



Retail's Realignment

***The road ahead for omnichannel
in the Greater Bay Area***

Fifth edition survey

In association with

YouGov®

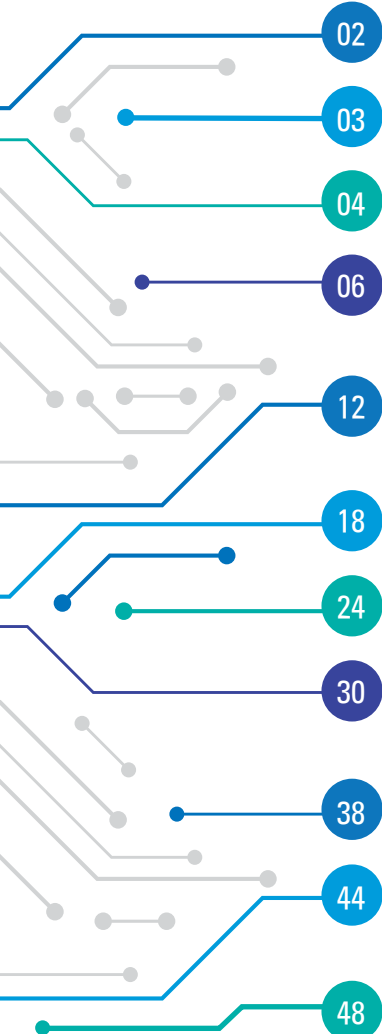
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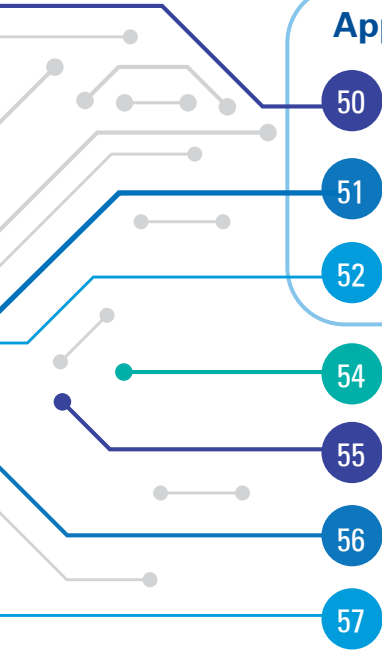
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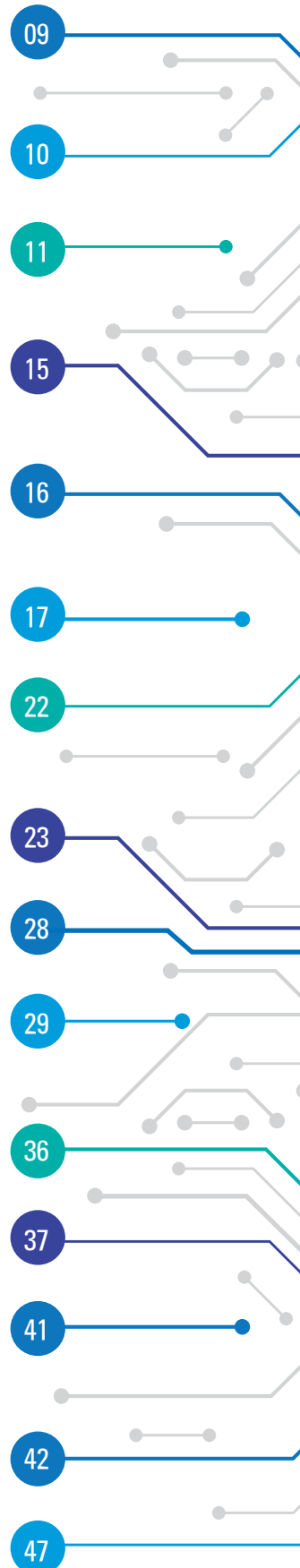
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Foreword

The COVID-19 pandemic has been a challenging, yet clarifying period for the retail industry across Hong Kong and the rest of the Greater Bay Area (GBA). Across the region, retailers have had to adapt to supply chain disruptions and changing consumer patterns. In some cases, manufacturers shifted production to specific goods that were more in-demand during lockdowns. Brands and distributors have had to navigate changing customs regulations and, for certain types of products, a shift towards purchasing locally-produced goods.

While production and supply chain challenges have varied by brand and product type, one trend that is abundantly clear is the accelerated consumer shift to digital retail channels. During the past 18 months since the start of the pandemic, consumers of all ages across the GBA have become more comfortable shopping across an array of e-commerce channels and also paying digitally for purchases. But beyond that, COVID-19 has also changed patterns for the types of goods they are buying online versus offline, prompting retailers to adjust their offerings and rethink the way they target buyers.

With more businesses moving online, the e-commerce space is increasingly crowded with many newcomers, including traditional offline brands, aiming to expand their online presence. With an abundance of choice in how they shop, pay for and receive goods and services, consumers are demanding a more personalised and customised browsing experience. To enable more seamless integration of mobile, web and offline channels hassle-free checkout and fulfilment, and attentive after-sales service and support, retailers are enhancing their digital gateways in real-time cash management, logistics and customer support.

An additional focal point is brand authenticity and purpose. The pandemic has made consumers more acutely aware of the need for environmental sustainability and social responsibility, prompting many to increasingly identify with brands that share their values in these areas. As a result, there is a greater sense of urgency for brands to effectively communicate their brand story to consumers, particularly on digital platforms, to increase customer reach.

As businesses continue to weather the pandemic and prepare for the post-pandemic retail environment, the key question will be to what extent pandemic-influenced trends will continue for the long run. And while digital channels will unquestionably play a key role in the years to come, retailers need to evaluate which technology and talent investments will enable them to be future-ready. Further, retailers will need to consider how to optimise their front and back-office operations to better serve the markets they operate in, and explore which new markets to expand into in order to gain traction across Asia.

Retail's Realignment: The Road Ahead for Omnichannel across the Greater Bay Area, our fifth edition joint study conducted by KPMG China, GS1 Hong Kong and HSBC, builds on four years of prior research looking at channels, supply chain, customer experience, digitalisation and consumer trust. Taking into account the current COVID-19 realities, the report assesses the long-term impact of the trends we are seeing, how businesses need to further adapt, as well as opportunities to make proactive investments for the future.

We hope that this report provides you with valuable insights and we welcome the opportunity to discuss these findings further.



Alice Yip

Head of Consumer and
Industrial Markets, Hong Kong
KPMG China



Anna Lin

Chief Executive Officer
GS1 Hong Kong



Yvonne Yiu

Head of Global Liquidity and
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About the study

Our study looks at changing consumer behaviours during the ongoing COVID-19 pandemic and how retailers have responded in terms of integrating digital technologies to create a seamless online-to-offline experience, engaging consumers through a wide variety of digital and physical channels, and meeting customer expectations with regards to quality, authenticity, fulfilment, customer service and brand values. It also examines related corporate strategies for the coming two years and how those strategies align with consumers' evolving preferences.

In cooperation with YouGov, we surveyed 2,053 consumers and 400 senior retail industry executives¹ in Hong Kong SAR and nine mainland China GBA cities² from October 2020 – April 2021. An important addition to this year's consumer survey were Generation Z consumers (represented by those polled aged 18-24), which made up roughly a quarter of the total respondents (24 percent). In addition to age group, respondent data on marital status, employment status and income were also captured to ensure that the profiles of those surveyed are representative of the overall populations in the respective cities included. Data percentages shown are rounded to the nearest whole number.

For the corporate survey, executives polled represented a wide range of retail areas, including household goods, apparel, healthcare, beauty/personal care, consumer electronics and food and beverage. A broad cross section of functional roles across the industry were captured, including brand owners, manufacturers, retailers, and distributors; as well as the e-commerce providers, consultants, technology solutions providers, and logistics providers that service retail companies.

The survey findings are further complemented by in-depth interviews with market-leading brands, retailers, e-commerce marketplaces, industry consultants and technology service providers to provide a comprehensive analysis of key challenges and opportunities facing the industry.



¹ "Senior executives" polled include founders, C-suite (CEO, COO, CFO, CTO, CMO, etc.), or department head and above for their respective companies.

² The nine mainland China GBA cities included in the study are Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai, all in Guangdong Province.

Executive summary

The COVID-19 pandemic has reshaped the retail industry forever, forcing consumers to embrace digital platforms whether they were ready to or not. Consumers are buying more online than ever before, whether using smartphones, laptops and desktop devices; making purchases via marketplaces, brand-owned stores, shopping apps and even social-media and chat applications.

The retail brands who have best survived this rapid transition are those who have proven agile in their response to the growing digital engagement demanded by consumers. Many of these retailers have adopted new logistics and communications solutions and have embraced new-generation digital technologies allowing features such as live-streaming, alternative payment methods and customer connectivity.

This report, our fifth edition study on omnichannel retail trends across the Greater Bay Area (GBA), explores how businesses and consumers in the GBA are embracing the trends and technologies in a retail ecosystem challenged dramatically by a global pandemic. Based on the findings of a survey of 2,053 consumers and 400 senior retail executives across Hong Kong and nine mainland China GBA cities, as well as in-depth interviews with industry leaders, we have identified the following trends:



Consumer shopping behaviour has changed for good

Significant changes to the lifestyles of consumers driven by the COVID-19 outbreak have resulted in a rapid acceleration of the migration of consumers from physical stores to digital retail channels. Among the Hong Kong consumers surveyed, 50 percent said they felt more comfortable shopping online since the start of the pandemic, and of those in the nine mainland China GBA cities, 59 percent. This builds on our 2019 study finding which reported an increasing level of "mobile-savvy" and "tech-savvy" consumers across these markets.

