



# Outlook for e-commerce in Hong Kong

*CEO and Consumer Perspectives*

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# About the surveys:

KPMG China and GS1 Hong Kong commissioned YouGov to conduct two surveys.

The first was a survey of 500 consumers in Hong Kong and 500 consumers in mainland China to understand their current and future shopping attitudes and habits, and to pinpoint, from their perspective, the challenges and opportunities in Hong Kong and China for e-commerce and omnichannel business.

The second was a survey of 225 CEOs in Hong Kong to understand their views on the challenges and opportunities in Hong Kong around the adoption of e-commerce and omnichannel business models.

The surveys were conducted during the third quarter of 2016.



# Executive Summary

Compared to their counterparts across the border, to date, shoppers in Hong Kong have been less keen to go online to buy what they want.

Given the city's high-population density, its large number of easily accessible outlets and malls, and its fast, reliable transport infrastructure, it's hardly surprising that going to the shops is seen as a convenient option.

But while Hong Kong consumers' love affair with the mall and physical stores doesn't look set to end, it could increasingly be tempered by their equally strong affection for mobile and other technology.

Almost half of Hong Kong consumers now say they plan to make more purchases in the next two years via their mobile phones than they have previously.

With storage and distribution costs relatively high in Hong Kong and, until recently, a ready supply of tourists eager to visit their shops, local retailers haven't been under great pressure to diversify their sales channels.

However, in the last couple of years there has been a significant fall in demand, from both local and non-local shoppers. Combined with rising costs and increased competition, this has resulted in over two-fifths of Hong Kong CEOs reporting a decline in business in the last year, with some sectors, such as fashion, particularly hard hit.

When eyeing opportunities in the field of e-commerce, among the biggest doubts CEOs harbour are whether they can find staff with the right skill sets and whether they can successfully integrate offline and online operations without cannibalising existing channels.

But pushed by the economic downturn, and pulled by the awareness that, in an age of digital disruption, if they don't meet the online demands of new and existing customers someone else will, more CEOs seem to see the development of e-commerce and omnichannel capacities as essential to the survival of their business.

While the top three growth strategies CEOs plan to use in the coming 12 months are still the tried-and-tested favourites – develop new business opportunities, launch new products and cut costs – the development of their e-commerce capability now rates just behind these.

Only one fifth of companies expect to earn nothing from e-commerce in the coming year and one tenth expect 30 percent or more of their revenue to come from online sales.

When it came to pinpointing a digital strategy that would play a key role in their business, the most popular choice, selected by a quarter of the CEOs questioned, was the use of popular social media and messaging platforms for consumer engagement.

But, in what is possibly a blindspot for many Hong Kong bosses implementing an omnichannel strategy, surprisingly few of them – around one tenth – saw these social media and messaging platforms as sales channels.



# Hong Kong consumers set to buy into online shopping

Despite being so digitally well-connected, it seems that Hong Kong consumers have embraced the possibilities of e-commerce less enthusiastically than their counterparts in mainland China.

There are some differences in terms of geography and, in some places, infrastructure development.

But do the trends, and the intentions of Hong Kong's shoppers, point to a narrowing of this gap and an accelerating engagement with e-commerce in the SAR?



## The consumer purchasing landscape

Let's first look back at the overall shopping habits of consumers in Hong Kong during the past 12 months, and forward to their intentions for the next two years.

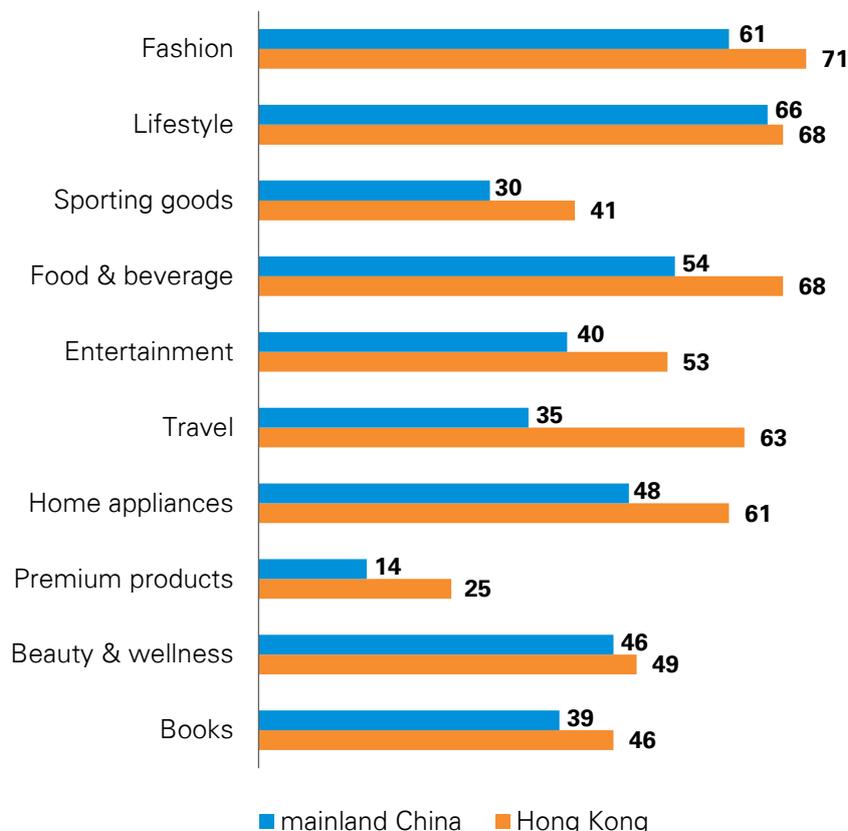
Their current and anticipated relative spending patterns look to be broadly similar, with variations in a few shopping categories.

Considerably more consumers in Hong Kong than mainland China spent money on travel last year – 63 percent compared to 35 percent.

Furthermore, travel was the only category in which more consumers in Hong Kong said they intended to spend more in the coming two years than in the previous 12 months.

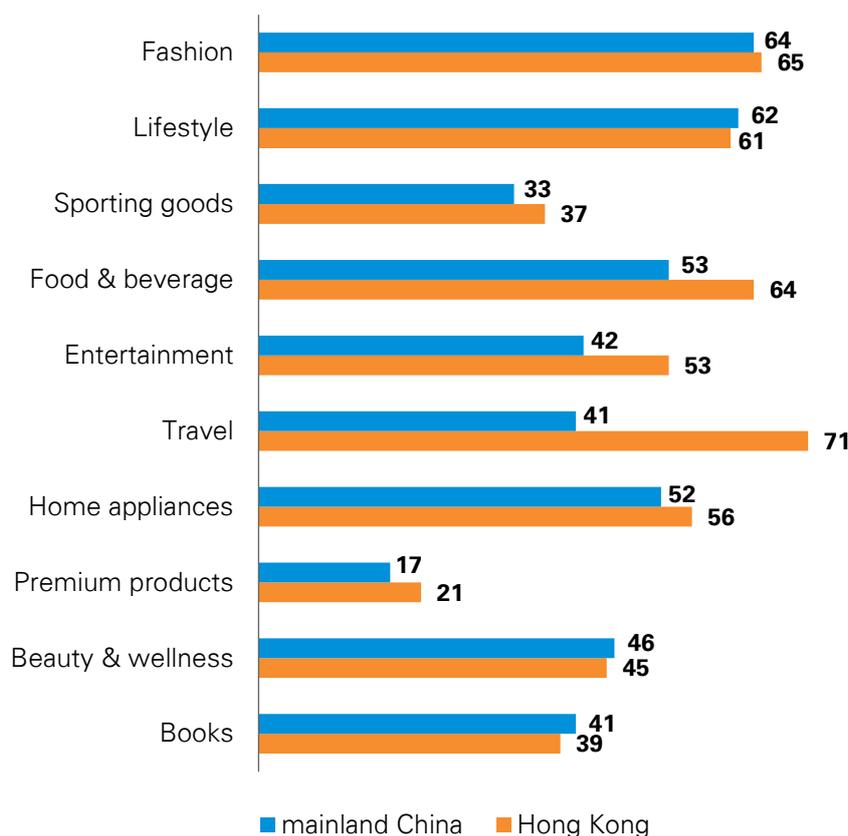
Compared to last year, significantly fewer consumers in Hong Kong plan to buy fashion and lifestyle items in the next two years and the numbers shopping for premium products also looks set to drop. Whereas, in almost every category, the number of mainland Chinese shoppers planning to spend is on the rise.

## What was in last year's shopping basket?



Source: Survey analysis, Hong Kong e-commerce, 2016

## What's on your shopping list for the next two years?



Source: Survey analysis, Hong Kong e-commerce, 2016

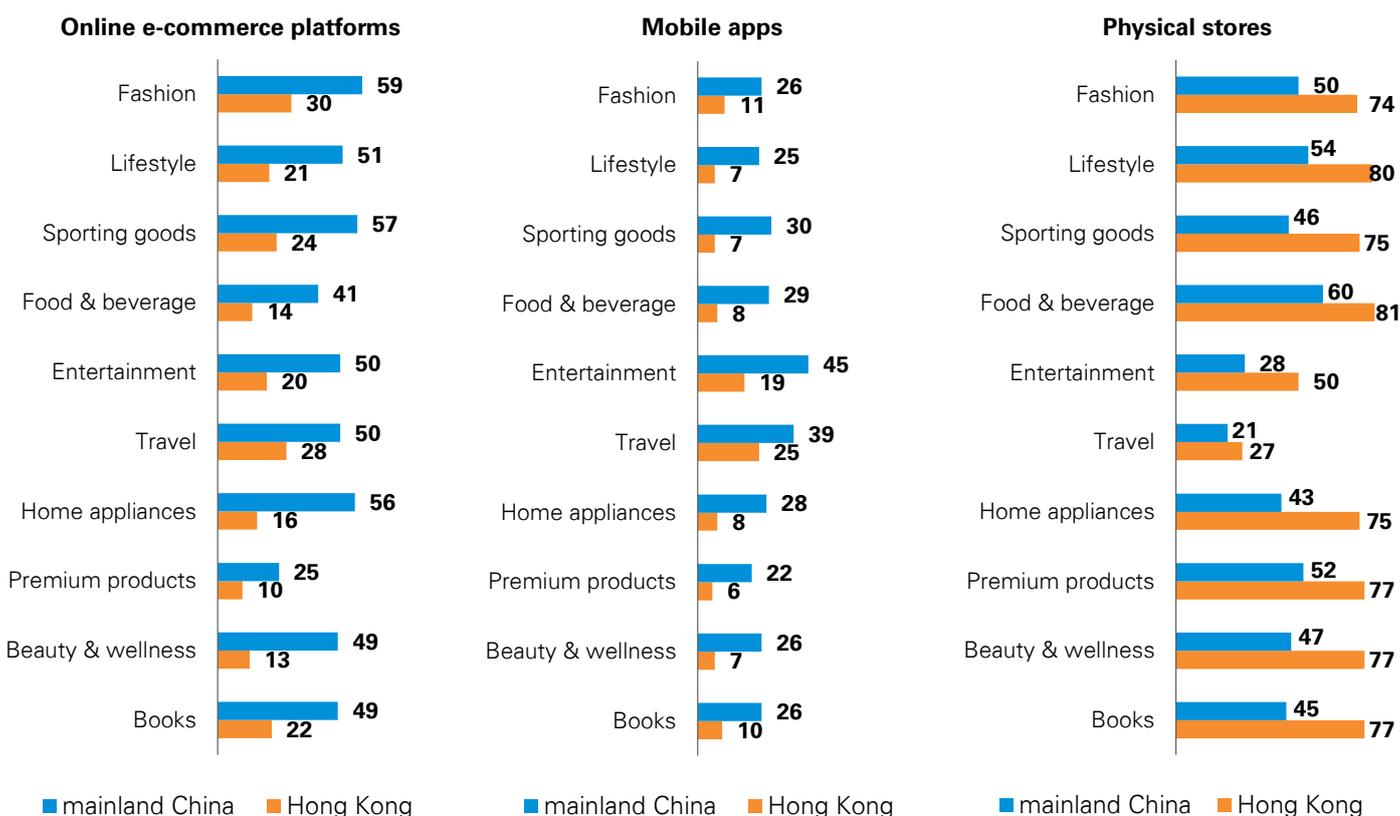
## Which channels are consumers currently using

Currently online shopping, via e-commerce platforms and mobile apps, is considerably more popular in mainland China than in Hong Kong.

With its small geographical area, large number of shopping malls, and well-developed transport infrastructure, shopping in physical stores in Hong Kong is not only a convenient option, it may also negate any possible advantages of convenience connected with online shopping.

