



## **Intensive Distribution & Brand Dilution in Hong Kong Jewellery Market**

\*\*\*

By Ka Yan LAM

Under the supervision of Anne-Flore MAMAN, Ph.D.

[info@semioconsult.com](mailto:info@semioconsult.com)

During the 2013 summer, SémioConsult® supports Ka Yan Lam's proposal – as part of her Masters' Thesis at ISC Paris – to investigate whether the current intensive distribution strategy of jewellery brands in Hong Kong is a good one from the perspective of consumer-based brand equity. She has conducted a survey among Hong Kong residents to capture their view. The present document summarizes the main results of her study. Do not hesitate to get back to us, should you need a deeper analysis of the topic or should you have any queries regarding this project.

### ***The Jewellery Retail Market in Hong Kong – Basic Data***

As a shopping paradise with good reputation, Hong Kong is a key retail area for luxury and jewellery brands: they can actually take advantage of the important travel consumption, especially from Chinese visitors.

- ✓ In 2012, 48.6 million travellers came to Hong Kong, 72% of which were from China. This is a 16% increase compared to 2011.
- ✓ In 2013, Hong Kong launched the Individual Visit Scheme, simplifying the processes for visit application. More and more Mainland residents are expected to come, purchasing electrical goods, luxury goods, and sometimes commodities as well.
- ✓ 98.5% of Mainland shoppers claimed that shopping is much safer and more secure in Hong Kong than at home; 97.5% state that they shop here because they can find most of the foreign products; 95% consider the goods sold in Hong Kong as trendy; and 92.5% appreciate the guarantee of authenticity of the products (vs. fakes). Source: The Chinese University of Hong Kong Study (2006)

- ✓ The retail sales value on jewelry, watch & clock, and valuable gift reached 6.4 billion in the first 6 months of 2013, an increase of 32.6% compared to the same period of 2012. The retail volume raised by 31.7%. Source: Hong Kong Census and Statistics Department (June 2013)
- ✓ Shopping is one of the key components of Hong Kong's culture: since 1960's first shopping mall in Tsim Sha Tsui, more and more department stores were erected not only in shopping areas but also in residential ones. Such buildings usually become part of larger architectural spaces, encompassing financial or business areas, independent stores, supermarkets and movie theatres.

### ***Intensive Distribution Strategy in Hong Kong Jewellery Industry***

Most international luxury brands are present in Hong Kong, and keep opening stores. For instance, Cartier has 11 boutiques there (8 only in Paris), and Tiffany has 10 (7 only in New York). In the meantime, Hong Kong local jewellery retailing brands have started to work on fine jewellery and keep opening new stores as well not only there, but also in Macau and Mainland China, with the objective of pushing up their market value.

Therefore, to maximize sales volumes (international + local brands) and enhance brand awareness (local brands), companies continuously increase the number of retail spots in shopping and commercial areas and also in residential districts.

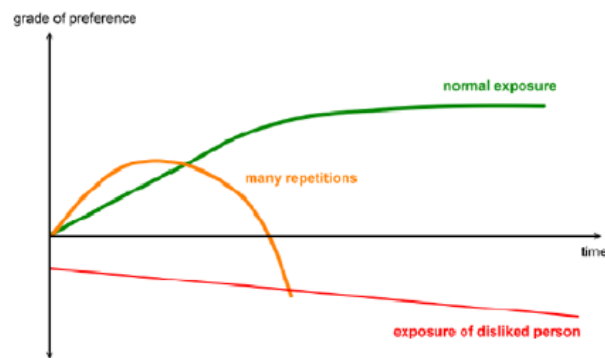
Examples of Hong Kong jewellery local companies: Chow Tai Fook Jewellery Cie Ltd. (CTF), Chow Sang Sang Jewellery (CSS), Luk Fook Jewellery, Tse Sui Luen Jewellery (TSL), 3-D Gold Jewellery and Ma Belle Jewellery Ltd. Some of them, on top of sell their own merchandise, are also official retailers of some other well-known watchmakers, designer jewellers. For instance, CTF and CSS sell Rolex and Tudor pieces, with CSS being also the official distributor of Stefan Hafner or Gucci's and Versace's jewellery lines.

