8, 1991.

Miss Mickey Siu, Media and Public Relations Department, Wing On Department Stores, Interview, March 14, 1991.

Mr. Alexander Wong, Public Relations Department, Hong Kong Seibu Enterprise Co. Ltd., Interview, March 14, 1991.

Miss Ruby Wan, Public Relations Department, Jusco Stores (Hong Kong) Co. Ltd, Interview, March 18, 1991.

CHAPTER VI

RECOMMENDATIONS

Selection Criteria

Based on the factors listed in the previous section, we will examine whether Hong Kong is a feasible place for opening an American department store.

Our survey suggests that the notion of American goods (and of American department stores) is not well-known. This implies that while there may not be a lot of negativity, still a big "educational" job may have to be done to promote familiarity. This is probably as best a neutral element overall.

Due to low income taxes, the amount of disposable income for an individual is relatively great in Hong Kong. As a result, a typical consumer will buy more goods. The consumer expenditure is a positive factor.

In terms of economic stability, this factor is considered negative. The recession of this year, uncertainty about the future of Hong Kong, etc. have affected Hong Kong's economic stability. Politically speaking, the factor is also negative.

The corporate income tax system also leads to good profitability. Moreover, Hong Kong is very good in its infrastructure and current legal environment. Tourism flourishes and there is a large amount of imports in Hong Kong, which means that foreign goods are highly accepted.

Trade policies are quite open. There is also no difficulty in profit repatriation.

However, inflation is a negative factor and retail competition is very intense too. These two factors are unfavourable.

The following are a summary of the positive and negative (+/-) factors; those that are considered neutral are marked with a 0.

<u>Factors</u>	<u>Favourable/Unfavourable</u>
Consumer Expenditures	+
GDP	+
Income Taxes	+
Infrastructure	+
Legal Environment	+
Profit Repatriation	+
Tourism	+
Trade Balance	+
Trade Policies	+
Acceptance of American Products	0
Consumer Psychographics	0
Demographics	0
Ethical Barriers, Image	0
Local Barriers of Entry	0
Cultural Stability	0
Relationship with US	0

Economic/Financial Stability	-
Inflation	-
Political Stability	-
Retail Competition	-

As we can see, the number of favourable and neutral factors are more than those of the unfavourable ones. Hence, we may say that there probably is room for an American department store in Hong Kong.

Types of stores

By comparing the price of goods versus the variety of goods offered by selected department stores, we have come out with a perceptual map in Appendix 5. As we can see from the figure, there are marketing gaps in both the high and lower end markets. However, we do not recommend the opening of a high-priced store, because the size of this market is not great enough to support another store in addition to Lane Crawford, Dragon Seed and Seibu. The other reason is that for high-priced department stores, a significant percent of their sales are from tourists. This means whenever there are any economic downturns or political threats in Hong Kong or in other countries, the sales will drop significantly. Therefore, in order to avoid this vulnerability, we suggest the new store should position at the lower to middle market. The customers will be those of 25-45 of ages with middle income, i.e. \$10,000 to \$25,000 per household. It will also serve those nuclear families in Hong Kong. Hence, its direct competitors will be Wing On, Jusco, Yaohan, etc.

It should be a store with a large assortment of

merchandise. Hence, it should be as spacious as possible. The store must have at least 30,000 square feet. In consideration of the high store rent in shopping districts like Tsimshatsui or Causeway Bay, it will not be feasible to open such a large store in these areas. Besides, to avoid intensive competition in these areas, we recommend the new store to be located in some residential areas or new town areas along the MTR or KCR stations. Feasible locations can be Tai Po or Tuen Mun as there is still no department store in Tai Po and only Yaohan has opened in Tuen Mun.

There can be two alternatives for this kind of store, a specialty store like Montgomery Ward or a discount store like K-Mart, Wal-Mart, or Target.

Discount Store

A discount store is just like a supermarket, but it sells a full range of merchandise. So it is basically a general merchandise store but without much personal service. The prices of goods are low and this reacts to the customers' complaint about the high pricing of existing department stores. Besides there is no such kind of general merchandise store in Hong Kong before. So this can help to differentiate this new store from the existing ones in Hong Kong, and customers will perceive a store in the format of a supermarket, as a "cheap-priced" store. In addition, it provides another type of shopping environment to the customers.