More significantly, consumers and retail executives surveyed all agreed that shoppers have developed new purchasing habits that are hard to break. Retailers agree that much of the gain by digital channels from physical stores will not return to physical stores. Around one in four consumers surveyed said they could live without physical stores, while about 60 percent said they better understand how to search for products online.



Consumers expect brands to offer an integrated online-offline experience, with Generation Z leading the charge

An overwhelming majority of consumers expect a seamless transition from an in-store experience to an online experience. Our survey found that 77 percent of respondents from Hong Kong and 85 percent from mainland China GBA cities expect retailers to have a better connection between online and offline channels. However, our corporate survey revealed that only 39 percent of businesses were currently focusing on integration between their online and physical stores, suggesting a significant gap in retailers' online-to-offline (O2O) propositions.

At the forefront of these expectations is Generation Z ("Gen Z"), those born from 1995 to 2010. Our analysis of consumers aged 18-24 shows that 73 percent in Hong Kong and 86 percent in mainland GBA cities expect a swift response to product enquiries logged on online chat, and expect brands to use tech including AI to help shortlist new products based on purchase history and style. This adds additional context to our 2019 study finding that Gen Z consumers in Hong Kong and mainland GBA cities expected a customer journey that prioritises convenience, as well as an enhanced mobile browsing experience.

Consumers also expressed a desire to be able to engage with brands across social media and other digital mediums and they expect brands to use technology to improve customer service, ease of payments, flexible delivery options and convenient product returns. This suggests that brands and retailers who forge an online-to-offline solution that encompasses multiple digital points of engagement will enjoy a significant market advantage in the future.



Demonstrating authenticity and explaining purpose is more important than ever before to build trust with customers

The COVID-19 pandemic has sharpened consumers' focus on health, sustainability and well-being. Authenticity was the number-one characteristic that attracted consumers to brands in our survey, out of a list of 10 other attributes. Since the beginning of the pandemic, 68 percent of Hong Kong consumers and 65 percent of those from mainland China GBA cities say they are

more conscious of a product's origins. This complements our 2019 study finding that consumers believe prioritising authenticity should be a key focus for brands, especially when they target younger generations of buyers.

The study found that significant differences exist between Hong Kong and mainland China GBA consumers in their perceived trust of various sources of product information. Overall, the most trusted are the opinions of family and friends, followed by brand websites and online user reviews. The data shows that mainland China GBA respondents are more likely to trust live streamers and live bloggers than salespeople in a brand's physical stores, but the reverse is true for Hong Kongers. This suggests that more still may need to be done to further establish live streaming as a credible medium in the Hong Kong market.



Sourcing, upskilling and reskilling talent remains a key challenge for retailers

Almost unanimously, retail executives we spoke to raised concerns about the availability of skilled talent, particularly in digital technology-focused areas.

Of our corporate survey respondents, recruiting talent with the right skills in digital and data analytics, along with training and upskilling existing staff to build a future-ready workforce, were identified as leading challenges.

Executives mentioned IT and systems support, data analytics, and research & development as technical areas where they are facing the greatest talent shortages. Sales, marketing and communications roles were another key area of concern.

Interviews with industry executives conducted for this study also highlighted the need for educational institutions and the government to be more proactive in developing programmes to upskill existing talent, with e-commerce marketplaces currently filling this void.



Consumers expect brands to deploy technology to speed fulfilment and reduce costs

As consumers become more adept at searching, shopping and paying for goods online, they expect brands to step up their implementation of technologies to make the shopping process faster and more efficient. They are ready to embrace solutions which help them more easily search for items and recommend products based on their purchasing history, even if this means they have to share personal data. However concerns remain among consumers about the security of that data – with 76 percent of respondents overall saying they believe companies provide a moderate, low, or insufficient level of data security – a figure also roughly consistent with our 2019 study.

While there is widespread consumer expectation that shopping online should save them money, many are prepared to pay a premium for services that offer additional convenience or peace of mind. For example, 41 percent of consumers said they would pay extra for the ability to refund or exchange products that are usually non-refundable, while roughly the same proportion were willing to pay a premium for express or expedited delivery. More comprehensive after-sales customer service and support was another key consumer expectation.



The need for comprehensive strategies for the GBA and Southeast Asia is more apparent

Our corporate survey reflects that 73 percent of retailers are implementing GBA-specific strategies across one or more of their business functions.

However, where these strategies exist was less consistent: the most common business functions for which retailers are implementing a GBA strategy are sales, marketing and communications (43 percent), as companies look to attract customers in the mainland China market. On the other hand, just 16 percent are developing GBA-specific strategies for finance or human resources and 10 percent for legal. Given ongoing regulatory changes as well as tax and legal considerations for cross-border recruitment and capital flows, this suggests that a potential gap exists in how retailers are planning their back-office functions with relation to the GBA.

At the same time, many retailers are looking to expand into Southeast Asia, a region that is experiencing rapid adoption of e-commerce, particularly on mobile channels. Industry executives interviewed for our study emphasise the need for adequate localisation of products, services and marketing approaches to appeal to this growing pool of digital-savvy consumers.

Throughout this report these trends are explored further, providing more detail on where businesses are meeting or falling short of consumer expectations. On page 48, we provide our analysis on the key takeaways for retail businesses in the coming one to two years.

Chapter 1



Navigating long-term changes accelerated by the COVID-19 pandemic

Since the outbreak of the COVID-19 pandemic in early 2020, our survey suggests that consumers in Hong Kong and mainland China GBA cities³ have shifted a higher share of their shopping to online channels across multiple product categories.

The overriding consensus of both retailers and consumers we surveyed is that a significant share of the purchasing that has moved online will be maintained as the impact of the pandemic wanes.

Consumers have embraced online shopping during the pandemic

As government-ordered social-distancing measures have reduced traffic to physical stores, consumers surveyed said they were increasingly comfortable browsing and shopping on digital channels.

One in two Hong Kong consumers (50 percent) said they felt more comfortable about shopping online since the start of the pandemic, not far behind the 59 percent of respondents from mainland China GBA cities (Figure 1.1).

Tellingly, 24 percent of Hong Kong consumers and 23 percent of those in mainland China GBA cities say they could live without physical retail stores. This suggests that while the majority of those surveyed will continue to shop offline in the future, the role of the physical store in the customer journey will change. Where previously many consumers researched products online before visiting a store to make a purchase – or checked prices online while visiting a retailer's store – people are now increasingly using social media channels, live-streaming and instant messaging to help make a purchasing decision before buying products online or offline.

Figure 1.1 Consumer sentiment during the ongoing COVID-19 pandemic

Hong Kong		Mainland China GBA cities*
68%	More conscious about the origin of products	65%
65%	More comfortable to use digital payments	67%
61%	Better understand how to search for products they need on online platforms	62%
50%	More comfortable and confident to shop online	59%
24%	Feel they can live without physical retail shops	23%

* Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai
Source: KPMG, GS1 HK and HSBC Survey Analysis

³ Findings for "mainland China Greater Bay Area" cities are based on analysis of survey data for nine cities in Guangdong Province: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai. These nine cities, together with the Hong Kong SAR and Macao SAR, form the "Guangdong-Hong Kong-Macao Greater Bay Area".

Consumers are buying more online than ever before, and the retail brands who have best survived this rapid transition are those who have proven agile in their response to the growing demand for digital engagement



Alice Yip

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

Online migration a 'hard habit to break'

Retail executives we interviewed for this study were almost unanimous that retail will never be the same as it was before the pandemic. Michelle Leung, Senior Vice President at Fung Omni Services, an e-commerce services provider, says COVID-19 has "turned the tide" in encouraging people to shop online. "Consumers are developing habits that are hard to break, finding ways to reduce costs online through economies of scale while delivering more value to customers," she says.

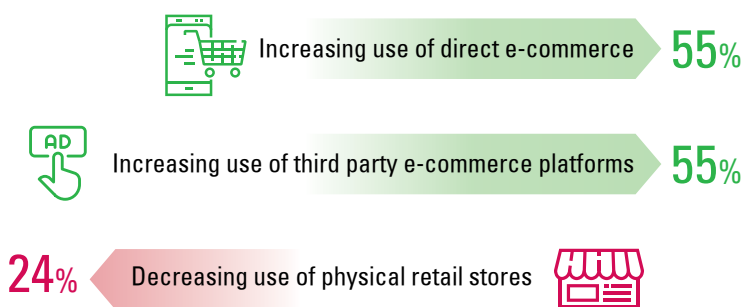
Online marketplaces we spoke with note significant sales boosts in Hong Kong since the start of the pandemic across categories including fast-moving consumer goods, home office supplies, gadgets and sports equipment for home use. Meanwhile, executives we talked to say the role of the physical shop will shift more towards experience and engagement.

Increased frequency of online shopping has also led to increased familiarity with how to use online platforms. According to our survey, over 60 percent of consumers in Hong Kong and mainland China GBA cities said they better understand how to search for products they need on online platforms since the pandemic (Figure 1.1). In addition, about two-thirds agreed they were more comfortable using digital payments, a trend we will address in more detail later in this report.

Retailers and brands have responded to consumers' growing adoption of online shopping. Our corporate survey found that 55 percent have increased their use of third-party e-commerce platforms, while roughly the same proportion have made advances in their direct-to-consumer e-commerce reach (Figure 1.2). This suggests that brands increasingly see the benefits of selling to customers via their own platforms. However, it also affirms that brands see the upside of maintaining a presence on marketplaces to ensure sufficient brand awareness and visibility.