Again, the travel category stands out, with consumers in Hong Kong equally willing to make travel purchases from e-commerce platforms, mobile apps or physical stores.

## Where did you shop last year?



Source: Survey analysis, Hong Kong e-commerce, 2016



## Pointers to an omnichannel future

In every category, though sometimes from a low base, Hong Kong shoppers indicate their intention to increasingly use online retail websites and mobile apps over the next two years.

More consumers in the city are already making their travel purchases through online retailers and mobile apps combined, than via physical stores, and this trend will only intensify.

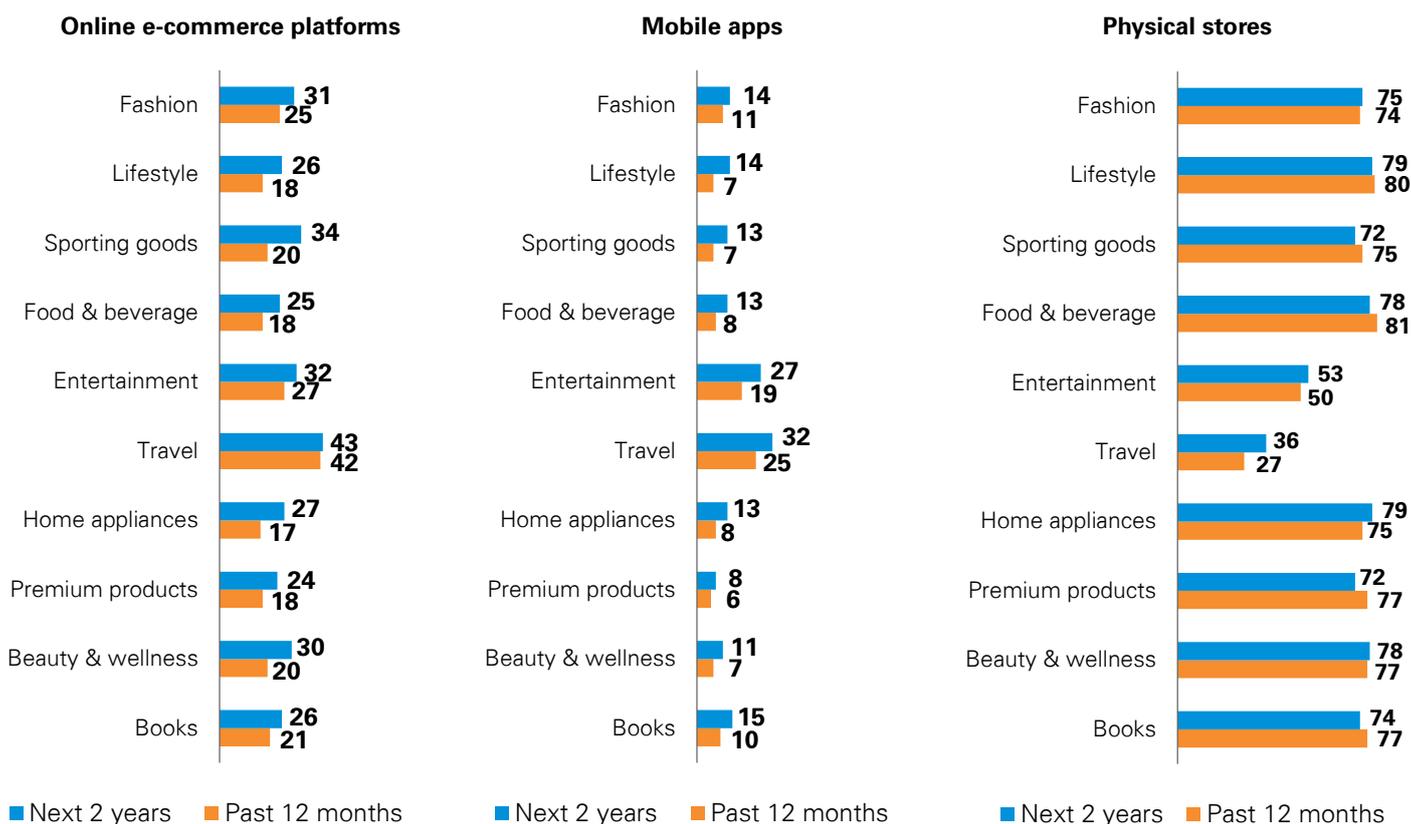
Hong Kong consumers have indicated that in future they plan to use e-commerce more across all categories, with strongest growth in sporting goods, beauty and wellness, home appliances and lifestyle.

However, it doesn't seem like the city's consumers are planning to abandon their trips to malls. The percentage of Hong Kongers who say they are intending to buy from physical stores over this period looks to be holding fairly steady across nearly every category.

Research work undertaken by KPMG Boxwood, the KPMG consultancy team specialising in the delivery of business transformation, envisages the penetration of e-commerce levelling out at 25 percent around the globe, ensuring the continuing importance of brick-and-mortar stores in some form.

However, together these results underline the growing importance to retailers of adopting an omnichannel approach. When there is a growing appetite among consumers for e-commerce, retailers who rely only on physical stores risk missing out on opportunities.

## Where did Hong Kong consumers shop for these categories last year and where will they buy in the next 2 years?



Source: Survey analysis, Hong Kong e-commerce, 2016

## Hong Kong consumers warm to online engagement

Hong Kong retailers who haven't yet developed a sophisticated online customer engagement and e-commerce strategy probably need to take note of the ways in which local consumers plan to use digital technology in the future.

Sixty-one percent of them say, in the next two years, they intend to make more online purchases and use the internet to research brands and products, while 31 percent say they will be looking for greater interaction with brands through the use of social media and messaging platforms.

Despite the high level of penetration of mobile technology in Hong Kong, overall purchases through mobile channels have lagged behind those made via online retail websites. However, it seems that figure is set to grow, with 45 percent of local consumers saying they intend to buy more via their mobile phone in the next two years.

## What technology do you plan to use when researching and buying in the next two years?



Source: Survey analysis, Hong Kong e-commerce, 2016



## Ordering online and collecting themselves

In the next two years, almost a third of surveyed consumers in Hong Kong are still planning on shopping in stores and carrying home their purchases, while 22 percent intend to order online for home delivery.

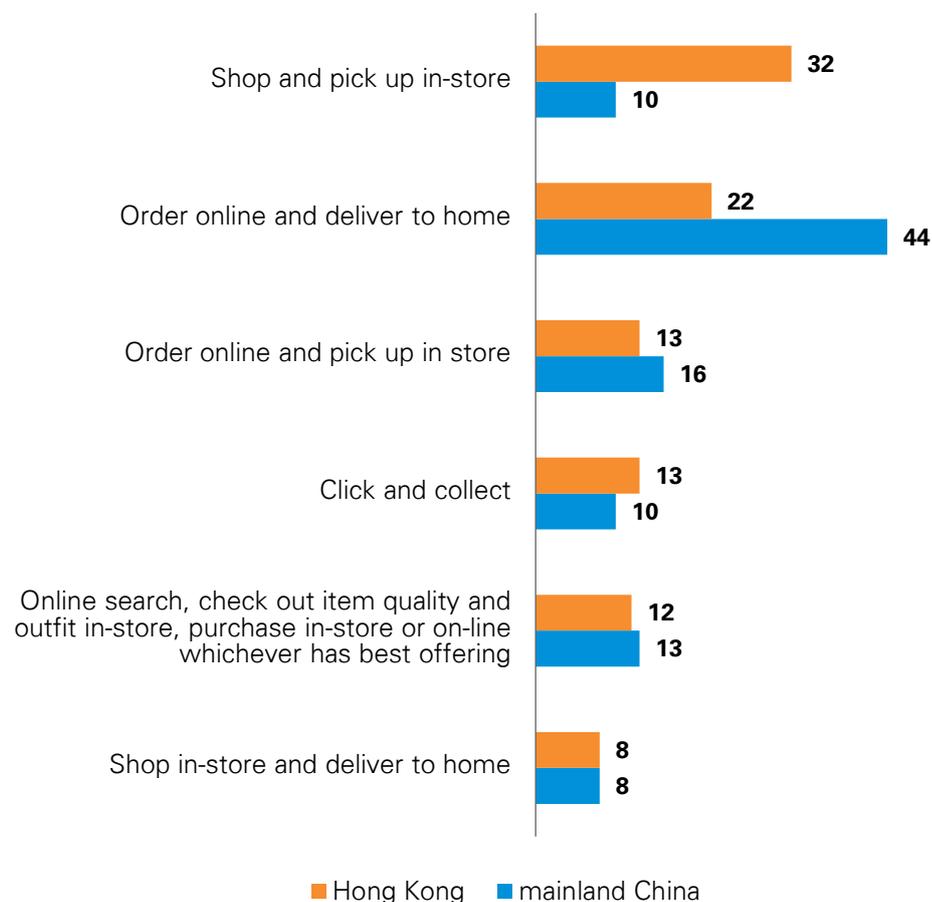
However, up to a quarter of Hong Kong shoppers say, in the same period, they will 'click and collect' – i.e. order online and pick up their purchases in the store, or order online and pick up their goods at a fulfilment point, such as a convenience store.

These types of services are being offered by a growing number of retailers globally and, if this model is widely adopted in Hong Kong in the future, the 'click and collect' option may be attractive to e-commerce retailers with no brick-and-mortar operation.

Given the accessibility of shops in Hong Kong, many time-poor consumers may assume it's more efficient to collect the products they've bought rather than wait in for a delivery. They may also want to ensure they get, first time, what they ordered, and have the opportunity to save on delivery charges.

In mainland China, with the distance to stores often greater, twice as many consumers intend to order online for home delivery.

## How will you shop in the coming two years?



Source: Survey analysis, Hong Kong e-commerce, 2016



## Trust and consistency issues around online shopping

The challenges consumers see in shopping online are similar on both sides of the border.

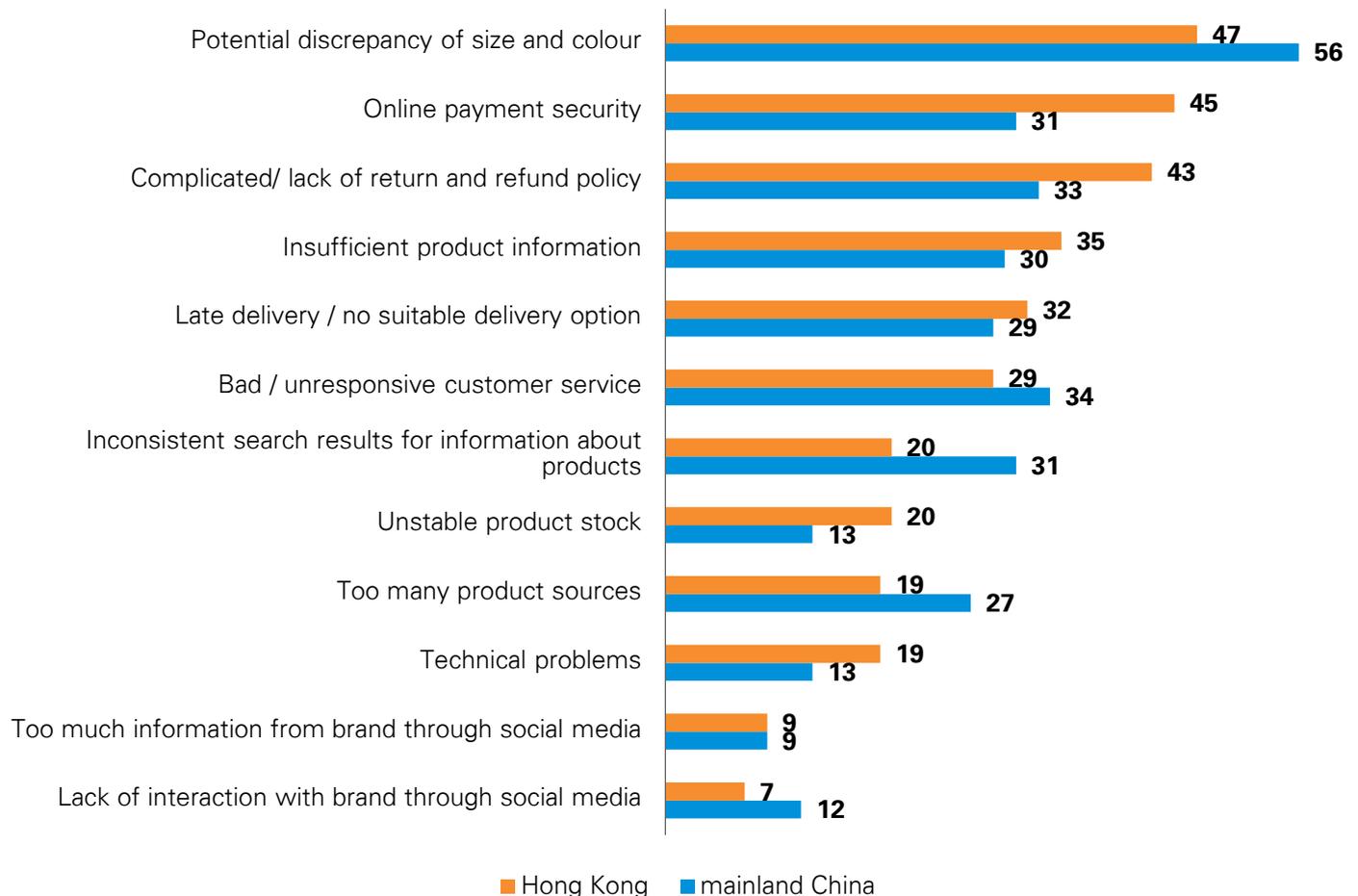
Nevertheless, online shoppers in Hong Kong are more concerned than their counterparts in mainland China about complicated or unsatisfactory return and refund policies, and they also worry more about the security of online payments. This may reflect the fact that Hong Kong e-commerce is at an earlier stage of development and shoppers here are not as experienced when it comes to buying online.