Merchandise

The merchandise will mostly be necessities. In this way, we can minimize the store's vulnerability to the economy. To avoid the threat of specialty stores and because respondents rank variety of goods as the most important criteria, the variety of merchandises in this store must be as great as possible. However, because of the limited store space in Hong Kong, it will not be possible for it to carry such a large variety for every product category. Home electrical appliances, household goods should be more emphasised as the number of nuclear families is increasing. Whether the store will have a furniture department or not depends on how large will be the store. The shelf space for apparels and shoes should be comparatively small as people will perceive low-priced apparels as poor quality, unfashionable products.

The sourcing of merchandise can be very diversified, mainly based on the tastes and acceptances of local people. However, in order to maintain a certain extent of American style and once again to differentiate the store from its competitors, the store should carry at least 10 to 20 percent of American products. These can be something new to the customers, for example, some high-technological products. Moreover this also acts as a selling point to attract new customers to visit the shop at the early stage.

Services

The new idea to have a computerized directory for

checking inventories and department locations receives satisfactory response from the interviewees. Coupled with customers' perception that an American department store uses advanced, computerized technology, we strongly recommend the new store to provide this service. The reasons behind are to provide better, more convenient service to the customers and to make this store different from others.

Another service is giving refunds. It will be a new service to Hong Kong customers and it will surely be welcomed by the customers.

It should accept credit cards and if possible it may consider the use of bar-code system for checking out and inventory taking. For those high involvement products like electrical appliances, there should be store assistants to answer any enquiries of customers. There will be delivery services for big-sized items such as refrigerator, washing machines etc. On the whole, the store should provide high quality of service which means courtesy, convenience, large variety of and good-valued merchandise.

Specialty Department Store

Another possible alternative is to introduce a specialty department store into Hong Kong. A specialty department store is one that is specialized in selected types of goods. For example, Saks Fifth Avenue is such a store which is specialized in only clothing, shoes, cosmetics, gift items and luggage. The most desirable candidate to be introduced into the Hong Kong market is

Montgomery Ward.

In America, Montgomery Ward divides its store into a number of specialty stores, in which each store is given a particular name, like Electric Avenue, Home Ideas, The Apparel Store, etc. This is the idea of "shops in a shop". The advantage of doing this is that it provides the greatest amount of flexibility to the retailer. It can open a large store which includes all the specialty stores that it carries. Or it can open a medium store which includes only a certain combination of its specialty stores. It can even open one of its specialty stores and operate it as a retail chain. For a typical large store, it can even lease out part of its store space to some other well-known specialty retailers whose merchandise complements, but does not compete, with its own lines. The specialty stores that Montgomery Ward carries are :

- (1) Electric Avenue : which sells electrical and electronic appliances,
- (2) Home Ideas : which sells furniture and housewares,
- (3) The Apparel Store : which sells apparel for men and women,
- (4) Gold' N Gems : which sells jewellery, gold and precious stones, etc.,
- (5) The Kids Store : which sells apparel for children,
- (6) Auto Express : which sells equipment and parts for automobiles.

Five basic strategies are adopted by Montgomery Ward:

- (1) Specialty Retailing,

- (2) Offers Goods in Low Prices,
- (3) Aggressive Program for Opening New Stores,
- (4) Outstanding Customer Services,
- (5) Retail Partnership (leasing space to other retailers).

This specialty department store concept is not new in Hong Kong. For example, Seibu is a specialty department store specialized in trendy fashion (Seed Shop), furniture (Studio Casa), high class fashion (High Fashion), and creative products (Loft Shop). Daimaru is specialized in housewares and fashion. However, they cannot differentiate themselves from other general merchandise stores. It is probably due to the fact that no special names are given to each department. Even though Seibu has names like Studio Casa, Loft Shop assigned to different departments, its awareness is low and it does not advertise these names very much.

What are the reasons for choosing such a store? Firstly, we have found from our customer survey that most of its customers prefer to shop (or buy goods from specialty stores) instead of a general merchandise store. Secondly, "a large variety of goods" is their most important factor in choosing a department store to visit. Thirdly, it will provide the store with a stronger capability to compete with specialty retailers. Fourthly, with the low price strategy of Montgomery Ward, recession will not affect its sales in the way like those of the high end retailers. Finally, unlike a discount store, it can provide a higher level of services to its customers, which

is the second most important factor for choosing a store to visit.