Figure 1.2 Changes in retailer use of e-commerce and physical retail channels in Hong Kong and the rest of the Greater Bay Area amid the COVID-19 pandemic

Percentage of retailers changing how they use online and offline channels



Source: KPMG, GS1 HK and HSBC Survey Analysis

Top five ways retailers are adapting their supply chains during the COVID-19 pandemic:

- Reducing stock
- Deploying direct e-commerce channels
- Diversifying product offerings
- Deferring product launches
- Procuring from local suppliers

The coronavirus is a catalyst, but it is not the critical factor – the consumer is. They want to change because the online model is significantly superior to the offline model in terms of choice. Our data shows that when a customer buys three or four times in six months, that customer will just keep buying online. From the figures we have seen over last six years, the majority of these customers are not going back to offline



Ricky Wong

Vice President and Group CEO, HKTVmall



Pandemic-induced supply chain disruptions have triggered businesses to enhance supply chain transparency and flexibility. Companies that have digitised their supply chains and invested in e-commerce capabilities are better able to serve the needs of their customers. In the coming years, it will be important for all companies to model and plan for disruption to ensure they have the agility to change and adapt

Anna Lin

Chief Executive,
GS1 Hong Kong

Addressing supply chain challenges

The outbreak of COVID-19 had a deep impact on retailers, especially in the early months when government stay-at-home orders brought factories to a standstill across much of China and the rest of Asia. Enhanced restrictions have also increased the time needed for customs clearance and reduced the number of international flights and container ships at sea, making the international shipping of goods both slower and costlier.

According to our survey, to respond to supply chain challenges during the pandemic, retailers have responded by reducing stock (39 percent), developing direct e-commerce channels (38 percent), diversifying their product offerings to include goods such as PPE, masks and sanitisers (21 percent), postponing product launches (21 percent) and where possible procuring more goods from local suppliers instead of sourcing overseas (15 percent).

After more than a year operating in a COVID-impacted market, most executives we interviewed seemed to agree that the worst of the supply chain challenges were over, with suppliers having largely adapted to the challenges, resulting in a more stable manufacturing output and the successful adoption of alternative logistics solutions.





Pandemic-related online spending boost will continue for long term as mobile usage trends stick

CK Chan

Head of Hong Kong and Macau, Tmall Taobao World

In Hong Kong and Macau, Tmall Taobao World operates parent company Alibaba's main business-to-consumer (B2C) marketplace Tmall alongside its leading consumer-to-consumer (C2C) platform Taobao. As a major e-commerce operator, Tmall Taobao World has witnessed firsthand the significant changes in consumer behaviour induced by the COVID-19 pandemic in the two markets.

CK Chan, Head of Hong Kong and Macau, Tmall Taobao World, says COVID-19 has been a catalyst in getting the city's shoppers to spend more online. "We saw a big boost in customer browsing and customer shopping across multiple categories," he says.

Before the pandemic, Chan says e-commerce had already become popular in Hong Kong and there was a big difference between the levels of mobile and desktop traffic for customers on Tmall and Taobao in the city depending on the time of day. Post-COVID-19, those who would shop on desktops or laptops during working hours and then on mobile after work are now browsing significantly more on mobile throughout the day, reflecting the trend towards working from home.

As a result, Chan says there has been a significant sales boost in categories including fast-moving consumer goods, home office supplies, gadgets and sports equipment for home use since the start of the pandemic. "In some categories we have seen triple-digit growth," he says. He is equally confident that the trend of Hong Kongers shopping more online will continue: "We see that now as the COVID-19 situation is receding in Hong Kong, the growth rate for online is still accelerating."

Online and offline channels are complementary

As Hong Kong consumers' preferred purchasing channels evolve, developing a seamless online-to-offline experience is critical to keep consumers engaged with brands. In this regard, Chan believes online channels offer an engaging complement to offline shopping. For example, Taobao and Tmall allow customers to test cosmetics using augmented reality and seeing how they look with a particular shade or tone. "If you do that offline, you have to remove your makeup first, then put the test makeup on while someone talks to you – you

might spend 30 minutes there. But you can 'try on' different lipsticks or other makeup online in just a few seconds."

Chan also says customers may be reluctant to receive negative feedback directly from a salesperson about how a dress or cosmetic suits them in an offline situation. But online, he says they feel more comfortable asking a live streamer or a sales associate for advice, who in turn feel more comfortable offering honest opinions about products, which are more beneficial to vendors. "Because of technology, online not only helps brands to have an additional sales channel, but also helps provide a better customer and brand experience for their end customers."

Rules, feedback help to verify product authenticity

Ever mindful of consumer concerns about counterfeit merchandise, Taobao and Tmall have been working to ensure the products it offers online are authentic. For Tmall, the company only allows corporates to join the platform, who must prove they are the brand owners or have the right to distribute the products before they are listed. In many cases a certificate of authorisation for products is required from the vendor before they can be listed.

Chan says both platforms encourage buyers to rate their purchases and incentivises customers to provide feedback. "Through our system, if we identify counterfeit items we can immediately take appropriate steps with merchants to correct the situation."



Pandemic has created an 'inflection point' for digital retailers

Ricky Wong

Vice Chairman and Group Chief Executive Officer, HKTVmall

The COVID-19 pandemic has created a new 'inflection point' for e-commerce, driving widespread adoption of online shopping across multiple generations that is permanently altering the retail landscape in Hong Kong, according to HKTVmall Vice Chairman and Group Chief Executive Officer Ricky Wong.

During the first half of 2020, as the pandemic was heavily impacting the global economy, the six-year-old e-commerce marketplace and fulfilment operator turned its first profit – some 18 months ahead of schedule. In a single year, the company doubled its Gross Merchandise Volume (GMV).

As the pandemic worsened and more people turned online to source goods, HKTVmall responded by ramping up its capacity to match the demand. The company's warehouse operations shifted from operating 10-12 hours a day to 24 hours a day, seven days a week and it boosted its delivery fleet to around 350 vehicles, then began outsourcing extra orders to third parties.

However, Wong is adamant that COVID-19 is merely a catalyst for speeding up Hong Kongers' migration online, not the cause of e-commerce growth in itself. "Consumers are changing their online behaviours because the online model is significantly superior to the offline model in terms of choice. For example, in the grocery category we have more than 100,000 different SKUs. No supermarket can give you a choice of 100,000 products."

Convenience beats price as a motivator for customers

While many retailers focus on discounts to drive traffic online, Wong believes price breaks are no longer the main driver for digital shoppers. Instead, convenience is the greatest motivation. HKTVmall's data suggests that once customers get comfortable with e-commerce processes, after three successful e-purchases they will not return to offline to purchase similar items, no matter their age group, he adds. For that reason, HKTVmall has eschewed the annual "11-11" Singles Day discount festival that has attracted many e-commerce operators in Greater China.

"Promotions are good to attract first-time customers from offline to online," Wong says. "But if you run discounts every weekend, the customer will not be interested anymore and it will hurt gross margins." Instead his value proposition to vendors is his traffic – which is currently around 250,000 unique customers per day.

With traffic and sales numbers underscoring HKTVmall's commercial viability, the company is now focusing on the next stages of its expansion: creating a digital ecosystem for Hong Kong and a business model that other entrepreneurs can adopt and roll out in other markets.

For the former, the company added a feature called "EcoMart" to its platform in April 2021, allowing users to resell, exchange or give away preowned items like used luxury handbags and apparel. Life insurance and banking service offerings are also in the works. For the latter, Wong's vision is to morph from an e-commerce operator into a technology enabler. He believes the lessons learned from building an e-commerce platform from scratch have created an invaluable resource for other businesses – not just in marketing and business operations, but in technology integration and using AI and big data in the last-mile delivery to develop truck delivery route-planning.

"Given that we have a vast knowledge of how to run a profitable online shopping mall, our mission is now to export our knowledge and our technology both inside and outside Hong Kong," Wong says.

Data sharing 'mutually beneficial' for retailers

Believing competition is healthy, Wong says his company is happy to help local investors create additional online malls to compete with HKTVmall. To this end, part of the company's business strategy is to provide an open data platform available to the public. Each day, the company uploads a file of its customer browsing and shopping data to the internet which is free for brands, agencies, universities and anyone else to download and interpret. Although stripped of any personal identifying information, the data remains highly detailed and is similar to that seen by HKTVmall's marketing team. The daily file – covering every click and movement of visitors to the site – can reach a hefty size of 30GB on occasion.

"Every company thinks differently and you cannot use the same formula for every product. That's why I open up this data for the public to use," Wong explains.

His philosophy is simple: If a vendor can sell more products by analysing HKTVmall's data, then both parties can benefit.



Accelerating digital transformation brings elevated consumer experience and new business opportunities

Randy Lai

CEO, McDonald's Hong Kong

Facing increased competition to reach consumers via digital channels during the COVID-19 pandemic, fast food giant McDonald's conducted a revamp of its mobile app in the Hong Kong market last year, applying machine learning and AI technology to better understand its customers' digital purchasing trends.

Launched in July 2020, the upgraded McDonald's app features seamless mobile ordering and digital payment as well as pickup ready within 5-10 minutes. Push notifications and emails also ensure the customer is well guided.

Randy Lai, CEO of McDonald's Hong Kong, says the app revamp has been a huge success, attracting over 2.3 million new registered customers in just nine months. As a result, digital sales now make up a significant share of McDonald's Hong Kong business.

Lai explains that under the 'new normal', contactless customer interactions, cashless payment and speed of service have become more important than ever. As a result, the demand for digital ordering and delivery has grown substantially.

To respond to changing consumer preferences, McDonald's has implemented an integrated digital marketing omnichannel strategy, with a heavy leverage on digital, to elevate consumer experience to the next level, with the journey from mass to personalisation. To achieve this, the company set up a Digital Customer Experience team in mid-2020, as well as a cross-functional task force team to ensure a high degree of internal collaboration and seamless execution.

