



# Outlook for e-commerce in Hong Kong

*A survey of CEO and Consumer Perspectives*

*Second edition*

In association with



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# About the survey:

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. Its aim was 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 businesses. The data was collected from September to October 2017.

The second was a survey of 162 CEOs in Hong Kong to understand their views on the challenges and opportunities in Hong Kong in moving to e-commerce and omnichannel business models. It also examined the development of more customer-centric approaches, corporate growth strategies and the latest trends in leveraging digital technology. The data was collected from August to September 2017.



# Executive Summary

As consumer and retail leaders, we are accustomed to change. We deal with changing shopping habits, channel shifts, economic and political uncertainty and disruptive new competitors on a daily basis. But all this change can be expensive unless a step change in productivity is achieved. For a business to survive and thrive in tomorrow's market, a new retail model, enabled by the likes of automation and artificial intelligence (AI), is required. The future is coming fast, and only the innovative, nimble and open-minded will survive.

In addition, start-ups have successfully disrupted the consumer goods industry due to their ability to better understand consumer trends. However, their success has spurred established players into action, and to focus on increasing the pace of change.

The results from the surveys conducted for this report indicate that today's consumers want instant gratification, as well as a narrative or story behind the products they buy that resonates with them. Consumers are also looking for authenticity – products that have been created by a couple of individuals whose names they know, and are produced in a certain place.

We also see a large number of corporates trying to understand the changing consumer trends – shoppers are more unpredictable than ever, and China's millennials, estimated at more than 400 million, have become the critical demographic for manufacturers, retailers and supply chains – and customer experience is at the core. To this end, improving the customer journey and creating a consistent brand experience across channels are highlighted as key objectives in this year's survey findings.

To achieve these objectives, many company executives interviewed for this report say that they are embracing data analytics tools and innovative technologies to better understand consumer preferences and enhance their product offering.

Furthermore, brands are looking to boost their presence and interaction with consumers on social media. We live in a world where consumers are increasingly following recommendations by influencers and KOLs on social media. This creates an interesting dynamic where the influencers probably have as much say in defining the perception of a brand as the company itself. Understanding consumers and capturing their





attention is exponentially more complex than it used to be, and companies need clarity about their offering to the market. The upside is that the far richer interaction with consumers can help businesses get it right, but CEOs must pay attention to these growing social media trends.

Until 20 years ago, it was impossible to have any significant retail revenue that was not tied to a physical location. Today, this has been flipped on its head, with major online shopping festivals having a greater impact on online sales as a portion of total revenue. Undoubtedly, the annual Singles' Day festival on November 11 – a key date in the shopping calendar for mainland China and Hong Kong consumers – will continue to demonstrate the growing trend of online spending and burgeoning number of online shoppers.

The pace of change in today's marketplace often takes retailers and brands by surprise. By monitoring signals of change and making sense of them, companies can develop the right strategies to survive and thrive in an increasingly disruptive environment. As part of their strategy, we also find that many CEOs are becoming more open to exploring new strategic alliances and partnerships to drive growth and broaden their product range, geographical presence and customer base.

While there is more disruption than ever before, the future certainly holds a number of opportunities for retailers. We were very interested to hear from a number of executives featured in our case studies, and they clearly demonstrate that businesses that are willing to embrace change, innovate and use technology as a key enabler, are the ones that will stay ahead of their competition.

Both GS1 and KPMG look forward to working with the next generation of retailers and brands in this dynamic marketplace across Hong Kong and the rest of the region.



**Anson Bailey**  
Head of Consumer and Retail,  
ASPAC  
KPMG China



**Anna Lin**  
Chief Executive  
GS1 Hong Kong

# E-commerce and customer-centricity becoming priorities for Hong Kong's CEOs

The results of the 2017 survey of CEOs of Hong Kong-based companies show that while the revenue generated from online channels is rising, the realisation of the importance of e-commerce is growing even faster.

This year, almost a third of CEOs say they plan to increase their investments in their e-commerce and online sales operations by more than 20 percent in the coming 12 months. Asked to name their top growth strategies for the next two years, nearly half of the CEOs selected a more integrated O2O strategy, up from 17 percent in the previous year.

In-depth interviews conducted with several Hong Kong CEOs also indicate that as part of a broader O2O strategy, they are increasingly looking at leveraging big data and innovative technologies to grow their businesses. In addition, CEOs are becoming more open to exploring new strategic alliances and partnerships to broaden their product range, geographical presence and customer base.

Furthermore, there was also a significant drop in the number of Hong Kong-based companies with no omnichannel business strategy – a decline from 21 percent in 2016 to 9 percent in 2017.

However, challenges still remain for Hong Kong CEOs looking to implement or enhance their omnichannel strategies, with the most common cited as the difficulty in bridging the physical and e-commerce worlds.

This year, respondents also view a more customer-centric approach as even more important to their company's future. Improving the customer journey and user experience, and creating a consistent brand experience across channels are considered key objectives. Furthermore, the customisation of products and services, as well as the personalisation of the customer experience, are viewed by nearly half of the surveyed CEOs as very helpful to their business.

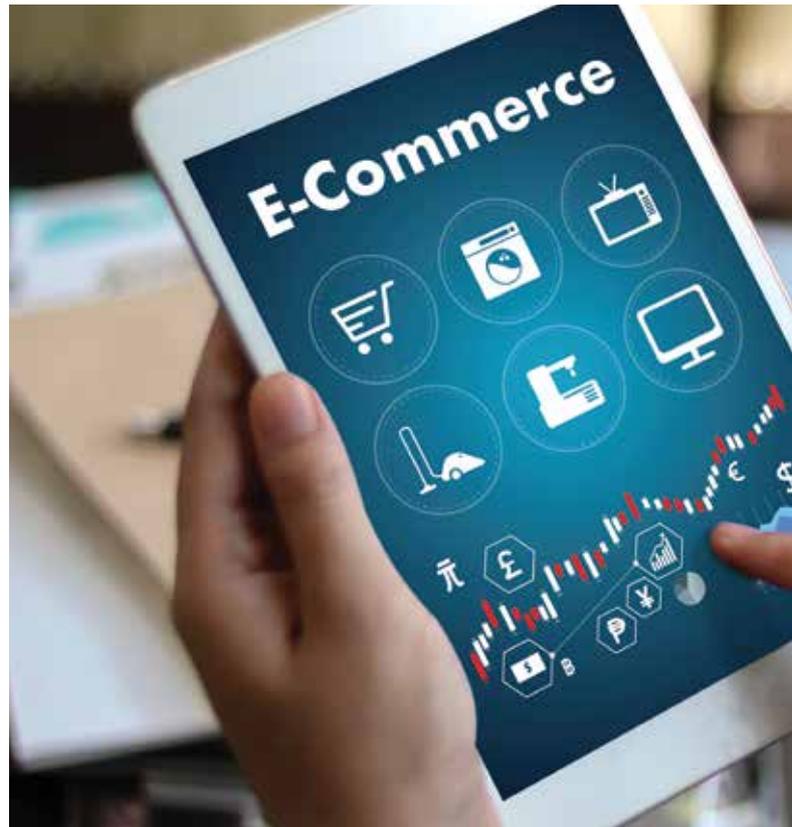


## CEOs' belief in an e-commerce future growing

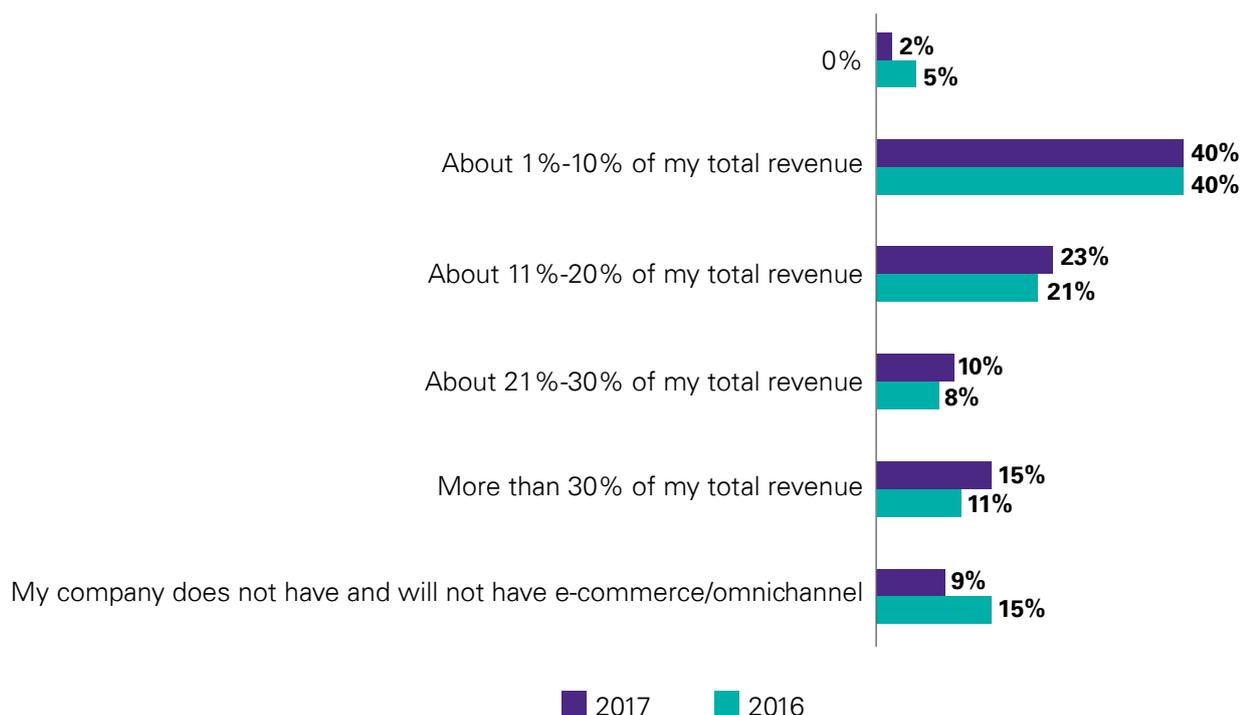
This year, more CEOs expect at least some of their revenue to come from their e-commerce or omnichannel operations in the coming 12 months. In 2016, 80 percent of respondents expected an online contribution, while the 2017 results show that this figure has risen to 89 percent.

While nearly two-thirds of CEOs are looking at online earnings contributing up to 20 percent their companies' revenue in the coming year, 15 percent expect to see it account for 30 percent or more, up from 11 percent in 2016.

When it comes to the need to be active online, there is a growing understanding among senior management at Hong Kong-based businesses. The number of CEOs saying that their company does not have, and will not have, an e-commerce or omnichannel operation decreased from 15 in 2016 to 9 percent in 2017.



### How much revenue is e-commerce bringing to your company?



Source: KPMG and GS1 Survey analysis, 2017



## Sharp rise in companies integrating online and offline business

When asked to name all the channels used as part of their business's omnichannel strategy, 57 percent of respondents selected both physical stores and online retail websites. In 2016, the respective figures were 32 and 34 percent.

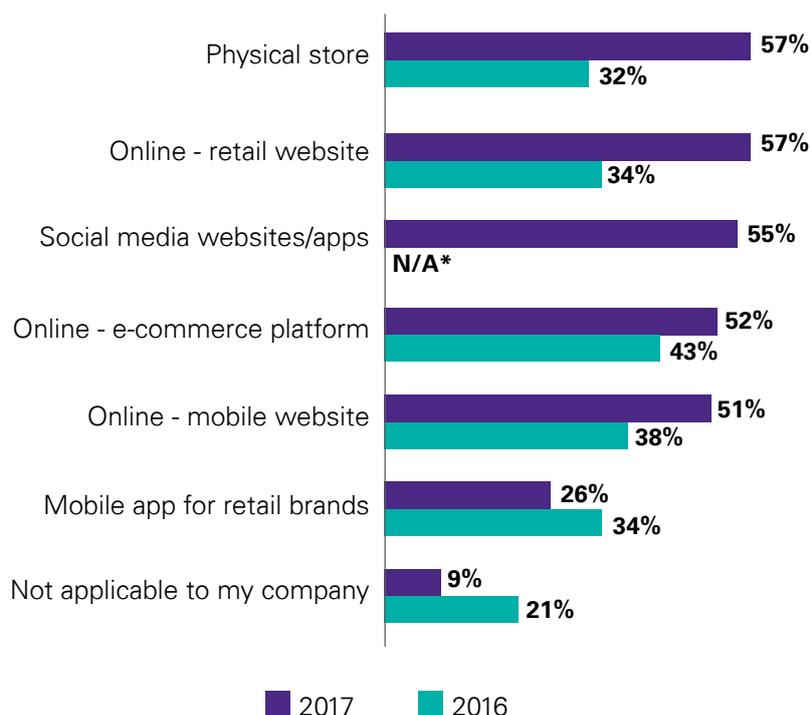
Furthermore, in 2017, 55 percent of CEOs reported that their companies are using social media as part of their omnichannel strategy, making it the third most popular channel.

The survey also logged a shift away from mobile apps and toward mobile-friendly websites, with the percentage of companies using 'mobile apps for retail brands' down from 34 percent in 2016 to 26 percent in 2017. Meanwhile, online mobile websites are being used by 51 percent of companies in 2017, compared to 38 percent in 2016.

Notably, there has been a significant drop in the number of Hong Kong-based companies with no omnichannel business strategy – from 21 percent in 2016 to 9 percent in 2017.



### Which channels are you using as part of your omnichannel strategy?



\*Social media apps were asked in the form of an open-ended option in 2016, and is therefore not comparable with 2017 data.

Source: KPMG and GS1 Survey analysis, 2017

## Companies diversifying their e-commerce platforms

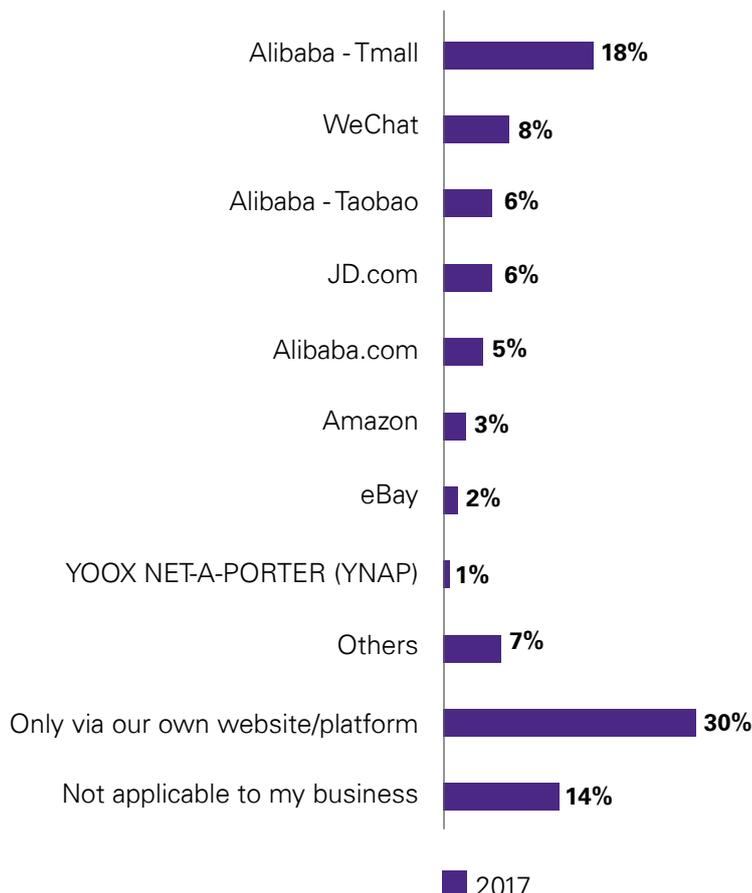
Thirty percent of the CEO’s surveyed in 2017 reported that they are most likely to make a sale on their company’s own website or online platform.