The typical strategy for introducing Montgomery Ward is as follows :

Merchandise

Since the target customers are middle-income households, the products served will be those necessities that are essential to a family. Electrical appliances, furniture & housewares, apparel for adults & children are the ones that are selected. Unlike a discount store, it can sell at a comparatively higher price. As a result, apparel can also be included. Hence, the specialty stores introduced are the Electric Avenue, Home Ideas, The Apparel Shop and The Kids Store. If a large space can be found for this store, it can also lease part of its space to retailers like Watson's/Mannings (specialized in drugs and health care products), Toys R'Us, book stores or record shops since these lines complement and do not compete with its own lines. Moreover, it can also design a specialty store to satisfy some distinctive needs of the Hong Kong people.

Services

Basically, the types of services offered will be the same as those suggested in the discounted store strategy. However, more personal service can be provided by this type of store. Moreover, a product services centre can be created to help the customers in maintenance and other

services.

Advertising & Promotion

In order to create the distinct image of Montgomery Ward which is diversified and specialized, advertising of all the specialty store names is essential right after the introduction of the department store. In this way, it can differentiate itself from other general merchandise stores. After a high awareness is gained about these specialty stores, the type and amount of advertising effort will depend on the individual needs of the specialty stores. However, constant advertising of all the store names is also desirable. It depends on whether the company sees a need in doing this or not. Sale/Promotion on selected items are the two most important promotion tools because the store is targeted at the low end market.

In short, this store will adapt the global strategy in which most of its services will be standardized with only some superficial modifications to adapt the local customer differences. Moreover, joint-venture with a local retailer is also advised. It will be a typical development-led alliance such that both parties can exploit development opportunities.

Potential problems

Two potential problems are identified. First of all, it may be a problem to find rental space with such a large area to accommodate the department store. Even if such a

place can be found, it should have clear cut boundaries with other outside shops such that its identity can be made much clearer. Secondly, since the specialty department store is aimed at the low end market, it has to absorb a rather low profit margin.

CHAPTER VII

CONCLUSIONS

An exploratory study of opportunity for an American department store has been carried out. Two type of stores can be introduced into the Hong Kong market, namely the discount store and the specialty department store. These two type of stores will target on the low end market, with a customer group of middle-incomed nuclear families.

Due to limitations of resources, we could not conduct a large scale customer survey. Therefore for those who are interested in studying this issue further, we recommend the sample size be increased (at least 1,000 or more). Crosstabs done can then provide further insights. More sophisticated statistical methods can also be used to analysis the data. Questions can extend to study more thoroughly about the shopping behaviour of potential customers, to test whether they will accept this new type of store. Finally, additions of new variables will provide more information to the study.

Interviews and focus groups can be used to extract more information about the current retail industry environment. Participants will be those who are involved in the marketing of department stores. Again, more people should be involved such that the viewpoints summarised will be more objective.

Lastly, the authors hope that one day an American

department store will enter the Hong Kong market to bring in new concepts to the retail market, and makes Hong Kong a truly international city.

APPENDIX 1

Questions Asked in Interviews with Local Department
Store Management Personnel

Below are the questions that are used to ask in all interviews with local department store management personnel.

(1) Who is your competitor ? What is the market segment that your company currently targets at ?

(2) What do you think about the specialty stores in general ? Do you think it is a threat to your company ? If yes, what is your strategy to cope with this threat ?

(3) In your opinion, do you think that the retail market in Hong Kong is saturated ? Or do you see any market niche that still has potential for growth ?

(4) How is the current economic recession affecting your business ? What are the ways to deal with this recession ?

(5) What are the strengths and weaknesses of your company ? How do you position your company ?

(6) What kinds of services is your company currently providing to the customers ? What are the sources (countries of origin) of your goods ? What are their

respective proportions ?

(7) Have you got any expansion plan in the near future ?
Have you considered expanding your businesses to overseas?

(8) During your years of operations, have you noticed any significant strategic changes in your company ?

(9) Do you think that Hong Kong is a strategic location for you to enter the China market ? Is your company optimistic about the future of Hong Kong ?

If the store interviewed is a foreign department store in Hong Kong, the following questions are being asked :

(10) What are the considerations that you have made before introducing your department store into Hong Kong ?

(11) Why is Hong Kong a desirable place for your department store business ?

(12) Have you introduced any particular services from your parent company into the Hong Kong retailing market ? If yes, what are they ?

4. Would you consider Hong Kong as a place for your expansion ? Why ?

5. Do you think that Hong Kong will be a stepping stone in expanding your business into China ? Do you think that China is a potential market after examining its social, economic, and political environment ?