"As an integral part of our brand strategy, digital transformation is a major accelerator for our business growth," Lai says. "Digitalisation not only allows us to expand our customer touchpoints and provides enhanced services such as mobile ordering and delivery, but it also helps us better understand customer purchase behaviour through machine learning, to keep customers informed of our new product developments and personalised offers."

With the new customer data it has generated, McDonald's has been able to improve its targeted advertising on its mobile app and on Facebook, including advanced customisation of its messaging,

allowing the ability to offer more personalised promotions for consumers. As a result, the company's year-to-date reach on Facebook has increased by 92 percent.

"The lifetime value of an app user is much higher than a walk-in customer," Lai explains. "As we drive more and more consumers to download and use our app, the incremental business contribution from digitalisation is growing healthily."

In addition, McDonald's is engaging millennials and Generation Z consumers through a new generation of influencers on Instagram as well as through augmented reality (AR)-enabled content.

"To achieve digital transformation, we have to keep up with changes in technology, customer preferences, and market dynamics. In addition, it is important to strengthen collaboration among different departments for best results," Lai concludes.



The lifetime value of an app user is much higher than a walk-in customer. As we drive more and more consumers to download and use our app, the incremental business contribution from digitalisation is growing healthily



Photo credit: McDonald's Hong Kong

Chapter 2



Connecting online-to-offline (O2O) channels to deliver improved customer experience



Unifying digital and physical brand experiences will be integral for retailers going forward, in order to meet the evolving demands of consumers. This presents an opportunity to leverage technology and available platforms to build connected ecosystems which can provide a seamless consumer experience across offline and online

Yvonne Yiu

Head of Global Liquidity and Cash Management, Hong Kong, HSBC

As described in the previous chapter, changes in consumer behaviour accelerated by the COVID-19 pandemic are changing the roles of online and offline channels. Presently, retailers are faced with the challenge of integrating both of these avenues to accommodate the browsing, comparing, purchasing, and after-service features that consumers want. While many brands talk about adopting omnichannel solutions to reach customers in Hong Kong and the rest of the GBA, our research shows a vast gap between customer expectations and retailer delivery.

Customers expect brands to use integrated O2O solutions to deliver an improved customer experience

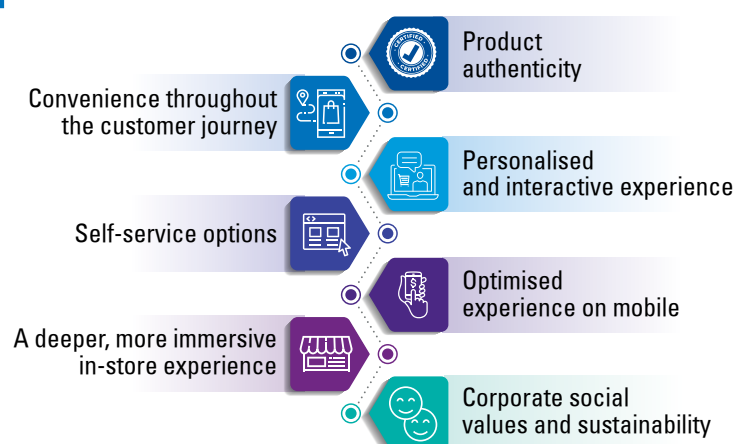
Our survey suggests that a large proportion of consumers expect retailers to provide an integrated offline-to-online experience: 77 percent of Hong Kong respondents and 85 percent of those polled in mainland China GBA cities said retailers need to have a better connection between channels to create a seamless customer journey.

Responses to our consumer survey help define what customers are looking for throughout their online-to-offline retail journey, including the type of engagement they expect from retailers. Product authenticity rates highly among shoppers, but convenience is just as important throughout the customer journey. Self-service options to reduce waiting times together with a personalised and interactive experience – optimised on mobile – all rated highly in the survey (Figure 2.1).

Customers seem more satisfied generally with the checkout, payment and delivery processes compared to our previous survey in 2019. But they remain less satisfied with product quality, the ability to customise products and customer service, both before and after purchase.

It is also notable that a majority of consumers – 75 percent in mainland China GBA cities and 64 percent in Hong Kong – expect brands to leverage social media to make purchases easier. For example, when they see a product they like on a social media post, they expect to be able to click and purchase immediately.

Figure 2.1 Leading qualities that attract consumers to brands



The importance of online-to-offline (O2O)



* Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai
Source: KPMG, GS1 HK and HSBC Survey Analysis



Customer centricity puts the customer needs at the centre of business decision making. Digital transformation is an enabler for businesses to grow their customer asset value. Adopting a customer asset value approach can empower businesses to further accelerate in the omnichannel world we are in today

Willi Sun

Partner, Strategy Consulting,
Consumer & Retail,
KPMG China

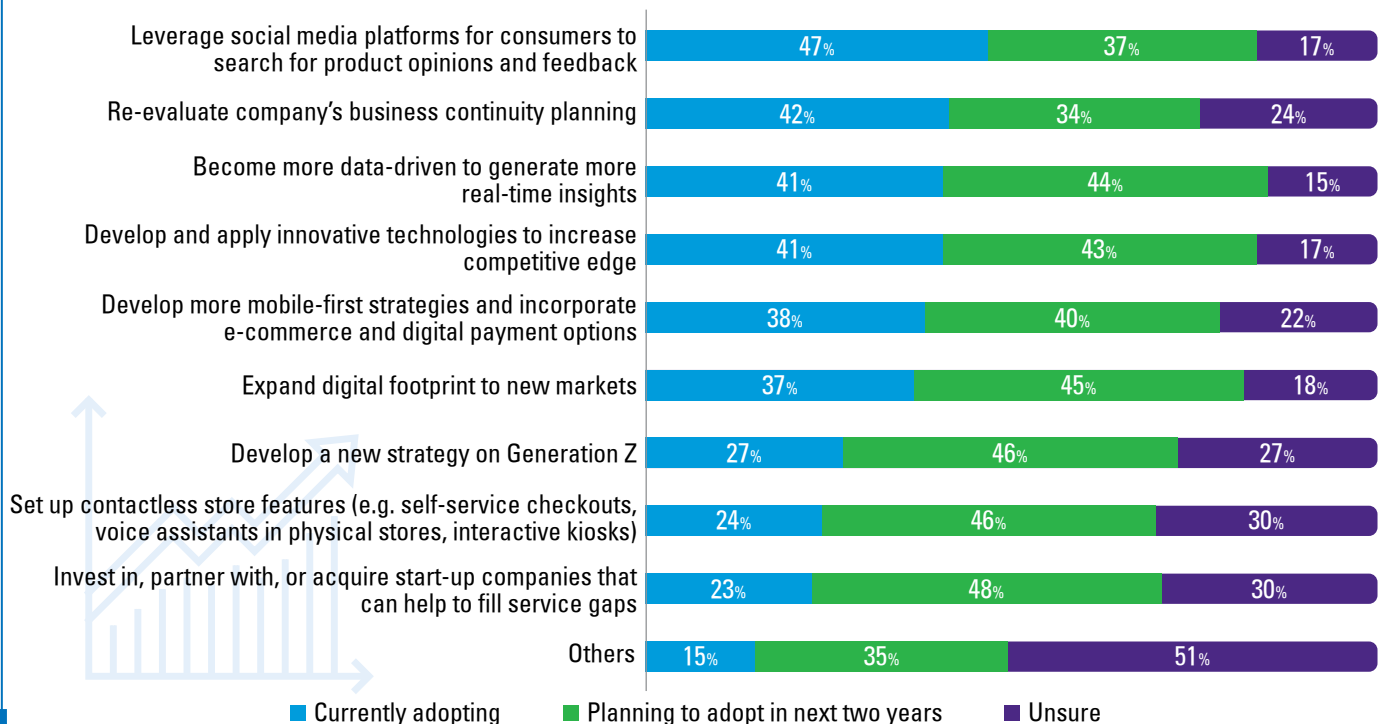
Brands appear to be behind the curve in their O2O planning

While shoppers are unequivocal in their expectations, our study suggests retailers are failing to react fast enough to consumers' O2O needs.

Among retail executives surveyed, less than 50 percent of businesses were currently adopting a number of strategies that could help them create a more seamless O2O experience (Figure 2.2). These include leveraging social-media platforms for consumers to search for product opinions and feedback, becoming more data-driven to generate more real-time insights into customer behaviour, developing and applying innovative technologies to increase their competitive edge, or developing a mobile-first strategy.

Meanwhile, setting up contactless store features, developing a strategy for the all-important Generation Z demographic or investing in or partnering with start-up companies that might help fill gaps in customer service appeared to be even less of an immediate priority for businesses, even though most retailers see these actions as part of their medium-term plan.

Figure 2.2 Growth strategies that retailers are currently adopting or plan to adopt in the next two years



Source: KPMG, GS1 HK and HSBC Survey Analysis

The data reinforces that retailers who take consumer feedback more seriously and place a higher priority on elevating their customer journey may stand to gain a significant competitive advantage.

Brands are starting to look at expanding into new markets

With so many companies expanding their digital offerings – and the ratio of online versus offline sales trending towards digital – it is only logical that retailers are looking at markets beyond greater China to expand their digital footprint. Among retail executives we surveyed, 37 percent said they are currently adopting strategies to expand their digital footprint into other markets, while 45 percent plan to do so within the next two years (see Figure 2.2 above).



