



Digital Retail on the Rise

*A survey of CEOs and consumers
in the Greater Bay Area*

Fourth edition

In association with

YouGov



gs1hk.org
kpmg.com/cn



Contents

1

About the survey

2

Executive summary

4

Business innovation

Section 1: The data challenge **4**

Section 2: Digital-technology priorities are shifting **10**

Section 3: Embracing smarter business ecosystems **16**

22

Customer-centric innovation

Section 4: Who identifies as 'tech-savvy'? **22**

Section 5: Generation Z is driving change **26**

Section 6: Brands delivering more transparency **32**

40

Conclusion: Charting the path ahead

Viewpoints

SF DHL Supply Chain China	14
Unspun	15
The Mills	20
Royale International	21
MaBelle International	25
Lane Crawford	30
Tofugear	31
Laboratory JaneClare	36
Tumi	37
Swire Coca-Cola HK	38

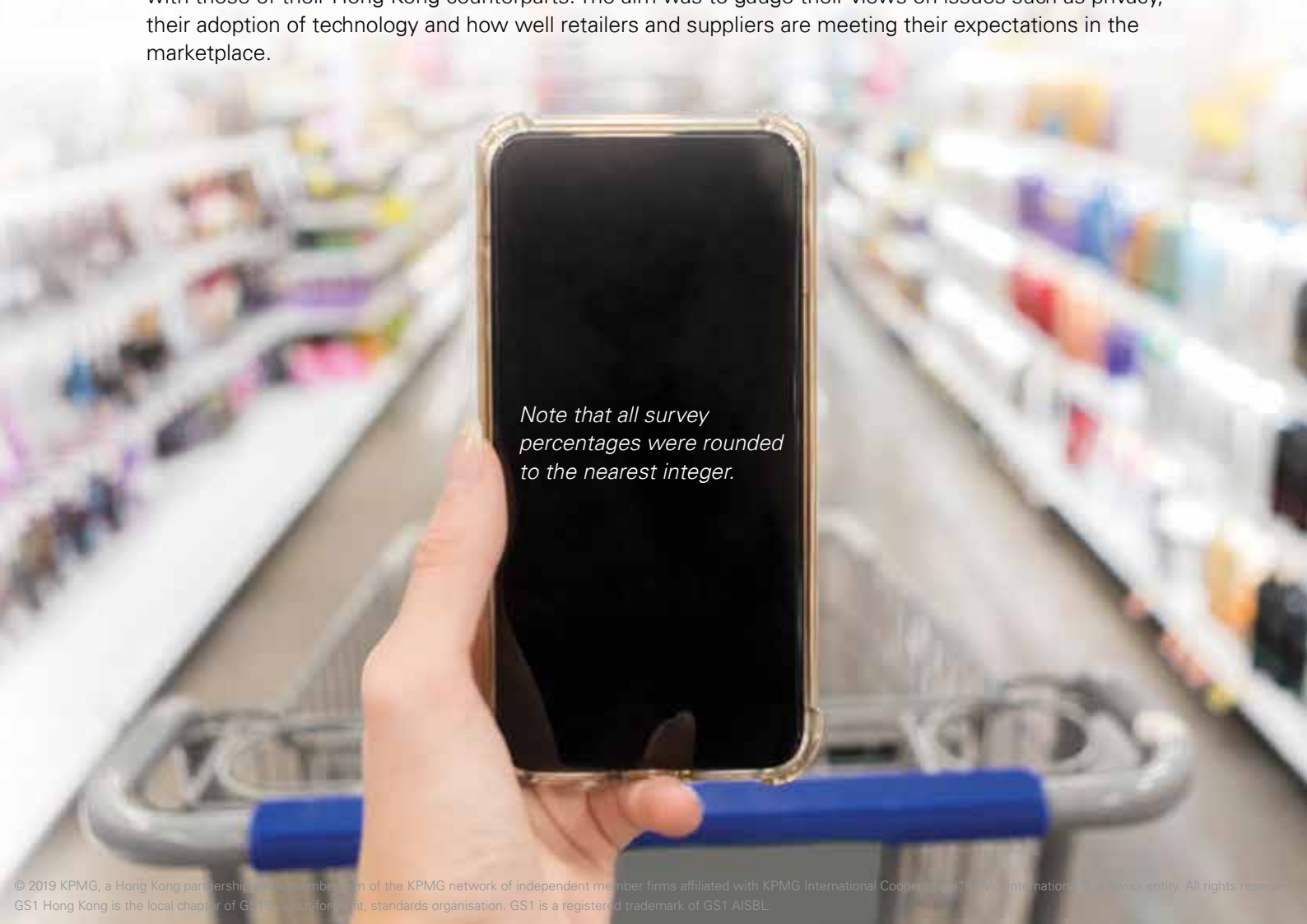
About the survey

KPMG China and GS1 Hong Kong this year commissioned YouGov for a fourth annual study to assess how businesses and consumers in the Greater Bay Area (excluding Macau SAR) are evolving in the retail industry's fast-changing digital ecosystem.

The CEO survey sought the views of more than 300 C-level executives in Hong Kong SAR, measuring sentiment on the digitalisation and technology trends affecting the various omni-channel business models of their companies. The survey also examined how consumer trends are influencing the way they provide goods or services.

Responses came from a broad cross-section of traditional retailers and manufacturers, ranging from FMCG products to toys, apparel and healthcare, along with suppliers of services such as logistics, technology and software. The qualitative survey asked respondents about the biggest challenges affecting them today. They were further asked what forms of technology they planned to adopt in the short-to-medium term to address those issues, and to keep pace with consumers and competitors.

More than 1,500 consumers were polled as well, almost evenly split between respondents in Hong Kong and those across the nine mainland cities of the Greater Bay Area: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai. This study compares survey results from consumers in these nine GBA cities in mainland China (hereafter referred to as 'the nine GBA cities') with those of their Hong Kong counterparts. The aim was to gauge their views on issues such as privacy, their adoption of technology and how well retailers and suppliers are meeting their expectations in the marketplace.



Note that all survey percentages were rounded to the nearest integer.

Executive summary

As retail consumers across the Greater Bay Area increasingly rely on digital tools, companies in the region are turning to technology with more urgency to carry out their business. Supply-chain operations are becoming more data-driven, consumers are growing more sophisticated in their online shopping, and expectations for faster and better transactions are reaching new heights.

Southern China is witnessing the rise of an agile and smarter marketplace, and what happens in the region has significant implications. The GBA comprises 11 major cities – nine in Guangdong province as well as Hong Kong SAR and Macau SAR – and it accounts for some 70 million people and GDP totalling USD 1.5 trillion.¹ Its population exceeds that of the UK, and its GDP is more than double that of the San Francisco Bay Area in the US.

Eyeing business advances as well as customer-targeted innovation, this year's report has uncovered five key developments that are closely tied to the future of retail in the GBA.



Data analytics is powering growth

When it comes to digital technology, analysing data is the most important business priority for the coming two years. But while 77 percent of polled executives said they are collecting data, only one-third are currently analysing the information. The good news for brands is that consumers appear to be relaxed about sharing data about themselves, although a high percentage have concerns about how securely that data is being stored.



Smarter business ecosystems are taking shape

As data is embraced as essential to business, companies across the GBA are becoming more receptive to new technologies strengthening their customer connection and service delivery. This is driving a digital transformation across sourcing, logistics, customer interaction and product sales both offline and online. Core analytics and cloud computing are coming into sharper focus as firms try to think and act smarter to gain a competitive edge.



Consumers are more tech-savvy than before

In the wake of fast-emerging digital technologies transforming how customers behave, more consumers are identifying themselves as “tech-savvy”. However, our survey identified a disparity between the technological adoption by Hong Kong consumers and by those from the nine GBA cities. While more than three quarters of respondents in the nine GBA cities identify themselves as tech-savvy, only slightly more than half of surveyed Hong Kong consumers do. These varying perceptions are explained by different uses of online resources between the groups.

¹ <https://www.bayarea.gov.hk>



Generation Z is driving change

When it comes to Generation Z, it is clear this demographic group is driving unprecedented change in the retail business. Brands are adjusting their strategies to meet the group's unique attitudes. Most surveyed companies targeting Generation Z are focused on providing a personalised and interactive experience, along with convenience and ensuring they optimise the mobile experience. As digital natives, this large segment of the population will become increasingly influential both as consumers and business leaders.



Brands are striving towards transparency

In general, consumers across the GBA are expecting more transparency from brands, caring deeply about ethics and social values. Their message is being heard by businesses: companies are lifting their game when it comes to engaging with consumers online.

Over the following pages, the key findings are presented in detail and compare how business is keeping pace – or not – with rapidly changing consumer demands. The analysis offers insights into how to shape the future digital ecosystem for the benefit of all stakeholders.



Alice Yip

Partner, Head of Consumer & Industrial Markets, Hong Kong
KPMG China



Anson Bailey

Partner, Head of Consumer & Retail, ASPAC,
Head of Technology, Media & Telecoms, Hong Kong
KPMG China



Anna Lin

Chief Executive
GS1 Hong Kong



Business innovation

The data challenge

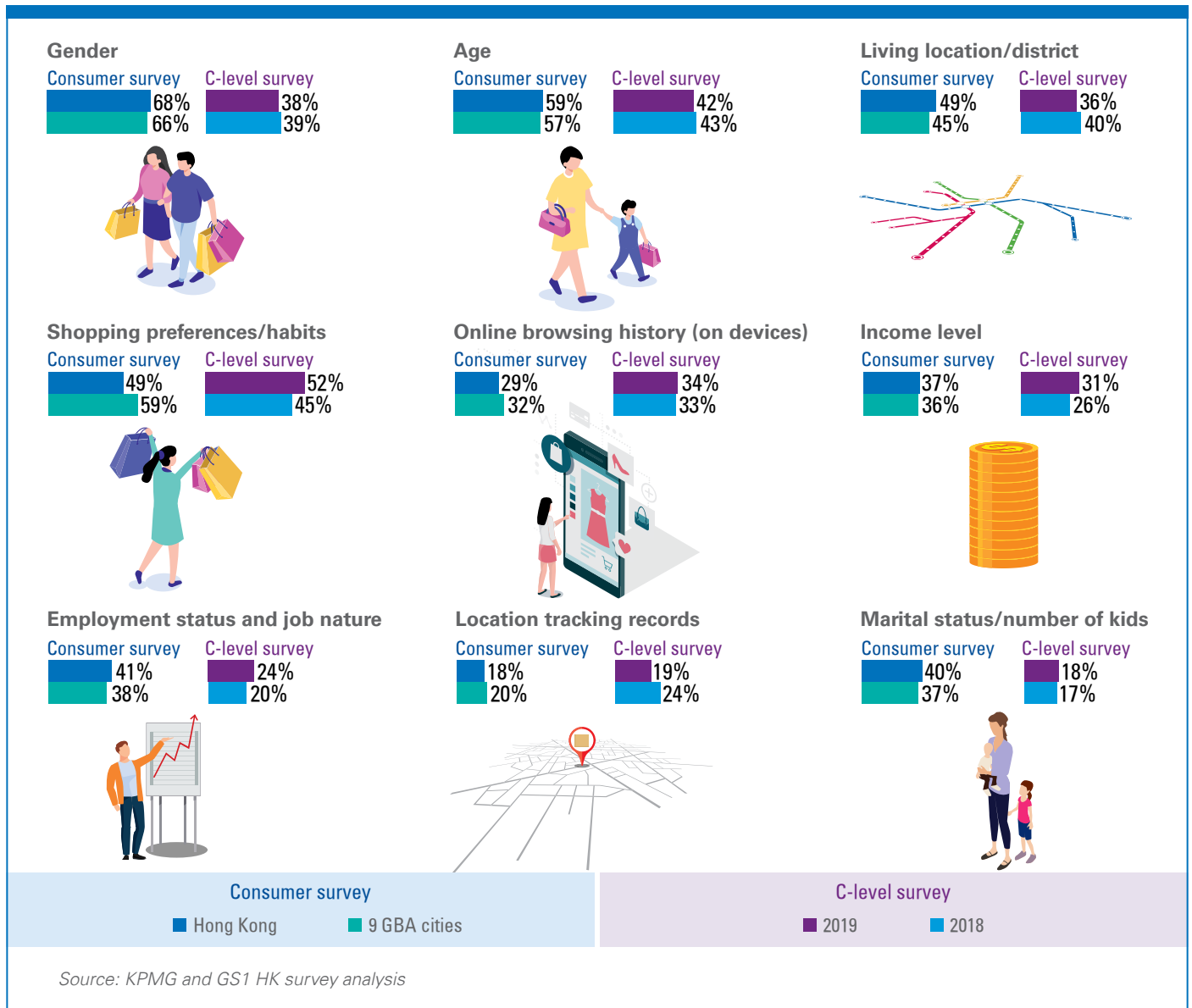
As more and more Greater Bay Area residents are shopping across multiple channels, retailers are continuing to embrace digital transformation and an array of technologies to meet consumer expectations.

Consumers are turning to online shopping and social media, while brands are recognising the opportunity to engage on a more direct and personal level. But that requires building robust profiles of customers at a time when their trust in the way companies collect and protect their personal data is waning, especially on the mainland. The good news for retailers is that consumers appear willing to part with data in order to receive a more customised service.

Hong Kong consumers seem generally more open to sharing demographic information with companies than is typical across the nine GBA cities we surveyed. More than two-thirds (68 percent) agree to disclose their gender; 59 percent their age; 49 percent the district in which they live and 41 percent their employment status and the nature of their job (see Figure 1.1). But only 40 percent are disclosing their marital status and the number of children they have, and just 37 percent are willing to share their income level.



Figure 1.1: Information collected for more customised service: what consumers share versus what companies collect



Delving more deeply into the information consumers share for a more customised service, responses from Hong Kong and the nine GBA cities were remarkably similar. The margin of difference in nine of the 10 answer options fell within 4 percent between the two subsets. The lone outlier was providing one’s brand and/or shopping preferences or spending habits. This was acceptable to 59 percent of respondents in the nine GBA cities, but to only 49 percent of Hong Kong consumers.

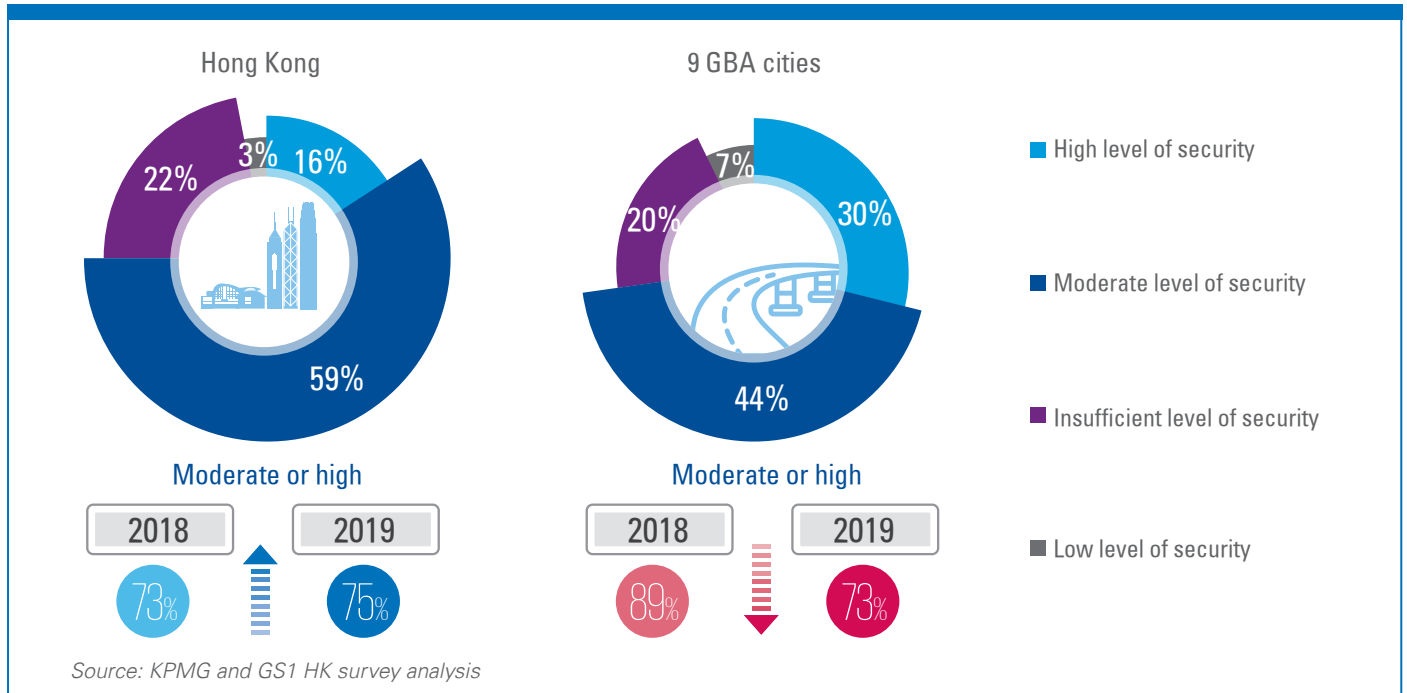
Retailers may find it useful to know that just 29 percent of Hong Kong consumers are prepared to have their browsing history on computers or digital devices recorded, compared with 32 percent of mainland consumers. Expressed another way, 71 percent of Hong Kong consumers and 68 percent of mainland consumers are not happy about companies seeing their browsing history. This presents a challenge to brands wanting to implement targeted promotions to customers who might be in the mood to purchase. Similarly, location tracking is acceptable to only 18 percent of Hong Kong consumers and 20 percent of their mainland counterparts.