The possibility of disappointment when the delivery is opened was the issue that troubled those surveyed, more than any other. Forty-seven percent of consumers in Hong Kong, and 56 percent in mainland China, said potential discrepancies in sizing and colour bothered them. A lack of international standards in the sizing of some items of apparel may be the cause of some of this sentiment, and, particularly on the mainland, inaccurate or inconsistent product information.

GS1 is working with industry participants to address this issue. Anna Lin, the CEO explains – “Inconsistent or incorrect product information makes finding and buying products online difficult for consumers. It confuses and frustrates consumers,

and even erodes their trust in the products, brands and virtual stores, who ultimately lose a sale. The GS1 standards of global unique product identification (GTIN) allow products to be accurately identified, listed by standard categories, described by trusted information, and accessed by any device and channel. With the GTIN, retailers and brands can move product smoothly and quickly throughout the supply chain via more interoperable, efficient data handling processes. GTIN is now a must-have for major online marketplaces like Alibaba, Amazon, eBay, Google, and leading retailers like Walmart.”

## Challenges of Shopping Online



Source: Survey analysis, Hong Kong e-commerce, 2016

## The appeal of cheap and convenient e-commerce

Key attractions of e-commerce for Hong Kong consumers are: it's potential cost savings, convenience, and the access offered to overseas brands and stores.

The most popular feature is the possibility of having shipping and

delivery fees waived. Another draw for the cost conscious are the special discounts that may be offered online.

The second most cited reason for buying online by Hong Kongers, is the ability to shop anytime and anywhere. This correlates with the above mentioned growth expectation in the mobile-commerce market.

### Attractions of Shopping Online



Source: Survey analysis, Hong Kong e-commerce, 2016





Neil Galloway is Group Finance Director with Dairy Farm International Holdings.

Dairy Farm operates some 6,500 stores across Asia, and employs over 180,000 people in its four divisions - Food, Health and Beauty, Home Furnishings and Restaurants.

The company's sales revenue in 2015 exceeded US\$17 billion.

#### Market conditions in Hong Kong

Galloway senses a downturn in the less tangible, overall mood in Hong Kong, with a fall in tourist arrivals and a downturn in overall retail sales along with a lack of world class events hosted in the city, other than the annual Rugby Sevens.

However, he also believes Hong Kongers are resilient and he still thinks Hong Kong's entrepreneurial spirit allows it the ability to reinvent itself. "We can see some increasing activity in the start-up community getting more involved in the areas of Fintech, e-commerce and logistics, and we have the benefit of being next to the Pearl River Delta Economic Zone."

#### Challenges to be tackled

Galloway identifies the imbalance between sales growth and cost inflation in Hong Kong as a significant challenge, and says property costs are a major challenge for all retailers.

He suggests consumers in Hong Kong are very well informed on a real time basis, more empowered than before, and are very responsive to promotional activity. While looking for value for money, they are also looking for product innovation and increasingly concerned about quality and food safety.

# How much more convenient can Hong Kong get?

Neil Galloway, Dairy Farm International Holdings

"As local consumers evolve, we need to be responsive to their changing requirements and continue to explore opportunities for reimagining our sales outlets," he says.

He adds, Dairy Farm is always looking at innovation around its product ranges and the consumer experience within its stores.

Another growing challenge is the recruitment of the next generation of young, talented people for all local retailers. Millennials have different expectations from employers and the workplace than previous generations and businesses have to adapt to remain attractive.

#### Growth of e-commerce in Hong Kong

Galloway notes how the new and the traditional coexist in the Hong Kong retail landscape: while mobile phone penetration is 'very high' here, so is wet market penetration.

"There's so much retail convenience in Hong Kong already," he says "Perhaps this is a reason why e-commerce has taken off more slowly than in other developed markets."

Galloway says that when it comes to e-commerce it is important for Dairy Farm to find the right balance between meeting consumer needs and ensuring a path to profitability. He points to grocery retailers in the UK and other markets which are believed to be losing money on every home delivery, as a warning on this count.

That said, Dairy Farm is still accelerating its investments in e-commerce. "Sometimes there is a time lag on developments but we recognise consumers are increasingly looking for an e-commerce channel, particularly mobile – we are definitely aware we are living in a mobile world."

"But we must remember that consumers want the ability to shop how, what, when and where they want,

so we need to rise to that challenge," Galloway points out. "However, while there is a lot of excitement around e-commerce, our view is that physical stores will still be here for a long time to come, and so we have to continue to execute well in this area. The experiences online and in-store are very different."

#### Sifting the useful data from the noise

Galloway says a big question for the retail industry is how it can develop a more tailored, personalised shopping experience for its customers?

"We need to focus on understanding how consumers engage with our businesses and brands," he explains. "As retailers, we must engage with the consumer and deliver on their expectations — so CRM and loyalty will be increasingly important."

In the future, he says, Dairy Farm needs to make better use of the volume of data it has, to build up a more complete picture of its customers in order to serve them better — this will be critical to the company's future success.

"But the challenge is to filter the useful data from the noise. You can get lost in the information." He believes the development of better data visualisation tools could be a growth area.

One thing is clear — today's technology allows retailers to build a highly personalised, informed, one-to-one relationship with their customers, which has raised the bar significantly on service expectations. It offers a great opportunity to build stronger brand relationships but flawless execution will be even more critical for success.



# Online retailing with a personal twist

Luke Grana, GRANA

Luke Grana is the CEO and Founder of innovative online fashion retailer, GRANA. He, along with Pieter Paul Wittgen (COO and Co-Founder), launched the company in October 2014, and have overseen its growth from a small startup to an international brand that ships to twelve countries. GRANA's core aim is to manufacture and sell high-quality clothing at affordable prices, by cutting costs encountered by traditional marketing and distribution chains.

## Personal Journey

Entrepreneurship has always been in Luke Grana's blood. In the years before he set up GRANA, he was the owner of a small chain of coffee shops in his native Sydney, but a trip to Peru, where he encountered the premium qualities of Peruvian pima cotton, changed the direction of his career. Why, he wondered, were products made of this fabric so expensive? He decided to devise an online sales strategy, which aims to cut out the distribution and retail middlemen that drive up the cost of most luxury fashion items. It was from this idea, that GRANA was born.

Having no fashion experience, Luke spent some time working in high street fashion chains, as well as researching possible locations for his startup. Hong Kong turned out to be the ideal choice, given its business-friendly environment, global connectivity, reputation as a logistics and shipping hub, and its tax-free port status, so he moved there in October 2013, with his life savings of US \$200,000.

He quickly joined forces with Wittgen, and with his help, and with advice from InvestHK, soon found more strategic investors to support the launch of

grana.com. Crucially, he also managed to reach an agreement for DHL Express to be their global shipping partner – an important step in securing two-day international shipping on all online sales.

## Modest launch and swift growth

The brand had its beta launch in April 2014 – where they debuted a crew neck t-shirt made of Peruvian pima cotton. With mostly word-of-mouth and a minimal digital marketing push, the duo sold out of their inventory of 2,000 t-shirts in three weeks.

Following this success, GRANA was fully launched in October 2014. In the two years since, they have grown from three people in a 500 sq/ft office, to having 50 employees and a 18,000 sq/ft warehouse. Their month-on-month sales growth is running at 15%, and their stock has expanded to include a wide range of items from swimwear, minimalist garments, to clothes for smarter occasions. Fabric choices have similarly grown, and now also include: Chinese Silk and Silk Georgette Satin, Japanese Denim and Chambray, French Poplin, Irish Linen, Mongolian Cashmere, Italian Merino and Italian Sensitive.

## The public face of GRANA

GRANA has built a 'fun and cheeky' social media presence to boost rapport with their customers and thus, brand loyalty. They boast over 23,000 'Likes' on Facebook, as well as over 24,000 followers on Instagram, where they interact with their core market of millennials, in the 25-35 year-old age bracket, in a way that goes beyond just showcasing their fashion.

GRANA has never used traditional marketing e.g. advertising campaigns, but has relied on social media, digital marketing and word-of-mouth recommendations to increase brand awareness to drive conversion. They have also created over twelve pop-ups to date, in Australia, Hong Kong, Singapore and the USA, with one flagship showroom called 'The Fitting

Room by GRANA' located in Sheung Wan, Hong Kong.

These Fitting Rooms have a two-fold purpose: they introduce the brand to those who have not already encountered it online; and allow both new and existing customers to feel the fabrics and try on clothes to find the right fit. Although The Fitting Room and pop-ups carry no inventory, the buying experience is easy for those unaccustomed to online shopping, as staff are at hand to help customers order the goods online, on the spot.

Returning customers comprise 50% of their sales. Luke attributes this to quality, pricing, swift delivery and attention to customer service – e.g. a personalised handwritten thank you card is included with each delivery and live chat is available on the website

## Looking at the future

Initially, GRANA experienced most sales in Hong Kong where it is still strategically headquartered. However, its highest growth market is now in the USA. The company is planning to open their next pop-up showroom experience in NYC, in an effort to increase their US customer base.

The startup recently attracted Alibaba's Entrepreneur Fund as a new investor, and with their support, plan to enter the mainland China market in 2017. GRANA plans to launch a Chinese language website next year.

"We're really excited to have lead investment support from Alibaba and looking forward to working closely with their team to enter the mainland market," says Luke Grana. "China consumers have already matured when it comes to online shopping adoption and we see a lot of potential for the medium-to-long-term there."



# Building relationships over coffee

Roger Staeheli, Nespresso

Nespresso was founded in Switzerland 30 years ago and has had a presence in Hong Kong since 1997. Initially, the company sold only to businesses, before expanding sales of machines and roasted and ground coffee capsules to the home consumer as well. Nespresso's first boutique in Hong Kong opened in the ifc mall in 2006.

Roger Staeheli has been the Country Manager of Nespresso Hong Kong and Macau for the past two and a half years. He says while retail is more important for Nespresso in Hong Kong than it is in other countries, e-commerce is the company's fastest growing sales channel here.

## Nespresso's omnichannel evolution

Though Nespresso, with its global network of 450 outlets, is part of the Nestlé Group, Staeheli says it operates independently because of its unique business model. "We have a direct-to-consumer business model – coffee is sold through our own channels."

The company has four B2C channels: retail, e-commerce, coffee machine trade points, and its Customer Relationship Centre – a form of call centre. The B2B division sells to hotels, restaurants, cafes and offices.

Nespresso's sales channel evolution has been in the opposite direction to that of many retailers of similar long-standing. After initially selling through its Customer Relationship Centre, Nespresso launched its e-commerce channel in 1998, before opening its first boutique in Paris in 2000.

This progression, though, was born out of necessity rather than choice, Staeheli explains. "Thirty years ago,

coffee that was sold at retailers was instant coffee. So we decided to retail our own products ourselves. We first established the call centre – the Customer Relationship Centre – and then evolved into different channels."

Staeheli says the aim today is to offer a consistent experience to the customer, whether it's offline or online. "It's about consistency in the product, price and promotion."

## Integrated channels and customer relationships

The company is very clear on the role of each of its channels, he says.

"Retail is very much about delivering the brand experience. E-commerce is about Nespresso 'anytime, anywhere'. Trade is focussed on machine sales and is a channel through which we can recruit new members. The Customer Relationship Centre used to be a transactional channel, and today it's about building relationships."