To respond to this trend, marketplaces like Shopee and Tmall and e-commerce operator Fung Omni are developing cross-border solutions for Hong Kong and GBA retailers in areas such as simplifying logistics, managing import/export compliance, and localising social-media and other marketing campaigns (see case studies on pages 9, 42 and 47 for more information).

Strengthening O2O is a higher priority for apparel and personal care & beauty sectors

When it comes to improving the integration between physical stores and online channels, just 39 percent of responding executives nominated it as a one of the actions their business is currently taking to improve overall customer experience.

However, two retail subsectors stood out for preferencing it: apparel & accessories (55 percent) and personal care & beauty (51 percent). This might reflect a greater adoption of multichannel options in both sectors which have been quick to embrace selling on social media channels as well as new technologies, such as virtual changing rooms or – for cosmetics – virtual mirrors. It also reflects these subsectors' greater tendency to engage with influencers and embrace live streaming.

In terms of other subsectors, 42 percent of consumer electronics-focused retailers saw strengthening O2O as a priority. Meanwhile, around 40 percent of household goods, toys and general merchandise vendors named this as a key focus.

We also asked whether companies were investing in technology to create a seamless purchasing and transactional process. Overall, 30 percent said they were, down slightly from 34 percent in our previous survey in 2019. Here, it was the healthcare, medical and pharmaceutical sector leading the way with 40 percent, followed by apparel & accessories companies (36 percent).

Outside the purely retail respondents, 46 percent of transportation and logistics companies serving retail clients named this as a priority which suggests logistics providers are taking the initiative to improve and streamline the interaction between buyer and seller by enhancing last-mile delivery efficiencies and focusing on the end-user experience.

How should businesses respond?

Given the obvious gap in consumer demand and business priorities in the delivery of O2O solutions, there are several key areas where businesses might benefit from shifting focus – and investment – in order to gain a competitive advantage.

As we discuss later in this report, almost all businesses contributing to our research reported challenges in recruiting suitably qualified technical staff to drive the expansion of in-house digital technologies. It might also be argued that many of these technologies may be better managed by third-party partners for whom such solutions are their core business (as opposed to retailing). But businesses need to work out how to select such partners and build successful implementation partnerships.



The integrity of product data is more important than ever, especially with the new challenges of online commerce channels and all the different digital solutions within the store. Unique product identification helps clean product catalogues and streamline listing processes, improving product data quality for a better buying experience

Anna Lin

Chief Executive, GS1 Hong Kong





Online and offline shelf space rental concept helps emerging brands take off

Damien Ng

Founder at Backers

Since the onset of the COVID-19 pandemic as more consumers have shifted online, Hong Kong-based consumer retail services provider Backers has successfully adapted its business model to connect emerging brands with established e-commerce retailers.

Founder Damien Ng initially launched Backers in 2015 as a service helping brands to test-launch their products on the shelves of established physical retail stores. Over the past six years, Backers has worked to test-launch a diverse array of products across Asia, including backpacks, clothing, travel items, electronics and connected devices.

Ng says the company was inspired by consumer scepticism about whether crowdfunded products they saw online were genuine and marketable. "We saw a gap there and tried to bridge it by launching these products in physical spaces where consumers could touch and feel them," he explains.

Backers monitors basic information such as how long consumers spend looking at products. If shoppers are receptive, they do spot surveys to get their feedback.

"If a customer is standing in front of a product and you pop up a survey talking to them for 10 minutes, they would just walk away. But if you have shop staff engage with them and talk about the latest trends, consumers are willing to share. We sometimes have customers staying in our shops for an hour or more playing with each of the products and individually providing feedback to us," Ng explains. "Our goal is not to sell, but rather to engage, introduce educated conversation and build relationships with customers."

Socially-distanced market research

In the post-pandemic environment, the company's business model has evolved into what Ng likens to the short-term accommodation rental platform Airbnb – focusing on renting shelf space at existing retailers to emerging brands. It shuttered its own three stores in Hong Kong and another in Taiwan.

Working with GS1's Smart Tray solution enabled by IoT, AI, and video analytics, Backers can obtain in-depth shopper information on demographics, sales, purchase patterns, and the popularity of specific product items without the need to commission in-person focus groups or consumer interviews.

"Using this tool, we can collect all the data from different Asian markets to understand the local dynamics before they launch the product widely," Ng says.

Brand building with selective online placements

To make it easier for emerging brands to quickly build an online presence, Backers now allows brands to rent online space in high-volume Shopify stores via a custom-built plugin, supported by marketing on YouTube.

"We provide the opportunity and access for brands or products to find the right Shopify stores where they can start selling online. This way, companies can create an ecosystem to help unbox and demonstrate products on video blogs, which are connected to online stores. If someone is interested, they can buy right away," Ng says.

For new market entrants, Ng emphasises that building a new brand requires a certain level of time and investment in order to see traction. "Building a new brand requires a lot of cash flow. At the same time you want to start selling as quickly as possible so that you can get a return on your investment," he says.

"But we all know that it is a journey – if you don't build your brand, no one knows about you, and then no one will buy your products. We try to reduce the barrier to entry by providing brands with more cost-effective and flexible online and offline options."



As pandemic restrictions ease, O2O strategy critical as shoppers head back to stores

Plato Wai

General Manager, SHOPLINE

For smart commerce solutions provider SHOPLINE, the ongoing COVID-19 pandemic has not only increased business, but also strengthened the company's development of online-to-offline (O2O) solutions for clients in preparation for the post-pandemic business environment.

While many retailers have moved online to offset falling sales in physical stores, SHOPLINE General Manager Plato Wai believes that many consumers who have tended to shop online during lockdowns and social-distancing measures will return to stores once the pandemic eases. Despite this, he says, retailers will need to offer sophisticated omnichannel retail experiences for these consumers going forwards.

"We think physical retail will come back and it will be much better than what we see now, but at the same time consumers now realise how easy it is to shop online," Wai says. "The role of the physical shop will shift more towards experience and engagement."

For example, consumers may visit physical stores to see, touch and feel products, but they may well then go back home, think about it, and ultimately go online to buy because there is no real reason to go back to the store. Likewise, they may find the item online at a better price.

"If I'm a merchant, I would definitely want a physical shop because I want to attract traffic coming in to experience and try all my products, but then I will also focus on online because that's the channel to go to for selling my merchandise," Wai observes.

Harnessing data to predict online and offline trends

SHOPLINE was founded in Hong Kong in 2013 and has since expanded across Asia with offices in Taipei, Ho Chi Minh City, Bangkok, Guangzhou, Kuala Lumpur, Shenzhen and Singapore. The company manages technical components of a merchant's e-commerce business, such as inventory management systems, payments integration, delivery tracking and technology-based marketing such as live-streaming and social-media promotions. Currently 250,000 merchants use the service to sell both locally and cross-border.

To make it easier for clients to forecast the market demand, SHOPLINE helps merchants to synchronise data from shoppers buying both online or offline. The company has also developed its own analytics tool called Shoplytics to make it easier for merchants to understand data such as basic trading information, which products are selling better, preferred distribution or payment methods across orders and which have the most returns.

Data is kept anonymous with the company committed to ensuring shopper privacy and keeping commercially sensitive data exclusive to each brand. "A lot of merchants care about the privacy of the data more than the data itself. So, we are very committed to ensuring we protect our data. In general, we also encourage merchants to make good use of the data, because big data is actually the key to future success if you're selling online," Wai says.

Taking the experience offline

In October 2020, the company opened a 600 sq ft pop-up store in Hong Kong's IFC Mall. SHOPLINE rotates its brands within the space on a monthly basis, typically one brand at a time, but occasionally it will group several complementary merchants together, such as for a Christmas market last year. Brands who are new to the market can use the space to assess how their products will be received in Hong Kong.

While having a physical space might be considered unusual for a technology provider, Wai explains the strategy demonstrates the company's commitment to O2O. He says the concept proved so successful that the lease was extended a further six months to September 2021.

"We are encouraging our merchants to deliver an O2O experience and we thought it would be great if we could provide not only tech solutions but also an opportunity for them to experience how to run their own O2O business," he concludes.



Reflecting the in-store experience online

Thomas Woo
President, city'super

Long known for its unique in-store experience, premium supermarket chain city'super is stepping up digital engagement to grow its customer base across Greater China.

Parent City Super Group operates four grocery stores in Hong Kong, three in Shanghai and seven in Taiwan. The company also runs LOG-ON – a non-food retail concept targeting younger consumers, selling skincare products, fashion accessories, stationery and gadgets to a younger demographic – as well as a food court in Hong Kong located at Harbour City shopping mall.

Although its core business is offline, the company operates its own Shopify-based site selling direct to Hong Kong consumers and has a limited item selection available on quick-commerce platform Foodpanda. President Thomas Woo says the company eventually aims to have all 22,000 products on sale in its physical stores available on its Hong Kong e-shop, with about 12,000 already listed. It also sells a few select brands – like the popular Hokkaido, Japan chocolate brand ROYCE' – on Tmall in the mainland China market.

This online ramp-up has paid off during the COVID-19 pandemic, as city'super's online sales doubled, albeit from a small base. Woo says the high volume of fresh food sales online during the pandemic initially came as a surprise. "You would expect water and other heavy items to sell, but actually meat, fruit and vegetables and other fresh foods have accounted for close to 40 percent of our online sales."



Photo credit: city'super

Adapting the business for online order fulfilment

The company's online growth has not been without challenges. Fulfilling online orders is one of the company's biggest pain points, Woo explains. In Hong Kong, orders are fulfilled through the four retail stores, impacting inventory which has to be manually updated at store level.

To address this, Woo says the company is preparing to open its first 'mini-warehouse' in Hong Kong to help fulfil online orders. The company has also had invested considerably in middleware, the software that bridges gaps between applications and databases – in order to better track inventory sold through its e-commerce channels.