Data-privacy divergence

When asked what they thought of the overall level of data-privacy measures being adopted by companies in the region, a divergence of opinion became apparent between consumers on either side of the border.

In Hong Kong, 59 percent of respondents felt the level of data privacy being maintained by retailers was moderate, but that number was 44 percent on the mainland side (see Figure 1.2). Just 16 percent of Hong Kong consumers believe there is a high level of security measures provided in general, compared with 30 percent across the border.

Figure 1.2: Thoughts on the overall level of data-privacy measures provided by companies



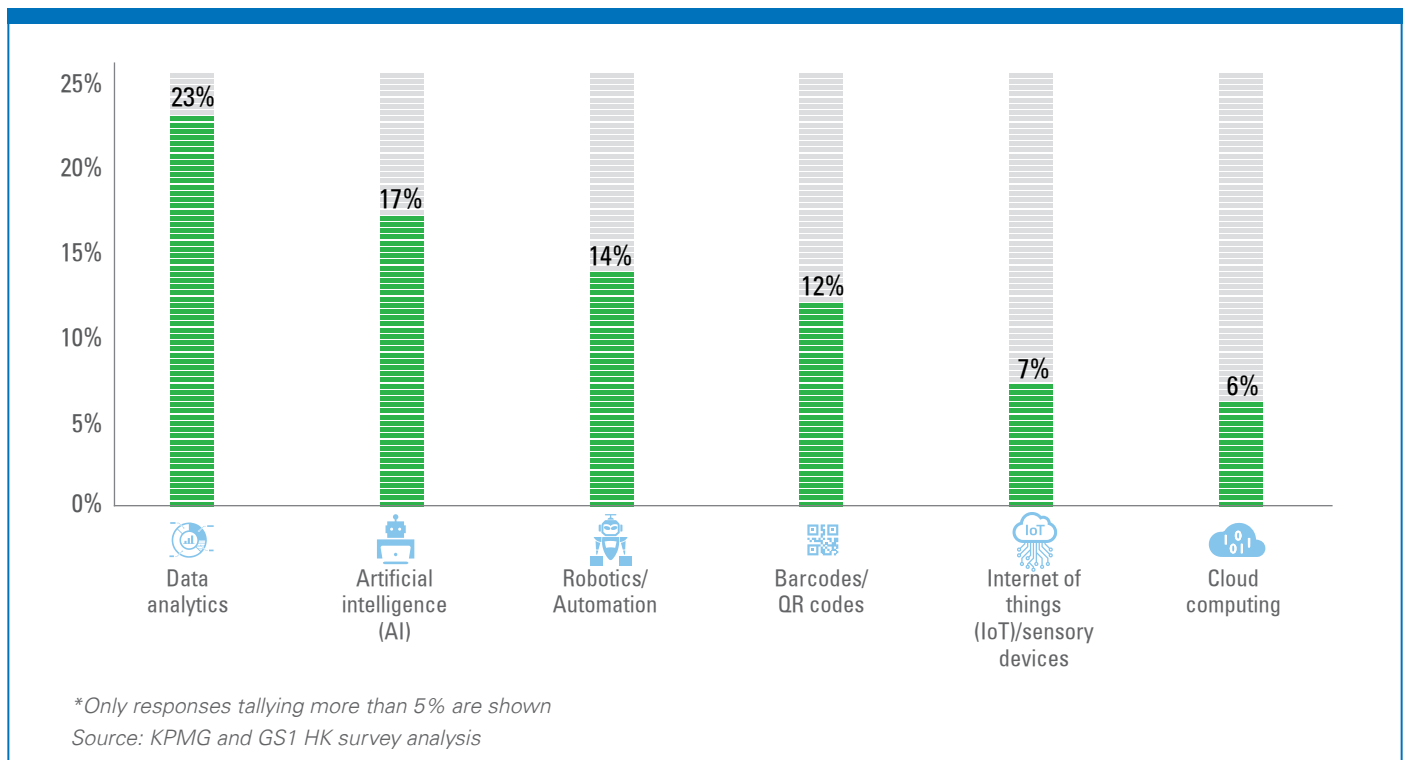
Approximately one in five people considered there to be an insufficient level of security measures in general. But only a small minority (3 percent in Hong Kong and 7 percent across the GBA) deem the level of security to be low.

As for data integrity, while Hong Kong consumers believe the level remained the same year on year, in the nine GBA cities, confidence fell from 89 percent last year to 73 percent this year. This suggests mainland consumers are more aware of privacy issues than they were previously.

Analytics a top business concern

With data flowing in, it makes sense that businesses would seize on the opportunities arising from vast amounts of consumer information. In terms of digital technologies to adopt, our C-level survey shows that data analytics is the most preferred pathway for businesses in the coming two years, at 23 percent (see Figure 1.3). This choice emerged as a clear favourite among various answer options, outpacing second-placed artificial intelligence, or AI (17 percent). These two were followed by robotics/automation (14 percent) and barcodes/QR codes (12 percent).

Figure 1.3: Most important digital technology for businesses in the next two years*

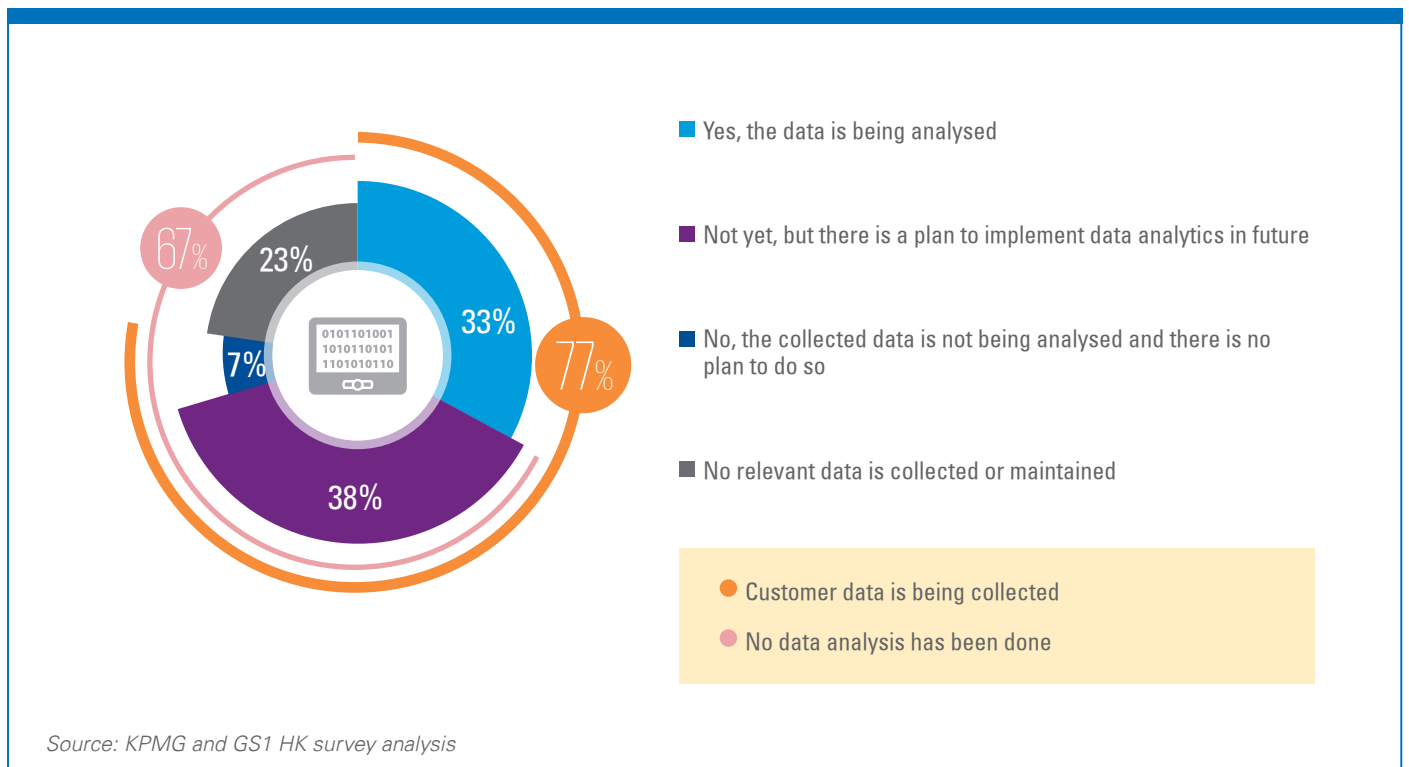


The next most-voted choices all polled in single digits: internet of things/sensory devices (7 percent), cloud computing (6 percent), RFID (5 percent), blockchain (4 percent), virtual reality/augmented reality (3 percent), and facial recognition (2 percent).

Based on these findings, it would seem that breaking down barriers to consumers sharing information should be a top priority. There are clearly still gaps between what buyers expect from retailers and what those retailers are delivering.

Our survey also revealed that when it comes to both collecting and analysing data, a massive 67 percent of executives are not doing so at the moment, even though there is widespread consensus that data analytics is important (see Figure 1.4). A solid majority (77 percent) are collecting at least some form of data from customers, but only 33 percent are analysing the information. A further 38 percent say they are planning to implement data analytics in the future, but 7 percent have no plans to do so.

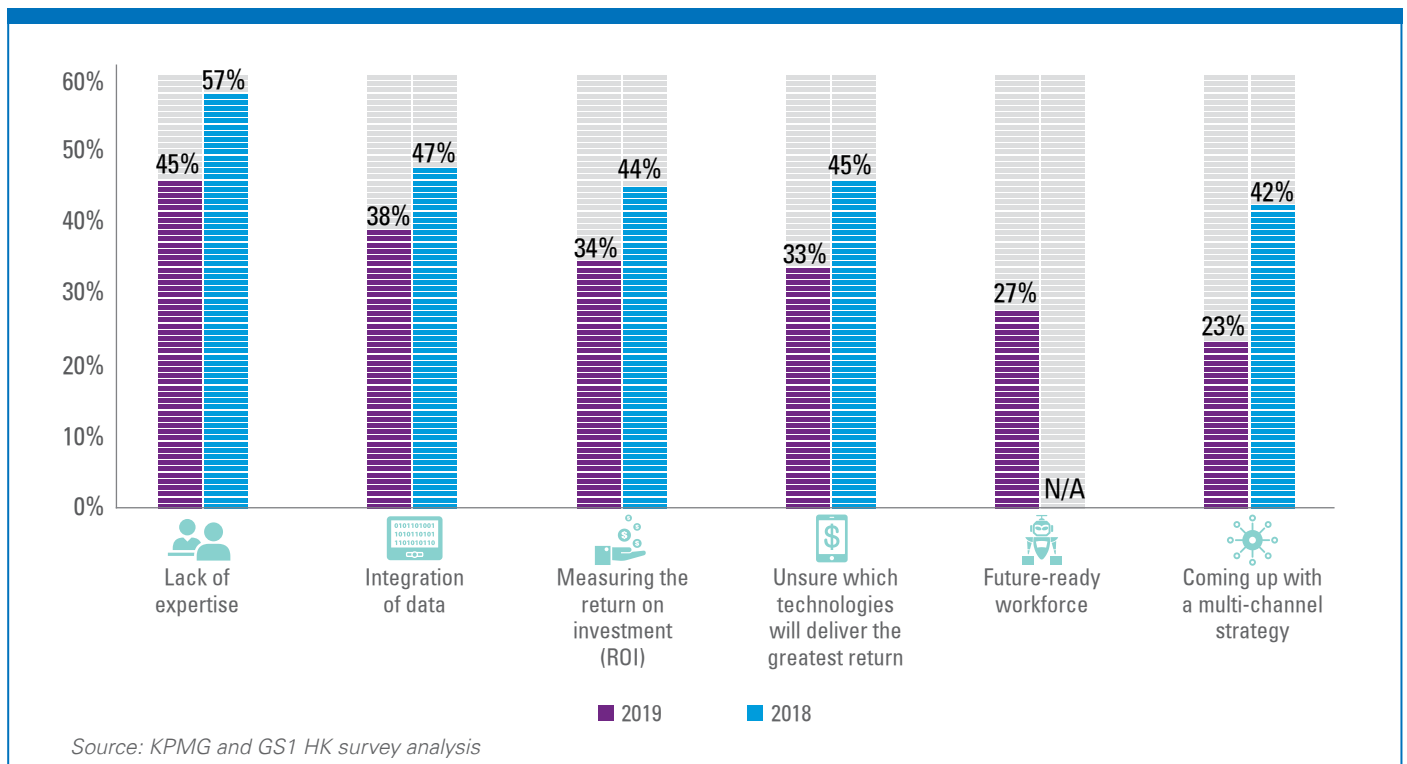
Figure 1.4: Do firms analyse collected data?



The absence of imminent plans reflects a lack of expertise of how to process consumer data efficiently. Most companies are already collecting data in some form through customer profiles for online shopping and loyalty programmes. The issue is knowing how to proceed, where to get advice and perhaps having a lack of knowhow to set the ball rolling.

Indeed, for the second straight year, a lack of expertise was cited as the top challenge companies face in this digital age, at 45 percent (see Figure 1.5). Integration of data followed, at 38 percent, then measuring the return on investment at 34 percent. The demand for talent across the GBA is a key finding from this survey. This indicates a need for investment in training and recruitment in digital and data sciences, whether developed in-house or contracted from third-party specialist providers.

Figure 1.5: Challenges companies face in the digital age

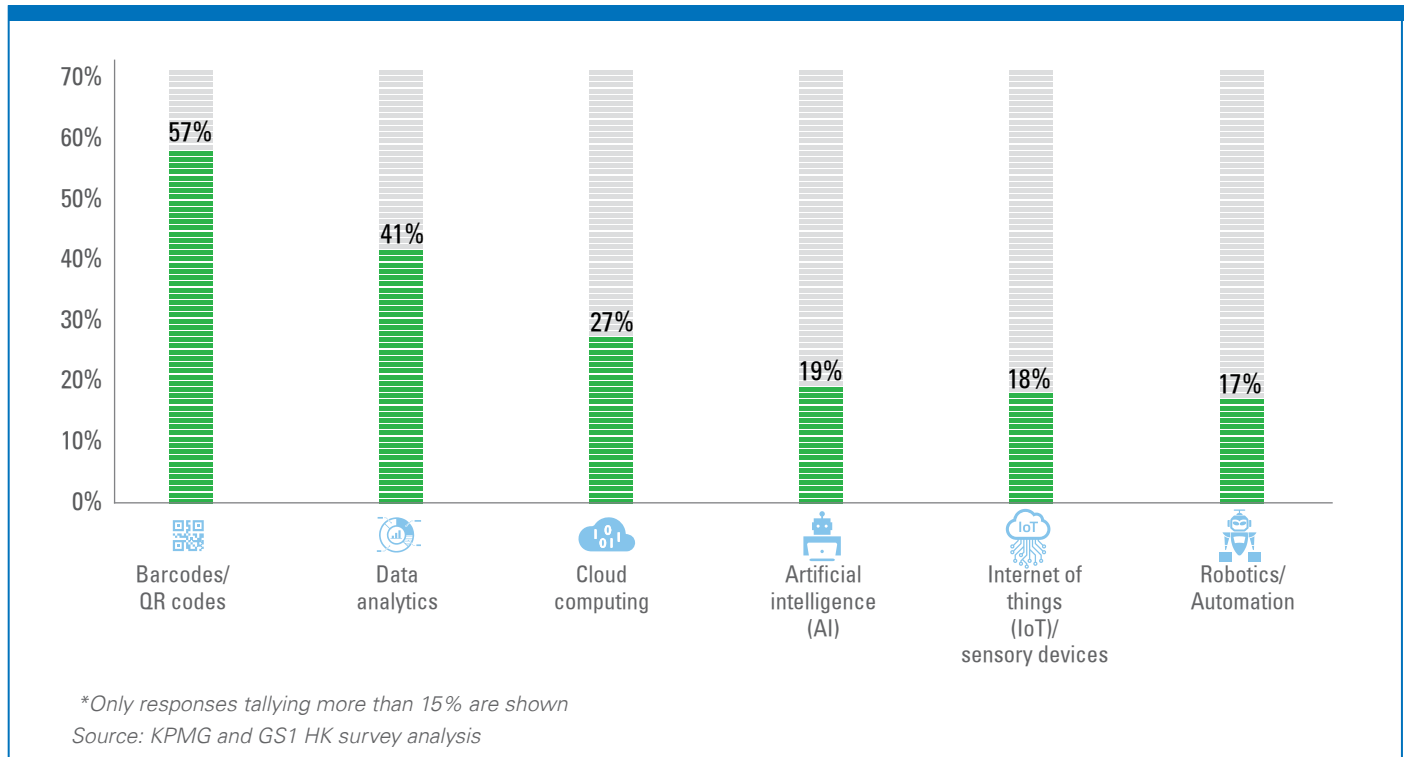


Digital-technology priorities are shifting

When it comes to adopting new technologies in order to digitally transform their business, companies appear to be thinking more broadly this year.