However, a majority of the other surveyed CEOs point to a diverse range of online platforms to sell their products, including Alibaba’s Taobao and Tmall, JD.com, WeChat and Amazon.

On the other side of the shopping counter, Hong Kong’s online consumers are most likely to buy from Taobao – 45 percent of them in 2017 – suggesting that they are using that platform mainly to buy products or services from businesses based in mainland China.



### Which e-commerce platforms do you sell products and/or services on?



Source: KPMG and GS1 Survey analysis, 2017



## Facebook most popular social media platform for Hong Kong's businesses

Facebook emerged as the most popular social media platform for Hong Kong CEOs, with 76 percent using the social networking site for customer engagement, and 53 percent using it for sales.

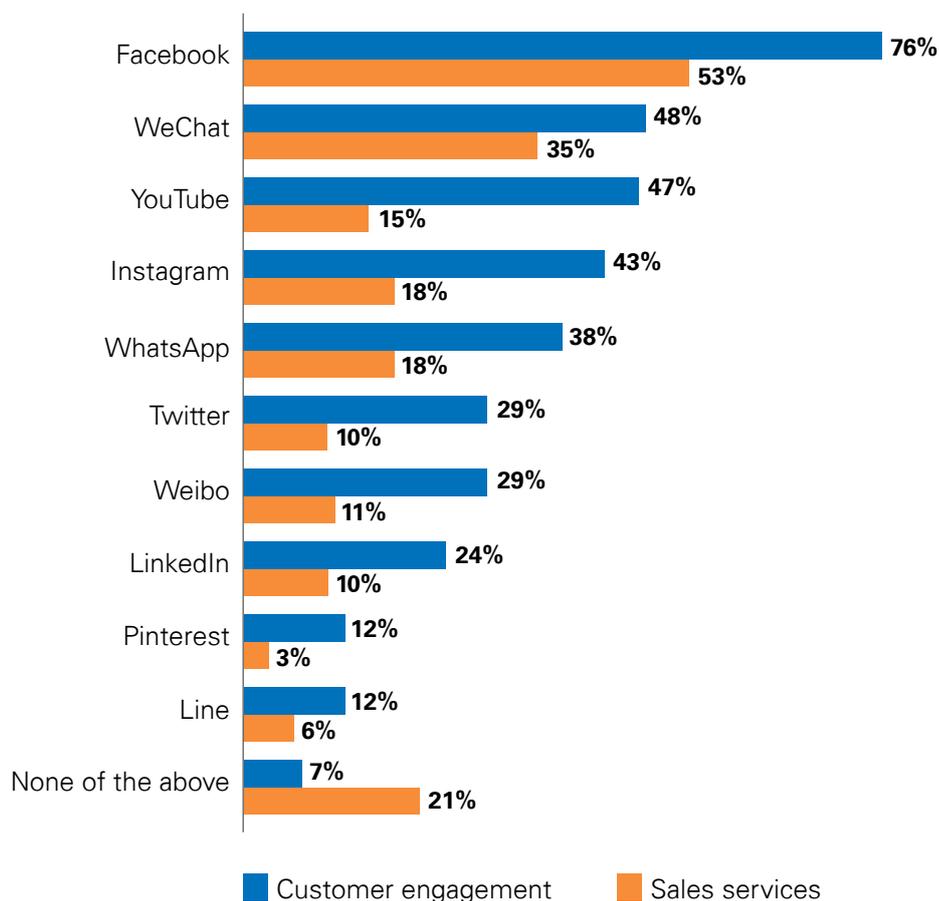
Second on the list in both categories is WeChat, the mobile social media app hugely popular in mainland China, with figures of 48 percent for engagement and 35 percent for sales.

On the other hand, YouTube and Instagram – perhaps unsurprisingly – are used much more for customer engagement than sales activities. YouTube is used by 47 percent of companies to engage their customers, but by only 15 percent for sales, while Instagram is used by 43 percent for engagement and 18 percent for sales.

Overall, the results suggest that social media is still primarily used for engagement purposes, with only 7 percent of the surveyed CEOs saying their companies do not use social media for customer engagement purposes, compared to 21 percent who say that it isn't being used for sales.



### Which social media platforms are you using for engagement and sales?



Source: KPMG and GS1 Survey analysis, 2017

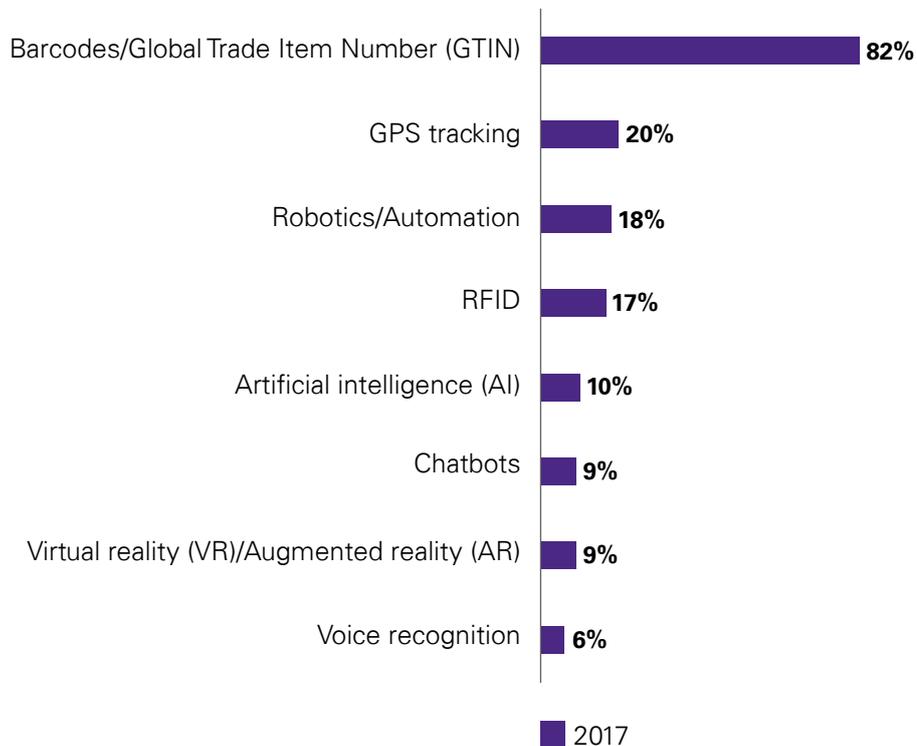
## Barcode/GTIN identification still the most widely used technology

Asked to select the types of technology they use, 82 percent of surveyed CEOs point to barcode and Global Trade Item Number identifiers. This is a significantly higher figure than the second most commonly used technology – GPS tracking – which was selected by 20 percent of the surveyed CEOs.

Hong Kong companies are also adopting some of the latest digital technology, including robotics and automation, artificial intelligence, virtual reality and radio-frequency identification.



### Which technologies are your company currently using?



Source: KPMG and GS1 Survey analysis, 2017

## Significant investment expected in e-commerce

More than a quarter of surveyed CEOs say their businesses increased their investment in their online sales channels by 21 percent or more in the past 12 months. Meanwhile, more than half – 52 percent – report that investment rose by more by 10 percent.

Encouragingly, this spend looks set to accelerate in the coming year, with nearly two-thirds of CEOs expecting to increase their investments in e-commerce by more than 10 percent. Most notably, nearly one in three CEOs expect their investment in e-commerce to increase by more than 20 percent in the next 12 months.

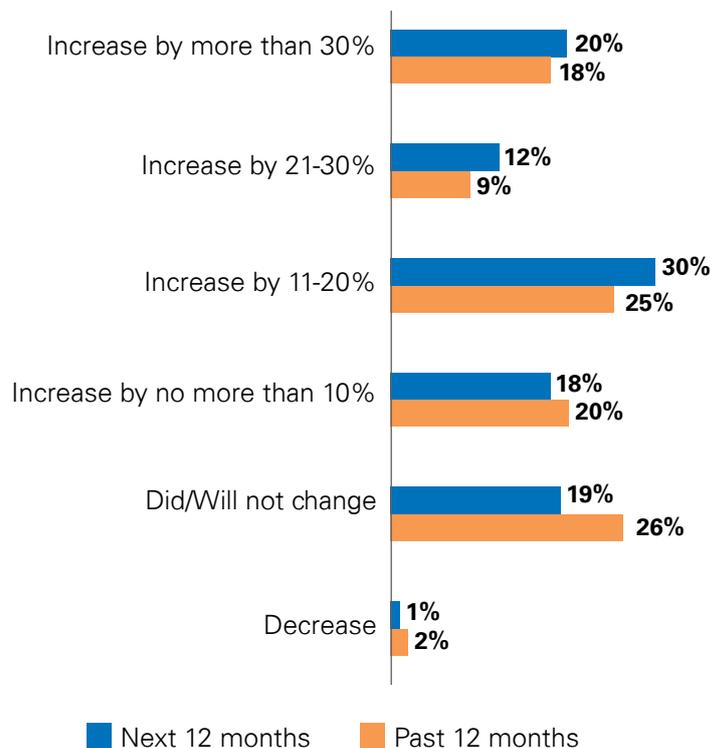
“Technology is going to prove to be a great enabler with the likes of AI/VR/Blockchain coming on stream. But the real disruptor in Hong Kong and mainland China, and the real disruptor for businesses in any other market, is the customer. The Chinese customer is ahead of the curve, and is providing a glimpse into a future for the rest of us including the Hong Kong marketplace. The change and disruption being witnessed here is not caused by technology, it is merely accelerated by it.”

**Anson Bailey**

Head of Consumer and Retail, ASPAC  
KPMG China



## Past and future e-commerce investment plans



Source: KPMG and GS1 Survey analysis, 2017

## Enhancing customer experience seen as key

The survey results clearly indicate that Hong Kong’s CEOs are recognising the importance of ensuring an improved customer experience and creating a consistent brand experience across channels.

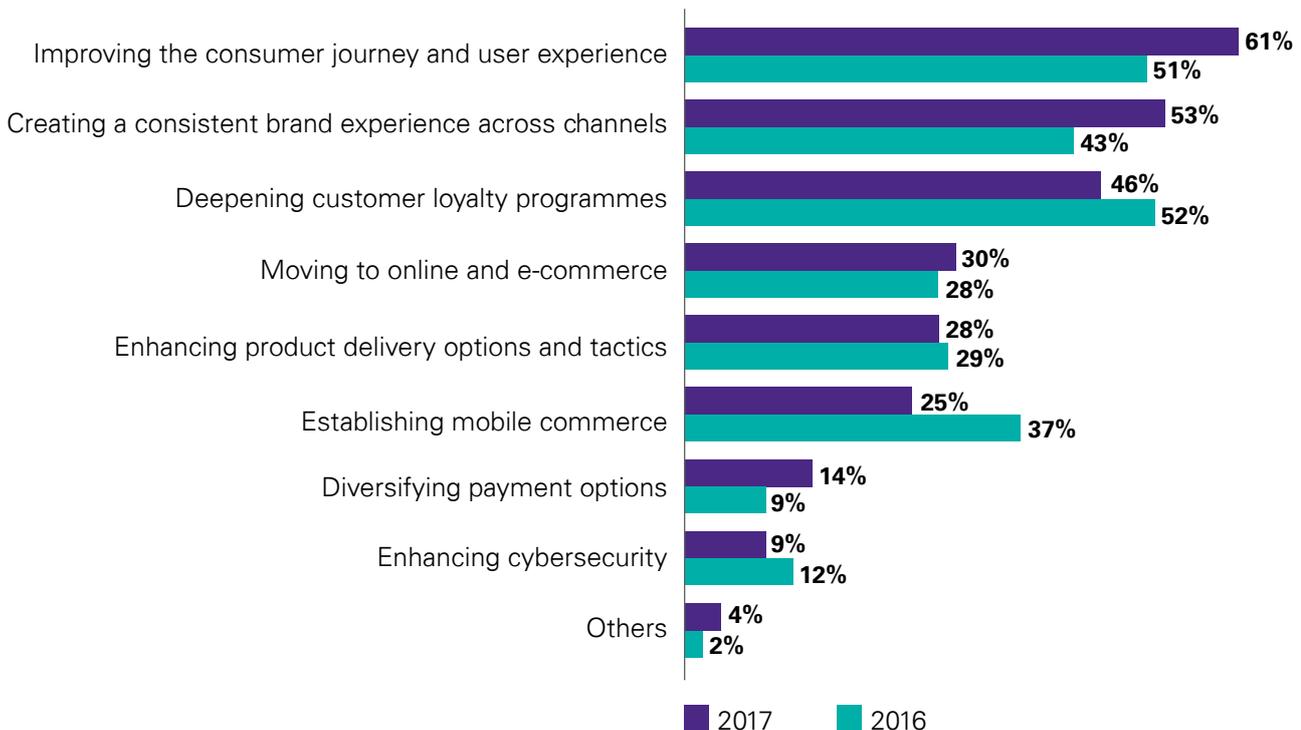
The surveyed CEOs were asked to pick three commerce-specific development areas that are most important for the business. Improving the consumer journey and user experience was selected by 61 percent of respondents in 2017, up from 51 percent in the previous year. The second most popular choice was creating a consistent brand experience across channels, selected by 53 percent in 2017, compared to 43 percent in 2016.

Deepening customer loyalty programmes also remains a key development area, selected by nearly half the surveyed CEOs.

Although not featured in the chart below, the overall survey results show that improving the consumer journey and user experience has become notably more important for the surveyed companies that operate in mainland China. In 2016, 51 percent of these businesses’ CEOs chose this option, and that figure has risen to 68 percent this year.



### What are the most important commerce-specific developments for your organisation?



Source: KPMG and GS1 Survey analysis, 2017

## Prioritising a customer-centric approach

The graphs below highlight the growing recognition among Hong Kong's CEOs of the value of an enhanced customer-centric strategy.

Eighty-six percent of respondents say they expect product and service customisation to benefit their companies, and 89 percent expect a personalised purchase experience to be a plus for their business.

Almost half of all the CEOs polled are even more enthusiastic, with 46 percent of them noting that customising their product or service offerings and personalising the level of customer experience would help their business a lot.

These findings are consistent with the survey of Hong Kong's consumers (see page 32), where a majority of them say they find customisation and personalisation an attractive proposition.