Online enhancements with physical retail at the core

In pre-pandemic times, city'super built its loyal customer base in Hong Kong in part through its Amazing Food Hall at the Times Square store in Causeway Bay, which offers a unique buy & dine shopping and dining experience to customers, featuring recipes cooked with products available in the grocery store. "The ultimate city'super experience is eating the best ingredients, cooked with a unique recipe by a professional chef. If you like it, you'll come back, or you can buy the ingredients and replicate it at home," Woo says.

While Woo knows it is hard to replicate an in-store experience online, he sees online and offline complementing each other. With that in mind, the company is investing in producing digital content for its online channels, including video demos for recipes and food presentation. "In this way, customers can experience our products digitally, which can encourage them to come to get the full experience at our physical store," he says.

Chapter 3



Understanding the 'generation gap' in consumer preferences

As the use of digital retail channels has accelerated since the onset of the COVID-19 pandemic, demographic variations in the ways consumers engage online are becoming more evident. Our survey findings point to significant generational differences in online shopping behaviour in terms of categories of goods purchased, spending and customer expectations.

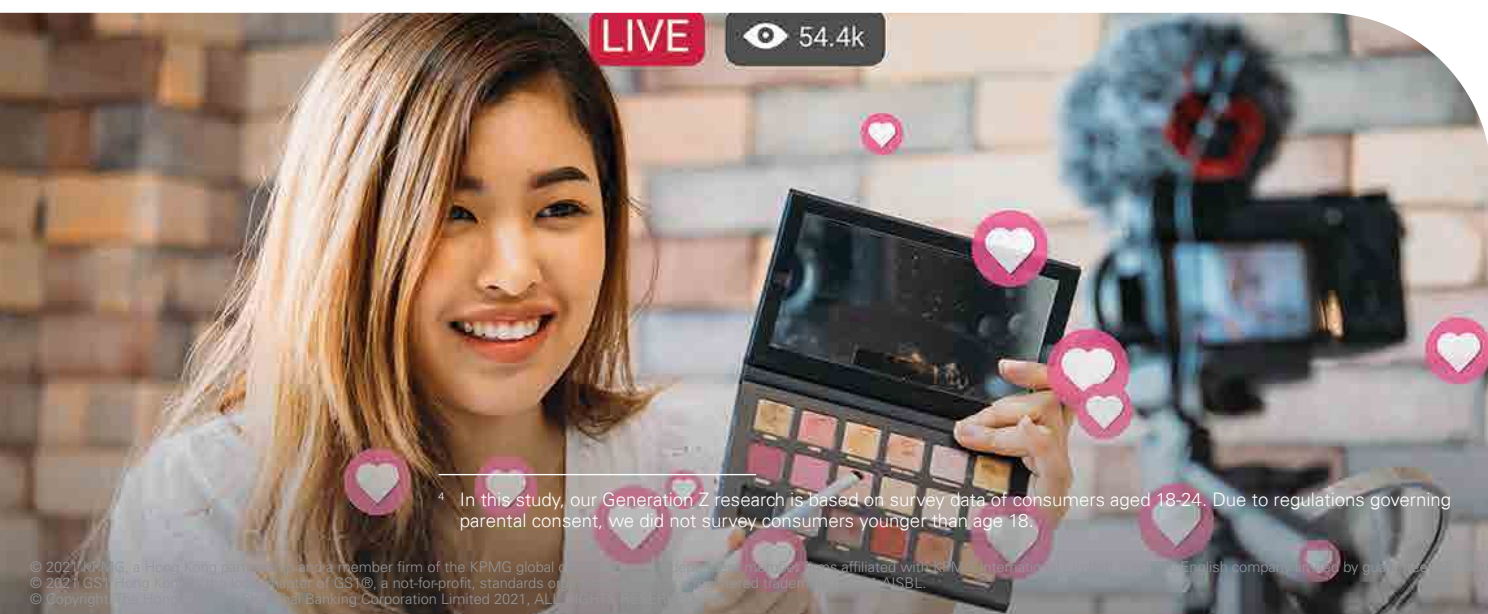
The generation gap in shopping behaviour has widened since the start of the pandemic

A growing phenomenon of "tribalism" is permeating the retail landscape. As we noted in our 2019 study, "tribal" groups of consumers interact with brands in different ways according to their loose demographic group. Our interviews with industry executives for this year's report confirm the continuation of this trend, with retailers saying they are facing challenges with how to interact with these different consumer groups. With so many brands marketing on online channels, particularly since the onset of the COVID-19 pandemic, retailers are under pressure to provide offers that can entice these increasingly demanding subsets of customers.

The Generation Z gap

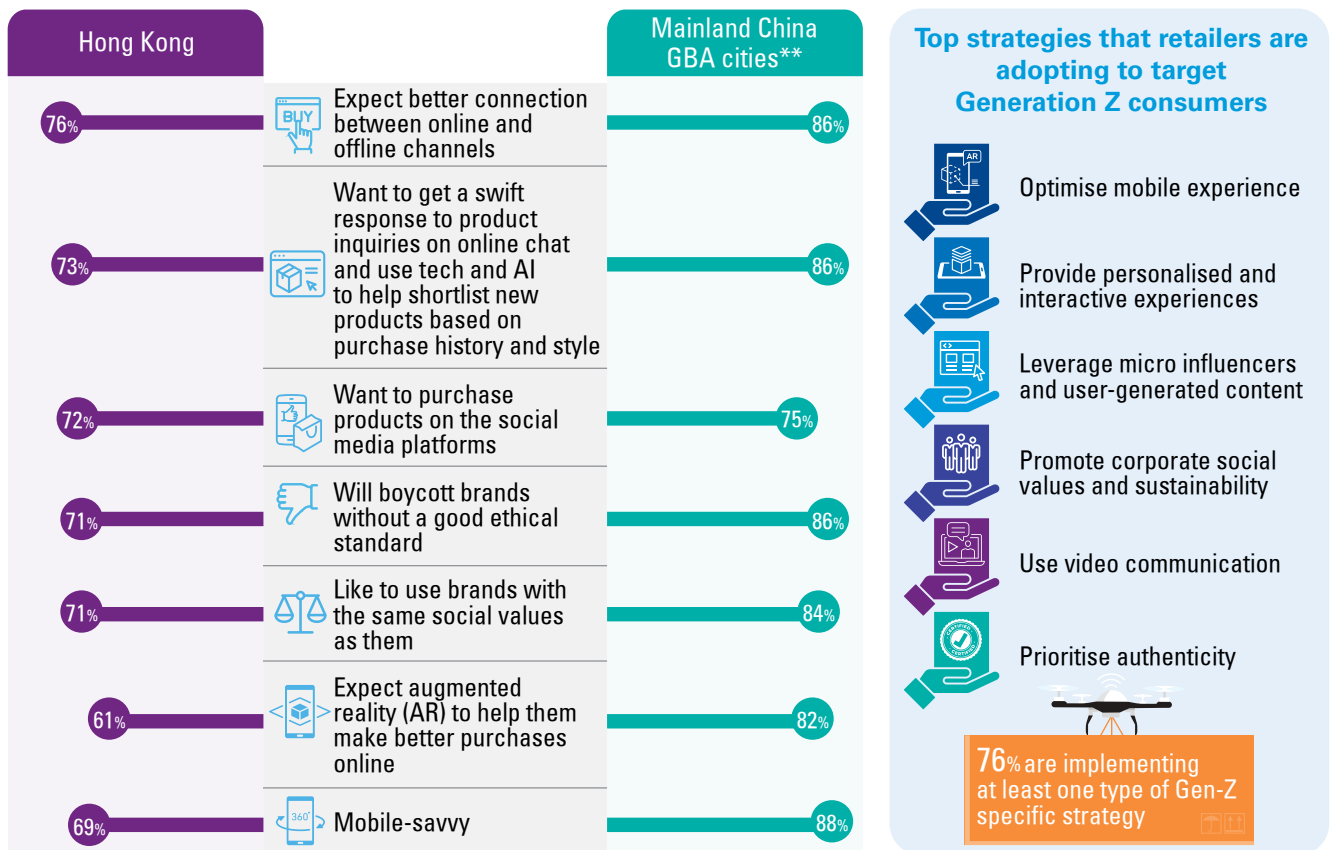
The standout demographic group is Generation Z ("Gen Z"), which includes those born from 1995-2010. Gen Z is well known as the first generation of consumers to have grown up knowing no other world than one constantly connected by digital devices, particularly smartphones. These consumers are putting experience at the centre of their purchasing journey. Unsurprisingly, according to our survey, the majority of Gen Z consumers polled consider themselves "mobile savvy" (88 percent of those in mainland China GBA cities, 69 percent in Hong Kong) and "tech savvy" (76 percent of mainland China GBA cities and 69 percent in Hong Kong).

Our research shows Gen Z consumers expect a better connection between online and offline channels (76 percent in Hong Kong and 86 percent in mainland China GBA cities) (Figure 3.1)⁴. The vast majority of them (86 percent in mainland China GBA cities and 73 percent in Hong Kong) expect a swift response to product enquiries logged on online chat and expect brands to use tech including AI to help shortlist new products based on purchase history and style. Among mainland China GBA consumers, 86 percent will boycott brands without a commitment to strong ethical standards (71 percent in Hong Kong) and 84 percent like to use brands which share their social values (71 percent in Hong Kong).



⁴ In this study, our Generation Z research is based on survey data of consumers aged 18-24. Due to regulations governing parental consent, we did not survey consumers younger than age 18.