Asked to select the technologies and solutions being used, C-level executives again put barcodes and QR codes on top, at 57 percent (see Figure 2.1).

Figure 2.1: Technologies and solutions companies are using*



Core analytics were identified by 41 percent and cloud computing by 27 percent. Both these options were new to this year's survey, and they effectively supplanted GPS tracking, RFID, automation and AI in importance.

AI still rated – at 19 percent – along with the Internet of Things at 18 percent and robotics and automation at 17 percent. They all outrank RFID at 16 percent (down from 25 percent last year) and GPS tracking at 14 percent (down from 26 percent).

Perhaps surprisingly, technologies that are subject to a high level of awareness and labelled as being significant within the industry right now are being considered less of a priority for implementation. Blockchain languished at 11 percent, facial-recognition technology just 9 percent (the same level as last year), and chatbots at 8 percent (down from 14 percent last year). Biometric authentication, VR, 5G, and voice recognition barely registered.

The obvious question is why companies seem to be ranking the importance of new-generation technologies so low, even though there is clear acceptance that digital strategies and technologies are a critical part of positioning companies and brands for the future.

The answer appears to lie in a lack of core understanding of how to implement technologies and which should be assigned as being the highest priority. This returns to the finding that there is a shortage of expertise. While it is clear that C-level executives recognise they need staff trained in technology initiatives, they are not finding it easy to recruit or train people in new skill sets. A further complication is that many managers may not yet be confident they fully understand some technologies or their potential, something that is consequently holding back decision-making on investment.

How to measure the return on technology investment poses another significant challenge for retail businesses, with 33 percent unsure which technologies will provide the greatest returns, upholding the inference that many C-level executives may not fully understand them all. A new option in this year's survey was the "future-ready workforce," selected by 27 percent, again highlighting the gap of skill sets in the retail industry (see Figure 1.5).

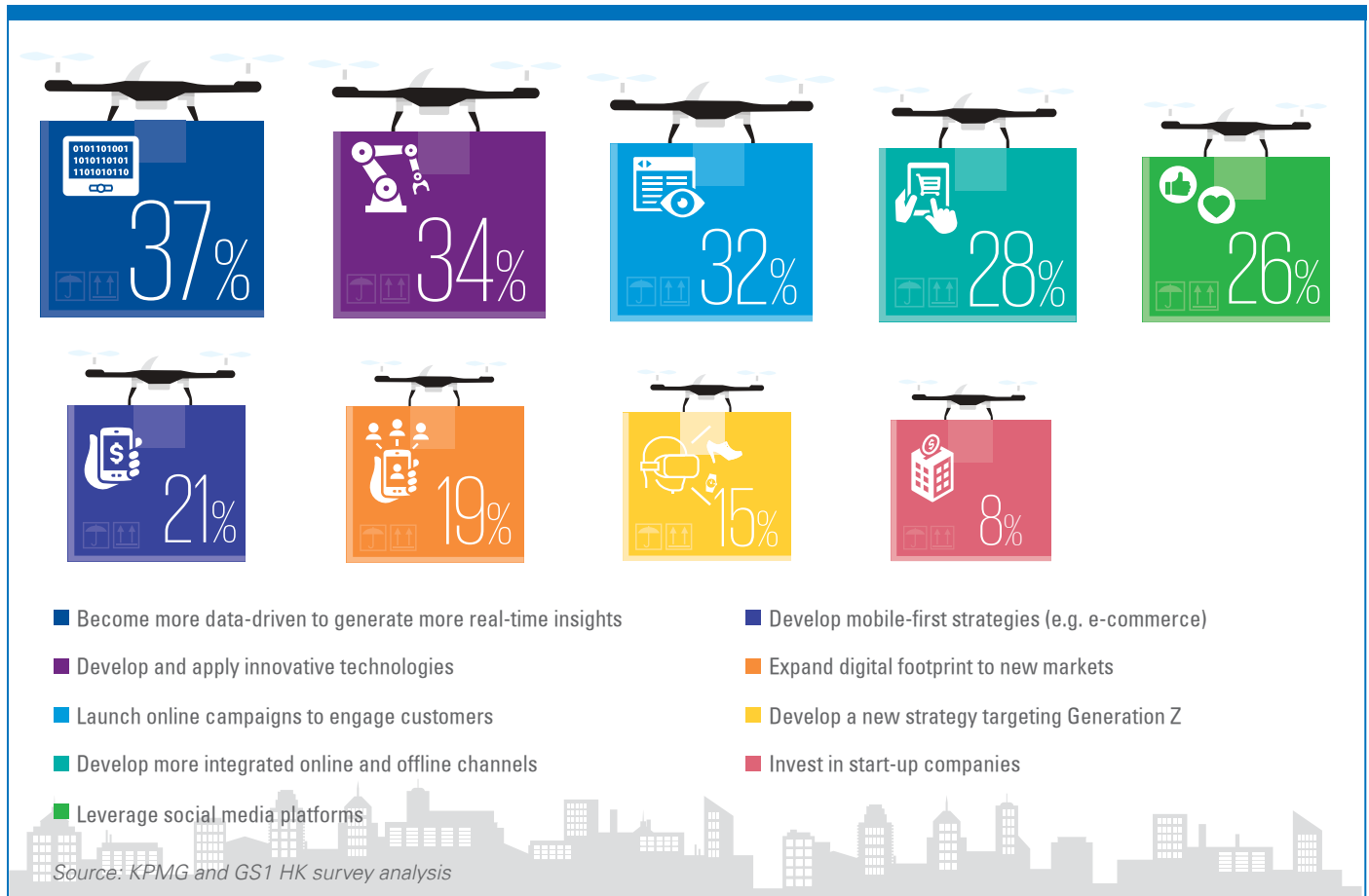
None of these issues, however, seem to be preventing retailers from adopting multichannel strategies. The most significant year-on-year change in our question to executives about the challenges their organisations currently face was a drop from 42 percent to just 23 percent on developing a multichannel strategy. It appears companies have overcome the perceived barriers and implemented at least some form of working solution to omnichannel retailing.

Growth in the next two years

We also asked executives to choose the growth strategies their businesses plan to adopt in the coming two years (see Figure 2.2). Consistent with data analytics polling highly elsewhere in the survey, the top three places were becoming more data-driven to generate more real-time insights (37 percent); developing and applying innovative technologies to increase one's competitive edge (34 percent); and launching online campaigns to engage customers (32 percent).



Figure 2.2: C-level executives' growth strategies for the next two years



Moreover, 28 percent said they want to develop more integrated O2O marketing and fulfilment strategies to bridge online and offline channels, and 26 percent seek to leverage social media platforms for consumers to search for product opinions and feedback.

Developing more mobile-first strategies incorporating e-commerce payments options was favoured by 21 percent – just ahead of the 19 percent who selected expanding their digital footprint into new markets. A mere 15 percent said they would spend the next two years developing new strategies to attract Generation Z customers.



Data is the foundation for business success today. Accurate, sharable, searchable and linkable information is critical to redefine the customer experience, while data analysis and intelligence that generate insights can help retailers and brands stand apart.

Anna Lin
Chief Executive
GS1 Hong Kong







How data is changing the supply-chain sector

Jez McQueen

Managing Director, Hong Kong and Macau,
SF DHL Supply Chain China

In an era when data is ever more vital to companies making informed business decisions and driving competitive strategy, the supply chain might until now have been overlooked as an invaluable provider of up-to-the-minute information. At SF DHL Supply Chain China, Jez McQueen has made sure that would not be the case.

After transferring from mainland China to Hong Kong, the managing director identified two key mantras: to embrace technology and make data-driven decisions. These directives led him to seek innovative solutions towards building technology-driven supply chains. Three years on, the firm's tech enhancements range from robotics and warehouse-retrieval systems through to AI and camera analytics designed for quality assurance.

Any logistics service by nature generates significant volumes of data as goods are ordered, dispatched, tracked and delivered. Potentially groundbreaking insights await those who can collect, manage and interpret that data.

The 'perfect SKU'

SF DHL in Hong Kong has created a performance analysis for clients to identify what it calls the 'perfect SKU': a theoretically impeccable stock-keeping unit for a particular type of customer in their sector. By then investigating what the deviations from that perfect SKU are, SF DHL can identify different potential storage and handling strategies.

By considering more than the fulfillment of KPIs, McQueen says, the company is able to talk to its customers "in a completely different language." He adds, "We can now take that data to them and help them make data-driven decisions about their own business."

Whilst that approach has the potential to reduce the volume of a client's products in the warehouse following systems improvements based on SF DHL's data, McQueen regards helping customers to boost supply velocities as the overall benefit. "We always use an old adage in logistics," he says. "You don't get paid much for storage. It's all about movement"

Rise of the robots

In the case of warehouse and transport-management systems, SF DHL has made substantial investments, seeking to make the most of increasingly sophisticated mobile phone-based technologies. There is now

significantly less need to install expensive systems to monitor basic data such as GPS positioning, which can now be done with a smartphone, McQueen says. For example, apps can take a picture of a proof of delivery (POD) and immediately upload it to the firm's central servers. This simple process allows SF DHL to close down orders for customers within a minute, rather than waiting for physical PODs to come back to base and be checked.

Operational processes are also becoming faster. The firm has brought in technologies such as automated guided vehicles, or AGV, into its warehouses to keep things moving, and it seeks to build further robotic task automators into its systems in future. These moves optimise use of warehouse space in Hong Kong, where physical space is at a premium.

Automation helps in other important ways. It can reduce pressure on finding staff at a time when Hong Kong's population is rapidly ageing and while recruiting younger people to work in warehouses remains challenging. Robotics can also make heavy warehouse work more comfortable for employees, McQueen says. They can use machines to move products from hub to conveyor to pallet. The firm recently built a VR health and safety system to gamify training. The idea is to make the logistics industry more attractive to younger talent, while driving efficiencies to be more cost-effective for customers.

McQueen sees a big threat to the industry coming from major e-commerce players that have their own logistics arms. Meanwhile, the industry has brought in smaller platforms with online sales functions for which SF DHL can offer fulfilment services. While many observers view the advent of e-commerce as transformative, McQueen believes the field is as wide open as ever.

"There are so many different types of supply chains out there," he observes. "To get fruit from the provinces of western China onto the table here is not an e-commerce solution. There still is a supply chain challenge: collection, consolidation, primary movement, secondary movements and value-added services as the fruit moves."

McQueen advises against getting "fixated" on the idea that "everything is commerce" and that data-led innovation has a more specific engine. "We see it as being more about technologies," he says.



Spinning the perfect fit with digital technology

Walden Lam

Co-founder, Unspun

Retailers are now capitalising on the power of digital technology to build immediate, personalised interactive channels with customers – developing new tools that focus on consumer pain points within existing business models.

Walden Lam, co-founder of on-demand fashion production technology start-up Unspun, is exploring a breakthrough solution to address the difficulties that clothing buyers have in finding the perfect fit. Using body scanning and 3D-weaving machines, the firm creates personalised garments to order.

The second major intention behind Unspun is focused on sustainability: to replace store inventories by producing clothing on demand, thus reducing wastage from unsold products.

Currently promoting its product through a series of pop-up stores, Unspun is expecting to immerse itself deeper into Hong Kong's retail landscape within months as it develops 3D-weaving machines within the GBA, based on its working prototypes. That should help to bring down the cost of the start-up's line of denim jeans from its current level of around twice the price of its standard industry competitors.

While the solution will ultimately be based on technology through the ability to order online or through apps, Lam is hesitant to characterise its business model as an O2O move, instead positioning the concept as being "slightly ahead of the curve". In the immediate future, Unspun still relies on consumers visiting physical touchpoints to undergo the scanning process, although he is keeping a close watch on innovations in mobile-phone technology that will allow scanning to be done at home.

Now that Apple's iPhone X has adopted a suitable high-fidelity sensor, Unspun expects that consumers will generally be able to do scanning themselves within the next two years. This development could open up what has been a key limiting factor for the business.

Front-end innovation

The opportunities for Unspun's growth are becoming evident as the potential of the technology to open further avenues for innovation in fashion unfolds, although some industry inertia can prove challenging, Lam says. Many of the companies now reaching out

to Unspun are retailers and fashion brands.

Lam asserts that while exciting things are happening at the front end of retailing – on technologies, e-commerce, and how they build brands to engage with consumers – on the back end, especially with the supply chain, little innovation has happened.

"If you look at that group of business partners, or potential business partners, we're looking at a group of companies that are not very experienced in either internally innovating or working with external parties to innovate," he adds.

Fashion futures

Developing Unspun as a future-forward business has given Lam a unique perspective on the direction of the fashion industry, as well as retail in general.

"Three to five years into the future, how much of the production can actually happen inside the store?" asks Lam, who sees the future of fashion buying as being tied to the retail experience. He notes that with more in-store production, there is less of a need to create as many stock keeping units.

Moreover, customers are increasingly asking for transparency, making it sensible for more of the production process to happen on the retail front versus the back end, where consumers are more likely to pose questions about how and where the materials were sourced and the garments made.

"Retail will be part of entertainment, or experience, where people look for reasons to come and engage," he explains.

While this implies a strong focus on personalisation, especially in the fashion world, it is clear that opportunities to offer consumers personalised goods is actually dependent on the technologies available to retailers.

Lam believes that many of the advances introduced over the past few years, such as the magic mirror and beacon technology, failed to take off because they did not truly solve a fundamental pain point for consumers.

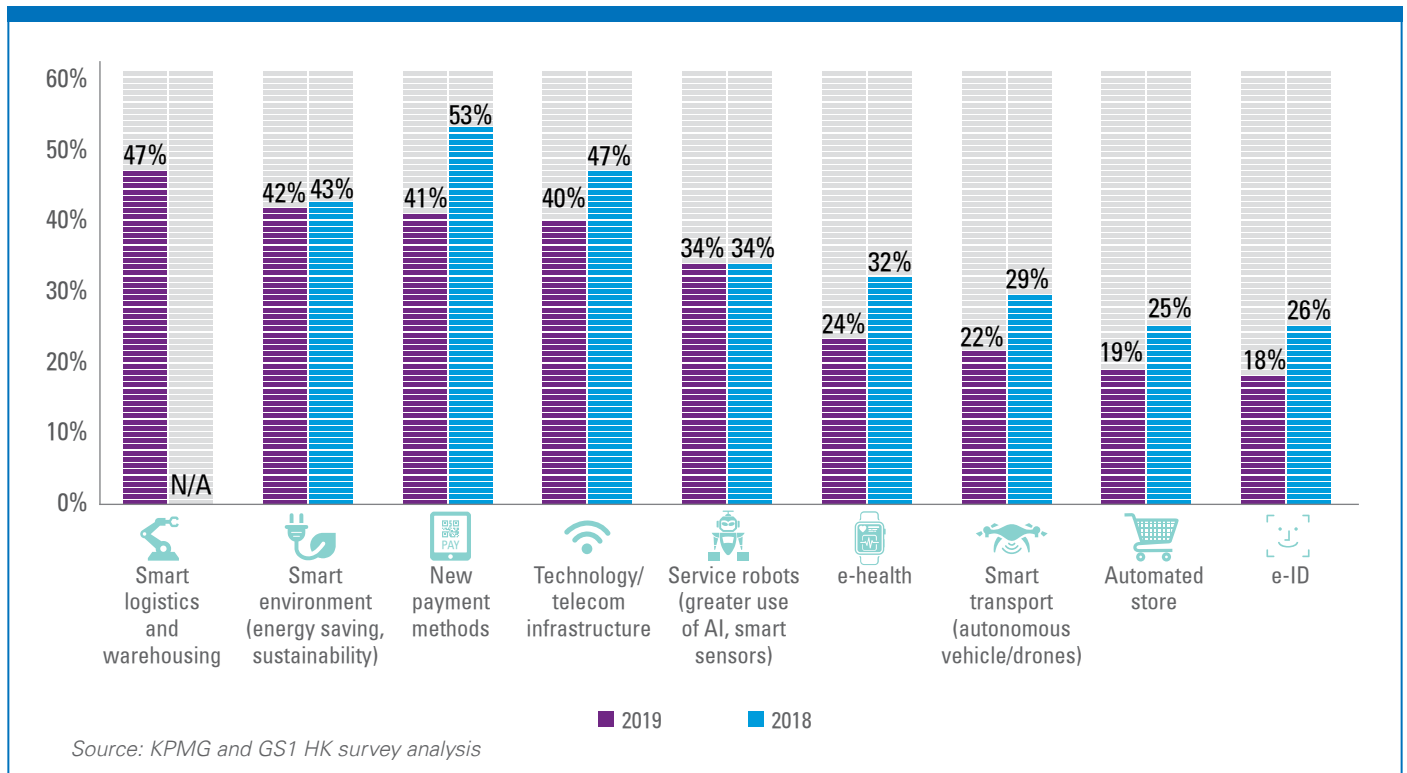
"It's very hard to sustain engagement with consumers without focusing on the core of the actual pain point that consumers want to solve with these technologies," he says.