*E-commerce and omnichannel platforms are bringing goods to consumers in a more convenient, accessible and cost-effective way. Retailers in mainland China and Hong Kong are fast realising the value of this, and are actively seeking to secure an online footprint and further develop their omnichannel strategies. Part of this strategy involves a greater focus on adopting a more customer-centric approach to offer a seamless and enhanced shopping experience for consumers.*

**Jessie Qian**

Head of Consumer and Retail (China)  
KPMG China



### How much would customisation and personalisation benefit your business?

**Customisation level of product/service offerings**



**Personalisation level of customer experience**



- Would help the business a lot
- Would not benefit the business much
- Would somewhat benefit the business
- Not applicable to my company

Source: KPMG and GS1 Survey analysis, 2017

“ Global standards help ensure high-quality data availability, empowering a range of industries to meet the needs of their customers in the future, for example breaking down/ simplifying the purchase process into ‘scan - share - buy - pay’ through mobile at a scan of a barcode, hence increasing product transparency and boosting consumers’ trust. ”

**Anna Lin**  
Chief Executive, GS1 Hong Kong

## Huge shift sees growth plans built on O2O, digital and tech strategies

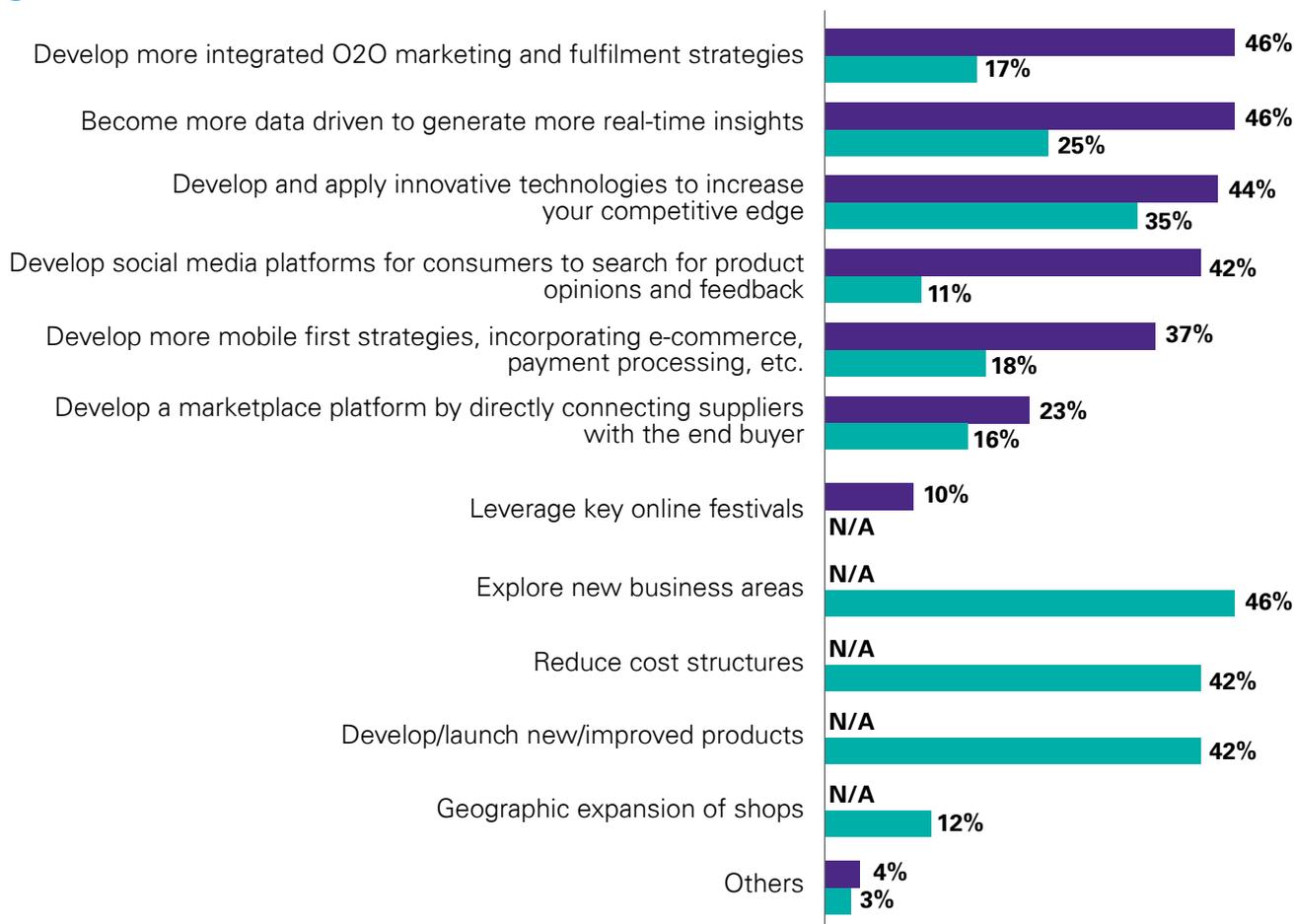
This year’s findings indicate that Hong Kong CEOs are shifting their growth strategies away from some traditional activities, and toward developing a more integrated O2O, data driven and innovative model.

The development of more integrated O2O strategies was selected by 46 percent in 2017, up from 17 percent in the previous year. Making greater use of data to generate more real-time insights rose in popularity from 25 percent in 2016 to 46 percent in 2017, while the development of social media platforms climbed from 11 percent to 42 percent.

In addition, the number of respondents who intend to develop more mobile-first strategies to incorporate functions such as e-commerce and payment processing more than doubled in 2017 compared to 2016.



### What are your business growth strategies for the next two years?



Source: KPMG and GS1 Survey analysis, 2017

■ 2017 ■ 2016



## Omnichannel platforms seen as key digital innovation technology

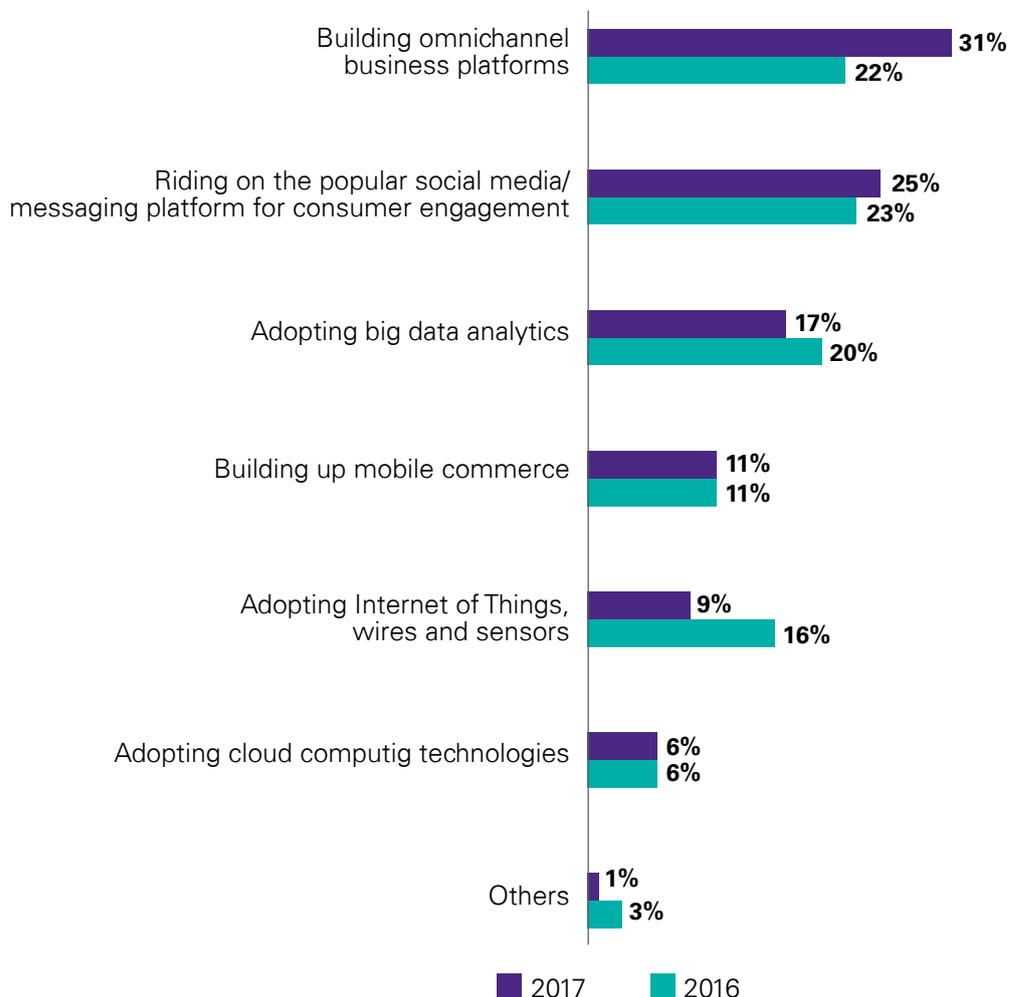
The 2017 survey findings suggest that there have been some shifts relating to the digital technology that CEOs consider to be critical to the success of their businesses in the next two years.

Selected as the second most popular choice in 2016, 'building an omnichannel business platform' is the most crucial digital innovation technology this year.

In addition to leveraging social media platforms, surveyed CEOs also view adopting big data analytics and the Internet of Things, as well as developing mobile commerce as key digital innovation technologies.



### What is the most important digital innovation technology for your business in the next two years?



Source: KPMG and GS1 Survey analysis, 2017

2017 2016

## Challenge of bridging offline and online worlds

The surveyed Hong Kong CEOs note that the biggest challenge to implementing or enhancing an omnichannel strategy is bridging the physical and e-commerce worlds.

The previous year’s most commonly selected challenge – the lack of talent or skills in the jobs market – was identified by 27 percent of CEOs in 2017, down from 35 percent in 2016. Instead, this year, more than a third of Hong Kong CEOs indicate that the challenge lies in the need to up-skill an existing workforce.

Meanwhile, for those companies operating in mainland China, bridging the physical and e-commerce worlds is cited by 54 percent of CEOs in 2017 as the biggest challenge, compared to 37 percent in 2016.

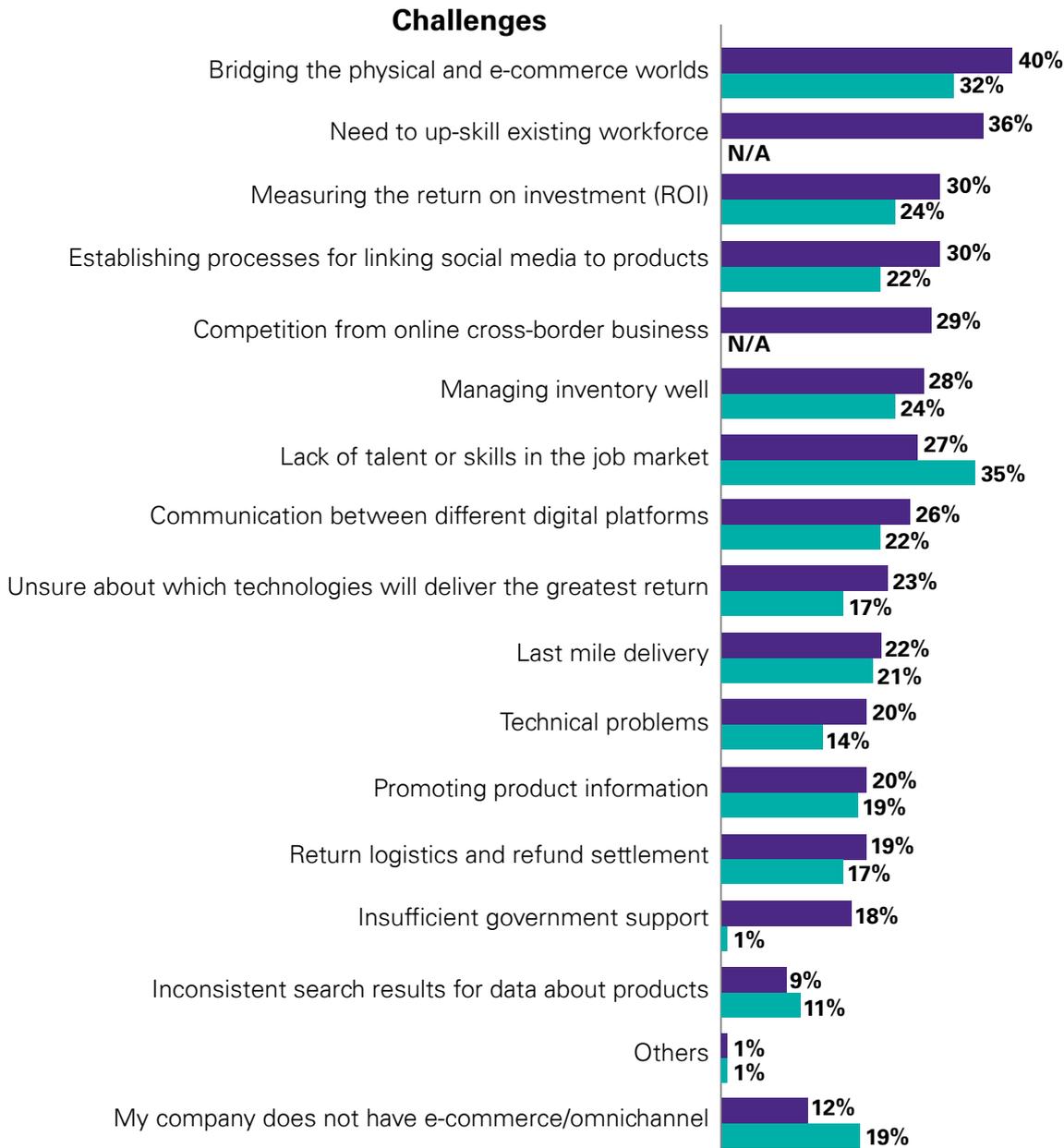
“With over 40 percent of CEOs finding it difficult to bridge the physical and e-commerce world, GS1 Global Standards provides the exact solution that unlocks the power of data and connects the physical and digital worlds, which helps businesses to facilitate omnichannel business, enhance traceability and visibility, optimise operational efficiency and boost trust and connections with customers.”

**Anna Lin**

Chief Executive, GS1 Hong Kong



### What challenges do you face in developing an omnichannel strategy?



Source: KPMG and GS1 Survey analysis, 2017

2017 2016

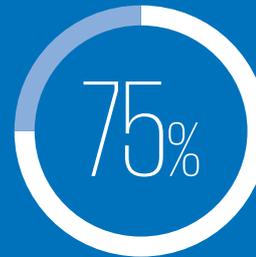
## Five things to consider to improve the customer experience

The good news is that 98% of China CEOs are now open to new influences and collaborations.

- 1 Decide where your organisation needs to win, then match or follow the market.
- 2 Develop capabilities – build, buy or partner (through eco-systems).
- 3 Build organisational agility to meet evolving consumer needs.
- 4 Understand your consumer through data analysis and enhanced customer insights.
- 5 Finely tune your social media strategy. Most brands in the retail sector understand the benefits of social media, but they need to start thinking about how to leverage this and interact.