Figure 3.1 Key characteristics of Generation Z* consumers



*"Generation Z" sample is defined as consumers aged 18 to 24 at the time of the survey

**Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai
Source: KPMG, GS1 HK and HSBC Survey Analysis

Generation Z consumers are the influencers for other generations, including millennials who want to feel young and active, and parents and grandparents who will make purchases for their Gen Z children and grandchildren

Jessie Qian

Country Sector Head,
Consumer & Retail,
KPMG China

Gen Z shoppers are also more likely to expect augmented reality (AR) functions to help them make better purchases online (82 percent in mainland China GBA, 61 percent in Hong Kong) and they prefer contactless shopping (77 percent in mainland China GBA and 60 percent in Hong Kong).

Given that these consumers are so forthright in what they demand from brands, one might expect the brands to be working hard to comprehensively structure services and strategies that appeal to the demographic. While roughly three-quarters (76 percent) of businesses were implementing at least one type of strategy to improve engagement with Gen Z customers, there was less overall alignment on which strategies are most critical. Roughly 36 percent of businesses are working on optimising their mobile experience, while 35 percent are working to provide a personalised and more interactive experience for Gen Z. However, other categories ranked lower, including using micro-influencers and user-generated content (29 percent), prioritising authenticity (25 percent), using video communication (20 percent), and offering self-service options (19 percent). Meanwhile, 24 percent of executives said they were not implementing any specific strategy for Gen Z customers.

Categories of goods consumers buy online vary according to age group

Significant differences were visible along generational lines in terms of the types of products consumers purchased on online channels during the pandemic (Figure 3.2).

In Hong Kong, younger consumers, especially those aged 18-24, were more likely to purchase apparel, beauty products and handbags or accessories online. Consumers aged 25-34 and 35-44 were most likely to buy insurance, other banking products and services and sportswear. Meanwhile, consumers aged 35-44 and 45-54 were the most likely to buy groceries and household goods.

Among mainland China GBA cities, some differences in age-specific trends were apparent compared with Hong Kong, especially in the 55-and-older age segment, where older consumers were more likely than other groups to purchase insurance and banking products as well as groceries online. Meanwhile, younger consumers aged 18-24 and 25-34 were more likely to place food delivery orders online. The 25-34 age segment was the likeliest group to make online purchases of digital devices, home appliances and furniture. Similar to Hong Kong, the youngest group of consumers 18-24 was the most likely to purchase skin care and cosmetics, apparel, and accessories.

Figure 3.2 Types of products consumers are more likely to have purchased online during the COVID-19 pandemic, by age segment

	Hong Kong					Mainland China GBA Cities*				
	Aged 18-24	Aged 25-34	Aged 35-44	Aged 45-54	Aged 55+	Aged 18-24	Aged 25-34	Aged 35-44	Aged 45-54	Aged 55+
 Supermarket food	▼	●	▲	▲	●	●	▲	▼	▼	▲
 Sanitising products (e.g. surgical masks, sanitising gels, gloves, etc)	▼	▲	▲	▲	▼	●	▲	▼	●	●
 Food delivery	●	▲	▲	▲	▼	▲	▲	▼	▼	▼
 Household goods (non-food)	▼	▼	▲	▲	●	▼	▲	●	▼	▼
 Apparel	▲	▲	▲	▼	▼	▲	●	▼	▼	▼
 Skin care or cosmetics products	▲	▼	▲	▼	▼	▲	▲	▼	▼	▼
 Digital devices/gadgets	▲	▼	▲	●	▲	●	●	▲	▼	▼
 Home electrical appliances	▼	▼	▲	▼	▲	▼	▲	▲	▼	▲
 Sportswear and sporting goods	●	▲	▲	▼	▼	●	●	▼	●	●
 Handbags/accessories	▲	▲	▲	▼	▼	▲	●	●	▼	▼
 Insurance or banking products/services	▼	▲	▲	●	▼	▼	●	▲	●	▲
 Furniture	●	▼	▲	●	●	▼	●	▲	▼	▼

▲ More likely to purchase (% of purchasers ≥ consumer average + 2%)

● Average chance of purchasing (% of purchasers is within 0-1% of consumer average)

▼ Lower chance of purchasing (% of purchasers ≤ consumer average - 2%)

* Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai
Source: KPMG, GS1 HK and HSBC Survey Analysis

Different generations mean different channels

The different behaviour of Gen Z consumers is also evident in the channels they prefer to shop on. In appendices to this report (see pages 50-52), we break down the preferred channels in Hong Kong and mainland China GBA cities across three product categories: apparel and fashion, food and beverage and beauty and wellness. In each chart, we compare e-commerce platform preferences for Generation Z consumers against that of overall consumers.



Digital transformation is advancing quickly in the GBA region. Retail companies are now focussing on the integration between physical and online stores by investing in digital solutions for both customer-facing and back-end operations. In order to deliver a seamless customer journey, more retailers are looking for a single platform that can take payments from multiple channels – from credit cards, bank transfers to e-wallets

Lewis Sun

Head of Product Management,
Asia Pacific, Global Liquidity
and Cash Management, HSBC

This data suggests that in Hong Kong, Taobao and HKTVmall draw the most consumers, followed by Tmall and Amazon, with the use of other platforms varying according to sector and demographic. Meanwhile, In mainland China GBA cities, Taobao, Tmall, JD.com and Pinduoduo generally rank as the top four across the three categories, but WeChat and Xiaohongshu also garner considerable popularity, particularly for beauty and wellness.

The use of mobile and digital payments is growing in popularity across all age groups in Hong Kong

Although different age consumers have different online shopping preferences, increased confidence in use of digital payments appears to be a trend across all age groups since the onset of the COVID-19 pandemic.

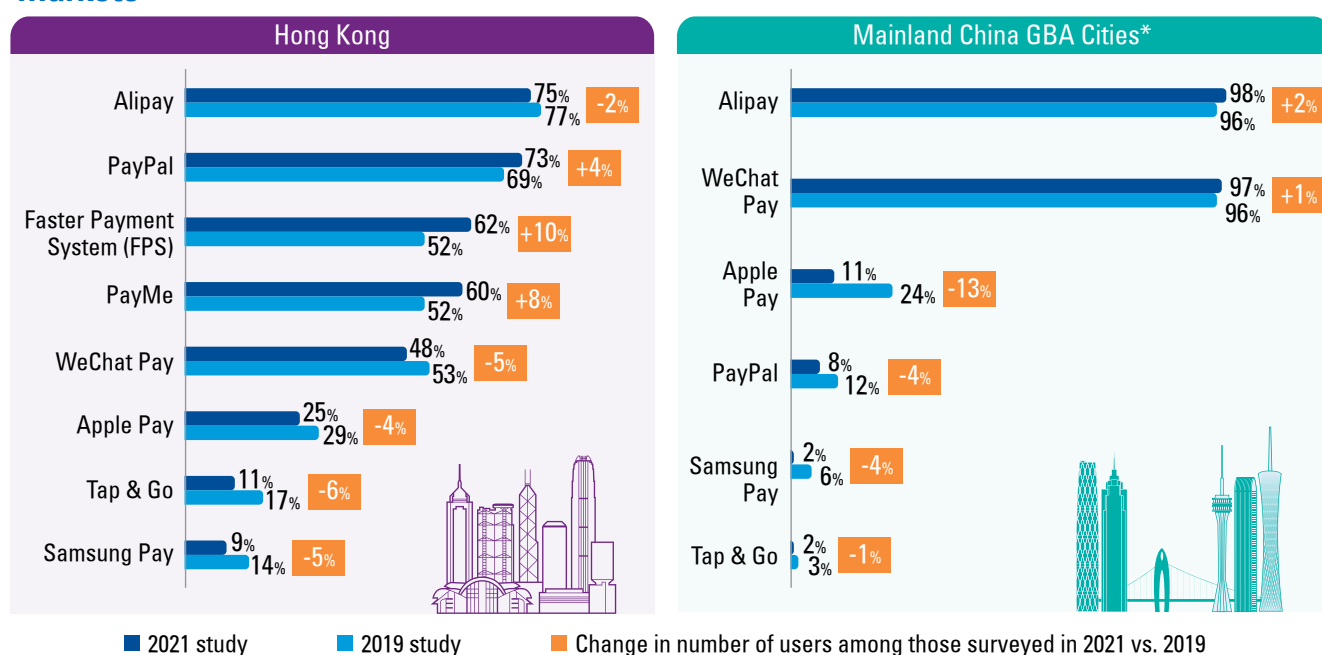
Our consumer survey shows that 65 percent of Hong Kong shoppers and 67 percent of GBA cities have become more comfortable using digital payment tools since the start of the pandemic, which also coordinates with a high adoption rate of digital payment tools in both markets.

A comparison of our 2021 and 2019 studies suggests that Hong Kong consumers are shifting to newer locally-available payment platforms. Meanwhile, for mainland China GBA consumers, there was not any major shift of preference for payment platforms (Figure 3.3).

Addressing the changing consumer expectation entails retailers' scaling up their digital payment collection gateways. Deploying real-time cash management solutions enables immediate transfer from consumers to merchants, made 24 hours a day, 7 days a week. By deploying such solutions, retailers could have better visibility of their accounting and liquidity, in turn enhancing their business operations and customer services.

Separate data collected by HSBC has shown exponential growth in the transactional volume of its Omni Collect payment solution in Asia since it went live in 2018. In Hong Kong and mainland China alone, the volume increased 125% year-on-year as of April 2021, while the transactional value has grown 165%.⁵

Figure 3.3 Digital payment services used in the Hong Kong and mainland China GBA* markets



* Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai
Source: KPMG, GS1 HK and HSBC Survey Analysis

⁵ HSBC Omni Collect transactional data, April 2021.