Embracing smarter business ecosystems

As a push by the nine GBA cities to embrace a connected cities strategy gains traction, both consumers and businesses are paying more attention to how existing infrastructure may evolve.

We asked C-level executives and consumers to choose what they perceive to be the most important smart-city drivers in the coming two years. Among the executives, smart logistics and warehousing topped the list, at 47 percent, beating out smart environment strategies, such as energy saving and sustainability, at 42 percent (see Figure 3.1).

Figure 3.1: 'Smart city' drivers in the next two years from business' perspective



As logistics and warehousing was not an option in last year's survey, its top ranking this year serves as a message to industry that e-commerce is expanding to encompass services such as food delivery. In short, people expect efficiency and reliability.

The executives we surveyed also cited new payment methods (41 percent); technology and telecoms infrastructure (40 percent); and service robots (34 percent) in substantial numbers. However, other drivers such as e-health (24 percent) and smart transport (22 percent), which includes autonomous vehicles and drones, as well as automated stores (19 percent), and electronic ID (18 percent) lagged well behind.

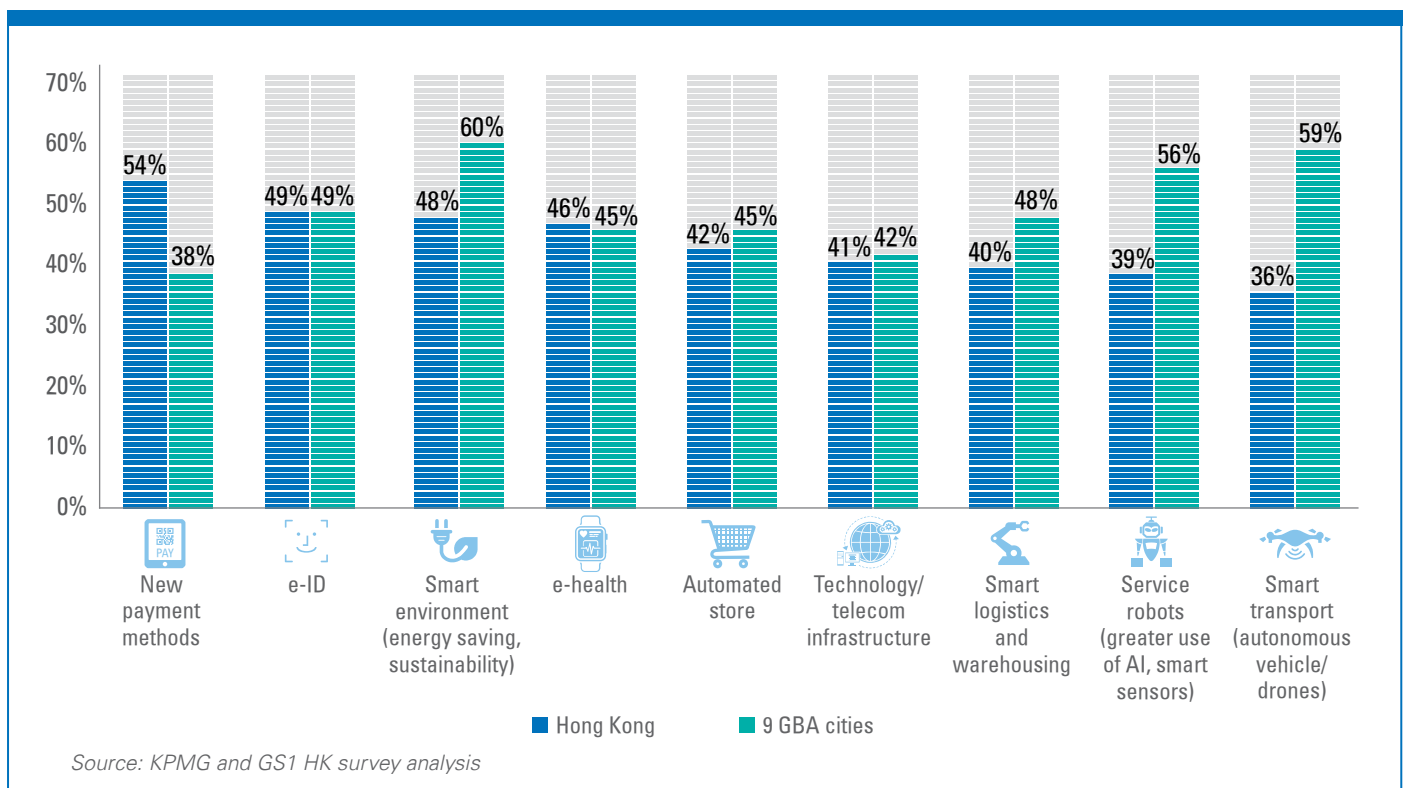
Looking further at the findings, the 40 percent showing for technology and telecoms infrastructure was down seven percentage points from last year's results. Smart environment and service robots were the only two smart-city drivers to show no statistically relevant difference between the two years.

Consumers' smart-city priorities

However, comparing consumers in Hong Kong with those living in the nine GBA cities, the survey results reveal a relatively broader understanding in those mainland locations of how technology can enhance efficiencies (see Figure 3.2).

Mainland consumers voiced significantly different priorities compared to Hong Kong consumers. Across the nine GBA cities, smart environmental issues, at 60 percent, was the most-chosen option as a smart-city driver, edging smart transport (59 percent) and service robots (56 percent), which include the greater use of devices enlisting AI, smart sensors and Internet of Things.

Figure 3.2: 'Smart city' drivers in the next two years from consumers' perspective



In contrast, when drilling down into Hong Kong consumers' responses, both smart environment and service robots were chosen by a considerably lower number, at 48 percent and 39 percent, respectively. That begs the question whether Hong Kong residents are aware of the ubiquity of new-generation, technology-driven services in the wider GBA, or just do not regard them as having a great potential impact on their lives.

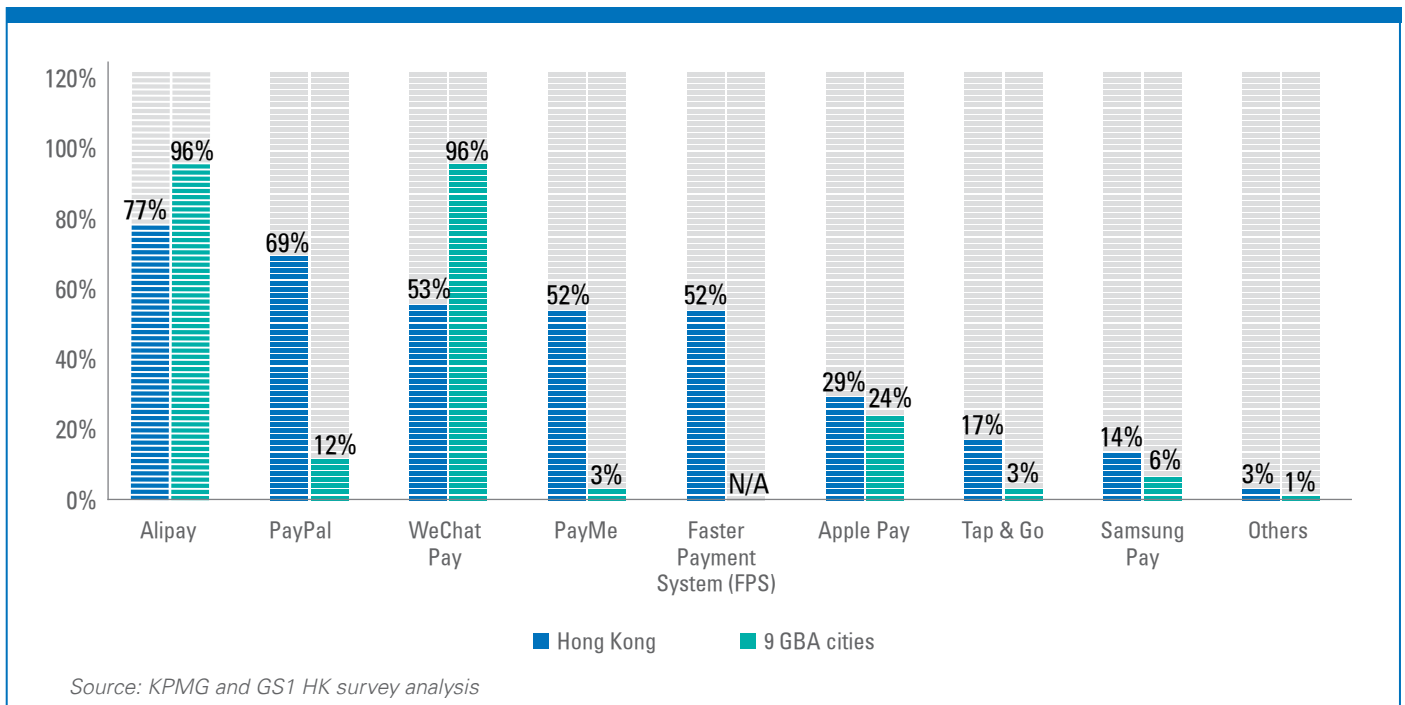
Different attitudes on payment methods

A question on payment methods further illustrated starkly different attitudes between the two groups of consumers (see Figure 3.2). Hong Kong respondents singled out new payment methods as the most important smart-city driver in the next two years. At 54 percent, it was the only choice to elicit a majority of responses from Hong Kong consumers. The rest of the city's top choices were e-ID (49 percent), smart environment (48 percent) and e-health (46 percent).

Combining results from the mainland cities, 38 percent considered new payment options as important, making it the least-important smart-city driver on the list for respondents from the nine GBA cities. This clearly reflects that Hong Kong retailers have a long way to go to catch up with their mainland counterparts and that consumers expect greater flexibility in how they pay for goods and services.

There are also significant differences between residents in Hong Kong and the nine GBA cities when it comes to the mobile payment tools they use regularly (see Figure 3.3). Alipay and WeChat have each achieved significant market penetration on the mainland, with both apps being used by 96 percent of the mainland respondents within the last year, compared with just 77 percent and 53 percent of Hong Kong consumers respectively. PayPal was the second-ranking payment tool among Hong Kong consumers, with 69 percent having used it within the last year, compared with just 12 percent of their mainland counterparts.

Figure 3.3: Mobile payment tools among those who used them in the past 12 months





Online Shopping



Checkout

Add to cart

Phone or email:

Password:



Vacant textile mill weaves new identity as nucleus for innovation

Vanessa Cheung

Group Managing Director, Nan Fung Development Ltd and Founder, The Mills

In the heart of Hong Kong's western New Territories, a vacant textile mill has been repurposed as an experiential retail mall, an innovation hub and gallery space. It is a bold symbol of the city's evolution from one of the world's leading textile manufacturing bases into a 'techstyle' hub.

The Mills provides a home for start-ups to explore cutting-edge technology solutions for modern-day techstyle industry challenges such as sustainability, exploring the circular economy and personalisation. The revitalised site in Tsuen Wan houses three functions: Shopfloor – a new retail space with interactive elements, Fabrica – a business platform offering incubation, funding and spaces to techstyle start-ups, and Centre for Heritage, Arts and Textiles, or CHAT, a museum offering a reminder of a time when Hong Kong supplied most of the world's fabrics.

Conceived by Vanessa Cheung, group managing director of Nan Fung Development Ltd and the project's founder, The Mills puts innovation at the core of its raison d'être. But Cheung insists all the innovation must be designed to benefit consumers first and foremost.

"Few consumers would use tech for tech's sake," she explains. "It's more important that technology delivers convenience, a better-quality product or service, or creates a more delightful customer experience."

In selecting retail tenants on The Mills Shopfloor, Cheung and her team look for partners or start-ups that solve both consumer and retailer problems. Its 'Garment-to-Garment Recycle (G2G) System' is an example – a concept that breaks down unwanted clothing into fabric that can be used to produce new garments. Housed in a glass container, it invites customers to participate in the production process as part of an integrated consumer experience. The store also sells apparel created from the G2G System. Another, Unspun (an incubatee of The Mills Fabrica that hosted a pop-up on Shopfloor), scans a customer's body before using 3D printing to create customised denim jeans, ensuring the customer finds their perfect fit and saving retailers from having to stock inventory in multiple sizes.

Experiential retail in focus

Cheung and the investment fund behind her venture, Fabrica Fund, say the ideal business ventures to invest in at the site are companies that connect offline and

online as well as deliver personalised experiences to consumers. While some have their own retail space, others are housed in Techstyle X, an experiential "retail showroom" of up-and-coming technologies and products in the techstyle/lifestyle space.

While technology is important, the experiences that customers can identify with are even more valuable, Cheung says. "At its heart, O2O (online-to-offline) is about creating a seamless customer experience," she adds. "It is about how you use online to draw traffic offline, and offline to convert sales online. The critical success factor is in creating experiences that customers can enjoy with each other."

The Mills Fabrica's first investment was in social-commerce platform Goxip. More recently, it funded direct-to-consumer brands including Simple Pieces as well as circular-economy technology connector Reflaunt. All are start-ups focused on transforming the techstyle space, be it new retail platforms, brand concepts or ones that focus on sustainability such as the circular economy, waste reduction or upcycling and new materials.

Millennials seeking meaning and purpose

Many of Hong Kong's techstyle start-ups are targeting a younger demographic, who value experiences and want to reduce their environmental footprint. These start-ups made the commitment to create true sustainable products from design, sourcing materials to identifying responsible manufacturing processes.

Cheung believes consumers who identify as Millennials and Generation Z are "searching for meaning and purpose." They are particularly open to new technologies that reduce waste, add value and engage.

"They have a desire to express themselves and they want to be heard," she notes. "This has resulted in a proliferation of apps and other brands that speak to this demographic."

More fundamentally, a great deal of what The Mills does is about giving these generations hope, Cheung says, to inspire them and allow them to reimagine and create the change they want to see in the industry or their community.

"Sustainability is a huge part of this demographic," she adds. "It is both the right thing that all businesses should do and seen as a 'cool' thing to be supporting."



Flourishing business opportunities with pick-up/drop-off networks

Philip Murton

Sales Director, Royale International

As the online retail business grows in importance, industry players are discovering new ways to leverage the convenience and immediacy of e-commerce to expand on existing practices. In the logistics industry, pick-up/drop-off (PUDO) networks have provided businesses with a flexible alternative to delivery services. PUDO has become increasingly popular with consumers, eliminating their need to be home at a predetermined time to receive goods.

Among the companies adopting this still-emerging trend in Hong Kong is logistics company Royale International, which specialises in time-critical delivery, e-fulfilment, warehousing, global shipping and local mail distribution. The company is new to e-commerce. When it first looked into its potential several years ago, it was clear that the profit margins then would not justify crossovers from the firm's traditional logistics processes into the online space.

Everything changed when the convenience store chain 7-Eleven approached the company in search of a partner to deliver into its new PUDO network. At the time, Royale saw an opportunity to leverage the chain's network of more than 400 stores around Hong Kong as collection points for its courier business.

"We're putting a lot of focus on e-commerce," says Royale International's sales director Philip Murton of the firm's new approach. "I think it's pretty obvious now if it wasn't already that it's 100 percent the future of retail."

Drop off and scan

In the deal it struck with 7-Eleven, Royale became a logistics arm for delivering e-commerce shipments into their stores. Royale makes the delivery and the store scans it, triggering an SMS to the consumer alerting them to the waiting parcel's location for pick-up. Royale started out by leveraging 7-Eleven's PUDO network as a channel for Taobao deliveries before growing the business model with other clients.

Sending unwanted return products from consumers back to a vendor's warehouse is also lucrative. The arrangement still uses 7-Eleven stores but delivers goods in the other direction. When Royale contracted with product returns firm Rebound Returns, it amounted to a breakthrough.

"You can now return your item to that store, drop it off, the store scans it, we go out and pick it up, we fly it back to the UK and deliver it to Asos's returns warehouse," Murton explains in the case of the UK's leading online fashion retailer. "This business model generates over USD 1.5 million per annum for Royale across its client base."

Expanding the network

Success breeds success, and this is no different in the e-commerce space. Royale Internationale went on to expand its network to include 200 Circle K stores and 100 parcel lockers, resulting in around 700 locations throughout Hong Kong. Consumers can return or pick up their goods as long as the retailer has integrated its systems with Royale's. The firm is now selling this solution to retailers, letting them know that at checkout they can offer a PUDO service instead of just a residential delivery.

"Consumers love it. It's much more convenient. They want options at checkout, so it's the way to go," says Murton. "And then we'll do an integration with the retailers on our API (application programming interface). We've been growing that over the last two to four years."

The new business format has taken hold quickly. Shipment numbers are tallying at around 30,000 per month with the potential to hit 100,000 per month by the end of the year. With a head start in PUDO, Royale is now working on a similar integration with 7-Eleven Taiwan and its network of 5,500 locations there to grow the business. Singapore is an option for expansion, as are Australia and New Zealand.

The firm's medium-term goal is to have a regional PUDO network, offering retailers access to a network spanning as many as 10 countries across the region with a single API integration.

"No one else is doing that presently," says Murton. "I think in five years' time the demand is definitely going to be there. PUDO is becoming more popular. Everyone is now shopping online. Without a doubt, it's not going to go away."