Staeheli says if there was such a thing as an 'ideal' customer relationship development process, it would see the customer initially recruited through Nespresso's boutique or trade channel then transformed into an e-commerce customer. Subsequently, these customers would be regularly invited back into the boutique to try new coffee innovations and allow Nespresso to engage directly with them.

Staeheli says that because, in most cases, customers join the Nespresso Club to buy coffee, the company is able to gain a good understanding of the consumer, and therefore tailor its marketing campaigns and offer personalised experiences.

## Offline vs. online in Hong Kong

Despite Nespresso's online channel showing the fastest sales growth, Staeheli highlights two main challenges to the development of e-commerce in Hong Kong. The first is convenience.

"You want to offer convenience with e-commerce but the retail landscape in Hong Kong is already very convenient. Most households are within five to ten minutes travel time to a mall. So we offer same-day delivery for online purchases made within a particular time frame of the day. The other challenge for Hong Kong is the high cost of distribution."

## Prospects for Nespresso and for Hong Kong

Staeheli points out that despite the downturn in Hong Kong, retail sales in general are still at historically high levels. But while he believes Hong Kong is a city of opportunity with the potential to adapt to new circumstances, it is also a city with some resistance to change.

"And it may benefit some brands to get back to basics when it comes to focussing on customer experience and telling the story of the brand."

Staeheli says he remains optimistic about Nespresso's prospects. The company has new strategies and launch plans in place as the popularity and demand for coffee continues to grow in Hong Kong and Macau.



# The convenience of 'bricks and clicks'

CK Pak, Convenience Retail Asia

CK Pak is the COO of Convenience Retail Asia, a member of the Fung Group. Circle K operates over 400 convenience stores in Hong Kong, Macau, Guangzhou, Shenzhen and Zhuhai. The first Circle K store was opened in 1985.

Pak says major consumers among its target customers are the working class and students. Members of these groupings shop at convenience stores more than three times a week, on average.

He says the businesses most affected by the decrease in the number of individual visitors from China in recent years, are jewellery, luxury and cosmetics shops. The retail businesses least affected have been fast food restaurants, supermarkets and convenience stores, which all provide daily necessities to local people.

Apart from selling daily consumables, convenience stores also provide services like bill payment and the add-value service for Octopus cards. Serving these needs requires an adequate number of stores throughout Hong Kong.

Due to the increasing number of vacant commercial properties, rental prices have dropped in recent years and Pak says Circle K has grasped this opportunity to open more shops.

## The "bricks and clicks" route to gradual growth

Despite planning to open more shops, Pak says this has not stopped Circle K from developing its online retail business.

FingerShopping.com was established in 2013 as a way of combining online to offline advantages in a "bricks and clicks"

concept, he explains. This shopping platform offers products online while also providing a safe payment channel through its brick-and-mortar retail network, along with delivery and after-sales services. This helps to reduce the risks from online shopping, he believes.

Though FingerShopping.com has grown in an encouraging way in the three years of its existence, given Convenience Retail Asia's total sales revenue of nearly HK\$4 billion, the contribution from the online business is still insignificant, Pak adds.

While he advises companies not to dream of online platforms generating instant profits, he also warns that companies which do not adopt an e-commerce strategy, will regret it in 10 years' time.

## Online platform targeting young consumers

"Although shopping in Hong Kong is very convenient in terms of the number of shops and locations, consumers have different characteristics across different age ranges," Pak notes. "The younger segment tends to enjoy the online world more. This has obviously changed their shopping habits, too."

He says Circle K's vision for its online shopping business grew from a desire to meet their changing needs, and convenience stores in Japan and Korea which established their online platforms long ago, were an inspiration for this development.

FingerShopping.com does not offer mainstream products, Pak explains, and what he categorises as fast-growing, high-potential health and skincare products, make up about 80 percent of the platform's total product value.

Initially, also, it was female customers who were the biggest spenders on FingerShopping.com.

In the first six months of this year, the platform sold more than 21,000 units of stock from about 1,500 brands, Pak says, and the total value of the merchandise sold has doubled from the same period last year, as have the number of members.

## Online shopping, offline delivery

Pak points out that on FingerShopping.com, even when customers choose products from different online shops, they can still combine all their delivery needs and choose door-to-door service or self-pickup from the convenience stores. This drives the development of O2O business.

As customers can choose COD (cash on delivery) and pay the bill at the convenience store, they can skip the online payment process and enjoy peace of mind and hassle-free shopping.

"Nowadays, retailers should no longer use their old experience to run their business," Pak says.

In particular, he adds, Hong Kong needs to keep pace with the new trend towards the digitalisation of the entire logistics and payment systems, along with marketing services, and not lag behind other countries and, especially, mainland cities.

Industry and government need to keep abreast of the e-commerce trend and help companies to survive, he believes.



# A glittering future for e-commerce?

Kent Wong, Chow Tai Fook Jewellery Group

Kent Wong is the Managing Director of Hong Kong-listed company Chow Tai Fook Jewellery Group. The group was founded in mainland China in 1929 and the first Hong Kong Chow Tai Fook jewellery point-of-sale (POS) was set up in 1939. Currently, the group has more than 2,300 POS in over 500 cities, spanning Greater China, Singapore, Malaysia, Korea and the US.

Wong said the group has its own Chow Tai Fook e-Shop and has opened Chow Tai Fook e-tail accounts on various online shopping platforms. The group also collaborates with social platforms to increase its exposure through promotions and publicity that enhance customer engagement.

## Patience with online growth

According to the group's results for the year ending March 2016, the number of unique daily visitors to the Chow Tai Fook e-Shop, along with those accessing its official accounts on online shopping platforms, exceeded 260,000. Its official accounts on social media platforms show that Chow Tai Fook has more than 2.3 million followers.

Though the value of Chow Tai Fook's retail sales from its e-commerce business in mainland China has grown by 51 percent in FY 2016, it contributed only a 2.3 percent share of the retail sales value of Chow Tai Fook's Mainland China jewellery business. Wong, though, is optimistic about its prospects, and his target is to reach a 5 percent contribution gradually.

## Meeting the demands of younger consumers

Wong said Chow Tai Fook's target customers, whether in Mainland China

or Hong Kong, are the millennials, i.e. the younger generation born in the 2000s.

"It is necessary to understand their habits and preferences. For example, young people tend to obtain product information via the Internet, and opinions are shared by word of mouth on social media," he said.

"As a jeweller, Chow Tai Fook also needs to keep pace with changes, adjust our sales strategies, enhance personalised services and offer uniquely designed products to suit the customers."

Chow Tai Fook is developing a new mobile app which allows three-dimensional pictures of products to be downloaded, so customers can choose their favourite design. This not only enhances service efficiency but also strengthens communication with customers. Alternatively, customers can send their own jewellery designs to Chow Tai Fook for professional mounting.

## Online and offline synergies

For the online purchases of customers in tier one cities in mainland China, Chow Tai Fook employs specialists to provide a direct delivery service. Wong said, this helps to convey a sense of respect to customers who have ordered valuable products. Wong reiterated the importance of customer care during the entire process from packaging to after-sales service.

In fact, these new developments are part of Chow Tai Fook's mid-term strategy called 'Smart+' initiatives. This strategy aims to leverage on the internet and technology to achieve

synergies between online and offline businesses in the next three to five years.

"Smart+ represents different development ideas: 'S' stands for sustainability, which means continuous improvements in infrastructure and staff training; 'M' stands for men, which means caring for all stakeholders including customers, suppliers and staff; 'Art' represents craftsmanship and heredity; '+' means added value through creative sales platforms and innovative customer services to enhance the brand image," he explained.

The group will continue to use this scheme to provide personalised shopping experiences, and collaborate with business partners to develop more effective marketing and promotional activities. Smart+ initiatives also make use of smart devices. The group has adopted new technologies, such as RFID-embedded smart trays, to help understand customer preferences and optimise business strategies in areas such as product life cycles and transaction cycles.

"Whether in e-commerce or physical shops, trust is always the most important core value in the jewellery business," Wong said.

In light of this, the group considers social media platforms as important complementary partners with whom Chow Tai Fook can collaborate and share ideas in promoting e-commerce.

# Online route to future growth

Samuel Lau, Kerry Logistics



Samuel Lau is the Executive Director of Kerry Logistics (Hong Kong). Kerry Logistics have large and comprehensive distribution and logistics hubs in the Greater China and ASEAN regions, as well as a powerful logistics services network that reaches across Asia, is one of the main industry players.

Lau believes the global economic slowdown, along with sluggish demand, has led to stagnant growth in the logistics and trading sectors. These factors, coupled with the strong US dollar, have had an adverse impact on worldwide markets, and he doesn't foresee these markets stabilising until 2018.

## Reasons for hope on China growth

Lau thinks opportunities abound under the Belt and Road Initiative. Though many foreign companies have set up their logistics facilities in China in the past decade, he does not consider the Chinese logistics market to be saturated. He also stresses that China remains one of the company's significant contributors of revenue.

Lau expects e-commerce business to remain an important part of Kerry Logistics' strategic plans as the global e-commerce market grows steadily.

## Capturing the "last mile delivery" opportunities

Foreseeing stable growth in the global e-commerce market, Lau says Kerry Logistics will strengthen its express capabilities to provide cost-effective 'last mile delivery' services to an expanding client base.

"Kerry Logistics has acquired some express companies in Hong Kong and Asia in the past four to five years. Over the last two years, we have started to integrate them into our brand Kerry Express, according to their systems and their geographical presence, to meet our e-commerce development."

In addition, he says, the company plans to strengthen its regional express services in Asia in order to capture the growing e-commerce markets in the ASEAN region and expand its express network to Indonesia. He explains Kerry Logistics will strive to offer a range of customised logistics solutions for different partners. "The demand for 'last mile delivery' from our logistics partners is obviously a business opportunity."

## Keen competition within the region

Kerry Express provides 'last mile delivery' services in Hong Kong, Taiwan, Vietnam, Thailand, Malaysia and Cambodia. Cross-border and local delivery for small parcels is available for B2B/B2C businesses.

In Bangkok, Lau explains, Kerry Express has set up an automated sorting centre with numerous distribution stations on the streets, cooperated with a local railway company, and hired motorcyclists and a courier team to offer person-to-person (P2P) parcel delivery services.

This local service is very popular and business uptake is strong as the operating cost is relatively lower.

## Don't focus on short-term P/L

Lau believes companies' operational strategies will change with the growth of omnichannel business.

He advises companies to engage with e-commerce without initially focussing on making money from it. "The supply chain model adopted in the early stages might be expensive and affect the operational cost," he says. "Companies should try to understand procedures such as payment, recalls and customer journey."

Lau sees traditional retailers seeking e-commerce opportunities even though these may contribute only a small share of overall revenue at first.

## Unifying supply chain visibility and standards

Lau says kerrierVISION, Kerry Logistics' proprietary supply chain visibility platform, is designed to provide end-to-end visibility to customers along supply chains.

He believes a global standard must be in place to achieve interoperability and it must be more widely publicised to make sure it is extensively used.

# Are Hong Kong's CEOs ready and able to meet their e-commerce demands?

In the face of more testing market conditions, are Hong Kong companies contemplating embracing e-commerce, and an omnichannel approach, more enthusiastically?



## Current conditions

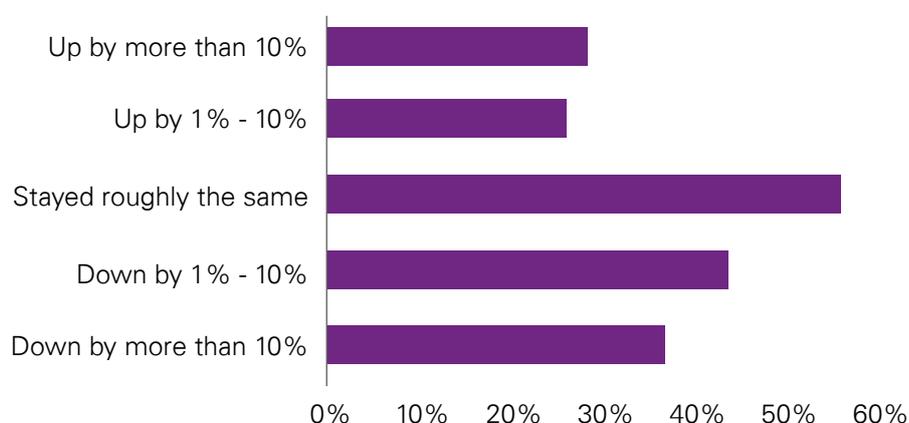
With companies, particularly retailers, in Hong Kong having enjoyed several years of rapid growth they are now facing some global, and regional, economic headwinds.