Source: '2017 China CEO Outlook', KPMG China, <https://home.kpmg.com/cn/en/home/insights/2017/06/china-ceo-outlook.html>; 'Leisure Perspectives', KPMG UK, <https://home.kpmg.com/uk/en/home/insights/2017/09/leisure-perspectives.html>

## KPMG 2017 China CEO Outlook



of CEOs see disruption as an opportunity



of CEOs are now open to new influences and collaboration



of CEOs say that they can confidently articulate how they create value for customers



of CEOs believe that they can articulate their value proposition to the customer in the same clear way



**Cissy Chan**  
Airport Authority  
Hong Kong

# HKIA readying for e-commerce take-off

With Hong Kong International Airport (HKIA) already one of the busiest airports in the world, a number of major infrastructure projects in the pipeline are poised to further cement its place as both a local and regional hub. For example, Airport Authority Hong Kong (AA) projects that the construction of the Three-runway System, which will be completed in 2024, will be able to serve 30 million additional passengers annually.

## E-commerce and digital tech at HKIA

Cissy Chan, Executive Director, Commercial, at the AA, notes that while overall retail sales in Hong Kong have stabilised over the last year, the AA has experienced high single-digit growth since September 2016.

Despite the fact that the retail sales in the “physical stores” are getting warmer, HKIA is very keen to propel the O2O initiatives in the midst of omni-retail trends. The My Flight mobile app – which includes information on flight schedules and gate numbers – was recently upgraded to provide access to an online e-marketplace and O2O shopping services.

“As a start, we are working with our packaged food retail partners so our time-pressed passengers can order chocolates, cookies and packaged local snacks online in advance,” says Chan. “At the airport they can then collect their order from a single collection counter, as opposed to running from one shop to another.”

In addition, when the revamped food court starts to operate in 2018, an online pre-ordering system will be introduced to the airport’s mobile application “HKG My Flight” app, and when passengers arrive they will be able to trigger the final cooking process, saving their queuing time, adds Chan.

## Enhancing the shopping experience

Another major project on the horizon is the integrated SKYCITY development next to the airport terminal, which will include retail, dining and entertainment facilities, offices and hotels. SKYCITY will feature state-of-the-art, advanced and experiential entertainment facilities, making it a lifestyle and tourist destination with a long-term attraction for both local residents and international travellers.

Chan says that at a time when online shopping is fast changing the face of retail, the AA plans to introduce similar technology into the existing airport shops. “On the one hand, we will continue to expand the e-marketplace for the passengers’ convenience. But we also want to make it fun and delightful for the passengers to go into our brick-and-mortar stores. As a result, we will be focusing more effort on store design, customer engagement, consumer education and product demonstration.”

As examples, Chan notes that an airport store will soon be using augmented reality to ‘take’ shoppers into French chateaus to watch the wine-making process, as well as cosmetics brands using digital technology to demonstrate different looks on recorded images of their customers.

## Logistics centre for e-commerce

“We have had an 11 percent year-on-year growth to our air cargo for the first nine months this year, and e-commerce is one of the main factors driving this increase,” says Chan.

The airport is also currently developing a five-hectare site for logistics use, with the key purpose for e-commerce-related business, and to create a regional logistics centre with the capacity for temperature-controlled goods handling, adds Chan.

As for the future, e-commerce is undoubtedly going to have a growing impact on the way business is done. With HKIA’s excellent connectivity, the One Belt One Road Initiative is likely to be a further boost to the airport’s regional and international role, says Chan.



**Edmund Mak**  
Bossini

# Millennials: the key to the future



With an increasingly competitive retail market in Hong Kong, leveraging big data and innovative technologies as part of a broader O2O strategy is key to driving growth and enhancing the overall consumer shopping experience, says Edmund Mak, CEO of Hong Kong-headquartered apparel retailer Bossini.

Omnichannels and e-commerce are disrupting the retail market, even for Hong Kong which enjoys a close proximity of physical stores, and Bossini – which has a footprint in 30 countries and regions – has been investing heavily in developing its e-commerce platform, says Mak.

“Our overall e-commerce sales have been increasing much faster than our offline business, which is in line with online market demand,” adds Mak. “However, our end goal is not to replace our physical stores with online businesses. On the contrary, we believe that the presence of physical stores in strategic locations is critical in order to offer a holistic consumer shopping experience with seamless integration of online and offline stores.”

## Harnessing data

As the development and use of technology in Hong Kong continues to grow exponentially, utilising big data and pursuing digitalisation are crucial for product development, shortening development lead times and for driving top-line growth, says Mak.

“We keep optimising our online site to offer a better customer experience. In the past few months, we have used predictive intelligence technology to recommend products to customers based on their behaviour, interests and purchase history,” adds Mak. “We have also launched a dynamic sorting rule function to maximise the exposure of every product based on sales, stock levels or product views.”

In addition, Mak notes that Bossini uses big data for programmatic and re-targeting/remarketing ads to drive better conversion rates and higher ROI from different networks, social media platforms or affiliate programmes.

## A greater focus on millennials

A fast-growing middle class and more than 400 million millennial customers in China are signalling higher spending power in the region, and their rapidly evolving preferences and expectations are impacting the product cycle and the shopping experience. Mak notes that while the ‘Gen X’ consumers are still important customers, Bossini is increasingly focussing on millennials as a key consumer segment.

“We are taking a more holistic approach and putting a lot of resources into reaching millennials. The products, brand image and marketing needs to be younger and newer. The key is to strike the right balance to appeal to millennials, but also to the Gen X customers and families, who remain a very important customer group,” says Mak.

Furthermore, Mak adds that China’s announcement to end its one-child policy in 2015 offers great growth potential for the kids’ apparel market in China.

## Creating a holistic shopping experience

Going forward, Mak says that Bossini will continue to invest in developing its e-commerce business as part of its O2O strategy to make the overall shopping experience more seamless between online and offline stores.

In addition, Bossini will continue to work with a range of leading marketplace platforms, licensed brands and designers to increase the company’s regional presence and target new customer segments, both online and offline.

Furthermore, with its e-commerce business evolving at a rapid pace, Bossini is always looking to adopt new and innovative technologies to support its initiatives, says Mak.

“We have started a new initiative by leveraging data from marketplaces to understand consumer needs and generate design inspiration, so that we can react to market needs and create products with the shortest production lead time,” says Mak.

“We have enjoyed very decent growth over the past few years, and we remain very optimistic about the prospects of our e-commerce business. After all, we believe that it is all about providing consumers with a holistic shopping experience.”



## Jelly Zhou and Alice Wong

HKTv

In February 2015, HKTv launched HKTvmall to create, in the company's words, "an online shopping mall, rather than an online store". Today, HKTvmall, together with its e-voucher business "HoKoBuy", offers Hong Kong consumers more than 180,000 different products including groceries, beauty, fashion, household and electronics items.

### The current landscape

"The online market in Hong Kong is still underdeveloped and lagging behind the Mainland," notes Jelly Zhou, HKTv's Managing Director of Shopping and E-commerce. "But compared to three years ago, an increasing number of suppliers are realising the importance of online business, and many now offer exclusive online products and prices."

While travel and fashion products remain the most popular e-commerce purchases, Hong Kong consumers are becoming familiar with online shopping, and are now also using the channel to buy more groceries, says Zhou.

For her part, Alice Wong, HKTv's CFO, notes that the increased deployment of fintech in Hong Kong is also helping drive the growth of e-commerce, citing HSBC's 'PayMe' social payment app as an example.

### An offline-to-online conversion model

HKTvmall launched online, and once it developed strong brand recognition, the business started its "Reversed O2O Retail Model" to open stores in residential areas, says Wong. Wong explains that HKTvmall's O2O stores are used for three main purposes. The first is as a marketing tool, where different product categories are also selected for themed promotions in the stores on a bi-weekly or monthly basis. Second, they serve as an education centre. "If you have never used our online shopping app or browsed our website, our store assistants will show you how to browse and make an order," says Wong.

Their third function is to act as service centres. Though HKTvmall provides a home delivery service, Wong says some customers want to pick up their purchases from a conveniently located store.

# Hong Kong's flourishing O2O mall



"The sales people in the stores build a very personal connection with the customers," Zhou adds. "This is also why we insist on using our own delivery team, in their HKTv uniforms, because that helps add a personal touch."

### Millennials and social media

Most of HKTvmall's customers are in the 35-55 age range. However, the acquisition of Groupon Hong Kong in March 2017 has broadened HKTvmall's potential market.

Today, Zhou says, less than 40 percent of HKTvmall's sales are of supermarket staples, and additional growth is expected in other product categories, with the younger customers more interested in items like electronic products.

While the company is already very active on social media platforms such as Facebook and Instagram, it is also developing the use of data and predictive analytics to personalise messages and notifications. "We are using predictive intelligence systems to allow us to learn from consumers' past shopping behaviour to discover which types of products they are likely to be most interested in, and to increase our conversion rate," says Zhou.

"We are also enabling businesses to link their online advertisements to their store on HKTvmall, so customers can complete the transaction there."

### Future plans

Looking ahead, Wong is optimistic for the future growth of HKTvmall, pointing to a number of significant investments in the pipeline. In the fourth quarter of 2017, a robotics system will be introduced into the Tsing Yi logistics centre to tackle a fulfilment-side bottleneck. "This will enable us to support two or three times the number of orders we can handle today," she says. A second, much larger system will then be introduced at the company's expanded Tseung Kwan O site.

In terms of the broader picture, Wong says HKTvmall is seeking to drive e-commerce business development in Hong Kong by building the necessary eco-system and forging digital partnerships.

"We have the experience as well as well-established infrastructure that includes an online platform, logistics teams and third-party payment gateways. Also, as we have media production experience, we can be the content developer for our merchant partners."



**Will Ross**  
Lazada

## Putting customer experience first



Hong Kong's status as a major trading hub and key driver of e-commerce in Asia gives it a pivotal role in the future of Lazada, an online shopping and selling platform, according to Will Ross, Lazada's Crossborder CEO.

Launched in 2012, Lazada operates in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The Lazada Crossborder Hong Kong office opened in 2013, offering sellers from around the world a best-in-class selling experience with strong seller engagement, localisation and effective communications via a one-stop entry to Southeast Asia.

"The crossborder business for Lazada is at the intersection of three separate themes," Ross explains. "The first is the fourth industrial revolution, in which all business across all industries, will be digitalised. The second is the Belt and Road initiative and the creation of a greater East Asia trading zone, with China and the renminbi underpinning that." Finally, he suggests that these two themes are tied together by government encouragement of SME formation as a means to realise the opportunities created by the fourth industrial revolution, and to ultimately diversify economies and tax bases.

### Customised customer experience

Southeast Asia cannot be treated as a homogeneous market, says Ross. "You have to localise your business practices so that you resonate with the audience. This covers everything from the language, through to how you present things, as well as the references you use to give a product credibility. Lazada's competitive edge is our on-the-ground presence in the six markets with local teams being able to respond quickly based on understanding of local nuances and insights."

Ross considers the biggest cost advantages digitally-enabled businesses have are in the process of customer acquisition, and in the creation and maintenance of online communities. One key way to engage with these communities is through the use of 'influencers', who Ross defines as curators of communities who highlight products and explain and show why they like them to their fans and followers.

"The key thing is not to forget the human at the end of the process, and the best influencers make followers feel they have a real relationship with them," he says. "Authenticity is a paramount concern to millennial consumers in particular. If the influencer is not authentic, then the whole process is invalidated from an engagement standpoint."

Also, Ross sees the plummeting cost of smartphone technology leading to the use of even more dynamic forms of engagement – such as the live streaming of influencers – across vast markets.

### Forging strategic alliances

This year in Singapore, Lazada's grocery subsidiary, Redmart, partnered with Netflix and Uber to provide a transport-food-movie package, in a programme called 'LiveUp'. Singapore is at the tipping point in which consumers are embracing online lifestyle services like shopping, ridesharing, food delivery and entertainment as a way of life. "LiveUp is possibly the first membership programme in Singapore and in the world to bring it all together for these emerging online lifestyle natives," says Ross.

"Our consumers are probably the same mobile-first urbanites in Singapore, and there are a bundle of goods they want," Ross explains. "I think this is the shape of things to come."

Non-retail businesses are now also considering how to serve the same consumers, he notes. "Banks, insurers and other corporations, who are desperate to digitalise their business models but don't have an authentic way to engage with consumers on a day-to-day basis, are the ones who could look to an e-commerce platform as a way to begin to engage authentically on an ongoing basis."

"In everything, it is essential to put the customer experience first," says Ross. "We need to be able to transcend the limitations of a digital medium by giving it a human experience."



**Dorcas Lau**  
Vitasoy

## Corporates gearing up for e-commerce opportunities

Vitasoy is part of an expanding group of companies in Hong Kong that are capturing the opportunities in the growing e-commerce environment.

“We have a very clear commitment to understanding the online consumption habit and meeting consumer needs,” says Dorcas Lau, CEO of Vitasoy Hong Kong.

Digital strategies within the FMCG industry have always revolved around consumer communication and engagement, covering areas such as online advertising, search facilities and sales. However, the industry is now taking a more comprehensive approach.

“Like many other companies, we are also looking at data analytics, how to improve the analysis of data and at opportunities to use IoT in operations,” Lau adds.

She points out that Vitasoy is working with various retailers across the entire distribution spectrum – online, offline and omni-channel to explore opportunities of collaboration. In addition to product distribution, Vitasoy is also discussing with retailers to think of ways to enhance consumer engagement and online experience, leveraging the digital ecosystem.

Lau notes the purchasing behaviour of online and offline customers can be quite different. Younger consumers who purchase online, for example, are more likely to buy larger quantities of premium products.

“We need to understand why customers buy online, what they buy, and how much they buy – given there’s a free delivery threshold,” Lau says.

### Engaging younger consumers

Lau believes e-commerce in Hong Kong has room to grow a lot further. This is also an area Vitasoy is keen on exploring. The company has been committing resources to train and develop its staff, equipping them with the skills needed for e-commerce.

“I’ve always been telling my team to not take our success over the past years for granted,” Lau says. “It’s important for us to work hard and make sure we remain relevant to the market and the next generation of consumers so as to continue our success in the future.”

One trend she is seeing in the market, in particular among the younger generation, is their tendency to opt for healthier options and their willingness to pay more for unique and premium products.

“Younger consumers are the early adopters of e-commerce. Some of them don’t even watch TV anymore. As such, we’ve also been employing more social media and content marketing,” she explains. “We receive a lot of feedback from our consumers through social media, and it’s through such engagement that we’re able to understand their needs and the latest industry trends.”



# E-commerce popularity grows in Hong Kong, but still plenty of room in shopping cart

The 2017 consumer survey shows that demand for online shopping continues to grow at a significant pace in Hong Kong, albeit from a low base when compared to its popularity in mainland China.

In the mainland, the percentage of consumers shopping online remained very high across all product categories in 2017. These findings suggest that consumers continue to turn to online platforms to both research and buy their products.