6. Retail sales growth rate has been dropping for the past few years in the US. As a retailing corporation, what kind of strategies do you employ to cope with this situation ?

7. Do you think that the specialty store is a major threat to your company ? Why ? In what aspects ?

8. What will be the future of the department store business in the US ? Are there any important trends in the services provided to the customers ? Or changes in management styles/strategies ?

APPENDIX 3

Questionnaire for the Customers

Hello, I am a MBA student and I am currently doing a customer survey of department stores. Will you please take 10 minutes to complete this questionnaire ? Thank for your cooperation.

Q1.Name one department store that you visit most frequently. _____

Q2.How important are the following factors when you choose a department store ?

	Very Important			Not Important		
(a) Proximity	1	2	3	4	5	6
(b) Cheaper prices of goods compared with others	1	2	3	4	5	6
(c) Large variety of goods	1	2	3	4	5	6
(d) Good service	1	2	3	4	5	6
(e) Store image	1	2	3	4	5	6
(f) Advertising	1	2	3	4	5	6

Are there any other factors that you consider important ?

If yes, what are they ? How important ?

Q3. What type of market are these department stores targeting ?

	Up Market	Middle Class	Low Market
(1) Seibu	_____	_____	_____
(2) Yaohan	_____	_____	_____
(3) Wing On	_____	_____	_____
(4) Jusco	_____	_____	_____
(5) Mitsukoshi	_____	_____	_____
(6) Lane Crawford	_____	_____	_____
(7) Sincere	_____	_____	_____
(8) Shui Hing	_____	_____	_____
(9) Marks & Spencer	_____	_____	_____

Q4. If a department store can provide you with the following services, how important are these services to you?

	Very Important			Not Important		
(1) Mail Ordering	1	2	3	4	5	6
(2) Accept credit cards	1	2	3	4	5	6
(3) Accept debit cards	1	2	3	4	5	6
(4) Issue credit cards of its own store	1	2	3	4	5	6
(5) TV Ordering	1	2	3	4	5	6
(6) Computerised Directory to check						
a. information on goods	1	2	3	4	5	6
b. departments locations	1	2	3	4	5	6
(7) Department Store Newsletter	1	2	3	4	5	6

- (8) Transnational ordering/delivery services 1 2 3 4 5 6
- (9) Others : _____ 1 2 3 4 5 6

Q5.If you want to buy the following goods, which type of stores do you prefer ?

	Department Stores	Specialty Stores
(1)Electrical Appliances	_____	_____
(2)Furniture	_____	_____
(3)Toys	_____	_____
(4)Leather goods	_____	_____
(5)Watches	_____	_____
(6)Apparel	_____	_____
(7)Shoes	_____	_____
(8)Sport goods	_____	_____
(9)Drugs/health-care products	_____	_____

Q6.Can you think of anything unsatisfactory about department stores in Hong Kong ? Do you have any suggestions for improvement ?

Q7. Are you aware of any American-based department store in Hong Kong ? Which one ?

Q8. How do you think an American department store be different from other foreign-based department stores ?

Demographics

1. Sex	M / F	
2. Age	18 - 29	_____
	30 - 44	_____
3. Occupation	Professional	_____
	Administration / Management	_____
	Sales	_____
	Clerical	_____
	Production / Technician	_____
	Service	_____
	Student	_____
	Others	_____
4. Monthly Income	\$0 - 4,999	_____
	\$5,000 - 9,999	_____
	\$10,000 - 14,999	_____
	\$15,000 or above	_____

For reference purpose, below is the Chinese version of our questionnaire :

(3) 永安	高檔	中上	普羅大眾
(4) 吉之島	高檔	中上	普羅大眾
(5) 三越	高檔	中上	普羅大眾
(6) 連卡佛	高檔	中上	普羅大眾
(7) 先施	高檔	中上	普羅大眾
(8) 瑞興	高檔	中上	普羅大眾
(9) 馬莎	高檔	中上	普羅大眾

(四) 如果百貨公司能提供以下的服務, 你的意見是:

	重要						不重要					
	1	2	3	4	5	6	1	2	3	4	5	6
(1) 郵購服務												
(2) 接受信用卡												
(3) 接受易辦事 (EPS)												
(4) 發行該公司的信用卡												
(5) 電視節目選購												
(6) 電腦化指南顯示												
(a) 貨品或存貨的資料												
(b) 部門的位置												
(7) 百貨公司的訊刊												
(8) 跨國訂貨及送貨服務												
(9) 其它: _____												