Despite this, well over half of the CEOs surveyed, all of whom head up companies with Hong Kong operations, reported they had seen either business growth or stability in the previous twelve months.

When looked at through the prism of the role their businesses play in the supply chain, the relative performance of traditional retailers and e-commerce companies can be compared. More retailers fared worse in this period than grew or remained stable, while e-commerce companies performed better. This appears to tie in with the consumers shifting interest to engage with more e-commerce channels.

In terms of industry sectors, it's clear companies involved with the production and sale of apparel and accessories have had a testing year, with 60 percent of those questioned reporting a drop in business.

## Impact of economic slowdown on Hong Kong business



Source: Survey analysis, Hong Kong e-commerce, 2016



## Falling demand in the past 12 months

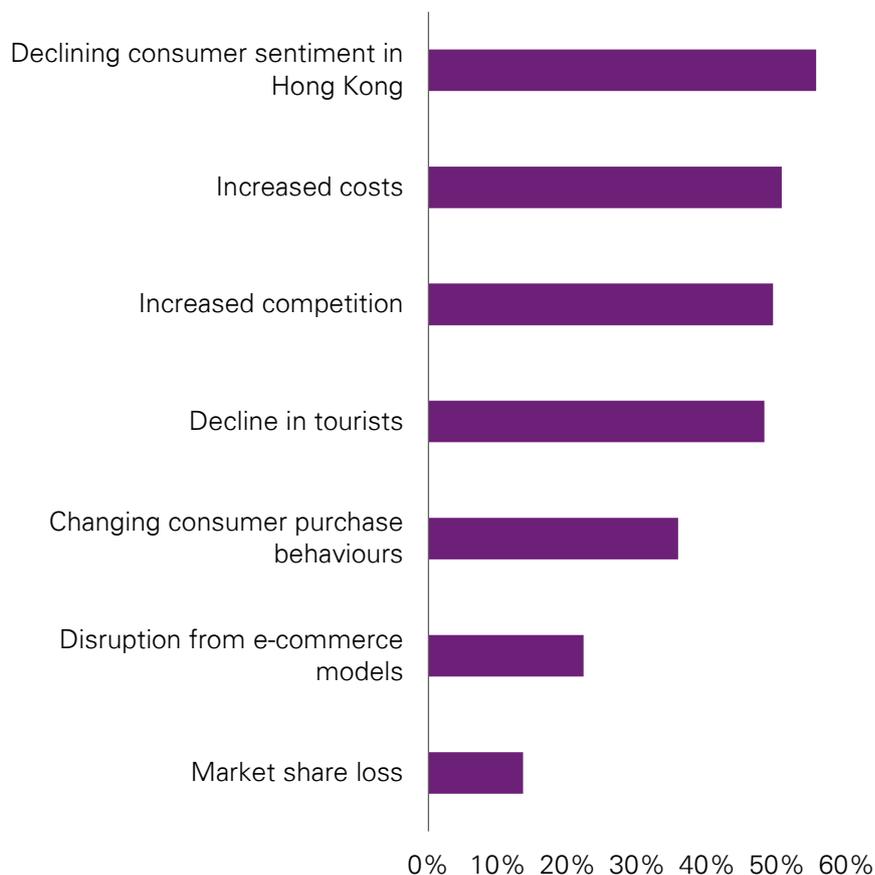
A drop in demand, both from Hong Kong consumers and tourists, combined with rising costs and levels of competition, were the main reasons cited by the CEOs whose businesses had suffered a decline in business.

But changing consumer purchasing behaviour and disruption from e-commerce models, were also blamed by over 30 and 20 percent for the downturn, respectively.

Perhaps unsurprisingly, retailers identified a decline in tourists and the decline in sentiment in Hong Kong as the top two problems affecting their business, both of which are difficult for CEOs to fix.

More than other parts of the Hong Kong economy, the fashion and consumer electronics sectors were in particular hit by changing consumer purchasing behaviour and disruption from e-commerce models.

## If business declined, what did the CEOs of these companies identify as the key drivers?



Source: Survey analysis, Hong Kong e-commerce, 2016

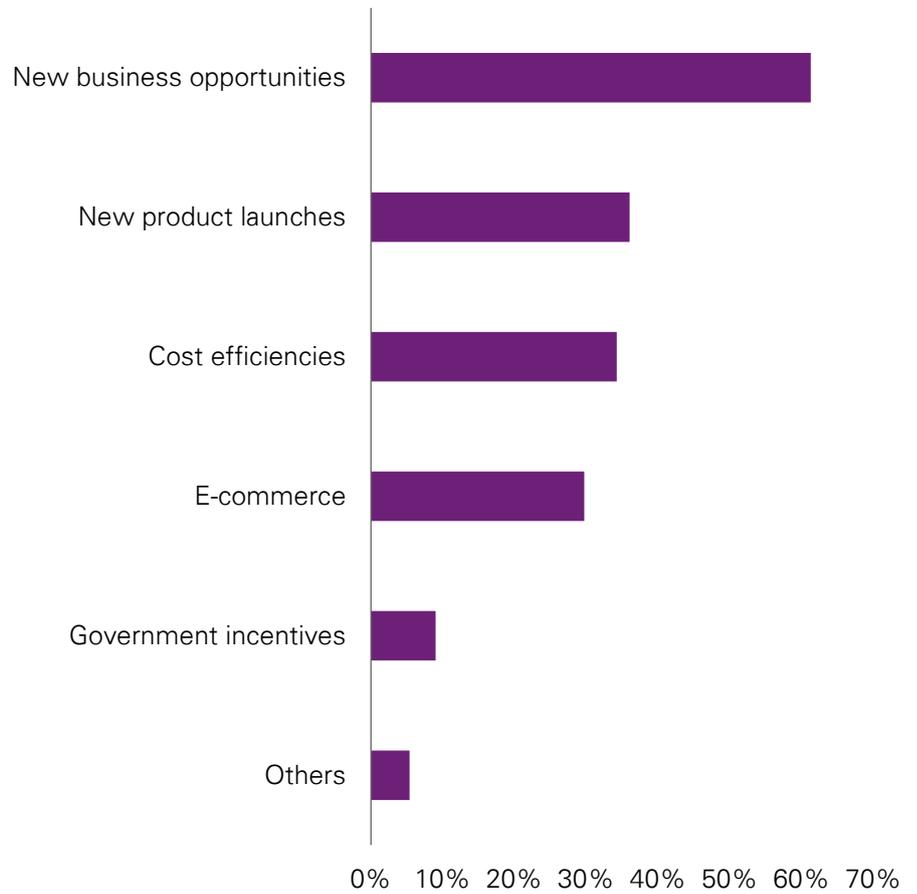


## Routes to continued growth

The CEOs who had seen an uptick in business, or at least no fall, cited three traditional drivers as reasons for their relative success: new product launches; cost efficiencies and; by far the most common of all, new business opportunities.

However, e-commerce was the fourth most quoted reason.

## If business remained stable or increased, what will the CEOs of these companies identify as the key drivers?



Source: Survey analysis, Hong Kong e-commerce, 2016





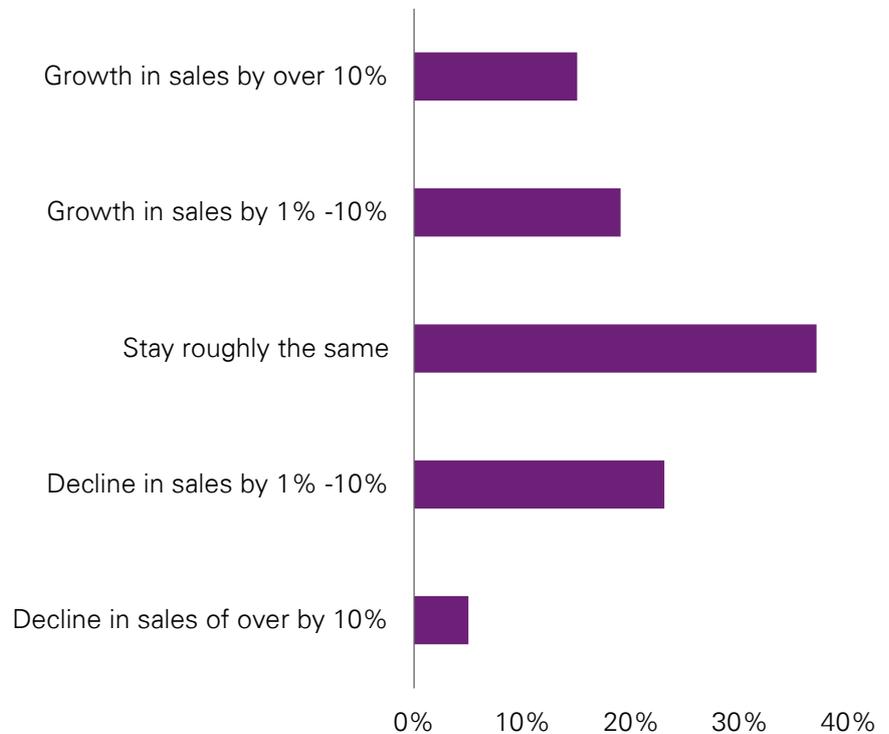
## A mix of optimists and pessimists

In terms of the way in which they viewed their future prospects, the CEOs were fairly evenly split.

Twenty-eight percent foresaw a drop in sales, 34 percent expected to sell more, and 37 percent predicted business would remain roughly the same.

Again, CEOs of companies dealing in apparel and accessories were far more gloomy than those in other sectors, with just under 10 percent of them predicting growth.

## How do you view Hong Kong's prospects in the next 12 months?



Source: Survey analysis, Hong Kong e-commerce, 2016

## Adding digital to the tool kit

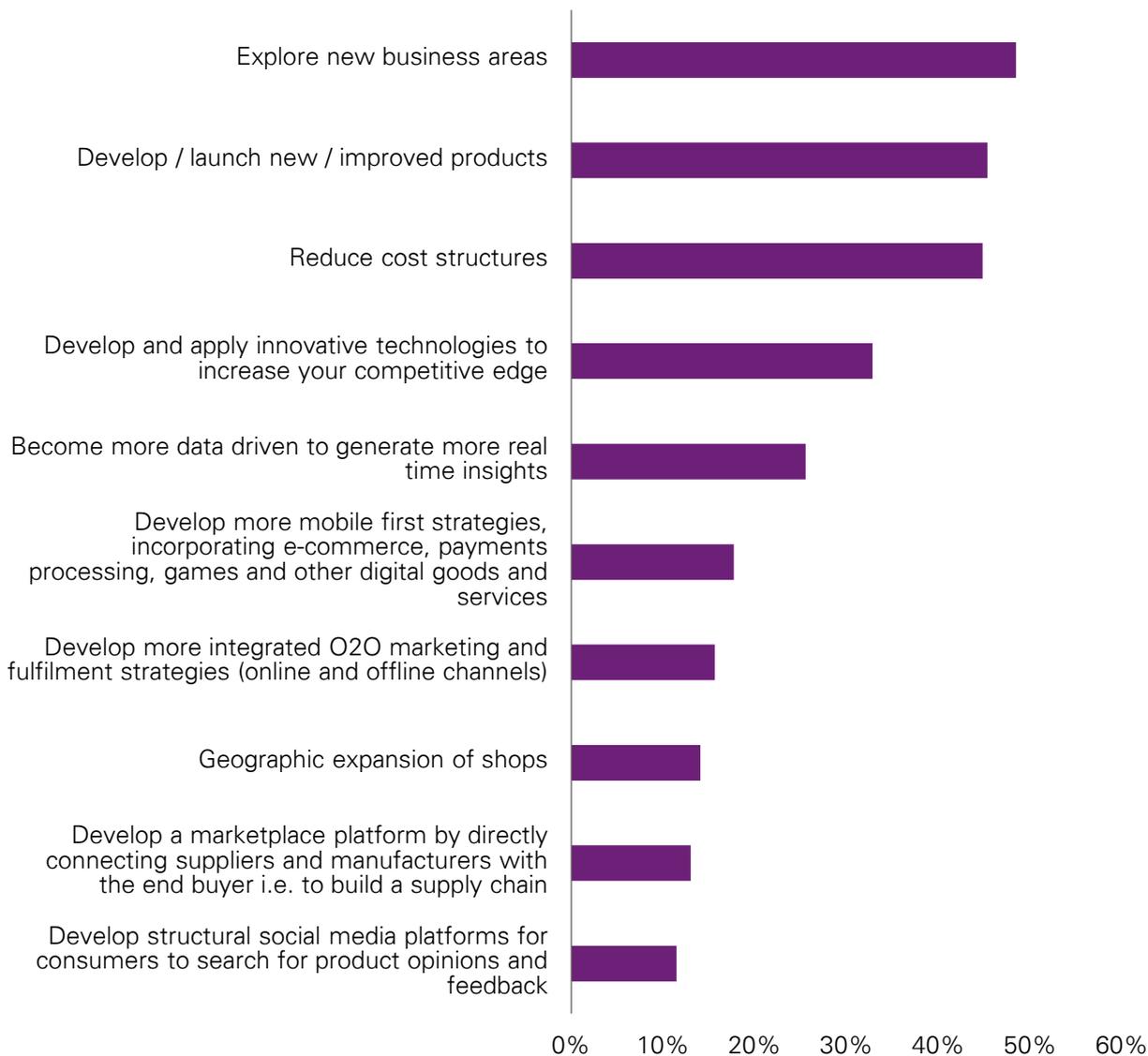
When considering ways to promote future growth, the CEOs seem to be looking first and foremost to the tried and tested strategies of exploring

new business opportunities, launching new products and cutting costs.