In addition, the findings reveal that making delivery processes faster and cheaper could persuade Hong Kong consumers to switch from offline to online shopping at an even faster rate. Furthermore, consumers are demanding more personalised products and an enhanced shopping experience from start to finish.

Moreover, with online shopping festivals growing in scale and size – take Alibaba’s Singles’ Day for example – a greater emphasis on promotions and larger discounts might encourage more consumers to shop via e-commerce channels.

The typical basket of goods is also changing for consumers, with Hong Kong’s millennials at the forefront of online shopping in categories such as lifestyle and premium products. This fast-growing demographic group is also changing how goods are bought through the increasing use of mobile technology to make purchases.



## The online shopping landscape

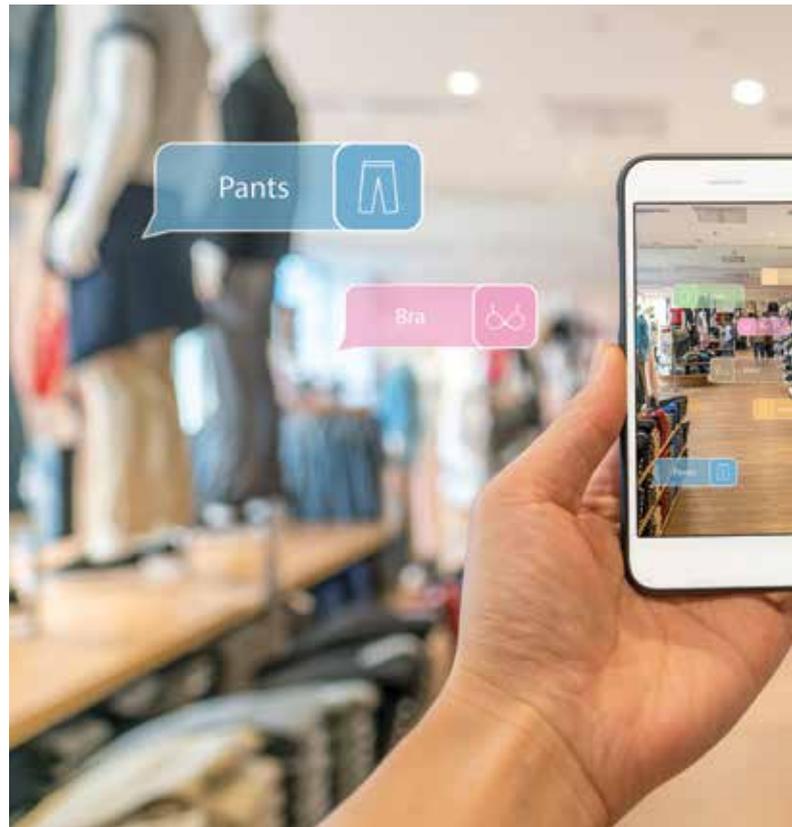
Across nearly every product category, more Hong Kong consumers are shopping online, with entertainment and books showing the biggest rises – up by 12 percent and 13 percent year-on-year, respectively. Travel, entertainment and fashion remain the most popular categories for Hong Kong consumers.

Meanwhile, in the mainland, a majority of the surveyed consumers purchased products online in all categories.

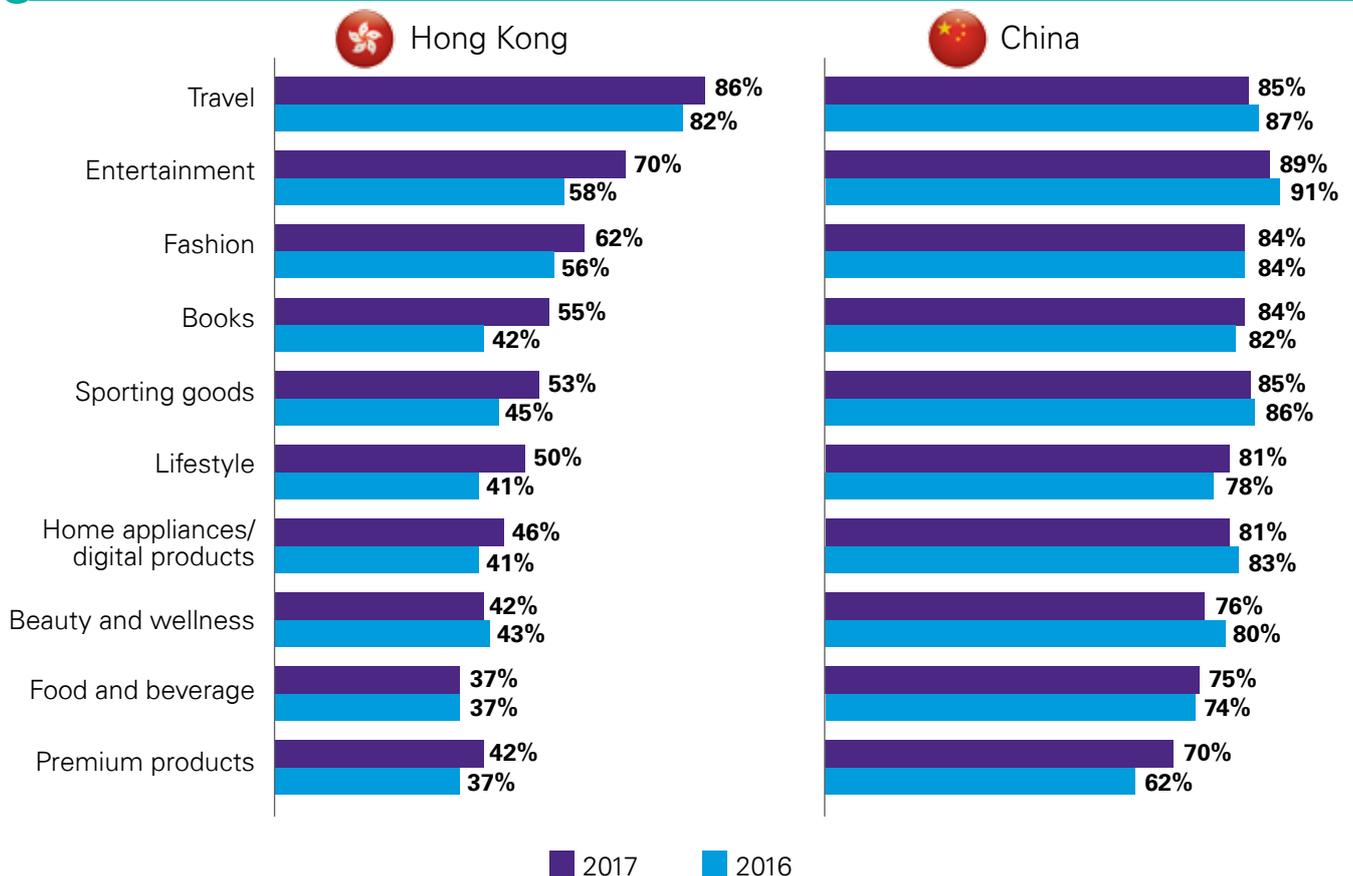
The sharpest divide between the two markets is in the ‘food and beverage’ grouping, where twice as many mainland consumers bought online – 75 to 37 percent in 2017.

Interestingly, the survey results show that millennials are leading the way in Hong Kong when it comes to buying lifestyle products or services online. Fourteen percent more of the city’s millennials are choosing this channel this year compared to last (up from 47 percent in 2016 to 61 percent in 2017). The corresponding figures for purchases in physical stores are down from 81 percent to in 2016 to 66 percent in 2017.

On the mainland, while a majority of millennials continue to buy their lifestyle products and services online, more are using mobile apps to complete the purchase – up from 28 to 37 percent – and daigou – an increase to 18 from 10 percent in 2016.



### What was in your online shopping cart in the last 12 months?



Source: KPMG and GS1 Survey analysis, 2017



## Alibaba’s successful cross-border reach

Alibaba’s e-commerce platforms are the most popular for purchasing products and services, with Taobao used by 43 percent and 45 percent of consumers from mainland China and Hong Kong, respectively.

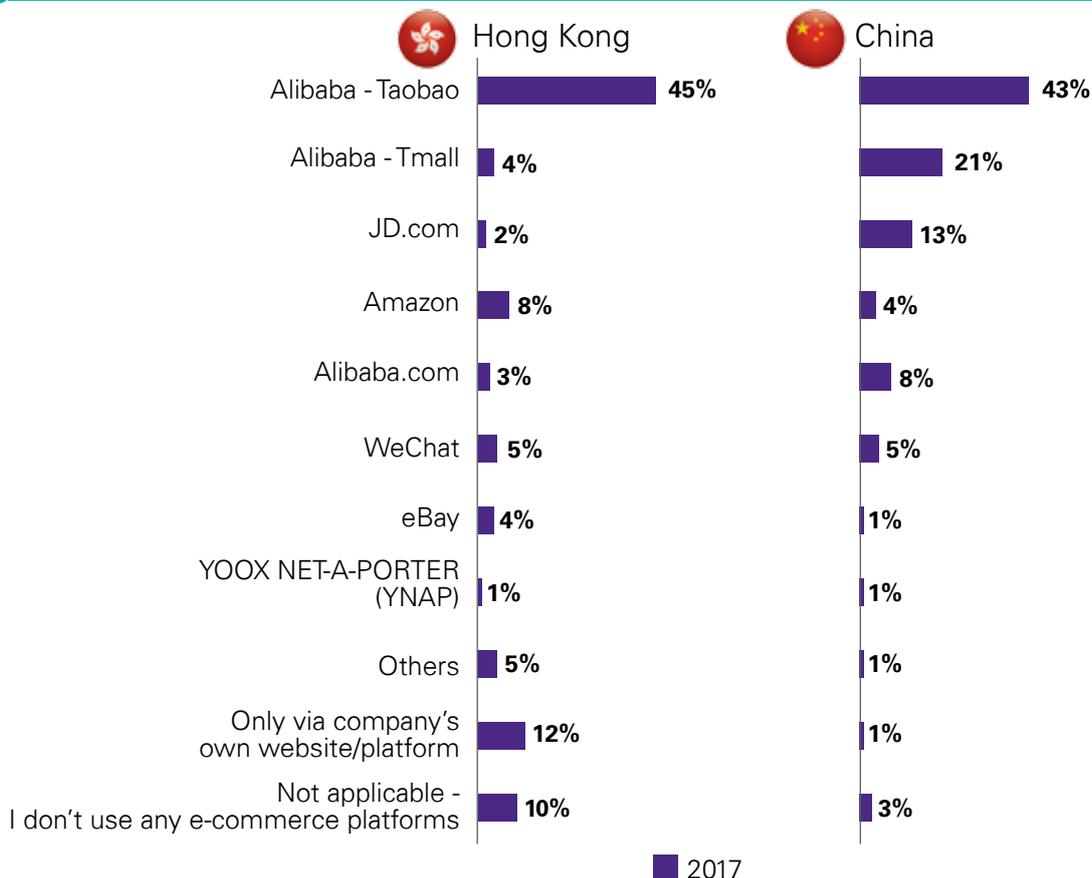
JD.com, Amazon, WeChat and eBay are also used by consumers in mainland China and Hong Kong.

In addition, while 12 percent of Hong Kong’s shoppers buy via the seller’s own website or platform, this figure drops to 1 percent for their counterparts on the mainland.

Our case study on Bluebell (see Page 41) offers an example of the deeper strategic partnerships being forged between established brands and online marketplaces. Bluebell can now manage and operate accounts on online shopping and selling platform Lazada, in a similar manner to the way in which it sets up physical stores for brands.



### Which platforms are you buying products and/or services on?



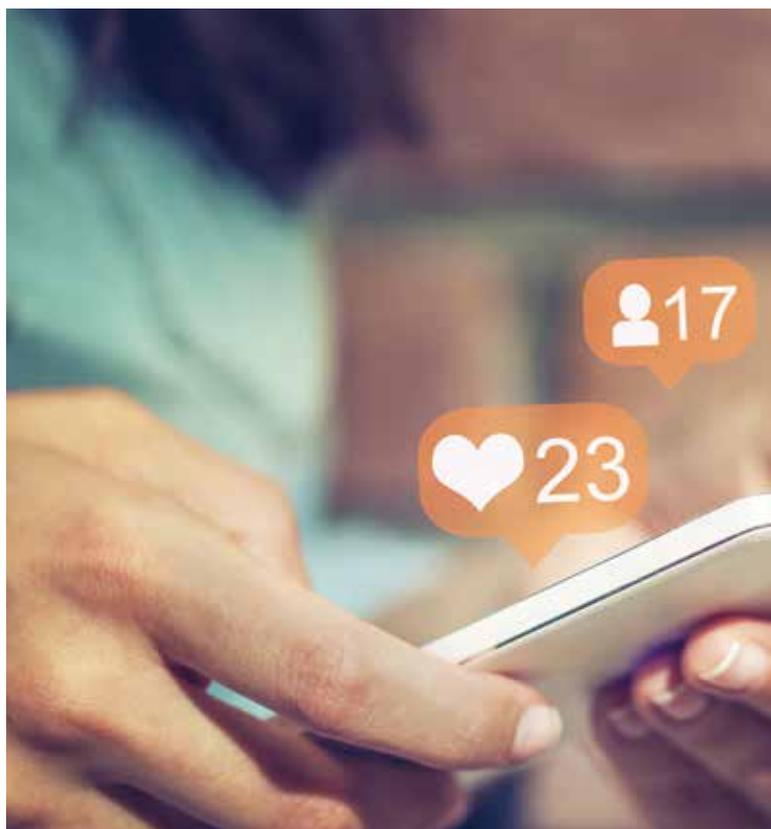
Source: KPMG and GS1 Survey analysis, 2017