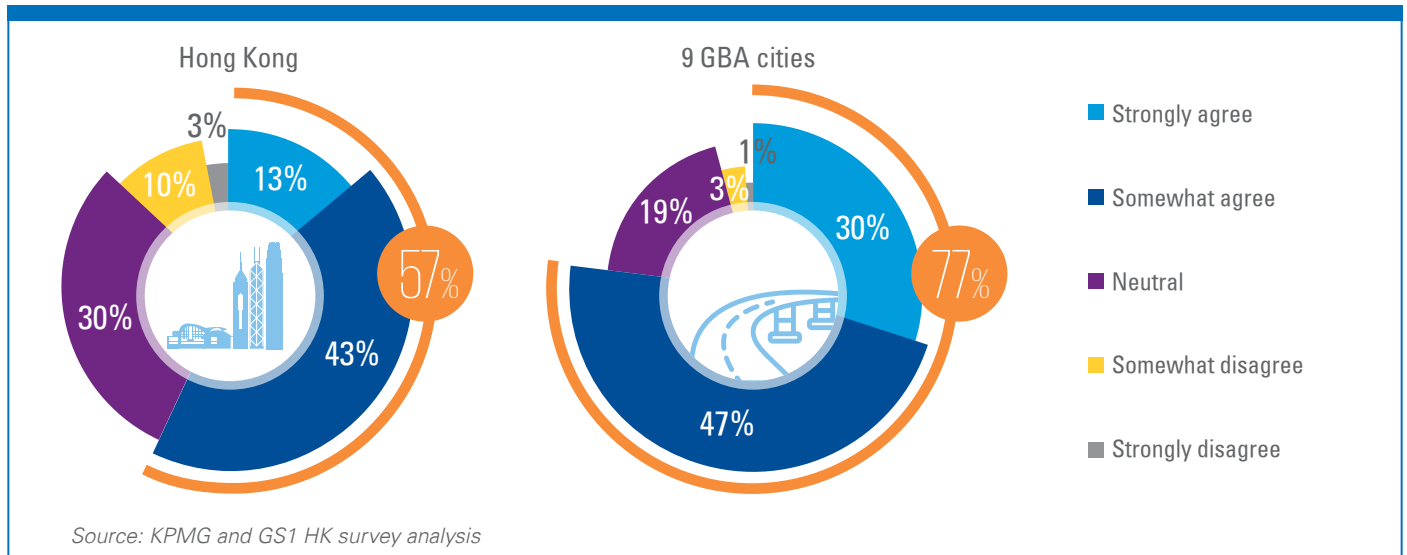
Customer-centric innovation

Who identifies as 'tech-savvy'?

Fast-emerging digital technologies are responsible for a transformation in the ways consumers behave, from online shopping and ride-sharing through to fitness monitors worn on the wrist.

Our survey identified a marked disparity between technological adoption among consumers in Hong Kong versus those from the nine GBA cities. While 77 percent of mainland respondents identified themselves as "tech-savvy", a mere 57 percent of Hong Kong consumers did the same (see Figure 4.1). And only a slightly higher number (60 percent) of Hong Kong consumers claimed to be "mobile-savvy" compared with a hefty 84 percent of their mainland counterparts (see Figure 4.2).

Figure 4.1: 'I am a tech-savvy consumer'



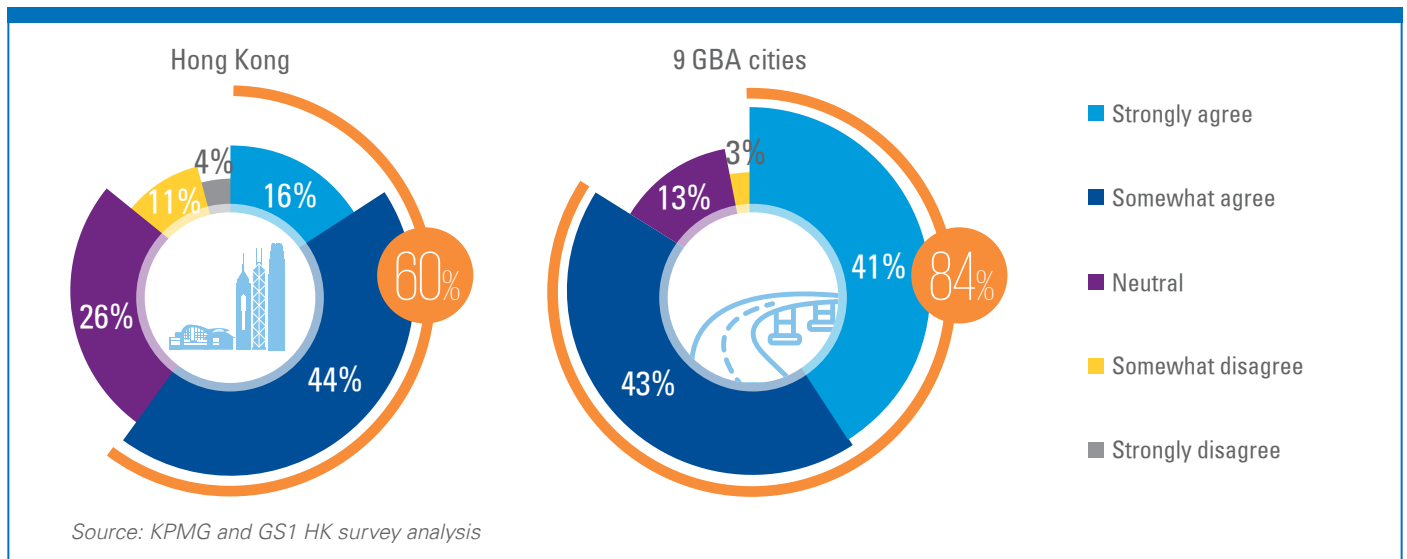
Digital technology is transforming the retail industry. As data analytics drives growth for companies and consumers become more tech-savvy, expectations for faster and better ways of doing business are rising.

Alice Yip

Partner, Head of Consumer & Industrial Markets, Hong Kong
KPMG China

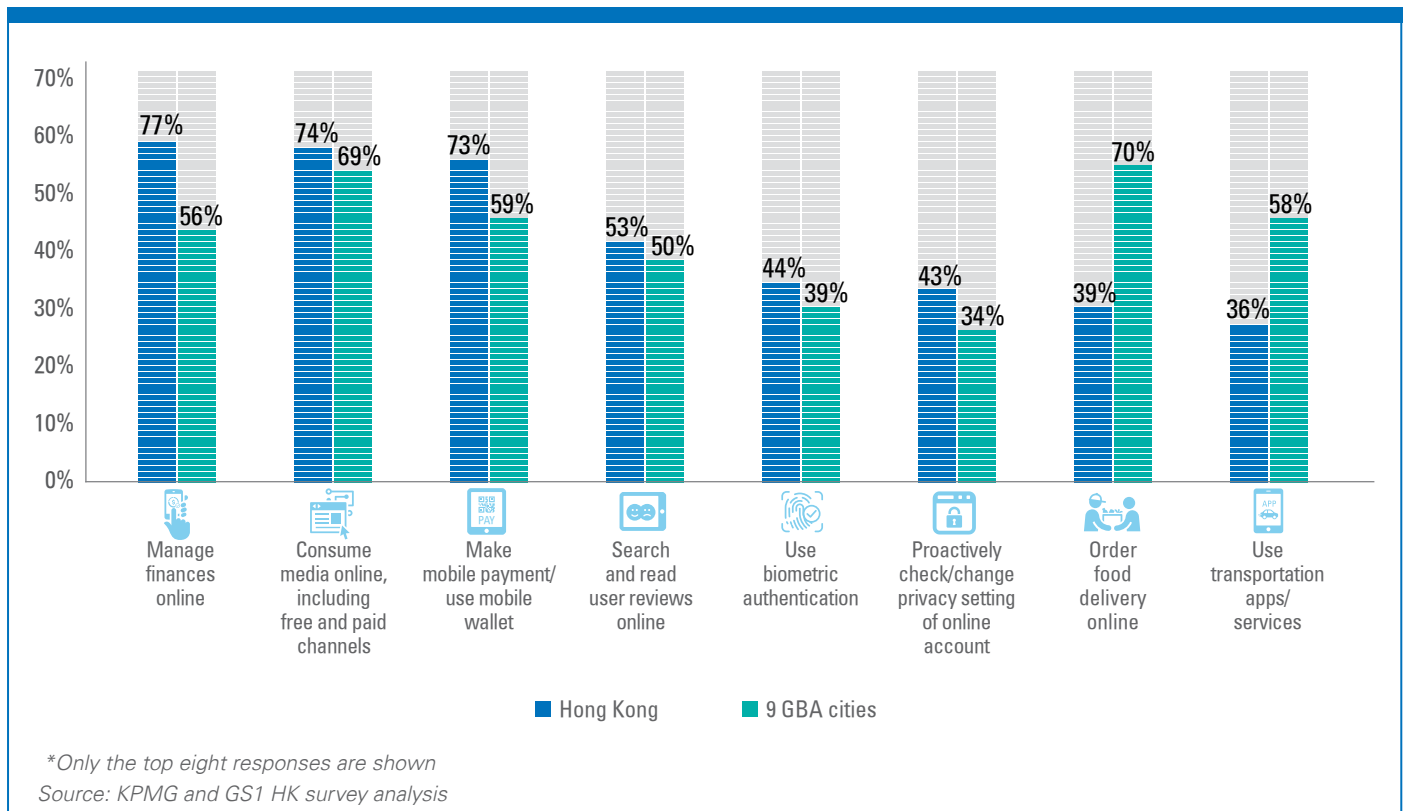


Figure 4.2: 'I am a mobile-savvy consumer'



A closer examination reveals that Hong Kong consumers are far more likely to manage their finances online (77 percent of Hong Kong respondents compared to just 56 percent of mainland consumers) or make payments by mobile (73 percent) compared to their mainland counterparts (59 percent) (see Figure 4.3). This indicates a more traditional mode of digital engagement in Hong Kong.

Figure 4.3: Activities that consumers have done in the past 12 months*



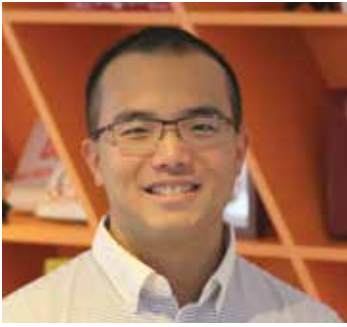
This seemingly more conservative approach is reflected in Hong Kong consumers' attitudes towards the overall level of data-privacy measures provided by companies. While both Hong Kong (75 percent) and mainland (73 percent) respondents expressed moderate-to-high levels of trust towards the provision of data-privacy measures by online services, Hong Kong consumers skewed more towards scepticism as mainland consumers showed a higher ratio of confidence that the strongest levels of security are being applied (see Figure 1.2). Users in Hong Kong are perhaps more reluctant to entrust their personal information with online businesses not explicitly working in the higher-security environments expected of financial service providers.

Surveyed respondents from the nine GBA cities suggested they have proved faster on the uptake with more recent digital trends. Seventy percent of mainland consumers said they had ordered food online compared to just 39 percent of Hong Kong consumers (see Figure 4.3). And 36 percent of Hong Kong consumers said they had used transportation apps or digital services within the past year, whereas 58 percent of respondents from the nine GBA cities said that they had done so. A standout GBA city was Zhongshan, which counted 70 percent of consumers as having used digital transportation services.

All areas surveyed reported having consumed online media – free and paid channels – within the past year, with the rate among Hong Kong consumers standing at 74 percent, slightly higher than the 69 percent of mainland respondents who answered this question affirmatively.

With regard to very new and emerging technological trends, neither group surveyed showed significant adoption rates. Only a quarter of respondents in both regions reported owning a smart watch, and less than a quarter own health-tracking devices such as a Fitbit or Garmin device. Just 13 percent of Hong Kong consumers and 17 percent of mainland consumers own and use an action camera, such as a GoPro, or a drone.

The responses indicate a relatively more robust and confident adoption of recent digital innovations on the mainland compared to a more tentative Hong Kong market for such solutions. That hints at growth potential in the GBA for emerging digital technologies as the newer trends transition into more established market sectors in the coming years.



Mixing Hong Kong business solutions with overseas expertise

Theodore Ma

Managing Director, MaBelle International

With steep rents, rising staffing costs and pressure to maintain high inventory levels, the traditional retail business model is under threat in Hong Kong.

As the city's retail environment evolves, only companies that innovate and embrace digital solutions can expect to survive, says Theodore Ma, managing director of MaBelle Jewellery and co-founder of start-up incubator CoCoon.

"The retail landscape has changed dramatically from the days when there was a resource-restricted environment where people went to shopping malls to discover new products and services," explains Ma. "Now you have three highs that are very bad: high inventory levels, high staff costs and high rent. You're basically doomed."

Only by addressing all three problems can a business have a hope of getting ahead, he says. This is why he is now looking to the grass-roots innovations presented by start-ups to help the firm implement better solutions. Having founded CoCoon expressly for this purpose, Ma set up a wholly-owned subsidiary, MaBelle International (MBI), to work with overseas technology innovation-related companies.

Rethinking points of sale

Ma was responsible for bringing his family's jewellery business into the digital age when he made the firm's first online sale at the age of 19. He is now focused on transforming the company with fresh ideas sourced from start-up businesses located all over the globe.

A few years ago CoCoon came across Boutir – a company working on solutions to expand mobile store networks for SMEs and individuals. While Ma points out that from a retail perspective, a point of sale is normally a shop, he says firms need to give up this concept in order to address all three of their issues.

"What if a point of sale is just a phone?" he asks. "At the end of the day, a point of sale is a place where customers feel comfortable to chat with experts, request to view the product in-store, place an order, and you have the ability to process the order."

Boutir became a strategic partner of MBI, where together they developed solutions to address the "three highs": With rents reduced to only the minimum needed for the upkeep of a mobile platform and the human costs limited to commissions based on each transaction, the solution leverages an electronic inventory based on whatever the firm actually has in stock.

Ma describes the problem as mathematical. "It's a lot easier to manage your retail network when you don't need to take care of your day-to-day rents and salaries. It's paramount that your customers engage your brand at the comfort of their preferred social media. No customers would want to download another app just to learn about a brand and talk to customer service."

The attention economy

MBI's key concept now is to embrace the shift from a product/service-oriented retail economy to an attention-seeking space economy, where purchasers are guided by phones, search engines and e-marketers.

MBI's customer engagement platform is optimised to lure the kind of shopper who might not have been attracted to the limited range of products found browsing in store: frontline staff can offer a link to the brand's mobile shop via social-media clients such as WhatsApp or WeChat, setting up the grounds for personal engagement that can result in multiple sales.

"For a piece of retail technology to become truly useful, we must integrate it into the actual business of selling," Ma says. "That's often missing in a lot of retail technology companies." By collecting data from many different clients the company works with, MBI has been able to find new ways to use the technology and integrate it into the sales cycle.

In testing this approach, the company has found it to be one of the best in terms of customer engagement from about 16 uses of the app. He adds that "a good and effective platform should keep you updated and find different ways to teach you how to be more efficient and effective in engaging customers"

Generation Z is driving change

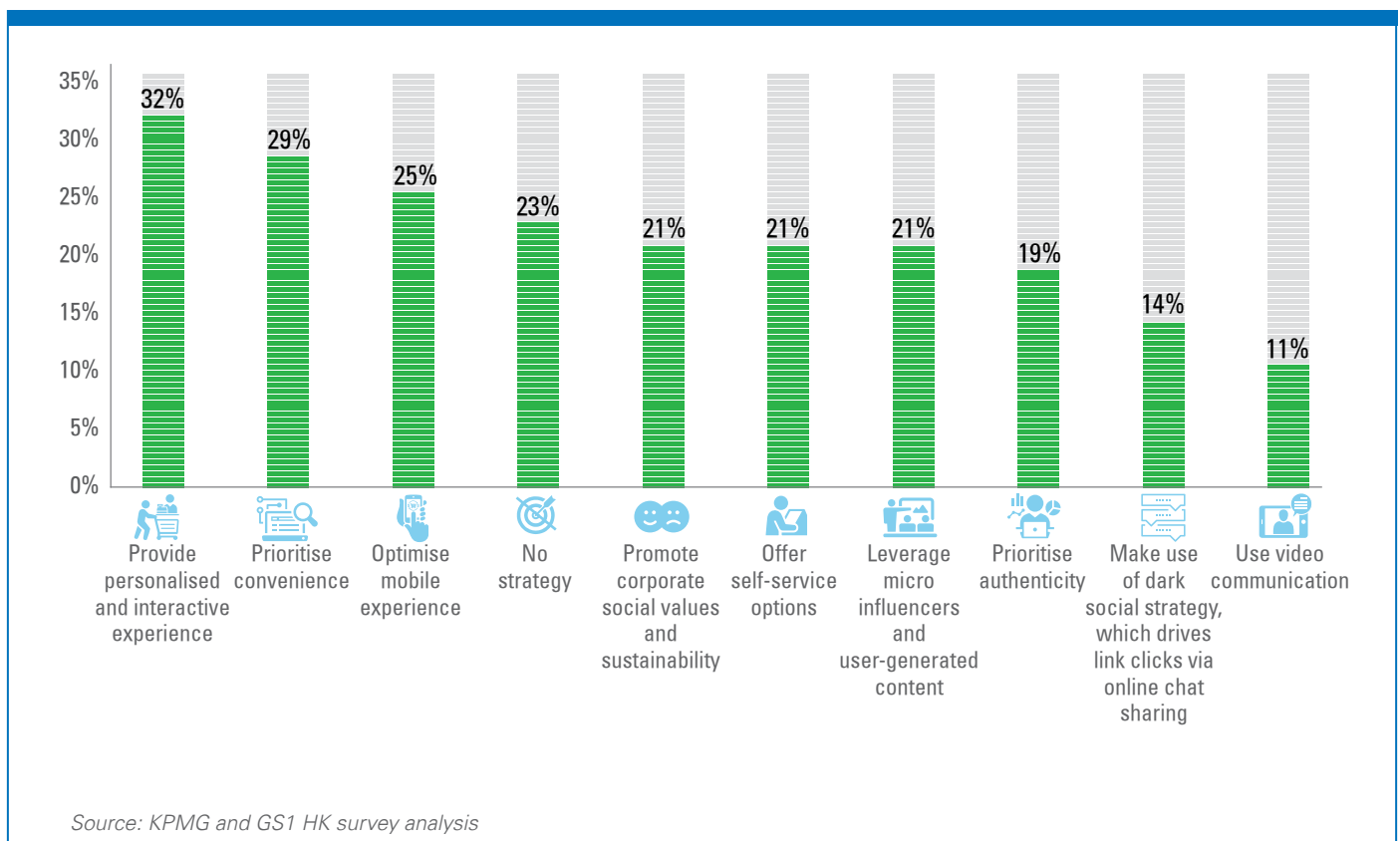
Trailblazing among consumers in putting experience at the heart of their purchase experience, Generation Z is driving unprecedented change in the retail business as brands adjust strategies for the group's unique attitudes. The demographic subset, born between 1995 and 2010, is the first generation of consumers to have grown up knowing no other world than one that is constantly connected by digital devices and smartphones.