Beyond these methods, though, significant numbers of the CEOs are looking to technology to give their

companies a boost. Over 30 percent said they are going to develop and apply innovative technologies to increase their competitive edge, and around a quarter said they planned to become more data-driven in order to generate real-time insights.

## Hong Kong business growth strategies for the next 12 months



Source: Survey analysis, Hong Kong e-commerce, 2016

## Looking to customer-centric success

The CEOs surveyed see the development of customer-centric policies and programmes as key to the future success of Hong Kong companies.

Customer relationship management programmes that deepen customer loyalty, as well as improvements in the consumer journey and user experience, were each specified by over 50 percent of the respondents.

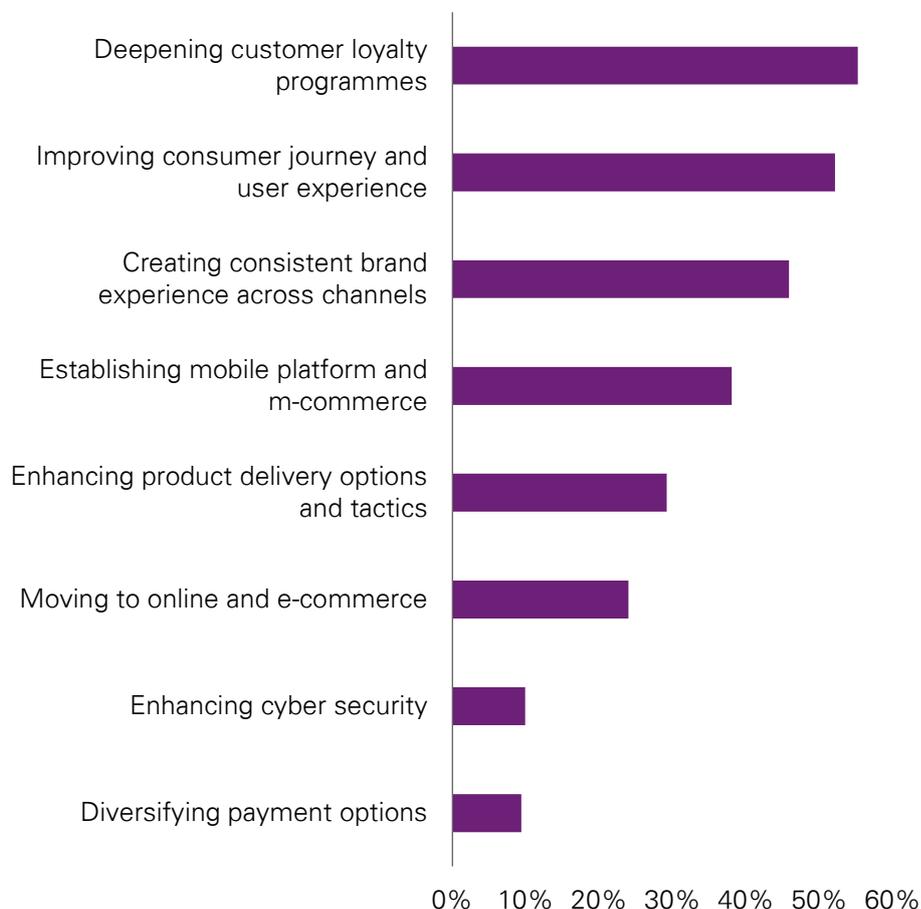
The creation of a consistent brand experience – cited by around 45 percent of CEOs as a key development – is also likely to ensure a happier customer engagement.

Interestingly, the establishment of a mobile platform and an m-commerce capability, is ranked next on the list. This fits well with what Hong Kong consumers are looking for in the coming two years and suggests a bright future for mobile technology in the world of Hong Kong commerce. Perhaps the important question is for those CEOs who aren't planning to invest in m-commerce. Will they miss out on the opportunity?

The KPMG Boxwood report 'Disruptive Influences'<sup>1</sup> challenges retailers to be relevant in one or more of three areas – namely, convenience, price and experience – or risk becoming irrelevant to customers.

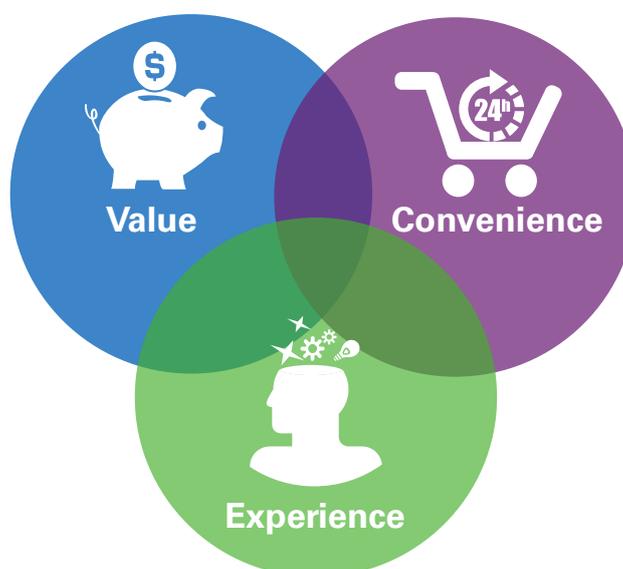
The development of a strong e-commerce / m-commerce platform is a key advantage to giving your customers convenience and experience.

## Key Hong Kong commerce developments



Source: Survey analysis, Hong Kong e-commerce, 2016

## Disruptors



<sup>1</sup> Disruptive influences: The three key trends transforming the face of retail.

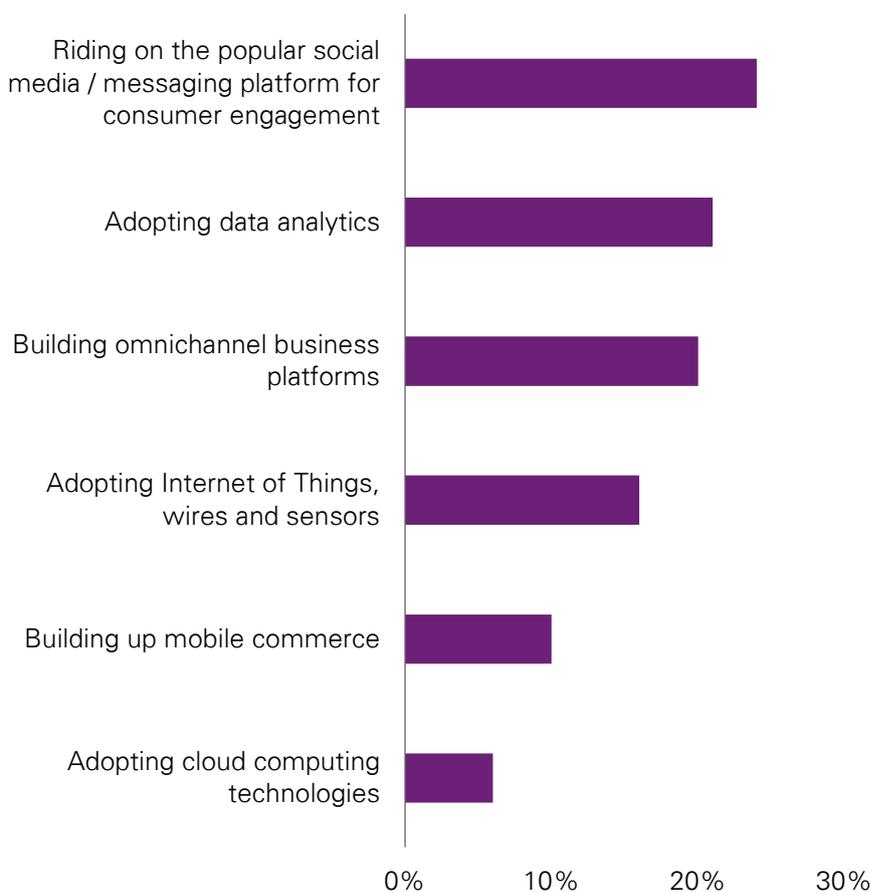
## Digital connections to customers

The most important ways CEOs see digital technology being used in Hong Kong, is to better understand and engage with consumers, and also in the building of omnichannel business platforms.

Engagement via social media and message platforms, understanding through the adoption of data analytics, and improvements in the customer experience with the development of an omnichannel model, were each identified by between a fifth and a quarter of CEOs as key digital innovations.

The figures among traditional retailers and e-commerce companies were even higher.

## Key digital innovations in Hong Kong



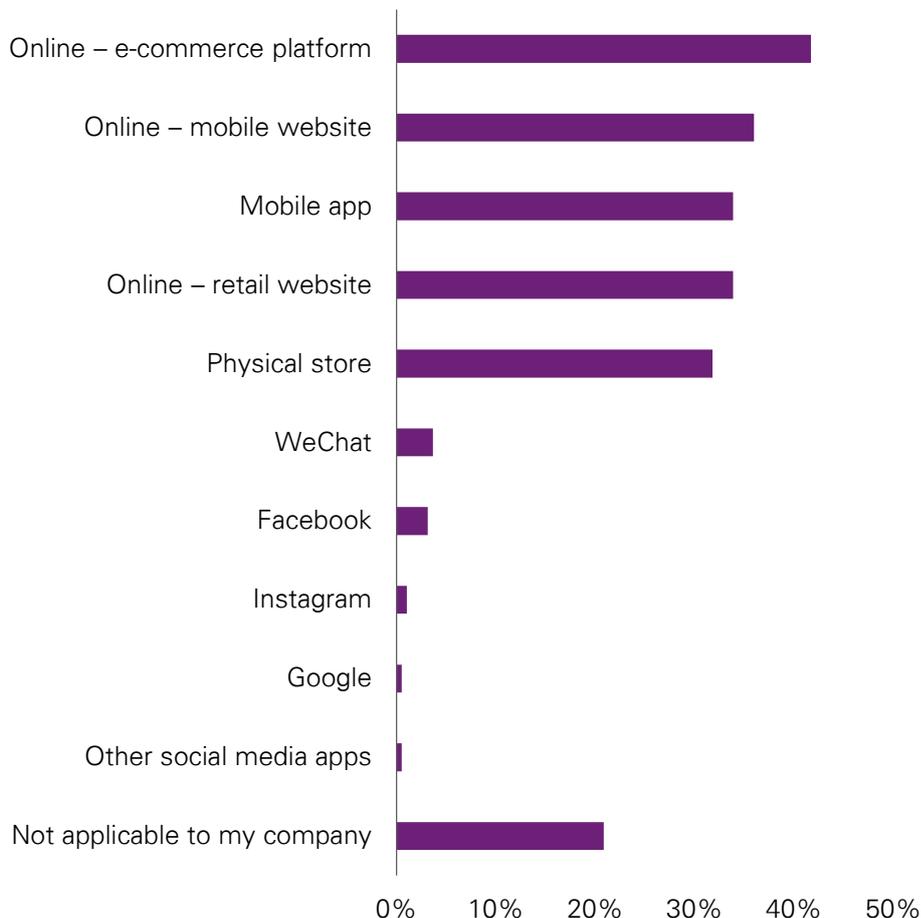
Source: Survey analysis, Hong Kong e-commerce, 2016



## Missing the chance to sell via social media and messaging platforms?

As shown in the above chart, CEOs in Hong Kong have a growing awareness of the importance of popular social media and messaging platforms for consumer engagement. However, it appears that few CEOs view these platforms as a sales channel in their omnichannel strategy. In China and other parts of the world, there has been a strong trend toward direct selling through social media. It works particularly well via smartphones, an integral part of the customers' lives, and we believe that CEOs should rethink strategy if they leave this channel out.