## Engaging and buying via social media

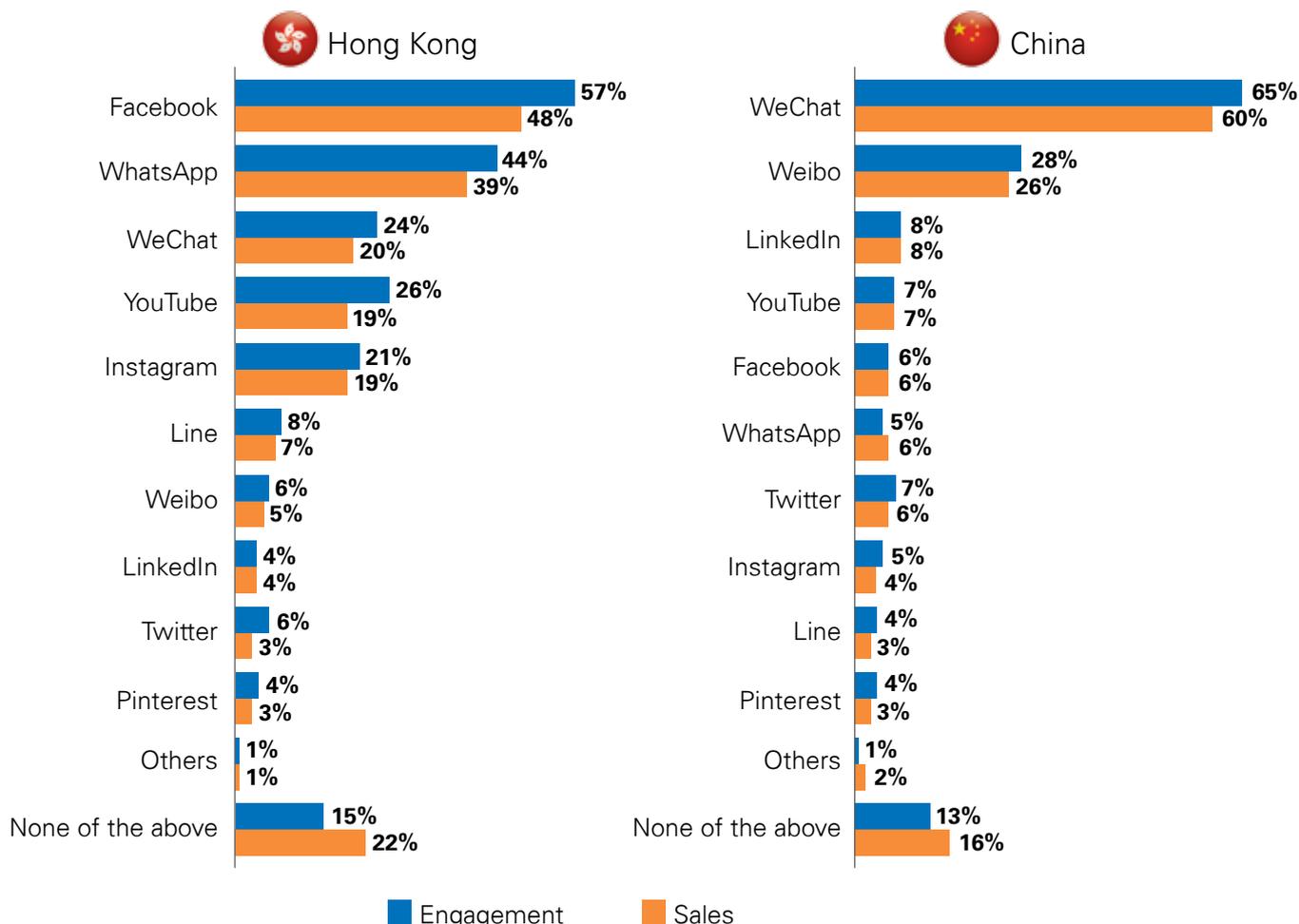
Overall, social media is being used more by consumers to engage with their favourite brands, as well as to make purchases. This is in line with many surveyed CEOs in Hong Kong noting that their companies are increasingly using social media as part of their omnichannel strategy.

The results show that Facebook is the top social media platform used by Hong Kong consumers to engage with brands (57 percent) and make purchases (48 percent). WeChat is the most popular platform for mainland China consumers, with 65 percent and 60 percent of the surveyed respondents selecting the popular app for engagement and purchases, respectively.

WhatsApp, YouTube and WeChat are also popular platforms used by consumers in Hong Kong to engage with brands and make purchases, while consumers in mainland China prefer Weibo.



### Which social media platforms do you use to engage with brands or make purchases?



Source: KPMG and GS1 Survey analysis, 2017



## Who's clicking on Singles' Day?

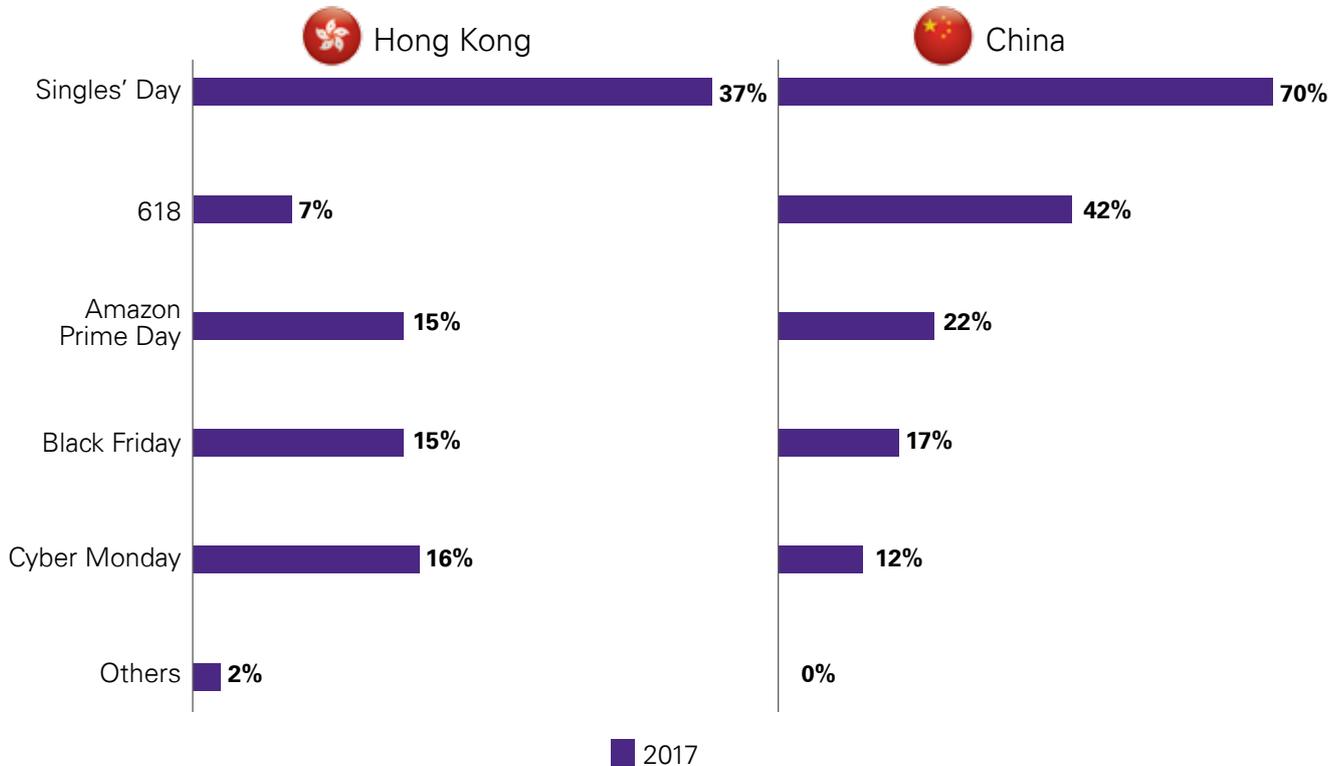
Online shopping festivals, and their associated bargains and promotions, are motivating a majority of shoppers in both mainland China (84 percent) and Hong Kong (52 percent) to purchase goods.

For both groups of consumers, Singles' Day is the e-commerce event most likely to spark a purchase, with 70 percent of mainland and more than a third of Hong Kong respondents selecting that online festival.

The 618 festival, Amazon Prime Day and Black Friday are also other popular online shopping festivals for consumers.



## For which online festivals do you purchase goods and/or services online?



Source: KPMG and GS1 Survey analysis, 2017

“ We are going to see the rise of the mega platforms with consumers spending so much of their lives on these super apps, and that means unparalleled amounts of data. Retailers need to adapt to understand the consumer behaviour and personalise the customer experience. The winners are going to be those that are able to turn those deep insights of the consumers of tomorrow into actionable intelligence. We also need to ask ourselves ‘just how customer centric are our businesses today?’ ”

**Anson Bailey**  
 Head of Consumer and Retail, ASPAC  
 KPMG China

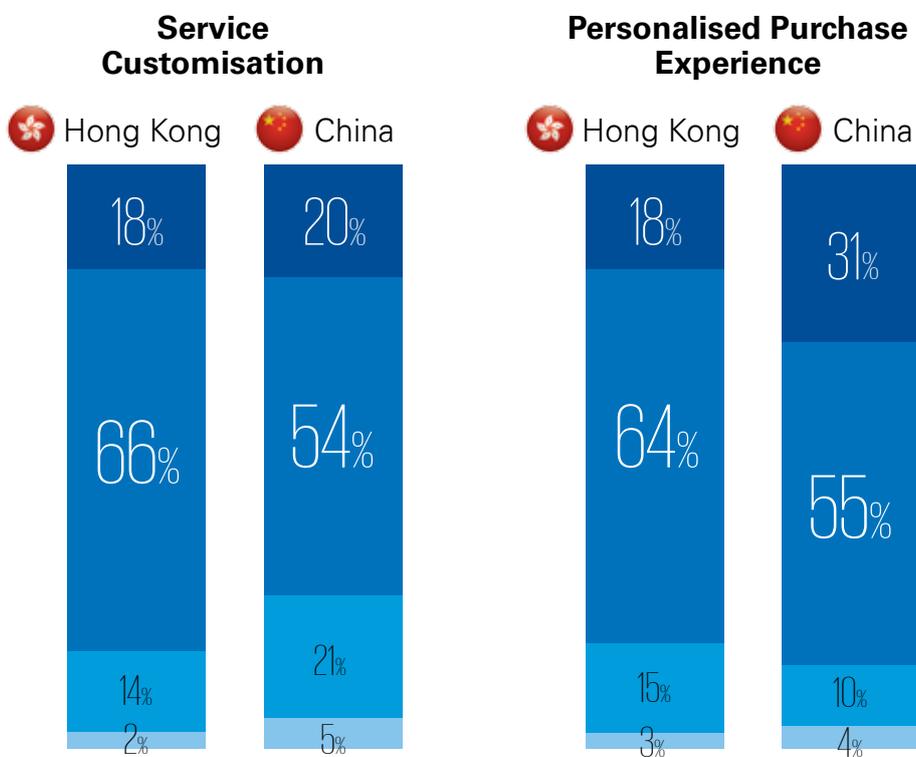
## Customer experience and personalisation valued

A customer-centric strategy is a key component to a winning strategy with shoppers in Hong Kong and mainland China. Whether shopping online or offline, customised service and a high-quality customer experience, as well as personalised products and services, are attractive propositions to both sets of consumers.

These findings indicate that the preferences of the average consumer are evolving, and the brands that are able to offer bespoke products and a unique and consistent customer experience are the ones that will gain a competitive edge.



### How attractive are customisation and personalisation to you?



■ Very attractive to me      ■ Don't think it's attractive to me  
■ Somewhat attractive to me      ■ Not applicable to what/where I usually shop

Source: KPMG and GS1 Survey analysis, 2017

## Consumers switching on to e-commerce tech

Nearly three in five consumers in both Hong Kong and mainland China plan to do more shopping and research online in the coming 12 months.

In addition, a greater number of mainland respondents are expecting to increase their interaction with brands via social media – 43 percent compared to 33 percent in Hong Kong. Consumers are also looking to receive more customised products and information derived from the use of big data. Indeed, a number of company executives interviewed for this report noted that they are increasingly focusing on big data and analytics tools to better understand consumer preferences and enhance their product offering.

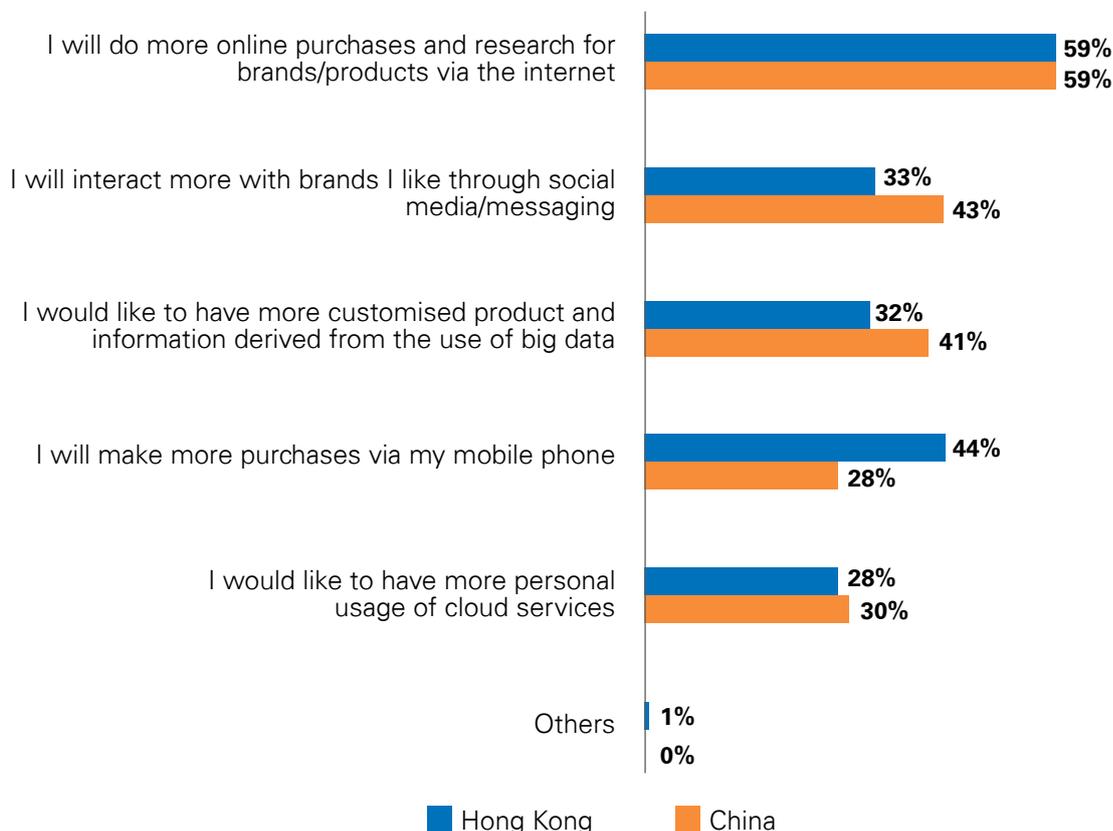
The results also find that a significant number of Hong Kong respondents (44 percent) are likely to buy more via their mobile phones in the coming year.

When looked at separately, Hong Kong's millennials are significantly more likely than last year to make online purchases via their mobile phones, in most product and service categories. The year on year changes were: travel up to 65 percent from 39 percent; entertainment, 61 from 43 percent; sporting goods, 60 from 37 percent; lifestyle, 56 from 38 percent; home appliances and digital products, 55 from 28 percent; and food and beverages, 59 from 32 percent.

Access to more payment options appears to be an important driver when it comes to persuading Hong Kong millennials to buy online, rated by 42 percent in 2017, as opposed to 27 percent in 2016. And it could be that improvements in the quality of UIs and in the customer experience provided are having an effect. The weight this demographic placed on improvements in user-friendliness of online platforms dropped, with 23 percent picking it this year, compared to 34 percent in 2016.



### Which advanced technology will you use more or like to have in the next two years?



Source: KPMG and GS1 Survey analysis, 2017

“ With e-commerce increasingly driving domestic and cross-border consumption in Hong Kong and mainland China, retailers should consider the tax-efficient opportunities that can arise from utilising FTAs, duty reductions or exemptions and transfer pricing. Furthermore, with information exchange between countries becoming more common and frequent, it is vital that businesses continue to monitor international tax developments and understand whether their structures and operations carry any significant tax risks and exposure.”