Yet surrounded by gadgetry, Generation Z values experiences over the accumulation of 'stuff'. They would rather save their money for travel, an interactive dining experience or participating in an adventure sport, than heading to a fast-fashion store to buy more t-shirts or denim jeans.

What businesses say

Most companies in our survey who state they are adopting strategies targeting Generation Z are focusing on providing a personalised and interactive experience (32 percent) as well as convenience (29 percent) and optimising the mobile experience (25 percent). They recognise that Generation Z uses smartphones as their primary means of communication and online activity (see Figure 5.1).

Figure 5.1: Business strategies to target Generation Z



Notably, among surveyed companies, nearly one in four (23 percent) have no strategy to meet Generation Z’s needs. However, that might simply reflect a lack of resources, especially if they are smaller in scale than their multinational counterparts.

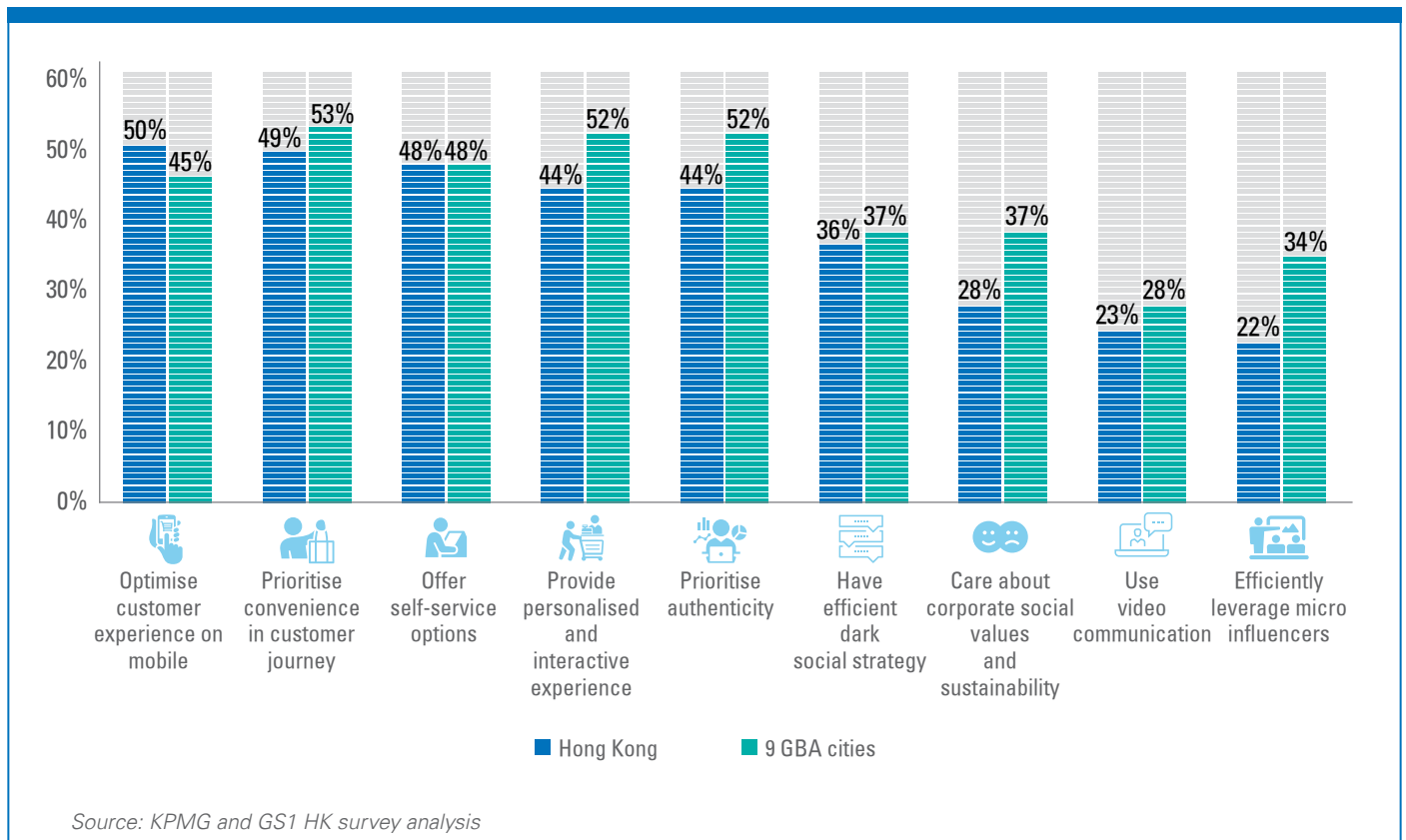
Next on the list, three tactics each tallied 21 percent among C-level respondents: promoting corporate social values and sustainability, offering customers self-service options and leveraging micro influencers and user-generated content.

What consumers say

These results are aligned with the expectations of Generation Z, according to our consumer poll, although Hong Kong consumers’ input differed slightly from that of their counterparts in the nine GBA cities.

The top business strategy identified by Hong Kong-based consumers was optimising customer experience on the mobile platform, cited by 50 percent (see Figure 5.2). That was closely followed by prioritising convenience in the customer journey (49 percent) and offering self-service options to avoid queuing (48 percent). Prioritising authenticity and providing a personalised and interactive experience rounded out the top factors, at 44 percent each.

Figure 5.2: Consumers’ perspective on business strategies targeting younger generations



Yet in the nine GBA cities, those last two options were second foremost in mind, garnering 52 percent each. They closely followed prioritising convenience in the customer journey (53 percent). Offering self-service options to avoid queuing was the next most popular choice at 48 percent, while optimising customer experience on the mobile platform placed fifth. This last result suggests that Hong Kong consumers are less satisfied than their mainland counterparts are with the experience they get when engaging brands on digital devices, and wish to see improvement.

‘Tribe’ influencers ascending

Another point of contrast between mainland and Hong Kong consumers was the impact of micro influencers, sometimes referred to as “tribe influencers” – everyday people who have a sizeable following on social media. Across all nine cities, this was chosen by about one-third of respondents (34 percent). But in Hong Kong, just 22 percent regarded it as a useful strategy. The 12-percent disparity was the largest among the response items for this question about attracting younger generations.

The survey results indicate another divergence of opinion between the two populations over the importance and reliability of key opinion leaders (KOLs), to the point that some industry leaders we consulted believe the phenomenon has peaked. A growing number of people are questioning why a KOL is recommending a product – or rather, who is paying them to do so.

In fact, tribe influencers are seen on the mainland as being more legitimate than paid KOLs, reflecting that consumers in the nine GBA cities demand traceability. One could deduce that this sentiment is to some extent fuelled by concerns about the quality and authenticity of products.



Regardless of channel, companies must be mindful of creating an experience that fosters repeat customers, and demonstrates shared values and aspirations.

Isabel Zisselsberger

Partner, Head of Financial Management, Customer & Operations, Hong Kong
KPMG China







Long-term digital strategies hold key for China growth

Andrew Keith

President, Lane Crawford

Navigating the digital era can be challenging for most businesses, and those focused on understanding how consumers use technology as part of the purchasing process stand to gain a competitive edge.

Luxury retail firm Lane Crawford is taking on a more cautious approach to the Hong Kong market following ongoing global trade tensions, China's VAT cuts and a recently devalued RMB. Even so, it continues to optimise its business in greater China for steady, long-term growth – with part of that process focusing on key trends in e-commerce.

Buying online and picking up in store, also known as 'BOPIS', has been "a sizeable part" of Lane Crawford's e-commerce business, especially in Hong Kong where stores are "always in close proximity" to customers, according to company president Andrew Keith. In mainland China, however, WeChat is "clearly the main driver of commerce, acting as a quick bridge between the online and offline experience especially with the ease of utilising QR codes and remaining within the app to make purchases".

The Lane Crawford executives are paying attention to growing trends in the offline-to-online space, especially in the way their customers tend to share items discovered in-store. For example, the use of instant-messaging channels for client services has increased. That began as an ad-hoc trend with sales assistants taking photos of products and sending them to their customers via WhatsApp or WeChat. Now this practice has evolved into a preferential communications channel for the business, allowing Lane Crawford to better curate the experience for the customer.

"The challenge is certainly one of added layers of complexity as well as additional costs for implementation and maintenance of the various channels," Keith says. The eventual goal is to "create a better holistic framework, and ensure that these additional costs are ultimately investments with a good return".

Youth and sustainability

Keith observes that technology-led change has sparked two trends among consumers: the younger the generation, the higher the expectation for seamless digital functionality; and separately, a greater awareness of sustainability. In the first instance, the business

has noticed its mainland customers are tending to live their lives within the WeChat platform and expecting everything to be available in-app at the touch of a finger. In contrast, its customers in Hong Kong tend to browse online first and then visit stores to purchase due to easy proximity and a desire to touch or try on the products. As for sustainability, the firm has pursued enhanced practices that encompass everything from recycling luxury goods to composting employees' food waste.

Technological innovations have also seen local customers demand more in app usability, design and performance. In Hong Kong, customers are turning away from email to embrace messaging apps, leading to an expectation that retailers will be available around the clock.

Such changes require retailers to revise their digital strategies. Lane Crawford launched its own online site in 2011, Keith notes, but having one's own site in greater China might not be as effective there as in other markets. "We have yet to see a successful, game-changing platform model for luxury online in China," he explains, adding there is "a great opportunity" along with "huge potential" for both social commerce and social customer relationship management.

Phygital experiences

Lane Crawford insists that its physical stores are unlikely to be supplanted by e-commerce. It believes the brick-and-mortar locations offer an opportunity to walk in and discover new products, develop a connection with special items, and get instant gratification from purchases – experiences the online realm cannot yet simulate.

"The distinction between online and offline is blending more into 'phygital' experiences, whether through incorporating more digital aspects in store, or a mixed reality elsewhere," Keith says. "Today's innovative technology is tomorrow's mass adopted technology".

He expects artificial intelligence and machine learning to be the fastest-moving drivers and having a major impact on the retail industry. Scalability will be key, he adds, especially for a multi-brand retailer like Lane Crawford with a wide offering. In the face of constant change, Keith "fully expects" that many emerging technologies will play a part in the company's future evolution.



Insights on how Generation Z serves up consumer disruption

Carson McKelvey
CEO, Tofugear

Just like Millennials before them, Generation Z will force retailers to redefine how they serve and engage with their customers.

“Gen Z is going to make or break the next decade in terms of consumption,” explains Carson McKelvey, the CEO of Tofugear, a company that builds unified-commerce platforms for retailers. “Gen Z is the first generation that grew up on social media and with iPhones and iPads,” he adds. “Their perspective is going to be a lot different.”

McKelvey and his team work with retail clients using technology and analysing data to develop customer experiences across multiple digital and physical touchpoints. Working with tier-one and tier-two multinational companies – those whose annual revenue exceeds USD 100 million – has given him insight into how customer behaviour and changing preferences are transforming the retail marketplace.

Fast out of fashion?

McKelvey singles out the fashion industry as one of the most vulnerable in the short to medium term. He says young consumers’ turning away from fast fashion will cause “one of the biggest disruptions” for the industry.

“Gen Z consumers are not interested in buying cheap t-shirts or jeans from fast-fashion brands anymore,” he explains. “They are a lot more interested in buying something that is unique, or that is genuine, that separates them out from the crowd and that comes with a good experience.”

Perhaps defined as much by its outlook as by its age, Generation Z is also highly concerned about environmental issues and sustainability. Growing up with access to social media and digital devices has made them question the back story of products. They want to know how ethically the clothing was made, that the materials were created in a way that is environmentally sustainable, and that the brand practises good recycling disciplines with packaging and excess stock, instead of just burning it, as some luxury brands have been caught doing in recent years.

McKelvey predicts the fashion world will “see a huge boom in smaller- and medium-sized enterprises that are disrupting the bigger players” as well as some of the more traditional brands. At the same time, sustainability will be a point of emphasis.

Upending the KOL model

A similar story is beginning to play out in the beauty sector where, as McKelvey explains, “they are not selling products – they are selling facials”. Or, put another way: an experience.

“For the beauty industry, sustainability has always been an issue, so it is a lot more mature, compared to fashion,” he says. But it has a long way to go. McKelvey recalls a presentation he recently made to a large beauty-industry company’s internal conference where he showed a video of the SpaceX rocket being launched into space and then returning to ground, ready to be reused.

“My point was: if we can launch a rocket into space, and then land it back down on earth, and reuse that rocket, we should be able to reuse the packaging of our beauty products, of our lipsticks, of our cosmetics.”

As Generation Z consumers are demanding transparency from brands, they are also more questioning than their predecessors, McKelvey adds. For example, they are beginning to reconsider the importance of KOLs, wondering who is paying them. And they are wary of their being drawn into political issues such as the recent extradition bill protests in Hong Kong or into denigrating rival brands.

The power KOLs wield over consumers is a “sleeping disruptor” that could backfire in the fashion and beauty industry, McKelvey says, noting much time and money have been invested in the phenomenon in recent years. While embraced by Millennials now, KOLs could yet be shunned by the more sceptical and questioning generation following them, and the industry could be well served to take note of that possibility.

Brands delivering more transparency

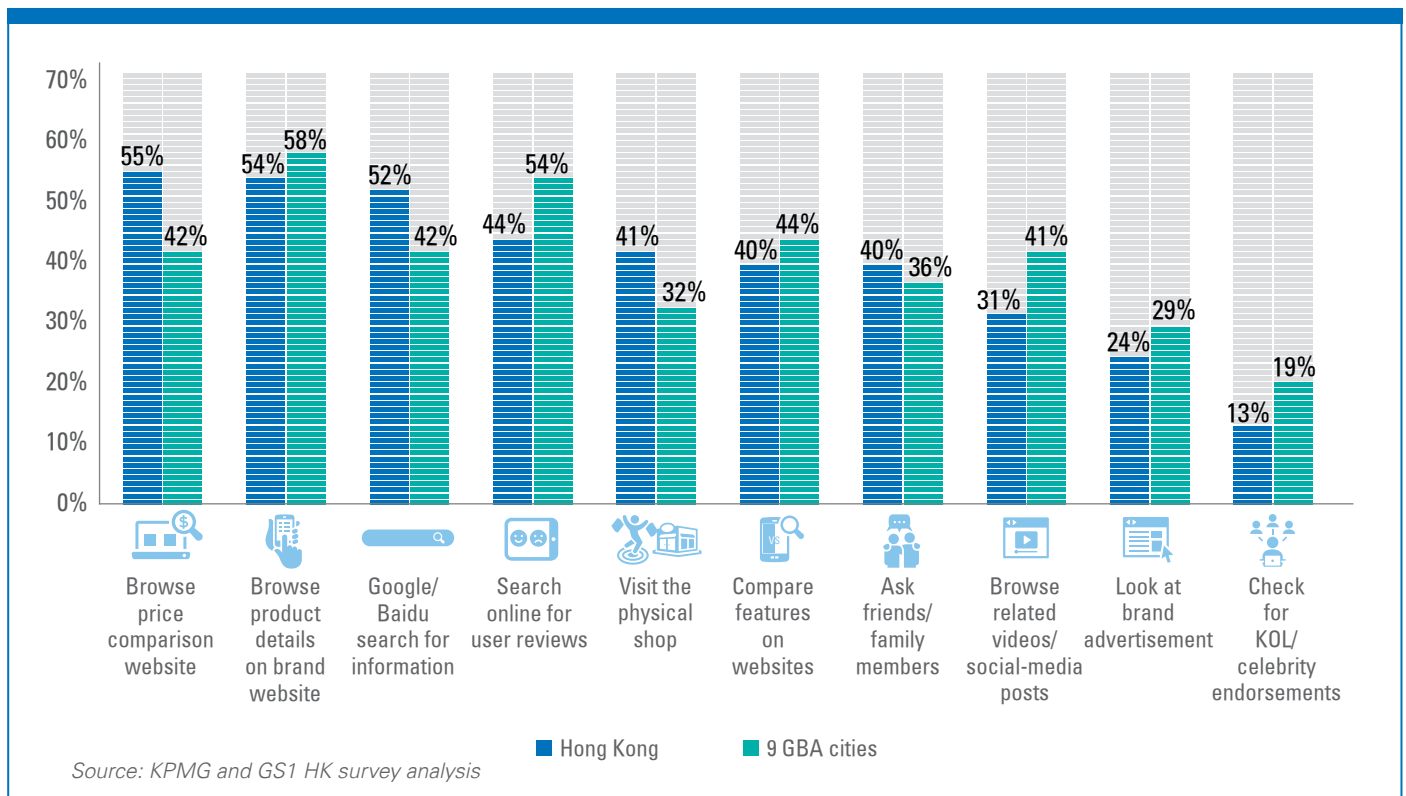
Consumers across the GBA are expecting more transparency from brands, and they care more than ever about those brands' ethics and social values. At the same time, however, there is a notable shift in focus among brands as to how they engage online with consumers and what technologies they are prioritising.