## Channels used in Hong Kong in omnichannel strategies



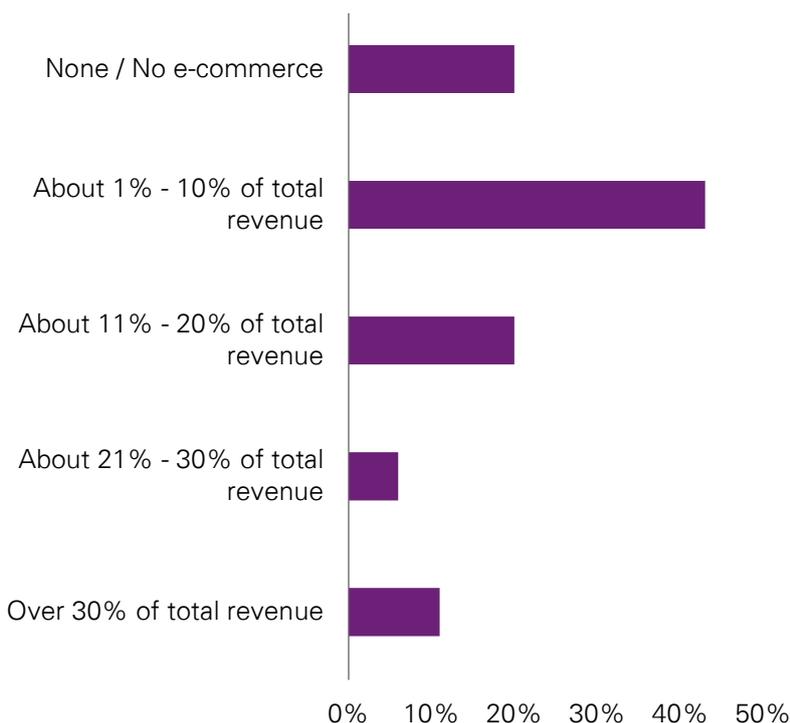
Source: Survey analysis, Hong Kong e-commerce, 2016

## Revenue from e-commerce

A fifth of the businesses surveyed have no e-commerce operation, and this channel accounts for ten percent or less of the revenue earned by another two fifths of the companies.

However, a smaller percentage of CEOs surveyed already have significant revenue streams from e-commerce. Based on consumer expectations, this percentage should grow in the coming few years.

## Expected share of HK revenue from e-commerce



Source: Survey analysis, Hong Kong e-commerce, 2016

## Hesitating over a switch to an omnichannel business model

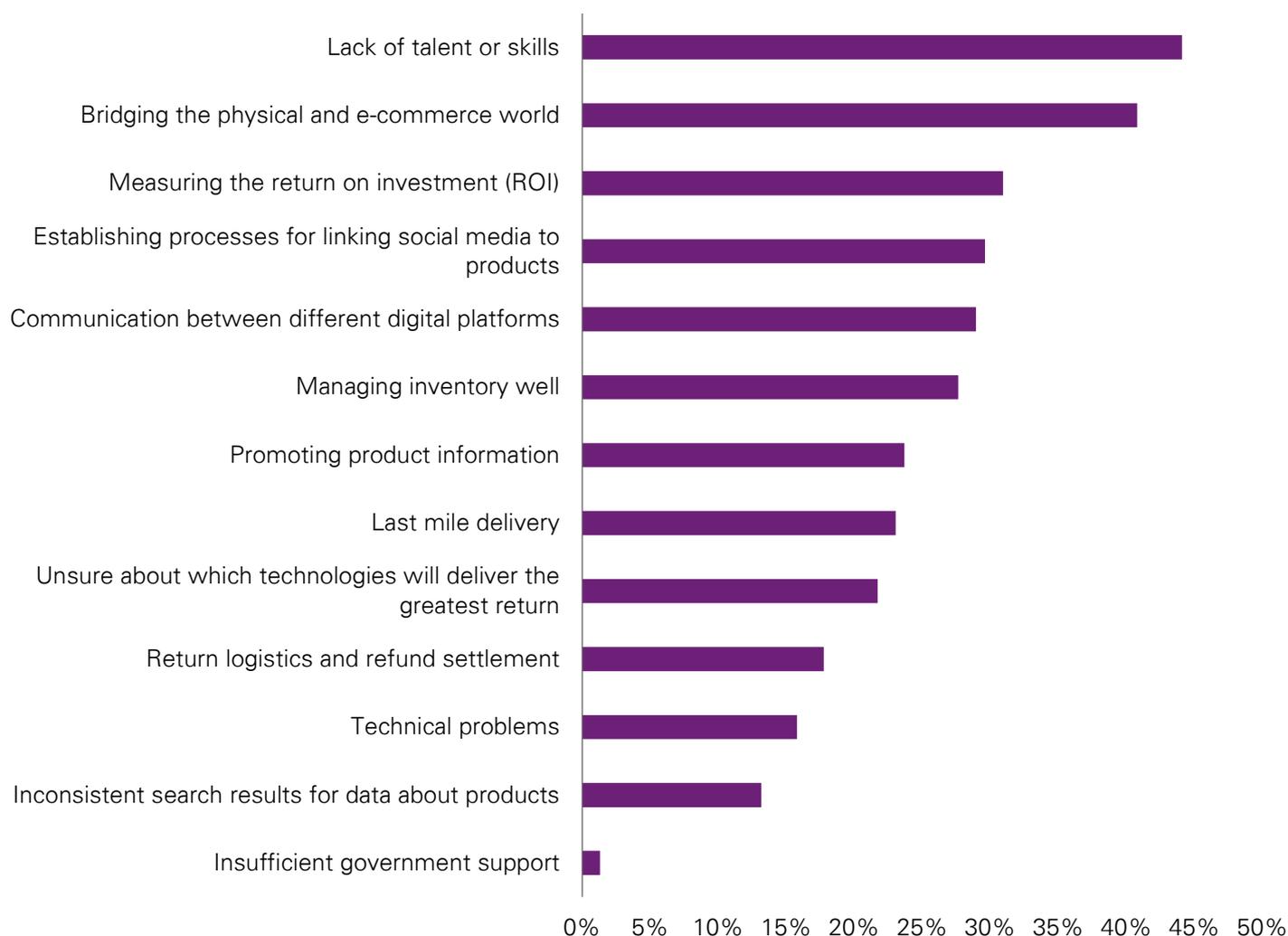
Though the prospect of a profitable digital future may be alluring for businesses in Hong Kong, the CEOs surveyed see challenges in the switch to an omnichannel model

The obstacle they most frequently identified is the difficulty in finding and hiring staff with the necessary skills, and the integration of offline and online operations is seen as problematic by a similar number.

Many CEOs hesitate, with worries about online business cannibalising existing channels. However in the current age of digital disruption,

can businesses afford to wait? If customers' online demands, aren't fulfilled by your company someone else may well step in and take those customers away.

## Challenges to omnichannel business in Hong Kong



Source: Survey analysis, Hong Kong e-commerce, 2016



# An online business makeover

Dr Guy Look, Sa Sa International Holdings

Dr Guy Look is CFO and Executive Director of Sa Sa International Holdings, the Asia-based chain of cosmetics stores. Sa Sa International has set up over 280 retail stores and consignment counters across five major areas within Asia, offering more than 700 different retail brands and employing a workforce of around 5000.

Sasa.com's sales revenue exceeded HK\$400 million this year, up by 6.2 per cent from last year and contributed about 5 per cent of the company's total revenue. While retailers in other countries see their e-commerce revenue accounting for 10 to 20 per cent of sales, Look and his company are targeting double-digit sales mix for Sa Sa's online sales, he explains.

## Offering a new shopping experience for consumers

To meet current commercial challenges Hong Kong is expected to face, Look says Sa Sa has improved its retail management and is starting to adopt an O2O business mode. This is intended to improve customers' shopping experience while also capturing the opportunities of cross-border e-commerce. The company has launched new O2O shops in Shenzhen and Shanghai and by end of the year, will also have launched a new mainland version of its website, as well as a mobile site to increase its web traffic and conversion rate.

"Consumers' shopping experience, no matter if it is online or offline, is the most important driver in increasing retail consumption," Look says. "However, with the prevalence of online shopping and the diversification of information through social media, the purpose of

developing e-commerce is not just to offset rental and wage costs."

He explains that as tastes and lifestyles change, especially among China's younger generation, consumers are not necessarily purchasing luxury goods, but are looking for life experience, quality service and a combined O2O experiences.

## The impact of ecommerce on bricks-and-mortar shops

According to Look, Sa Sa plans to invest more resources in e-commerce, and start to integrate its online and offline businesses. These changes are driven by changes in consumer behavior, competition from online shopping, high rental costs, difficulties when opening new shops in traditional retail districts, customer loyalty and products that have low demand or sales volumes.

"Developing an online shopping business is unavoidable," he explains. "And online and offline businesses are inseparable."

Online shops also create opportunities for interaction and, even with the same customer, you can make more sales, reduce costs and strengthen loyalty, he adds.

To control costs, Sa Sa has relocated some of its shops to areas of Hong Kong where sales performances are stronger and rents are more reasonable.

## IT ecosystem lags behind e-commerce development needs

"The entire IT ecosystem in Hong Kong is lagging behind and can't catch up with the city's e-commerce development needs," Look says. "It is difficult to recruit experienced IT talent."

Sa Sa needs to develop several parts of its digital infrastructure, he says, including its ERP system and its warehouse management and VIP systems.

In addition, it needs to hire IT talent with user interface/user experience (UI/UX) expertise, integrate its online and offline customer base, and deploy a multi-platform order management system for backend support.

Such backend systems will give customers more shopping options, and a better shopping experience, and in return increase online traffic.

Besides allocating more resources to IT training, the company also needs to enhance its frontline beauty consultants' sales techniques so that, in this O2O era, they can be more responsive to customers with a range of online shopping experience.

## A long-term vision

Look suggests the industry should have a long-term IT vision for investing in technology and talent through collaboration with universities and conducting R&D training to bridge the IT talent gap. He would also like to see the government be more supportive through measures such as more free trade agreements to facilitate cross border e-commerce and supporting the development of better logistics capabilities and capacity for e-commerce.



# Delivering on digital technology's possibilities

Steve Suh, Floship

Founded in 2015, Floship is an e-commerce logistics company that provides fulfilment services for online retailers.

"These services consist of basic warehousing and storage, pick-pack and shipping," explains Steve Suh, director and co-founder of Floship. "But where we're a little different is, we're focussed on e-commerce. In essence we are a technology company."

Contrary to many reports, and based on what he sees on the ground, Suh believes Hong Kong has an extremely active e-commerce market – but consumers are buying from mainland e-commerce companies rather than local ones.

He also thinks many of the big existing logistics companies are working within an outdated model.

## What's now possible for fulfilment companies

Suh says Floship has developed its own proprietary system with features and value-added benefits that he thinks a traditional fulfilment company wouldn't be able to provide.

"A primary feature is around shipping," he says. "Our clients can choose from ten different couriers and we offer 'smart shipping' – an optimisation that allows different couriers to be used for different parcels based on size and dimension."

This optimisation, he adds, can be done in real time. As well as enabling consumers to track orders online, Suh says Floship also uses embedded packaging technology so the most cost-efficient packaging will be selected automatically.

## New versus old models

Suh thinks many logistics companies have entrenched infrastructure and supply chains and may not have thought through whether they can just scrap that entire model and go with a more streamlined one that would allow them to ship worldwide direct from Hong Kong. He believes many companies are afraid to do that sort of cost analysis because of what it might imply in terms of consolidating to one or a few hubs, rather than many.

"When demand is very high and you have a high value product, the express shipping costs may be negligible," Suh points out. He cites the example of smartphones. With the streamlined model, he suggests, companies wouldn't need to worry about maintaining stock levels in different countries and then selling all that inventory through.

And cross-border trade is being made an even more attractive proposition. Suh cites one example: "This year the US per-parcel duty exemption threshold has been raised from US\$200 to US\$800, which would cover pretty much any product you would want to sell online."

## Why the logistics industry should be more bullish

Suh sees many of the traditional big logistic companies trying to make Hong Kong the gateway for cargo going in and out of China by facilitating the shipping of containers. He considers this a mistake.

"They could be shipping hundreds or thousands of containers but the revenue associated with this is limited. What we're saying is, let's go into the

container and bust open everything in there. Instead of one container we think of it as, say, 5,000 orders inside that container. We then say, 'Why don't we ship 5,000 individual parcels directly from Hong Kong to the end users in the US, around the EU, in the APAC region, or wherever'."