**Karmen Yeung**  
Partner, China Tax  
KPMG China

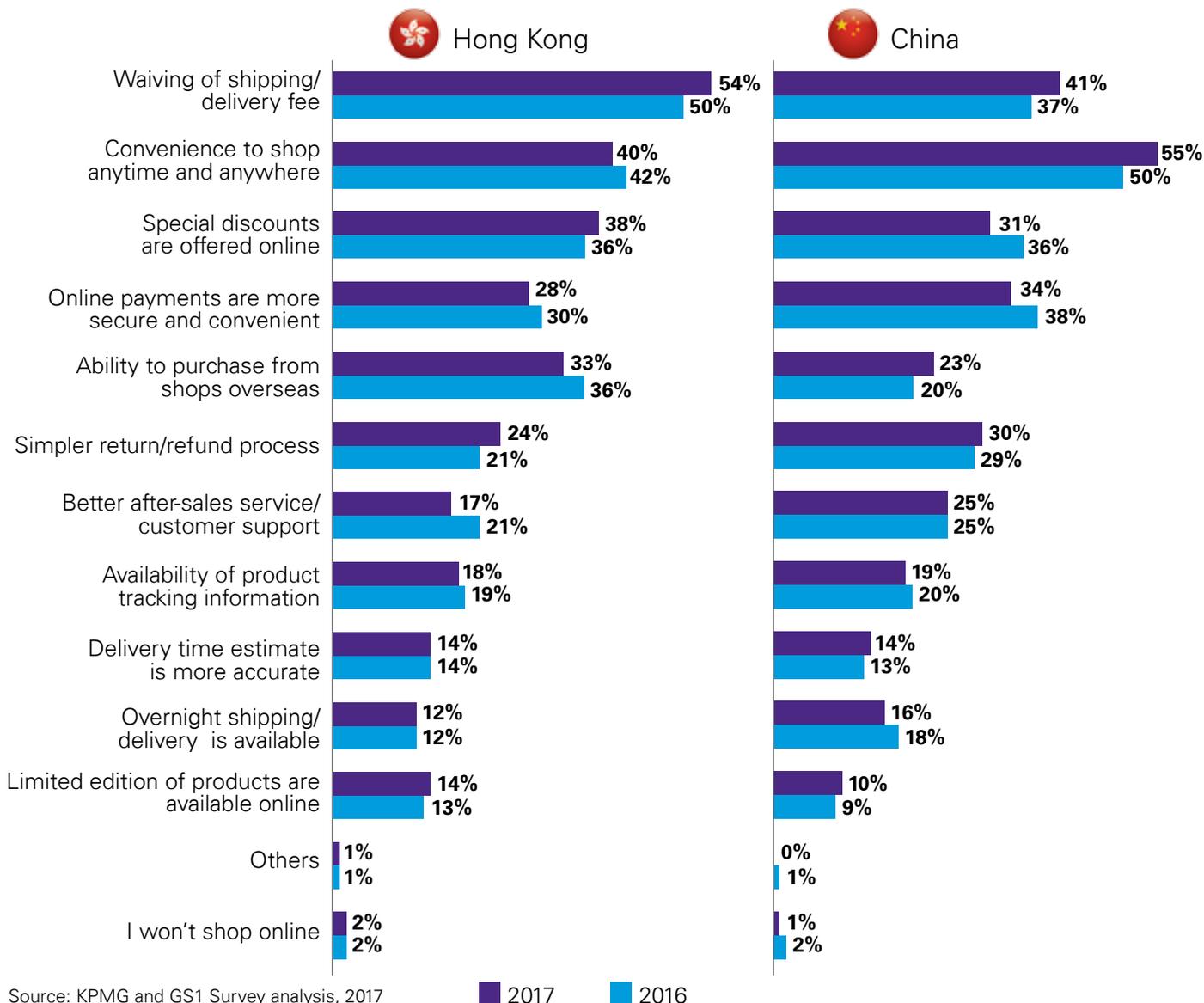
## Making e-commerce more appealing

Hong Kong consumers view the waiving of delivery fees, convenience to shop anytime and anywhere, and special online discounts as the top three most important factors that would attract them to shop online. Compared to 2016, more consumers in 2017 selected delivery fee waivers and special discounts as key factors, suggesting that consumers are looking for competitive prices when shopping online.

For consumers in mainland China, the top three factors in 2017 are convenience to shop anytime and anywhere, delivery fee waivers and secure and convenient online payments.



### What would attract you to do more online shopping?



Source: KPMG and GS1 Survey analysis, 2017

■ 2017 ■ 2016



## What is slowing e-commerce demand in Hong Kong?

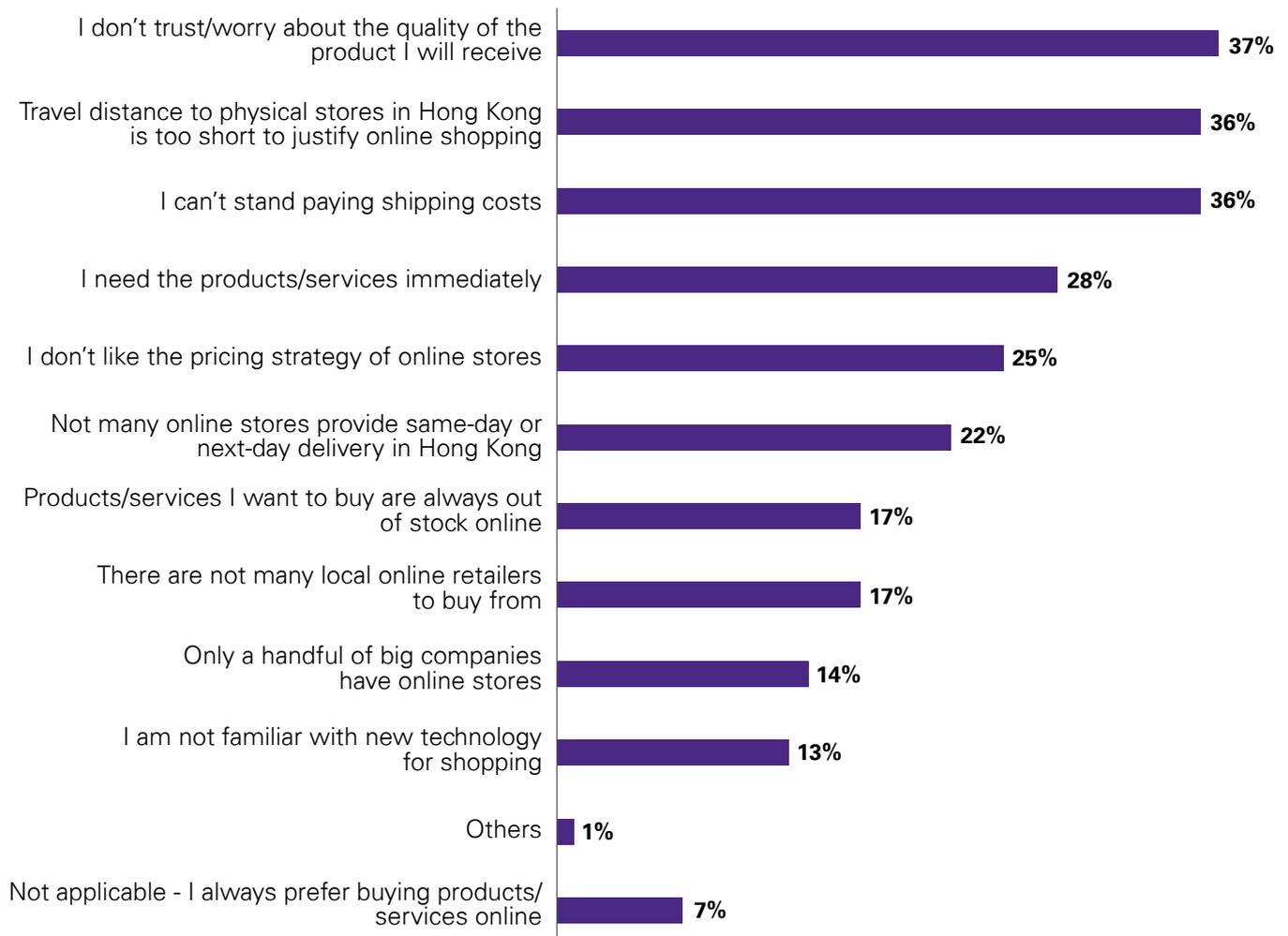
For Hong Kong consumers, the most often cited reason for not buying a specific product or service online is the inability to check out its quality before purchase.

Four out of the next five most dissuasive reasons relate to delivery times and/or delivery costs: The relative ease of access to Hong Kong's brick-and-mortar stores, shipping costs, the need to receive the goods or services immediately and the lack of same-day or next-day delivery.

Notably, Hong Kong millennials are markedly less worried than other demographic groups about online payment security in 2017, with the percentage down to 29 compared to 40 percent in 2016. This suggests that the next generation of consumers are placing more trust in the security of online and alternative payment platforms, and also that the efforts of payment providers to bolster their online security capabilities are starting to pay dividends.



## What are the reasons why Hong Kong consumers decide not to buy products/services online?



Source: KPMG and GS1 Survey analysis, 2017

2017

## Future shopping plans

Consumers in both Hong Kong and mainland China continue to have their eye on refreshing their wardrobe, with fashion again the most popular choice for planned purchases in the coming two years.

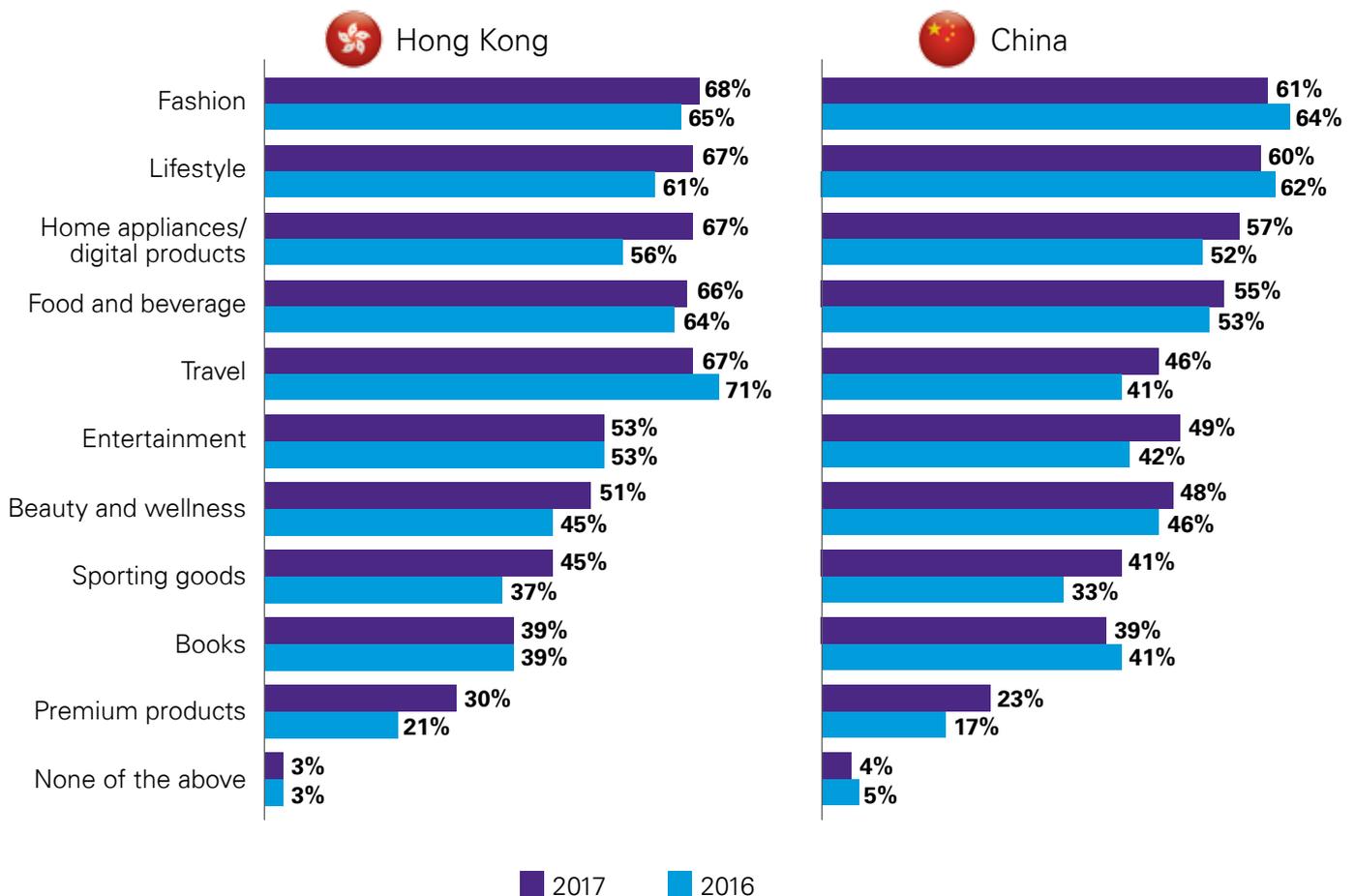
Compared to 2016, Hong Kong shoppers intend to buy more products in the lifestyle, home appliances/digital products, food and beverage, beauty and wellness, sporting goods and premium categories in the next two years.

Additional analysis (not featured in the chart below) finds that more of Hong Kong's millennials too are planning to buy home appliances and digital products in 2017 (62

percent) compared to the previous year (51 percent). Also, the proportion of them planning to spend on premium products has gone up from 20 percent in 2016 to 33 percent in 2017.

When it comes to online shopping, 41 percent of Hong Kong's surveyed millennials intend to buy fashion items online in the next two years, up from 28 percent in 2016.

### What will you buy in the next two years?



Source: KPMG and GS1 Survey analysis, 2017



# Liking, sharing, tweeting, blogging & regramming: The influence of social media in the retail sector

**The retail industry has always relied heavily on word of mouth and feedback from friends and family. But what happens when the sphere of influence extends beyond the immediate social circle to encompass 2.3 billion social media users globally?**

The mainland China and Hong Kong consumer is changing the ways that they entertain themselves from how they purchase to what they purchase. Convenience is now something that is expected for time-poor consumers. But what influences the choices that they make?

With social media use growing exponentially in mainland China and Hong Kong, the influence of other consumers, their experience and brand preference is playing a stronger role in the decision making process. According to a forecast from eMarketer, more than 80 percent of internet users in China – or 626 million people – will access social networks regularly in 2017.<sup>1</sup>

## **The emerging consumer...**

There's no such thing as an 'average consumer' – consumers are all different and value different things. As such they expect to be treated as individuals and be offered unique, personalised services. It's not just about how much a consumer spends; it's about where they spend their money. Take cinemas for example – they no longer only compete with each other, but also in-home entertainment offerings such as Netflix which offers more choices, better options and newer movies without moving from the comfort of their own home. And it doesn't stop there. As these consumers stay at home more, they also start to prefer to dine in, buying food from nearby restaurants through the click of a button on their app.