Such distribution strategy is not without consequences. According to the latest survey by Cushman & Wakefield, Causeway Bay, a popular shopping district in Hong Kong, overtakes Fifth Avenue of New York, become the most expensive retail destination in the world. The rent of the store in Causeway Bay rose 34.9% and reach 22,307€ square meter per year.

### ***The Mere Exposure Effect – A Little Bit of Theory***

This concept was introduced in 1876 by Gustav Fechner to explain why people tend to prefer things they are familiar with up to a certain point: familiarity increases positive feelings but too much exposure can eventually lead to aversion. Robert Zajonc expanded on the topic, showing that the effect actually takes place without

conscious cognition. Using experimental methods, he and his colleagues identified the inverted U-Shaped relationship between exposure and affect with some decrease in liking when exposures increases beyond boredom.



Therefore, the effect should lead to some negative consequences of intensive distribution of jewellery in Hong Kong...

### *Hong Kong Residents' View towards such Intensive Distribution Strategy – Results from the Study*

172 Hong Kong residents answered an online questionnaire between end of July and August 5<sup>th</sup> 2013.

#### ✓ **Hong Kong residents love shopping.**

- 98% claim going shopping every month and 72% spend more than 8 hours on it every month.
- They shop in the major shopping districts and 84% of them favour malls. Mong Kok, Tsim Sha Tsui and Causeway Bay are their preferred areas.
- Shopping is a social activity for Hong Kong residents (53% would shop with friends, 42% with family members and 23% with their partner).
- 95% state that their brand knowledge of jewellery brand comes from the stores.

#### ✓ **Hong Kong residents feel confused regarding brand images owing to inconsistency between stores**

- 35% consider store images in-between several branches of the same brand are different, especially regarding service standards (81%) and store environments (13%).
- Less than 5% perceive local jewellery brands as among the top luxury brands in Hong Kong Jewellery because of such inconsistencies and 40% don't even know they have launched their own line of products.

- ✓ **Hong Kong residents believe intensive distribution has negative effects on Hong Kong's economy and culture**
  - 93% agree that intensive distribution strategy affects the Hong Kong economy and culture since such financial groups keep on searching new locations to operate new branches.
  - They quote: rent raising by the landlord to the present tenant, or even his holding of the store, waiting for a new tenant who can pay more for the rental. People have nostalgia for those many small-scaled stores and well-known restaurants in Causeway Bay, which were constrained to closure.
  
- ✓ **Hong Kong residents have negative feelings towards those brands using intensive distribution, which is consistent with the “Mere Exposure Effect”**
  - 79% claim local jewellery brands expand too much.
  - 86% say it is annoying and 14% state these brands are not luxury because of such strategy.

**Main Takeaway:** Intensive Distribution is NOT Recommended for Luxury Jewellers in Honk Kong

### ***Keys to Succeed***

#### **① Store Type**

Limited but Mega / Flagship stores located in the major shopping areas: as Hong Kong people are very sensitive to service standard and store environment, limited-size stores can manage these more easily.

#### **② Store Location**

For Hong Kong residents, shopping is not just for purchasing but is also a social activity with their friends and family. Shopping malls in Hong Kong hold different activities for local festivals and display different kinds of stores, restaurants and cinema. Therefore, the synergy of the shopping mall and the wide stores selection can attract traffic. Locating one's store in a high-traffic shopping mall is a good way to express brand positioning and enhance its awareness.

\*\*\*

**SémioConsult®** is a consulting agency relying upon an internationally accepted expertise, mostly related to luxury business with its codes and specificities.

Specialised in brand positioning and identity management, as well as in anti-counterfeiting strategies, it includes in its client portfolio official entities along with prestigious French and Italian brands. [www.semioconsult.com](http://www.semioconsult.com)