(五) 若你購買下列貨品時，你會選擇：

	百貨公司	專門店
(1) 家庭電器	_____	_____
(2) 傢俬	_____	_____
(3) 玩具	_____	_____
(4) 皮具	_____	_____
(5) 手錶	_____	_____
(6) 服裝	_____	_____
(7) 皮鞋	_____	_____
(8) 體育用品	_____	_____
(9) 藥物/健康護理用品	_____	_____

(六) 你對現時香港的百貨公司有什麼不滿的地方？
有什麼地方覺得可以改善的？

(七) 在香港，有無美資的百貨公司？如有，是那一間呢？

(八) 你認為一間美資百貨公司會是怎樣的？與其它外資百貨公司會有什麼分別呢？

個人資料

(一) 性別 : 男 / 女

(二) 年齡 : 18歲以下

18 - 29

30 - 44

45歲或以上

(三) 職業 :

(1) 專業人士

(2) 行政 / 管理

(3) 銷售

(4) 文員

(5) 生產 / 技術人員

(6) 服務行業

(7) 學生

(8) 其它

(四) 每月入息
(港幣)

: \$ 0 - 4,999

\$ 5,000 - 9,999

\$ 10,000 - 14,999

\$ 15,000 或以上

APPENDIX 4

J.C. Penney's Answers of the Questionnaire

As stated before, J.C. Penney has responded to the questionnaire survey (Appendix 2) and has provided some insights to our study. For references purposes, its answers are stated below :

Q1. Although we have made no definite plans to expand our department stores to foreign countries, the most logical extension of our department store business would probably be to Mexico and Canada.

Q2. Too numerous to describe in detail but in general :

- Economic affluence and growths prospects;
- Business climate and regulations;
- Competitive intensity; and
- Urban development and infrastructure.

Copy of a study outline used to analyze prospective markets is attached. (The comprehensive list of factors in Chapter VI).

Q3. A shop featuring J. C. Penney's private label "Hunt Club" merchandise will open in May, 1991 in Robinson's department store in Singapore.

We are in the process of working with a Japanese trading company to establish a catalog in a joint venture

with a yet to be determined retailer in Japan.

We have also recently completed a study of Taiwan in cooperation with a Taiwanese trading company. Since we have not shared the results of the study with our senior management or our Taiwanese partners in the study, we are not in a position to disclose our as yet undetermined strategy.

Reasons for considering these countries are primarily stable political systems, a high level of economic affluence and growth, positive business climate, an under developed retail system and/or competitive voids in the retail structure, and a strategic fit with our corporate philosophy and business strengths.

Q4. Possibly, for in-store shops, but Hong Kong is competitive from a retail standpoint and the political situation is uncertain.

Q5. Possibly, through Taiwan. Probably not in the near future because of political and economic concerns but china is too large a market not to be considered eventually.