Exposure to new technologies and disruptors has raised consumer expectations in regards to convenience across all areas of life; they're savvy about how to use data and more willing to try new technologies and services. The mainland China and Hong Kong consumer looks at where to prioritise spend, meaning that companies offering different services all become competitors for that shrinking share of the customer's wallet.

## **So how do you capture their attention? Say hello to the 'influencer'**

Social media isn't powerful solely because of the brand itself – it's propped up by the 'influencers' who create authentic content, tell a story, and can sway the opinions of their followers. CBNDATA estimated that the KOL economy in China hit RMB 58 billion in 2015, and additional analysis projects that revenue will reach RMB 100 billion in 2018.<sup>2</sup> With those figures, it is not surprising that communities are starting to play more of a role in consumer decision making and driving engagement with brands.

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Note: This page was adapted from a KPMG UK report. Source: 'Leisure Perspectives', KPMG UK, <https://home.kpmg.com/uk/en/home/insights/2017/09/leisure-perspectives.html>

<sup>1</sup> eMarketer, June 2017, <https://www.emarketer.com/Article/eMarketer-Bumps-Up-Estimates-Social-Media-Usage-China/1016072>

<sup>2</sup> The Financial Times, July 2017, <https://www.ft.com/content/2de5b336-4a89-11e7-a3f4-c742b9791d43>

## Know your consumer

With competition from new entrants rising, it's important for the leisure industry to do their due diligence and get to know the consumers that they are marketing to – as ultimately, the consumer has the choice.

We've highlighted three theoretical consumer personas to start to understand the types of consumers that are emerging, and how the leisure industry can begin to interact with them.



### The value seeking traveller

The 'value seeker' uses ubiquitous use of metasearch engines to reduce their overall price and find the best deal. They're cost savvy, without skimping on value. Their choice of location or activity can be swayed by price, but they don't sacrifice the quality of the experience.



### The health and wellness fanatic

The 'health and wellness fanatic' has an invested interest in improving their lifestyle through the means of diet, exercise and general wellness. This might include following a specific diet or way of eating (such as 'clean eating'), getting involved in boutique fitness classes and placing a greater emphasis on holidays with a purpose such as yoga retreats, wellness breaks and digital detoxes.



### The environmentalist

As well as reducing their carbon footprint, the 'earth aware' consumer is now also focused on waste reduction and local consumption. They like to know that what they are consuming is sustainable for the environment, and prioritise experiences where they are informed about the supply chain and ethics.

Source: 'Leisure Perspectives', KPMG UK, <https://home.kpmg.com/uk/en/home/insights/2017/09/leisure-perspectives.html>



**Danny Shum**  
Ztore

# Hong Kong's changing perception of e-commerce

According to Danny Shum, CEO of online grocery store Ztore, e-commerce is set to grow in Hong Kong as the retail industry is starting to accept it as an opportunity rather than a threat to their businesses.

Shum believes that the potential of e-commerce in Hong Kong is huge, seeing that e-commerce makes up approximately 20 percent of the retail market in Taiwan, as opposed to a mere two to three percent in Hong Kong.

"There has always been a perception that online retail is a threat to conventional retail and this mentality was strong in Hong Kong," Shum says. "But things are starting to change and more companies are integrating online processes with their offline operations."

When Shum established Ztore in 2015, Hong Kong's online grocery market was dominated by a handful of local players. The software developer-turned-entrepreneur knew the company had to be different in order to gain a foothold in the market. In his words, the company needed a unique 'DNA' to differentiate it from the competition.

"We're not trying to move an entire supermarket online," Shum explains. "Instead, we're trying to select the best products for our customers."

He believes the key to a successful online business, or any businesses for that matter, is to have clear market positioning.

In Ztore's case, the company focuses on serving the 28-45 year-old segment. This allows the company to stock fewer items compared to some of its industry peers and reduce warehousing costs.

Shum notes that it can be difficult for online-only businesses to build a presence in the market as consumers can find it difficult to visualise their brand.

"We tried attending exhibitions and setting up booths, but they didn't turn out to be cost-efficient ways to acquire new customers," Shum says.

A channel that he did find effective was social media. Customers can make product requests and suggestions to Ztore through various social media portals, and it is through such interactions that the company was able to accumulate its customer base.

## Future trends

Ztore develops all the software it uses in-house as part of Shum's broader strategy to create a unique identity. Among the company's top priorities are its website's user interface, the customer service experience it delivers, and the way in which it defines categories.

Shum believes robotics will also be beneficial to the industry, in particular when it comes to warehouse management. However, investing in robotics will only be worthwhile after having achieved a significant business scale.



**Benoit Lavaud**  
Bluebell

## Embracing the digital age

Founded over 60 years ago, Hong Kong-headquartered Bluebell imports, markets, and distributes products ranging from fashion to food and beverage across Asia. While it started off offering these goods through physical stores, Bluebell began making a serious push into e-commerce three years ago with its digital services now encompassing end-to-end omnichannel management.

Benoit Lavaud, Bluebell's Group Digital Director, says the company now offers different types of digital services. This includes the management and optimisation of consumer data as well as the implementation of new online distribution channels – either selling on the brand's own web store or on other online marketplaces.

Brands at different levels have different needs, he notes. "Some might hire us as consultants to optimise their operations, while others might require us to coordinate with tech companies to develop their website."

Additional services include assigning e-commerce managers to operate a client's web store and, if required, set up and operate physical stores.

"We're transitioning from simply being a distributor to helping and supporting brands on any channel at any point of their development," Lavaud points out.

This transition was prompted by a change in the business environment and the rise of digitalisation. In the past, brands were engaging Bluebell for their knowledge of the local marketing channels and consumers.

However, the rise of the internet meant global brands are now able to engage with local consumers directly through the use of social media platforms. As a result, the company had to adapt its business model and rethink the way it services brands.

Lavaud says Bluebell's strategic approach towards e-commerce and web stores started three years ago. One of the key focuses of its digital strategy is online marketplaces, which he says is poised to become the main growth driver for e-commerce in the region.

To prepare for this growth, Bluebell partnered with online shopping platform Lazada approximately one year ago in order to leverage their strengths in Southeast Asia. This led to the creation of Bluemall, which focuses on helping brands sell on Lazada. The Bluemall team manages and operates in the same way it would when setting up branded web stores.

For global brands or companies with aspirations to enter the Asian market, Lavaud recommends to test the market first, either by starting with an online marketplace or setting up pop-up stores.

The rise of e-commerce and cross-border delivery means it is critical for companies to think strategically across the entire region instead of being too fixated over an individual country or jurisdiction. He points out that many companies choose Hong Kong as their Asian logistic hub thanks to its well-developed infrastructure.

"Delivery can be made easily to almost anywhere in Asia if the inventory is in Hong Kong," Lavaud says. "You're essentially able to cover many countries and markets with one web store."



**Calvin Chan**  
CATALO

## O2O critical to the future of Hong Kong retail

Natural and organic health food brand CATALO has been operating in Hong Kong since 2003 and has seen its business expand to over 70 stores and counters in the city.

While conventional retail will remain key, CATALO is increasingly focusing on e-commerce to boost its Hong Kong operations.

In contrast to its Hong Kong operations, CATALO only operates a handful of outlets in mainland China and Macau, which is indicative of the offline/online disconnect between Hong Kong and the rest of the world.

“In Hong Kong around 99 percent of our sales come from brick-and-mortar stores,” explains Calvin Chan, Chairman and CEO, CATALO. “Whereas outside Hong Kong it is the other way around with more than 90 percent of sales coming from e-commerce.”

Chan describes the overall retail market in Hong Kong as flat, although Hong Kong’s ageing demographics means the population is becoming more health conscious. As a result, the industry is expected to grow at around nine to 10 percent per annum in the next few years.

Outside of Hong Kong, however, the majority of CATALO’s investments are in e-commerce and mobile commerce.

“In mainland China and in the US, a one-day delivery service is generally seen as very efficient,” Chan explains. “But in Hong Kong, consumers can easily shop from physical stores they want within 10 minutes.”

“This is the main challenge for e-commerce in Hong Kong, because buying in physical stores is very convenient.”

The result of this is CATALO’s “buy online and pick up in store” strategy, which Chan says is popular in Hong Kong, but has very little demand elsewhere.

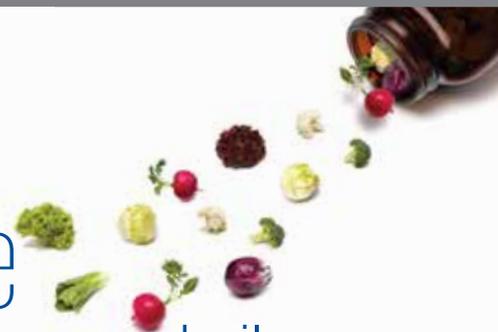
The age profile of CATALO’s customers also presents some special challenges for its fully-automated customer relationship management system.

“Most companies use email for online registration. But over half of our customers in Hong Kong are more mature in age, and they prefer to receive an SMS, a call, or an instant message,” he adds.

One of the key areas of focus for CATALO is digital marketing. Two years ago, all of the company’s marketing budget goes into traditional mediums such as TV, newspapers and magazines. Nowadays, the company invests a significant amount of its marketing budget on digital channels, Chan says.

He expects the figure to continue to increase in the coming years when Hong Kong’s millennials begin to buy more health products. In order to ensure that the company is prepared for this development, Chan recognises the importance of maintaining a high quality online store as well as the significant outlay that comes with it.

“A lot of people think it is cheap to set up an online store. But in order to create a online store with a good user experience, brand image and healthy web traffic, a lot of investment is required,” he says.





**Benoît  
Clément-Bollée**  
Storefront

## Online brands popping up in Hong Kong



An increase in the number of unoccupied spaces in Hong Kong's shopping districts has opened up opportunities for online brands – and those serving them.

Launched in Hong Kong in 2016, Storefront is an online platform that links landlords who have retail spaces available for short-term renting, with brands and start-ups looking for a temporary mall or thoroughfare presence.

Hong Kong is Storefront's first venture in Asia and by the start of 2017, the company already had more than 1,500 listings, totalling 12 million sq ft of retail space.

"Where there is space, there is an opportunity for online brands to pop up," says Benoît Clément-Bollée, Storefront's Asia CEO. "Smaller businesses prefer to use pop-ups as a way to engage consumers, without risking the need to redirect their entire business."

This is particularly true for Hong Kong, as Clément-Bollée believes more businesses are entering Asia earlier in their growth strategies.

"We see a growth in e-commerce brands doing pop-ups, especially as more crowdfunding sites are launching in Hong Kong and crowdfunded products are being manufactured in mainland China," he points out.

With millennials seen as Storefront's future, it is only natural that the company is keen to understand their spending behaviours. As a result, he believes it is key for companies to maintain a high level of focus and investment across social media platforms, which can ultimately lead to better communication with consumers.

Clément-Bollée says this business strategy can be further expanded by investing in mobile commerce as well as any related technology. Consequently, the company's search algorithm is seen as its biggest technological asset, and work is done on a daily basis to improve it still further.

Big data technologies and artificial intelligence are also being assessed as possible methods to drive the efficient delivery of a high-quality customer experience. While the potential of virtual reality is also garnering plenty of interest, Clément-Bollée says the technology can be expensive for smaller companies.

Over the next one to two years, Clément-Bollée says Storefront will continue to improve its payment security systems and focus on blockchain integration.

Further into the future, he sees the rise of mobile technology and commerce as the trend to look out for. "We will continue to see mobile beacons triggering consumer behaviour, and same-day delivery of retail goods from distribution centres will become more common."

# The future state

This is an extraordinary time for the retail sector, with technology and innovation disrupting the way we live, learn and work at an exponential pace. Industry boundaries are blurring rapidly as companies identify new opportunities in different industries and transform their business models. Industry leaders need to think about how to harness the full potential of innovation and technology to drive the future state of business and ensure that they create shared prosperity together.

We are living in an increasingly mobile world that is rapidly moving the wheels of commerce, and we need to ensure that our retail businesses are factoring this into their strategy.

In addition, we must realise that it is no longer just about the physical store environment where significant retail revenue is tied to a physical location. Today, retailers that relied on their entrenched geographic footprints are facing a new reality with the burgeoning number of online competitors.

In terms of geographic competition, technology is reducing the costs and increasing travel time speeds, making the movement of anything – people, products, information – more convenient. This also means as technological advancements continue to remove geographical obstacles, competition is likely to intensify as competitors become 'closer together'.

By 2020, areas such as data analytics, artificial intelligence, machine learning, advanced robotics, autonomous transport, advanced materials and blockchain will dramatically reshape our society and the global economy. According to a World Economic Forum report, more than one-third of the skills that are considered important in today's workforce will have changed by 2020 – some jobs will become obsolete, others will grow, and jobs that do not even exist today will become the new normal.

With the introduction of new AI and Blockchain technologies, we are going to see a shift from historic data to real-time data, which is going to transform



traditional business approaches to channel management, built on algorithms and machine learning. They will also undoubtedly have a major downward effect on pricing, especially with high volume, high frequency products.

While blockchain technology offers benefits for both online and offline retail businesses, some data security and integrity issues remain. However, through the encryption and storing of images and other document metadata, which is then circulated to the entire community using that blockchain, retailers will soon be better equipped to validate every record in their supply chain.

While e-commerce is transforming the retail and consumer space, CEOs are also talking about where the virtual and real worlds blend together, and consumers increasingly expect more diverse omnichannel experiences. We can expect to see chatbots, AR and VR fundamentally change how consumers engage with retailers and brands.

Furthermore, the consumer's desire for personalisation and customisation from retail brands, combined with advancements in manufacturing, supply chains and maintaining brand integrity in the new world of on-demand customer experience, will most definitely result in new players in the retail and consumer space.

The new collaborative economy powerhouses of the retail industry, like Alibaba and Amazon, are creating ecosystems around their platforms and pushing retailers to lead, follow or get out of the way. This adaption will ultimately threaten brand uniqueness and presence, and retailers need the same tools and business strategies to quickly innovate, implement and customise the customer journey.

For a company to remain competitive, it must keep pace with industry trends and its competitors. But its competitors are changing very quickly with the emergence of these global digital platforms where we see the real-time, seamless convergence of the physical and the digital ecosystems.



# 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.



# About GS1 Hong Kong



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GS1 Hong Kong's mission is to enable Hong Kong enterprises to improve the efficiency, safety, and visibility of supply chains across multiple sectors and facilitate commerce connectivity through the provision of global standards and a full spectrum of standards-based solutions and services. GS1 Hong Kong engages with communities of trading partners, industry organisations, government, and technology providers to understand and respond to their business needs through the adoption and implementation of global standards.

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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.

YouGov provide a range of timely and cost-effective consumer market research tools. Our signature products include BrandIndex – the daily brand perception tracker; Profiles – our segmentation and media planning platform; and Omnibus – the fastest and most cost effective way to obtain trusted consumer opinion from a representative consumer sample.

Visit our website for more details: <https://hk.yougov.com/>



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