He says the revenue generated with this approach is many hundreds of times greater than that generated by just handing over the container to the logistics and delivery companies in the destination markets. Floship's business is focussed on handling this much more lucrative end-to-end business.

## Hong Kong's e-commerce market

When considering the current robustness of the Hong Kong e-commerce market, Suh points to the findings of the internet traffic monitoring companies, which show that some of the highest ranked websites in Hong Kong are mainland and international e-commerce platforms.

"This means Hong Kongers are using these websites a lot," he says. "It's just when people ask if there's a lot of e-commerce activity in Hong Kong, they look at local players and their market share, and conclude there's not a lot happening here. But they're not actually checking to see how many shipments are coming in every day from China to Hong Kong."



# E-commerce drives logistics partnerships

Joseph Phi, LF Logistics

Joseph Phi is the President of LF Logistics, and is responsible for managing the logistics, freight, data analytics, and supply chain businesses of the Li & Fung Group. He is the Chairman of GS1 Hong Kong, an industry-led organization promoting global standards and best practices, and is the Director of GS1 Global Management Board. Mr. Phi currently serves as an Adjunct Professor in HK University of Science and Technology.

## Perfect storm in logistics

Phi highlights low ocean freight rates, a sluggish world economy and strong US dollar as key factors influencing the logistics industry – a ‘perfect storm’, in his opinion. This therefore is one of the most difficult periods faced by many companies in this industry.

However, on a positive note, amidst challenges there are also opportunities. Over the last couple of years, LF logistics has proactively adopted a number of strategies to increase its market share through service extension and new market entry, as well as improve its productivity through process innovation and automation. Phi cites its Singapore’s ‘World Gateway’ hub as an example of how LF Logistics has deployed new technologies to gain market share.

## E-commerce explosion

When asked whether many companies are able to capitalize on the recent explosion in e-commerce, he indicated that depends on how they steer their own ships in the wake of the digital revolution.

“The booming e-commerce

development is both a blessing and a curse; it is only a blessing for companies that are quick to pivot. E-commerce is markedly different from the traditional brick-and-mortar business. Order size is smaller. Order frequency is higher. Service requirement is much higher.”

Phi explained that LF Logistics pivoted early, as the firm spotted an opportunity in providing e-logistics service. It noted the ongoing struggle by most retailers and brand owners on how to integrate their separately managed traditional and e-commerce businesses, and foresaw the imminent need of online-offline convergence. This paved the way for the amalgamation of its fully developed competency in piece-picking with a market leading algorithm that optimizes the order fulfilment process for both online and offline businesses of its customers. Through innovation, LF Logistics has sustained its strong business growth momentum that has bucked the market trend, Phi adds.

## Partnership is key

In addition, the pace of e-commerce development has prompted a rethink of the firm’s business model. To ensure a quick response, it has collaborated with property developers, transporters, last-mile delivery providers and other partners to leverage the use of their assets.

“E-commerce is basically about building a partnership ecosystem to create a seamless buying experience for the final consumers. Over the years, we have successfully stitched

together a bespoke service that brings out the best in every partner,” he said.

## The role of Hong Kong

Phi added that Hong Kong should take concrete steps to reassert its leadership position as Asia’s premier supply chain hub. He called for collaboration among public and private sectors to develop logistics friendly policies that facilitate regional and global trade. In the near term, with the staggering e-commerce growth in Asia, it is crucial for Hong Kong to establish linkages with the various free trade zones in the region (especially China) to bolster cross-border e-commerce.



# Omnichannel prescription for success

Malina Ngai, A.S. Watson Group

Malina Ngai is COO of A.S. Watson Group, the international health and beauty retailer and member of multinational conglomerate CK Hutchison Holdings Limited. With a history dating back to 1841, in the past 175 years A.S. Watson has transformed into one of the largest international health and beauty retailers in Asia and Europe with 13,000 stores in 25 markets across Asia and Europe.

## Current commercial challenges

Ngai says consumer sentiment continues to be stagnant across most Asian and European markets which A.S. Watson operates in, and this softness in demand makes it difficult for top-line growth to catch up with cost inflation.

Also online and offline competition is increasingly intense at a time when the expectations of consumers are changing rapidly.

“A recovery in mainland tourist numbers and in their spending is unlikely, and the number of non-mainland visitors is also slightly down,” Ngai says, addressing the Hong Kong market, specifically.

She adds that it is very important, in order to generate interest amongst A.S. Watson’s core customers in the local market, the business continues to introduce a wide variety of new products and digital experiences.

## The e-commerce and omnichannel business model

“Digital used to be a nice-to-have for many retailers but now it is necessary for survival,” she says.

Ngai explains that ‘digital’ has been embedded in A.S. Watson’s overall business strategy since 2012, and in

that time it has helped increase the value of its customers’ spending, and boost their loyalty, as well as aid in the acquisition of new customers.

“For any business to be successful today, one has to be customer centric, that is, make an effort to understand what adds value to the customer’s life, and how and when they need that value added,” she says.

So, she goes on to explain, if customers want to browse the company’s products while travelling to work in the morning, they should be provided with the necessary touchpoint. If they want to find A.S. Watson on social media and hear what other customers have to say about the company or its products, they should be able to. If they want to order products online at midnight and pick them up at a store near their workplace, that service should be provided.

“And if they prefer to walk in a store near home or a destination mall to browse and check out new products, we need to provide stores that are conveniently located and have a comfortable ambience.”

## Why the growth of e-commerce is relatively slow in Hong Kong

Ngai says A.S. Watson’s online sales in markets such as the UK, Mainland China and Taiwan are relatively higher than those in Hong Kong. She believes the short distances consumers in Hong Kong have to travel to stores has slowed the growth of e-commerce in the city. She also notes that a high percentage of online sales in Hong Kong are generated from cross-border shopping from the mainland and countries like Korea, Japan and the US.

“Combined with the fact that Hong Kong people are frequent travellers to shopping destinations overseas, e-commerce growth in the next few years may continue to be concentrated on specific product and service categories only,” she adds.

## Online shopping behaviour across demographics

Ngai says that for the generation Z customers – those aged 20 or younger – online shopping is a high-growth segment.

“They are more digitally savvy, less inclined to save money, have a greater interest in exploring new products and experiences, and value the recommendations of their online friends.”

Ngai adds that such behaviour is consistent across countries and regions. Through developing a greater understanding of this customer segment, and adjusting their business model to attract members of it, companies can seize these new opportunities for growth.

## Growth strategies for the next two years

Ngai says A.S. Watson will adopt the same growth strategy in Hong Kong as it does globally.

“Continuous store network expansion is fundamental for brick-and-mortar retail,” she explains. “Just as importantly, we will focus our investment in technology.”



# Putting a premium on trust

Jessie Ting, Hong Kong Post

Hongkong Post was established over 170 years ago, and for most of that time the services it has offered the public have been focussed on the mass delivery of letters, collaterals and parcels, the selling of stamps and the like.

However, in today's rapidly changing digital world and growth of e-Commerce, Hongkong Post has evolved by developing new functions to serve individuals, communities and the commercial sector.

Jessie Ting was appointed Postmaster General of Hongkong Post in October 2011.

## E-commerce drives demand for delivery services

"In recent years, traditional mail has increasingly been replaced by electronic mail," Ting notes. "Not many people still write letters and send Christmas cards. With an increasingly competitive and open market, we have broadened the scope of our delivery services."

She says the postal and courier market in Hong Kong is becoming increasingly competitive as new market players take advantage of the very low market entry threshold.

With e-commerce, in particular, driving the higher demand for delivery services, Ting says Hongkong Post has refined its business objectives to respond to economic and technological developments.

## Services for SMEs

Over ninety-eight per cent of the companies in Hong Kong are SMEs, and such businesses need to send out a huge volume of samples, documents and goods to their local and overseas partners.

Ting explains that Hongkong Post will continue to meet the needs of SMEs by launching new postal solutions and products. These include a variety of delivery services, an online posting platform and an online sales platform, as well as other services to support online marketing.

"To enhance their competitiveness and allow them to achieve maximum efficiency, we need to provide them with affordable postal services," she says.

Globally networked with some 200 members of the Universal Postal Union, Hongkong Post can offer all-round mail tracking services to many countries across the world. In addition, the Hong Kong Trade Development Council's 'Small Order Zone' online sales platform has also adopted Hongkong Post's Speedpost as its delivery solution.

## E-commerce and trust

"The Internet is an anonymous world," Ting suggests. "In an environment without physical stores, it may be difficult to authenticate online transactions."

As the government department responsible for postal services, she says Hongkong Post is a trusted intermediary, and its ShopThruPost online shopping platform enables online customers to identify authentic products and receive their purchases through a reliable postal network.

"With the 'HK Trusted Product' label, consumers can easily identify reliable brands and merchants, and purchase their products directly." This label also serves to promote "authentic" brands in the local market, she adds.



# Food for thought for traditional retailers

Simon Wong Ka Wo, Kampery Group

Simon Wong Ka Wo, Chairman of Kampery Group, founded his company in 1993. The company adopts a one-stop approach for its import, manufacturing, wholesale and retail businesses. It exports products such as coffee, tea, wine, coffee machines, milk products, and healthy and organic snacks, and also operates several local brands. The Group has over 2500 sales points and 200 consignment counters located in mainland China and Hong Kong, as well as internationally.

Wong is also the President of the Hong Kong Federation of Restaurants and Chairman of the Hong Kong Brand Development Council.

## Technology reduces costs

Wong thinks Hong Kong's traditional food and beverage sectors are facing challenges from the rising cost of rents, salaries and raw materials, manpower shortages and the impact of internet technology on the entire business model.

With the mindset and behaviour of consumers constantly changing, he believes businesses will be eliminated if they don't adopt advanced technologies.

"As many SMEs have excellent heritage brands, they need to pave the way for their 'transformation and upgrade'", he says. "New technology brings in new business models and most importantly, it reduces operational costs, increases user-friendliness and efficiency. It will be more difficult for companies to survive if they limit themselves only to street stores."

## Survival through online shopping

Wong says the greatest obstacle to the survival of SMEs and restaurants is the

lack of funding that would allow them to establish their own online platforms.

He suggests even small or old street stores, could make use of the large-scale main-land online retailers' networks and platforms, to promote their unique, traditional and authentic products, even those that are handmade, online. This could help increase their exposure and widen their profit channels.

## Food Suppliers' Platform

For the last few years, Kampery Group has invested in the development of its own e-commerce platform and online retail businesses, Wong explains.

Customers can shop online for its branded products via a 3D simulated supermarket. To keep pace with technological innovation, the company is looking to upgrade this into a virtual reality supermarket, he adds.

Wong plans to build a new food platform for organic and health food suppliers from local and overseas markets. Whether these suppliers are Kampery's business partners or not, they will be able to connect with other suppliers and do business with them.

Although the platform is not yet available, he says nearly 1,000 suppliers are ready to register. He believes the platform not only enhances mutual business development, but also reduces manpower costs and shortens delivery times, so that fresh organic food can be delivered to hotels and restaurants, in a way that is not only efficient but also allows the tracing of food origins to ensure food safety.

## Rebalancing offline and online investment

Wong says the cost to his company of opening five stores per year would be about HK\$3 million. However, if Kampery only opens one store, the remaining budget of HK\$2.5 million can be used to improve the existing software and further develop its online retail and wholesale businesses.

Taking Green Dot Dot, Kampery's organic and health food export, wholesale and retail business as an example, Wong says the brand has already acquired 200,000 members and he expects this number to increase steadily. To develop the online side of this business, he has set objectives to increase, in phases, the number of members to 700,000 - in other words, about 10 percent of Hong Kong's population.

## Seeking new online innovations

On a recent business exchange visit to the mainland, Wong says he was intrigued by new mobile apps he saw that are targeted at the food service sector. With the opportunities they offer to reduce costs, he believes some of these could transform industry business models.

One was an 'order pick-up' app that consumers can use to place orders with restaurants or food stores that can be picked up at designated times.

Another was a 'network delivery' app, through which a network of restaurants can use designated teams in different districts to handle food orders and deliveries.

# About KPMG



KPMG China operates in 16 cities across China, with around 10,000 partners and staff in Beijing, Beijing Zhongguancun, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Xiamen, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

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In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.

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YouGov is an independent, publicly listed global consumer insight company. We are one of the most recognised and quoted names in research across the UK, Europe and North America – and we are expanding quickly throughout Asia Pacific. We help businesses grow by providing a real-time picture of consumer perception and behaviour, enabling our clients to make rapid, informed decisions.

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