Our survey revealed noteworthy changes in consumer behaviour when researching and selecting products online – and when checking for price. Disparities were also apparent between consumers living in Hong Kong and those in the nine mainland cities (see Figure 6.1).

Online product research

When we asked consumers how and where they researched information on products they are considering purchasing, 58 percent across the nine GBA cities look at product details on brand websites and 54 percent seek out user reviews of brands online. But Hong Kong consumers use different resources from their mainland counterparts, with only 44 percent searching for user reviews online and 41 percent relying more on offline channels; in other words, they prefer the tactile experience of visiting stores to scrutinise products. In fact, across the nine GBA cities, just 32 percent of consumers do their research offline.

Figure 6.1: Consumers' research habits



Meanwhile, our survey indicates that the influence of key opinion leaders could be on the wane – not solely when it comes to courting Generation Z. Of the mainland respondents, just 19 percent said they checked for a KOL or celebrity endorsement of a brand or product, and in Hong Kong that figure was even lower, at 13 percent. Of all the sources of information about products – both online and offline – KOLs and celebrities were the least referred to.

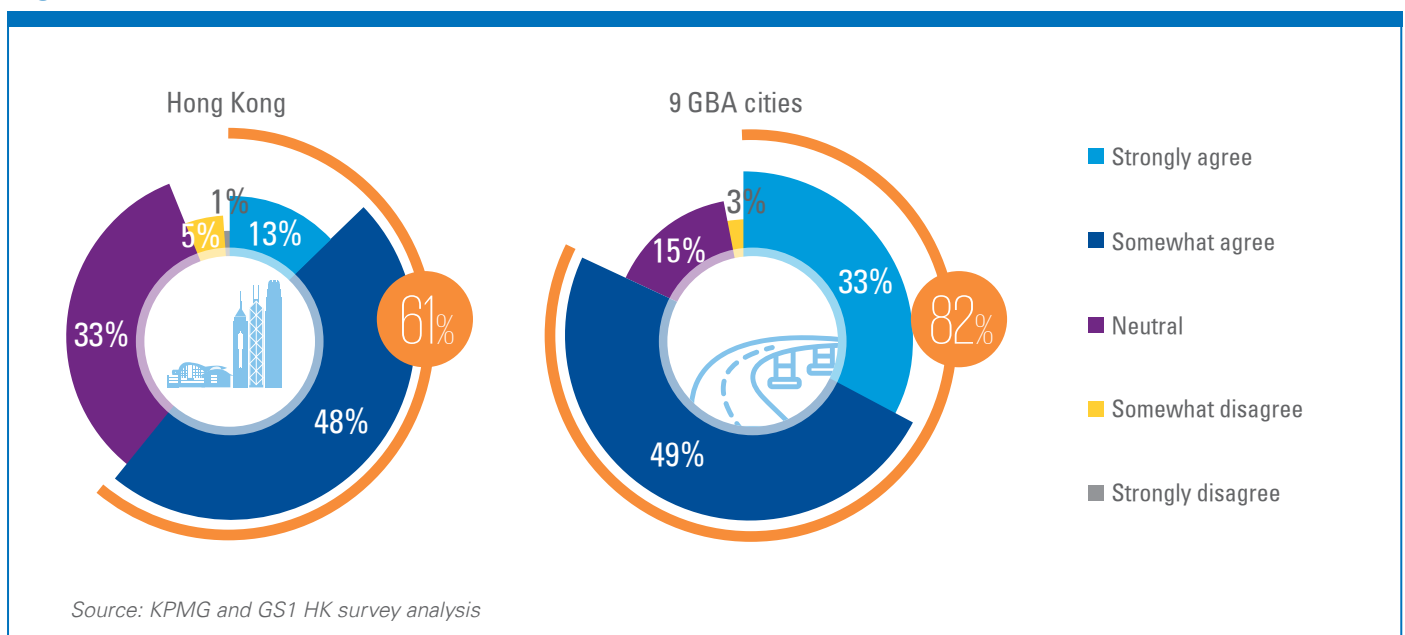
Prior to making a purchase decision, both groups are somewhat likely to search for videos and posts on social media: 31 percent of Hong Kong consumers and 41 percent of mainland respondents. Meanwhile, friends or family members were a go-to source for advice among 40 percent of Hong Kong consumers and 36 percent of mainland respondents.

Hong Kong consumers also seem to be more trusting of information they find online. Fifty-five percent turn to price-comparison websites to identify the cheapest retailer once they have chosen a product, compared to 42 percent of people across the nine GBA cities. Google and Baidu are popular channels for finding pricing information, used by 52 percent of Hong Kong consumers and 42 percent across the mainland locations. The lower percentages among mainland respondents appear to reflect that popular e-commerce sites such as Alibaba already feature price comparisons.

Clarity about social values a must

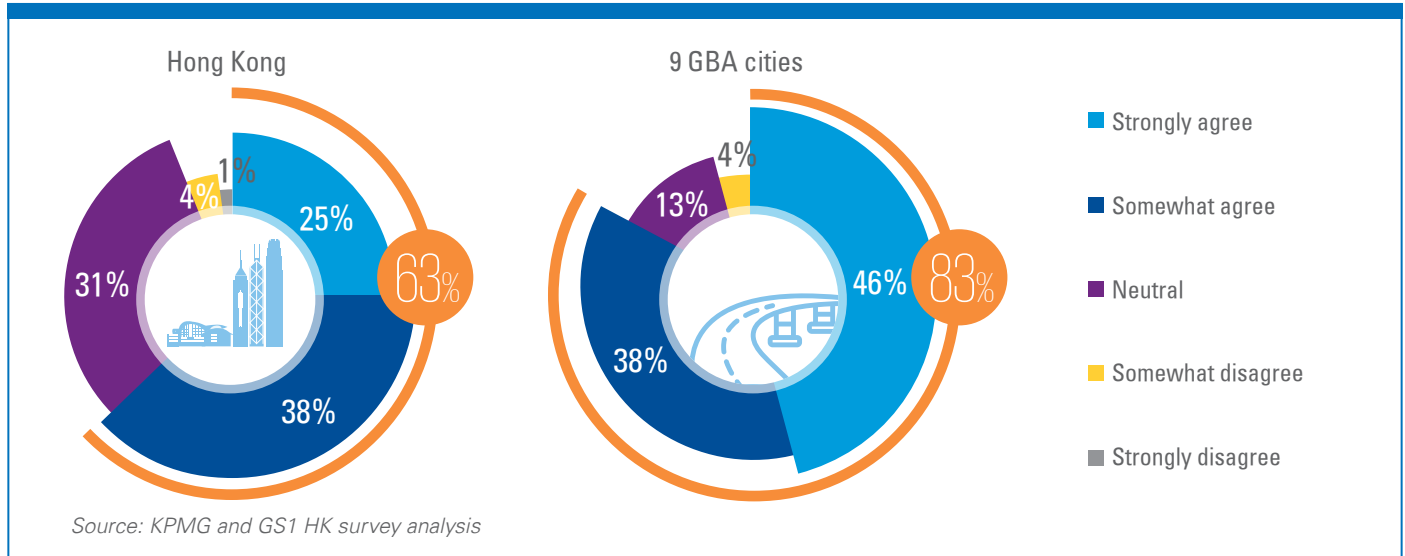
Consumers throughout the region expect brands to share their social values, but our survey found a considerable discrepancy between Hong Kong and the nine GBA cities (see Figure 6.2). Across the mainland locations, 82 percent said they strongly or somewhat agree with the statement “I like to use brands that share my social values.” In Hong Kong, however, that figure was only 61 percent. One in three Hong Kong consumers had no view either way, compared with just 15 percent expressing indifference across the nine GBA cities.

Figure 6.2: ‘I like to use brands that share my social values’



Brands failing to heed these sentiments do so at their peril. When asked if they would boycott brands that do not uphold good ethical standards, 63 percent of respondents from Hong Kong and 83 percent across the nine GBA cities strongly or somewhat agreed (see Figure 6.3). Yet in Hong Kong there also appears to be a relatively high level of indifference compared to the nine GBA cities, with 31 percent of consumers not feeling strongly either way (versus just 13 percent overall).

Figure 6.3: 'I will boycott brands that do not uphold good ethical standards'



Enhancing customers' e-commerce experience

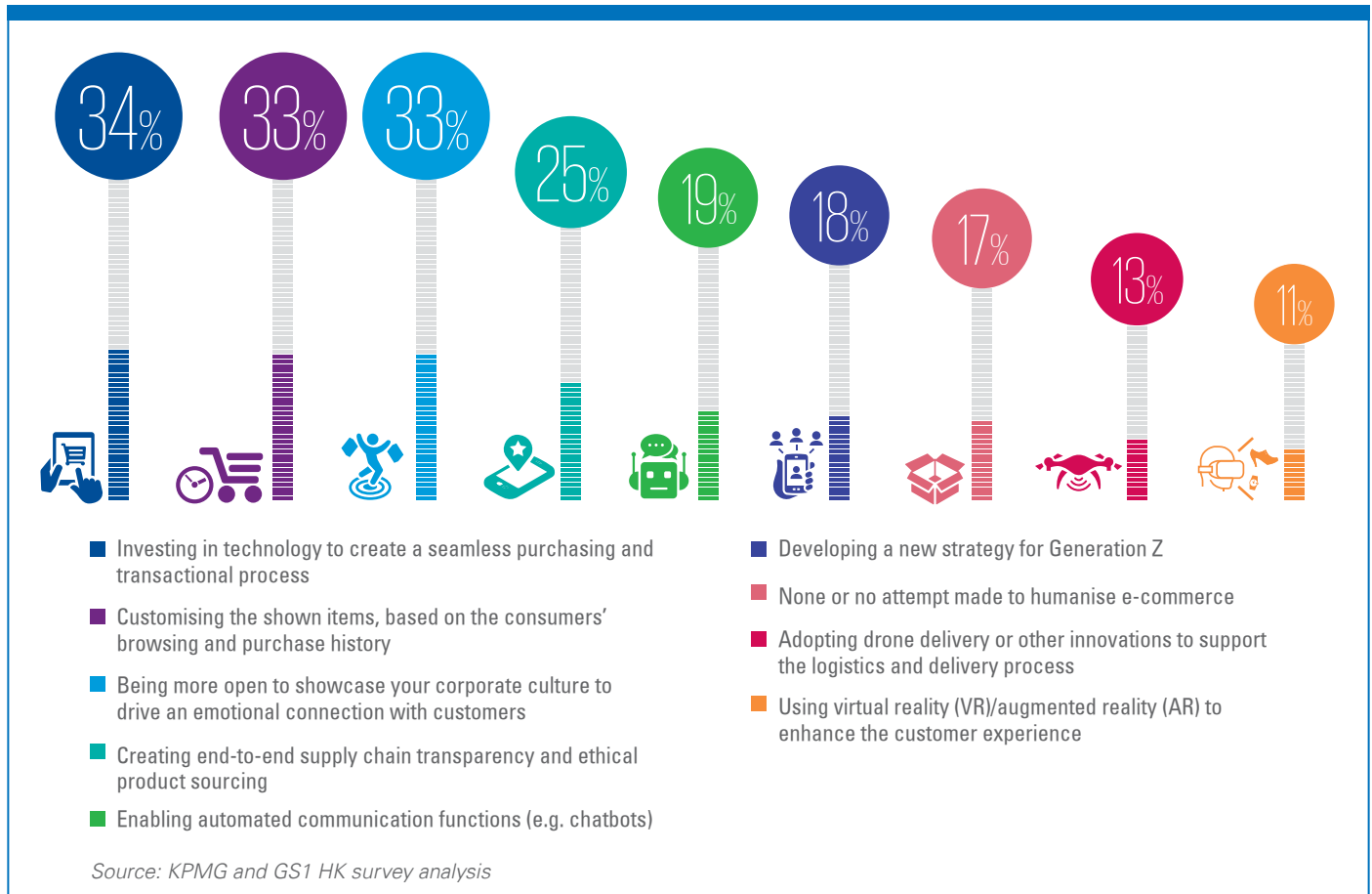
Meanwhile, our survey of C-level executives indicates companies are listening to consumers' expectations, albeit not yet in unison across the whole GBA. Comparing this year's survey results with last year's, it is evident that companies on both sides of the border are lifting their game when it comes to engaging with consumers online.

In last year's survey, 50 percent said they were open to sharing more about their corporate culture to drive an emotional connection with customers. This year, that figure dropped to 33 percent; but this decline implies that they have taken that step already, and have now moved on to new frontiers of engagement and technology (see Figure 6.4). Last year 24 percent of C-level executives said they were making no attempt towards humanising their e-commerce platforms, while this year that figure dropped to just 17 percent.

It is clear that businesses are doing more to adopt specific technologies and strategies to win over consumers online – a more sophisticated approach than simply believing it is enough to be on the web to showcase their brand.

In contrast to last year, three e-commerce initiatives drew almost equal billing among surveyed business executives: investing in technology to create a seamless purchasing and transactional process (34 percent); customising the shown items based on the consumer's browsing and purchase history (33 percent); and being more open to showcasing corporate culture to drive an emotional connection with customers (33 percent).

Figure 6.4: What's your company doing to enhance your customers' e-commerce experience?



A new answer option in this year's survey ranked fourth: creating end-to-end supply-chain efficiency and ethical product sourcing, selected by 25 percent.

Enabling automated communication functions such as interactive chatbots and voice-recognition systems across the customer journey (19 percent) and developing a new strategy for Generation Z (18 percent, and another new option in this year's survey) were also cited. Adopting drone delivery or other innovations to support the logistics and delivery process was singled out by 13 percent of respondents, and using virtual reality (VR) or augmented reality (AR) to enhance the customer experience tallied 11 percent.

Notably, 17 percent of respondents said they have neither tried to nor have plans to humanise the company's e-commerce experience for customers.



Evolving a homegrown Hong Kong brand ahead of offshore expansion

Angela Lee

Chairman, Laboratory JaneClare Ltd (LJC)

As brands mature, the marketing strategies they use to promote and strengthen them should likewise evolve, as digital technologies generate new opportunities to interact with customers.

Now that Hong Kong-based cosmetics brand JaneClare is preparing to enter into a critical phase of international expansion, the firm has begun to draw on insights gained from 16 years in the business while it builds its new markets.

With interests in skincare and traditional Chinese medicine (TCM), LJC's founder and chairman, Angela Lee, started out in 2003 developing products adopting a long-term vision of helping consumers look young and beautiful – providing “food for the skin,” as she calls it.

Quality cultivated

At the company's outset, while Lee worked as a practising lawyer, LJC was led by a team of international experts. It focused on research and development based on its own skin-penetration technologies as well refraining from using chemical preservatives or harmful additives. The products were mainly sold in beauty salons operated by the company. Lee, who is also a certified TCM food therapist, presumed JaneClare's products would attract consumers based on their effectiveness and quality. But she came to realise that communicating a product message to the larger consumer market was no easy task.

In 2012, when Lee decided to take the helm of LJC, she partnered with Watsons, a healthcare company, and set up counters in more than 70 stores across Hong Kong. As the conventional advertising campaigns to drive sales initially proved less effective than hoped for, Lee started hiring and training promoters who were encouraged to use the products themselves so that they could draw on personal experience while plugging the brand. The move resulted in high double-digit sales growth annually for the past seven years and a “respectable income stream.”

At the same time, JaneClare developed its own online store. This decision was designed to support the Watsons distribution as well as to collect data from

its customers. One particularly effective strategy was a programme targeting loyal visitors to LJC's beauty salon and/or VIP services studio, which both offer skin analysis, traditional Chinese body treatments and advanced skincare devices. “We collected client data at the retail stores and referred them to more services at our studio where products are also sold,” Lee explains.