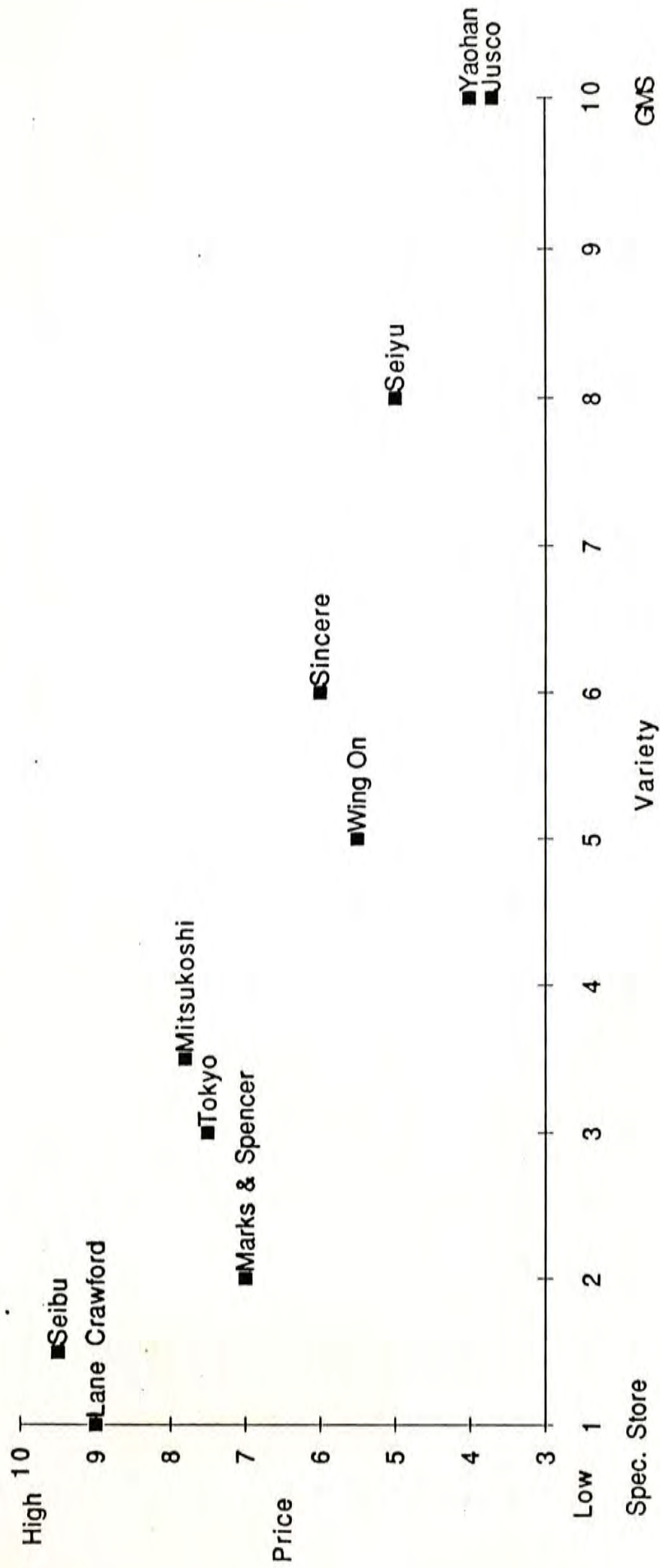
Q6. Seek other revenue for growth including reexamining the opportunities for international expansion.

Q7. No more than any other competition, depends upon merchandise assortment, price points, locational characteristics, business acumen, etc.

Q8. Large stores selling apparel and related comparison shopping goods in departments or in-store shops will probably be around for a long time.

Appendix 5

Positioning of Department Stores in Hong Kong



APPENDIX 6 THE 20 LARGEST RETAILING COMPANIES
IN UNITED STATES IN 1989

		SALES		PROFITS	
		\$ Millions	% change from 1988	\$ Millions	% change from 1988
1	SEARS ROEBUCK	53,912.90	7.3	1,508.50	3.8
2	K MART	29,557.00	8.3	323.00	-59.8
3	WAL-MART STORES	25,921.80	25.5	1,057.90	28.5
4	AMERICAN STORES	22,004.20	19.1	118.10	20.2
5	KROGER	19,087.80	0.2	-72.70	-310.7
6	J.C. PENNEY	16,405.00	10.6	802.00	-0.6
7	SAFEWAY STORES	14,324.60	5.2	2.50	-9.2
8	DAYTON HUDSON	13,644.70	11.8	410.50	4.3
9	MAY DEPARTMENT STORES	12,043.00	1	498.00	-6.7
10	GREAT ATLANTIC & PACIFIC TEA	10,072.70	5.7	127.60	23.3
11	WINN-DIXIE STORES	9,151.10	1.6	134.50	15.3
12	WOOLWORTH	8,820.00	9.1	329.00	14.2
13	SOUTHLAND	8,421.30	5.9	-1,306.90	-
14	MELVILLE	7,554.00	11.4	398.10	12.3
15	ALBERTSON'S	7,422.70	9.6	196.60	20.9
16	R.H. MACY	6,974.10	21.7	-53.70	-
17	SUPERMARKETS GENERAL HOLD.	6,298.70	5.6	-76.50	-
18	MCDONALD'S	6,142.00	10.3	727.00	12.6
19	WALGREEN	5,395.50	10.5	154.20	19.5
20	PUBLIX SUPER MARKETS	5,386.20	12.1	128.50	25.4

* According to Advertising Age (Aug.6, 1990), Sears Roebuck has lost its leading position and dropped to the third behind K-Mart and Wal-Mart. The newest ranking remains unavailable by the time this report finished.

Source: Fortune June 4, 1990 p.150-1

CUHK Libraries



000321144