



# Interview with Thomson Cheng

*Chairman of the Hong  
Kong Retail Management  
Association*



E-commerce is the next driver for the Hong Kong retail market, according to Thomson Cheng, Chairman of the Hong Kong Retail Management Association (HKRMA). In this edition of *Hong Kong Edge*, Cheng shares his views on the importance of e-commerce take-up in Hong Kong, shifts in consumer preferences and key industry challenges.

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The retail figures released by the Census and Statistics Department (C&SD) paint a promising picture for the Hong Kong retail market. Total retail sales for September 2017 hit HKD 35.678 billion, which translates to a YoY increase of 5.6 percent – the highest single month rate increase since February 2015.

It was also the seventh consecutive month of retail sales growth, and Cheng is confident the positive momentum can continue in 2018. The key to the long-term growth of the Hong Kong retail market, however, lies in the further development of e-commerce, which Cheng says is one of the HKRMA's main focuses in the coming years.

The HKRMA introduced a Quality E-Shop Recognition Scheme in 2016, which aims to recognise quality e-shops and develop industry-wide standards and best practices for online retailing in Hong Kong. Stages of assessment include a mystery shopper assessment and an audit by the HKRMA.

“What we really want to achieve through the awards is to show retail market participants what constitutes good online retailing,” Cheng explains. “It's no secret that Hong Kong is lagging behind many developed cities in terms of online retailing, and that is something we would like to change.”

He notes that a slowdown in conventional retail in recent years has prompted many retailers in Hong Kong to revisit their online-to-offline (O2O) strategy and look into the potential disruption of technology. A core focus of the HKRMA's work is therefore to educate the industry, in particular small and medium-sized enterprises (SMEs), on these latest market developments, according to Cheng.

## The right balance

The success of mainland China, as shown by Alibaba's record RMB 168 billion (USD 25.3 billion) of sales generated on 2017 Singles' Day, has highlighted the immense potential of the online realm. However, Cheng feels there is a unique set of factors affecting Hong Kong retail. Copying mainland China's approach is therefore unlikely to solve Hong Kong's online retailing issues.

“It's easy to say that retailers in Hong Kong need to learn from mainland China and focus on omnichannel strategies as well as new retail,” he says. “But the difficult part is how do you make that work in Hong Kong, bearing in mind the differences in demographics, operating environment and customer preferences?”

He is of the view that one of Hong Kong's primary selling points is its 'super-connector' role linking mainland China to the rest of the world. While this has benefitted the city in terms of tourism and business activities, it has also created a volatile environment for retailers.





Thomson is also president of fashion retail and brand management group Walton Brown Group

In order to succeed, retailers in Hong Kong need to find the right balance between global and mainland Chinese consumers. This includes business strategies, marketing tactics and merchandising.

In social media marketing, for example, a retailer in Hong Kong needs to engage with social media on a number of platforms such as Facebook, Instagram, LinkedIn, Twitter, WeChat and Weibo.

"Most companies don't have the resources to fully cater to both sets of consumers, so the key is to find the right balance," Cheng says.

The situation is yet more complex when it comes to finding the optimal O2O strategy.

He points out that the global O2O experience pertains to the loop between a retailer's website and its physical stores. In mainland China, on the other hand, O2O refers mostly to the loop between an e-marketplace and a retailer's physical stores.

"Some retailers don't quite know which way to follow or how to integrate both models," Cheng says. "It's a question the industry is still trying to answer."

## Shifts in tourism spending

Tourism is another key area of growth for the Hong Kong retail market. Cheng points out that in recent years, there has been a shift in mainland China tourists' spending away from luxury goods towards what he calls individualisation. Consequently, the average spending of mainland China tourists has declined.

"This trend started in 2014, before taking shape in 2015 and 2016," Cheng notes. "It's not a coincidence that the retail market did not perform well during those three years because businesses in Hong Kong were still coming to terms with this shift."

Cheng points out that retailers in Hong Kong need to adapt their business strategies to take into consideration the change. An example of this is the watch sector where there has been a shift from marketing high-end products to more middle-market merchandise. A similar change has also been witnessed in the fashion segment where the focus is now on selling 'affordable luxury' brands.

"The price point has definitely come down, with retailers focusing more on the different needs of individuals, and variety," he explains.

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## Key retail challenges

Some of the challenges for Hong Kong include high rental costs and a shortage of talent. “Rents for shopping malls in several districts increased in the past couple of years, whereas retail sales fell,” Cheng adds. “It’s a difficult situation many retailers are facing.”

In terms of the available talent pool, some retailers are having to rely mostly on part-time staff.

“It takes time, effort and resources to train someone up, regardless of whether they are working on a part-time or full-time basis,” Cheng says. “But if someone leaves after a short time, a lot of that time, effort and resources simply go to waste, not to mention it also creates a lot of manpower issues.”

A consistent and deep retail talent pool would be beneficial, although Cheng adds that emphasis should also be placed on related sectors such as IT, fintech and logistics.

“It’s about coming up with an integrated plan to develop a consistent and deep talent pool across all associated industries,” Cheng says. “For Hong Kong’s retail market to prosper, both the government and the industry need to strengthen their collaboration in order to come up with innovative solutions.”



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