Global push

Building on that success, JaneClare decided to expand internationally. Past experience and emerging solutions are paramount in taking the next steps. The brand's immediate focus is on Asia and Canada, where it has local connections. It has already appointed a distributor for mainland China, and a country manager is working on the Canadian market. Other markets under consideration are Singapore, Malaysia and Vietnam.

JaneClare's international strategy is to duplicate the Hong Kong sales model in overseas markets to quickly expand its distribution network.

With regard to the brand's overall digital strategy, LJC's R&D team is working on stem cell development and plant tissue culturing as well as further TCM applications. Lee hopes to cost in AI functions to support these R&D initiatives, transitioning from manual testing to computer-enhanced processes. Lee will also continue to pursue social media alongside improved business models to collect customer data with a view to developing the VIP service and attracting long-term clientele.

Providing customers with ease of payment is another central consideration for any brand to grow, and JaneClare is no different. Lee says the company will be looking to improve in this area as it expands beyond its home base.

In the meantime, Lee remains unconcerned about the products' pricing while it uses organic TCM ingredients that are much more costly than non-organic TCM ingredients. Her wish is to share effective and safe products that are accessible to many clients and not just a privileged few. She believes that the brand's high efficacy and relatively long shelf life will one day lead it to “be disrupting the market.”



Seamless engagement and the art of pop-ups

Adam Hershman

General Manager, Tumi Greater China, APAC Distribution and Travel Retail

As mature and aspiring brands crowd the retail marketplace and consumers favour more engagement online and shopping digitally, how can brands stand out from the pack and remain top of mind with their customers?

To Adam Hershman – Hong Kong-based general manager of Tumi greater China, APAC distribution and travel retail – the answer lies in a strategy of innovation stretching from the product design cycle right through to seamless in-store engagement and across digital media.

“In today’s digital world there is so much content available,” Hershman says. “You have this kind of data overload. How do you pick your moments to shine in this very crowded communication space?”

Fusing the digital and human touch

The technology people use daily offers a recipe for differentiation. The more time consumers spend on devices and the more comfortable they are with them, the more those devices become a preferred way of engaging with brands.

Yet the human element remains important, Hershman adds, noting people still want a tactile experience. “Whilst a digital component adds another dimension to engage with the brand, we never underestimate the customer’s desire to speak to someone and touch and feel the products for themselves. And that is what we’ve spent a lot of time on, trying out different things over the last couple years as well as evolving our digital and technology offering to meet the needs of those consumers wanting to experience Tumi in different ways.”

In greater China, Tumi’s customer demographic skews towards younger consumers, especially Millennials and Generation Z. The premium travel-lifestyle brand was founded in 1975 and is now owned by Samsonite. But where some brands may deliberately set out to target a specific group, Tumi has a different approach.

“We don’t really design products with a single generation in mind,” explains Hershman. “We look for shared values, whether it be attitude or lifestyle.”

Interactive and personalised

A cornerstone of the experiential approach to customers has been a series of brand pop-ups that merge physical and digital experiences using technology. The most recent, at Pacific Place shopping centre on Hong Kong Island this year, featured Hollywood actor Chris Pratt. Guests could take a photo of themselves on the Tumi Club app and create a virtual selfie using a 3D scan of Pratt.

“It wasn’t just about Chris but this whole immersive experience where we wanted to get people understanding the Tumi DNA,” says Hershman. The pop-up featured interactive displays of the materials Tumi uses in its products and its heritage. Key products were fitted with RFID tags, so when scanned, a video played showing the product details.

Personalisation is always a part of Tumi’s pop-up experiences, Hershman notes. At Pacific Place, customers could schedule an appointment via Facebook to participate in a customisation workshop, personalising leather accessories from leather-bound notebooks to phone cases.

The company sees pop-up activities as more about building brand awareness and engaging with consumers than making on-site sales. Hershman believes brands have a good chance of making a connection with consumers if they create an environment that is both experiential and fun.

E-commerce likewise offers Tumi a great opportunity to get in front of its customers, offering both convenience and a platform to explain the brand and its products. Tumi sells large travel cases among other bags, and sometimes purchasing them in a physical environment and getting them home can be somewhat cumbersome. By removing the boundaries between online engagement and in-store experience, customers can choose where to browse, buy and collect their purchases.

Hershman says retailers need to keep up with the rate of consumer demand for seamless online and offline integration. “There is a continual movement towards people buying wherever they want and whenever they want and whenever they want to,” he adds. “You need to be able to service that kind of environment. The pace of evolution is very quick.”



Quenching the thirst of economies old and new

Neil Waters

Executive Director, Swire Coca-Cola HK

Consumer goods brands are carving out distinctive new spaces to supplement their established approaches to better engage with their customers and satisfy more diverse and often personalised preferences.

As it maintains a leading position in the “old economies”, or traditional market space, Swire Coca-Cola HK believes it must develop fresh products embracing new trends and satisfying new consumer groups.

To do so, the company is expanding its business into new products, and mixes offering an even greater variety plus innovative vending options that allow consumer personalisation as well as new locations such as partnering with non-traditional food-and-beverage outlets.

Innovation in packaging and serving sizes is just as important as making advances in the drinks themselves, reflecting a demand among consumers for beverages for more specific purposes. This includes sports and energy drinks for those needing a boost, low-to-no-sugar drinks for the health-conscious, and teas for those craving the taste of a few good leaves.

“Consumers are prepared to spend more on beverages that are more beneficial, healthier and more of a ‘wellness product,’” explains Neil Waters, the company’s executive director. “Our portfolio is growing in the low and no-sugar area very consciously.”

Consumer preferences on serving sizes are also changing. Traditional-sized cans, representative of the old economy, are now complemented by new “tall” cans and smaller “portion control” cans, all produced on the same production line as the standard cans. Apart from introducing a sleek 200ml can to satisfy those consumers seeking portion control, the company is expanding the range of pack sizes on a number of its beverage brands. The idea is to sustain and deepen ties with its diverse target consumers.

Weaving in innovation

Innovation is a watchword for the beverage industry, and that involves the entire supply chain and production lines. “Throughout the whole supply chain, it’s now much more automated and technical

than it used to be,” Waters says of the company’s more computer-driven processes. The reliance on technology extends from materials management and production planning and execution to the warehouses. “It’s all done through scanners and handheld computers to ensure we’re drawing out all the right materials, producing the right quantities and keeping our inventory as close to perfect as possible,” he adds.

Companies that embrace technology at all levels are better able to compete. Swire Coca-Cola HK views its main roles as manufacturer and distributor as enhancing consumer experience and reinforcing engagement, which extends to offering more direct-to-market solutions, including vending and a presence on e-commerce platforms. The company also seeks to assure consumers that it is serious about corporate social responsibility.

The company has expended considerable effort over the years to stay “green”. Thanks to continual improvements in packaging designs, the amount of plastics used in its key product packaging has significantly reduced since 2010. Another initiative is a brand-new aseptic filling line that would trim the plastics in its beverage bottles by an additional 16 percent.

Swire Coca-Cola HK is determined to seek further business growth under its “reusable, refillable and recyclable” strategy to promote a greener lifestyle. The company is driving the bring-your-own-bottle, or BYOB, philosophy through its “water stations”, offering consumers a distinctive way to quench their thirst and stay hydrated. As the bottles are equipped with RFID technology, consumers will be rewarded via a loyalty programme.

“This enhances the consumer experience and fosters environmental sensitivity while at the same time projecting a positive brand image,” says Waters. “We are creating a new customer experience while cultivating cultural change.”

As a new generation of consumers takes centre stage, companies put themselves in an enviable position when they stay mindful of the old economy and understand the future. As Waters notes of Swire Coca-Cola HK’s ambitions: “We wouldn’t be making these kinds of investments if we didn’t strongly believe this was the future of the beverage industry.”



Charting the path ahead

Greater Bay Area businesses operating in the broad retail ecosystem must seize the benefits of digital technology if they are to stand any chance of thriving in the future. But even then, success is not guaranteed.

This report shows that retailers across the region are embracing digital transformation at a faster rate than ever before. But it also reveals they are facing significant challenges from the rise of marketplace platforms and alternative channels – and the growing acceptance and use of digital technology by consumers, especially Generation Z.

As businesses deal with all this, they must weather growing global trade tensions and economic uncertainty that are putting pressure on sales and sourcing strategies. And they are facing an increasing need to upscale talent and expertise across all areas of digital technology, from engagement with suppliers of products and logistics through to customers who want to connect with brands across multiple platforms, both online and offline. This is bringing about a new generation of Chief Digital Officers being drafted into many businesses, charged with creating fresh digital roadmaps, and skilled at understanding technologies as well as tomorrow's consumers.

In today's retail business environment, consumers have far greater access to information than ever before. Retailers must respond by charting more effective means to understand their customers through collecting, managing and analysing data and embracing new technologies that consumers are ready to adopt. Simply put, that means adopting a data-driven approach defined by agility and innovation. The following points are especially worth bearing in mind.



Analysing data to drive growth and engagement

A robust reliance on data and analytics can help companies identify both strengths and areas for improvement in their business performance. One of the biggest challenges for businesses today is how to make better use of data.



Optimising supply-chain routes

New technologies such as blockchain can help revolutionise future supply chains. More than ever before, addressing sourcing efficiencies can help companies improve their speed to market, reduce inventories and cut back costs.



Redesigning operations for agility

Building a more customer-centric organisation can help a company become leaner and more responsive to changing customer demands, grasp new trends and adapt to changing market conditions.



Empowering and engaging talent

Embracing digital transformation requires rapid acceleration in upskilling the workforce to ensure staff are future-ready and have the necessary new skill sets. Investment in training and recruiting new talent are critical.



Tailoring the customer experience

In an environment marked by tough competition and challenging macroeconomic and trade conditions, businesses must boost their efforts in tailoring products and services to meet the changing expectations and needs of customers. Companies must stay mindful of creating an experience that fosters repeat customers, and demonstrates shared values and aspirations.



Flourishing new markets

With the ascent of the Greater Bay Area, Hong Kong has become a linchpin in connecting global, regional and local brands across the region. The city is a marketplace super-connector for developing ASEAN marketplaces and poised to continue as an Asian hub for many of those brands for years to come.



As consumers across the Greater Bay Area adopt technology at an exponential pace, businesses must respond by creating new digital roles, embracing the rise of digital ecosystems with smarter predictive analytics and developing the workforce of the future. It is essential for businesses to have a single view of their customers.

Anson Bailey

Partner, Head of Consumer & Retail, ASPAC,
Head of Technology, Media & Telecoms, Hong Kong
KPMG China





About KPMG China

KPMG China is based in 23 offices across 21 cities with around 12,000 partners and staff in Beijing, Changsha, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Haikou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Wuhan, Xiamen, Xi'an, Zhengzhou, Hong Kong SAR and Macau SAR. Working collaboratively across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global network of professional services firms providing audit, tax and advisory services. We operate in 153 countries and territories and have 207,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG 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 firm can trace its origins to 1945. This early commitment to this market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in KPMG's appointment for multi-disciplinary services (including audit, tax and advisory) by some of China's most prestigious companies.



About GS1 Hong Kong

Founded in 1989 by the Hong Kong General Chamber of Commerce, GS1 Hong Kong is the local chapter of GS1, a not-for-profit organisation that develops and drives adoption of easy-to-implement global standards for business to uniquely identify, accurately capture and automatically share vital information about products, locations and assets. Headquartered in Brussels, Belgium, GS1 has over 100 national chapters in 150 countries.

GS1 Hong Kong's mission is to empower business to grow and to improve efficiency, safety, authenticity and sustainability across multiple sectors. We facilitate commerce connectivity through the provision of a full spectrum of platforms, solutions and services based on our global standards. GS1 Hong Kong provides a trusted foundation for accurate, sharable, searchable and linkable data. We also engage 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.

Currently GS1 Hong Kong has around 8,000 corporate members covering close to 20 industries including retail consumer goods, food and food services, healthcare, apparel, logistics as well as information and technology.

For more information about GS1 Hong Kong, please visit www.gs1hk.org.

GS1 Hong Kong

22/F, OTB Building, 160 Gloucester Road, Wanchai, Hong Kong

Tel: +852 2861 2819

Fax: +852 2861 2423

YouGov About YouGov

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.

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

Contact KPMG

Anson Bailey

Partner, Head of Consumer & Retail, ASPAC
Head of Technology, Media & Telecoms, Hong Kong
KPMG China
+852 2978 8969
anson.bailey@kpmg.com

Jessie Qian

Partner, Head of Consumer & Retail, China
KPMG China
+86 21 2212 2580
jessie.qian@kpmg.com

Alice Yip

Partner, Head of Consumer & Industrial Markets,
Hong Kong
KPMG China
+852 2978 8152
alice.yip@kpmg.com

Derek Yuen

Partner, Head of Industrial Markets,
Hong Kong
KPMG China
+852 2978 8173
derek.yuen@kpmg.com

Daniel Hui

Partner, China Tax
KPMG China
+852 2685 7815
daniel.hui@kpmg.com

Irene Chu

Partner, Head of New Economy & Life Sciences
Hong Kong
KPMG China
+852 2978 8151
irene.chu@kpmg.com

Henry Shek

Partner, Head of IT Advisory,
Risk Consulting
KPMG China
+852 2143 8799
henry.shek@kpmg.com

John Timpany

Partner, Tax
KPMG China
+852 2143 8790
john.timpany@kpmg.com

Egidio Zarrella

Partner, Clients & Innovation
KPMG China
+852 2847 5197
egidio.zarrella@kpmg.com

Maggie Lee

Partner, Head of Capital Markets Development,
Hong Kong
KPMG China
+852 2826 8063
maggie.lee@kpmg.com

Cyan Sze

Partner, Corporate Finance
KPMG China
+852 2140 2359
cyan.sze@kpmg.com

Giuliana Auinger

Partner, Head of Strategy, Hong Kong,
Global Strategy Group
KPMG China
+852 2140 2383
giuliana.auinger@kpmg.com

Marc Cersovsky

Partner, Strategy (Consumer & Retail)
KPMG China
+852 2140 2205
marc.cersovsky@kpmg.com

Adam Stuckert

Partner, Advisory,
Head of Blockchain
KPMG China
+852 2847 5163
adam.stuckert@kpmg.com

Isabel Zisselsberger

Partner, Head of Financial Management,
Customer and Operations, Hong Kong
KPMG China
+852 2826 8033
isabel.zisselsberger@kpmg.com

Reza Nobar

Director, Consulting (Consumer & Retail)
KPMG China
+852 3927 3122
reza.nobar@kpmg.com

René Vader

Global Sector Leader, Consumer & Retail
+33 155682371
rvader@kpmg.fr

Paul Martin

UK Head of Retail
+44 20 7311 8185
paul.martin@kpmg.co.uk

Elaine Pratt

Global Sector Executive, Consumer & Retail
+1 416 777 8195
epratt@kpmg.ca

Contact GS1 HK

Anna Lin

Chief Executive
+852 2863 9700
annalin@gs1hk.org

Dr Stephen Lam

Chief Operating Officer
+852 2863 9765
stephenlam@gs1hk.org

Mignone Cheng

Chief of Marketing
+852 2863 9762
mignonecheng@gs1hk.org

Corinna Fung

Head of Corporate Marketing
+852 2863 9787
corinnafung@gs1hk.org

Edward Choy

Head of Business Development
+852 2863 9724
edwardchoy@gs1hk.org

Dick Ng

Head of Digital Engagement
+852 2863 9779
dickng@gs1hk.org

Contact YouGov

Cindy Chan

Head of Greater China
Hong Kong
+852 9194 7545
cindy.chan@yougov.com

Michael Fu

Associate Director,
Business Development
+852 9502 2841
michael.fu@yougov.com

Acknowledgements

We wish to thank the following contributors for participating in this report.

Vanessa Cheung

Group Managing Director of Nan Fung Development Ltd, Founder of The Mills

Adam Hershman

General Manager of Tumi Greater China, APAC Distribution and Travel Retail

Andrew Keith

President, Lane Crawford

Walden Lam

Co-founder, Unspun

Angela Lee

Managing Director, Laboratory JaneClare Ltd

Theodore Ma

Managing Director, MaBelle, and Co-founder, CoCoon

Andy Massey

Director of Innovation, Lane Crawford

Carson McKelvey

CEO, Tofugear

Jez McQueen

Managing Director, Hong Kong and Macau, SF DHL Supply Chain China

Philip Murton

Sales Director, Royale International

Neil Waters

Executive Director, Swire Coca-Cola

Publications Team: Nina Mehra, Bong Miquiabas, Victoria Tam

Designer: Isabella Hung

gs1hk.org
kpmg.com/cn/socialmedia



For a list of KPMG China offices, please scan the QR code or visit our website:
<https://home.kpmg.com/cn/en/home/about/offices.html>.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

GS1 Hong Kong is the local chapter of GS1®, a not-for-profit, standards organisation. GS1 is a registered trademark of GS1 AISBL.

© 2019 KPMG, a Hong Kong partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Hong Kong, China.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Publication number: HK-CM19-0002

Publication date: October 2019