Demographic fragmentation causing major shift in focus for online marketers

Carsten Brenker

Managing Director of Jebesen Consumer, Jebesen Group

As consumers' use of digital retail channels continues to grow during the COVID-19 pandemic, Jebesen Consumer, a retailer and distributor of international brands in Hong Kong, is adjusting to what it describes as a splintering of the market into multiple demographic groups.

The company distributes high-profile brands Casio and Dyson in Hong Kong and operates J SELECT, a chain of six physical retail stores plus online shop www.jselect.com in the territory.

Working in partnership with Casio, Jebesen has been augmenting Casio's sub brands like G-SHOCK, Edifice and BABY-G for the Hong Kong market to reach different demographic segments. The brands range from basic plastic watch models sold online for HKD500 through to limited-edition collectors models which sell for as much as HKD60,000.

"Everything is tribal now," reflects Carsten Brenker, Jebesen Consumer's Managing Director. "You have to find a specific way to reach each group of people, whether offline or online."

Online-only limited-edition products and video demos help to build customer loyalty

Jebesen offers more than 2,000 Casio SKUs in Hong Kong and Brenker says the online channel allows Casio and Jebesen to build brand loyalty. So, too, do the marketplaces which Casio has a presence on. Jebesen uses its own online store to launch new or limited-edition ranges, targeting customers who have purchased before, building loyalty through exclusivity at the same time as growing brand awareness. It fosters that database through collecting information from purchasers across all retail channels.

Brenker says selling limited-edition models exclusively online is one way to build loyalty and repeat business and create a sense of excitement and anticipation. That and a robust loyalty programme have helped the company ride out the challenges of the pandemic.

He explains that as the database grows, it is up to the company to reactivate the customers and get them to make repeat purchases. "I have always said in bad times, you need the best of the best, your own

database that you can go back to on a regular interval. We expect a retention rate of something like 60 percent."

Jebesen has also found success using videos to promote products. For Japanese beauty appliance brand YA-MAN, the company filmed product demonstrations up to four minutes long, sharing them with customers over social media or via WhatsApp. As the company started producing more online demos, staff from the J SELECT retail team have been filming onsite at the K11 Musea store where a large kitchen counter can be converted into a presentation studio to create professional-looking content.

Generation gap will widen post-COVID as older shoppers return to stores

Brenker says Jebesen's online sales surged when Covid-19 first struck Hong Kong early last year, but in recent months, sales have been levelling out again.

One reason for this may be that consumers have been returning to physical stores where they can touch and feel stock. Brenker predicts the split in generational response will broaden as COVID-19 passes, dismissing claims that the shift towards online shopping across all demographic groups will not reverse.

Marketplaces tend to attract a younger, generally more fashion-oriented customer, another example of the demographic fragmentation of customers gravitating to different channels. And physical stores, including third-party resellers, also have their place, especially with higher-end watches. "If you are looking at a HKD20,000 Casio watch, I do believe you'd still want to go to a watch store and see and touch the product before you buy it."

At the same time, given the growing preference for online among younger shoppers, the company will continue to build its digital offerings to grow online sales over the long term.



Developing a 'digital-native' direct-to-consumer strategy

Robert Esser

President, APAC & China - Havaianas, at Alpargatas SA.

Over the past two years, online marketplaces have helped to establish premium Brazilian flip-flop brand Havaianas in the China market. Now, the company is shifting focus towards driving traffic to its own online stores to achieve higher returns and fully control the customer journey.

Havaianas parent company Alpargatas opened its regional office in Hong Kong at the start of 2018. Robert Esser, president of Asia Pacific and China, currently leads a team of more than 30 staff and oversaw the opening of the group's office in Shanghai in 2019.

By the first half of 2021, Havaianas' online sales grew to 20 percent of its total Asia Pacific sales, up from just 1.5 percent in 2019. The brand is now listed on 44 online marketplaces in Asia, and the company has over a dozen people dedicated to building the company's digital ecosystem.

In China, Havaianas has adopted what Esser calls a "digital-native" direct-to-consumer business model, with the vast majority of its sales conducted online. The strategy appears to be paying off – the company's China sales increased more than seven-fold year on year in 2020, with solid growth predicted for the coming year.

With flip flops traditionally being summer wear, it is a challenge for the company to operate traditional retail stores in China, particularly in cities with colder climates, Esser explains. Instead, last year the brand ran 16 pop up stores in shopping malls located in Tier One mainland China cities to build brand awareness, operating just two year-round stores, including an outlet store and a flagship in the beach holiday destination of Sanya.

Focus on direct-to-consumer and B2B

Having achieved rapid growth in China – and other Asian markets – Alpargatas is now focusing on traffic to its own websites, of which there are nine in the region already, with another six planned this year.

Esser says direct-to-consumer sales will become a core focus for most brands in the future because it is the only way they can control the entire customer journey. "You can't do that if you're on a marketplace, where the customer journey is the same no matter what you buy."

Going direct-to-consumer also boosts brand profitability, he adds. "Generally speaking, I would challenge any brand owner to operate on a meaningful marketplace platform without paying a large percent of sales to that platform," he says. "When you go in-house, your fixed costs go up, but your variable ones go down. And so as you expand volumes with private traffic, your per-unit profitability will go up quite a lot. The challenge with marketplaces is to protect similar variable cost increases as your business grows. Brand building and integrity are key criteria for us to select where to play in the diverse marketplace landscape across China and the rest of Asia Pacific."

In addition, Esser sees business-to-business (B2B) sales as a key way to develop the brand online. "We see B2B as part of a strategy of being present in every type of commerce journey where users may want to buy or experience footwear brands," he says.

Live streaming essential for brand building, but choosing the right partners is critical

The company regularly uses live streaming to build awareness in the China market – it held 13 events last year with leading KOLs including actress Liu Tao and streaming king Li Jiaqi, which achieved US\$500,000 in sales – equal to around 25,000 pairs of Havaianas flip flops.

Esser notes that live streaming is difficult to make profitable in any market, especially China, because KOLs often seek discounts of 40 to 60 percent off retail prices before promoting products, and they typically take a "sizable commission" on top of that.

However, there is payback from brand recognition through being endorsed by KOLs. Across last year's live streams, Havaianas drew 1.5 million consumers onto its Chinese website, equal to 8 percent of its unique visitors.

A key to successful live streaming is finding KOLs that make great brand ambassadors, Esser says. "KOLs that have strong brand affinity as opposed to just a wide reach are generally more effective for us, particularly for the long term."

Chapter 4



Prioritising authenticity throughout the customer journey

Shoppers in both Hong Kong and mainland China GBA cities are expecting authenticity throughout the entire journey of a product, from the sourcing of materials to manufacturing process and marketing. Immutably linked to this trend is a growing desire among consumers to interact with brands that have a strong sense of purpose within their communities and the world.

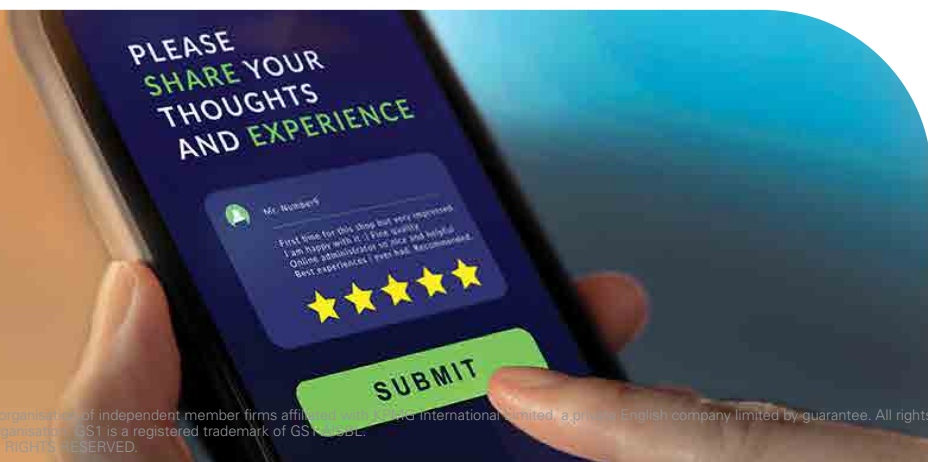
Authenticity was ranked as the number-one attribute attracting people to brands among consumers we surveyed. Asked about changes to their shopping behaviour since the start of the COVID-19 pandemic, 68 percent of Hong Kong consumers and 65 percent of those from mainland China GBA cities are more conscious about the origin of products.

Our interviews with retail industry executives also reinforce that the pandemic has made consumers more mindful of health and wellness as well as environmental sustainability – fuelling increased demand for products such as plant-based meat alternatives and more sustainable clothing options.

Consumers expect companies to demonstrate a commitment to sourcing and transporting ingredients sustainably and fairly as well as monitoring suppliers to ensure fair labour conditions. At the same time, they are paying attention to what retailers are doing to climate impact and ensure products – and the packaging they are shipped in – are reusable, recyclable or disposable with minimal environmental impact. In addition, consumers expect companies to be transparent in their supply chain and their commitment to social causes. Nurturing trust among consumers is essential to creating long-term brand loyalty and engagement.

Despite these findings, our corporate survey showed that only 19 percent of companies are prioritising end-to-end supply-chain transparency and ethical product sourcing, suggesting that a gap still exists in understanding consumers' growing preferences for purpose- and authenticity-centric brands.

Anson Bailey, Head of Consumer & Retail, ASPAC for KPMG China, emphasises that retail businesses are facing an urgent imperative to be more purpose-driven. "We are seeing a perfect storm emerge with investors, bankers, regulators and consumers all calling out for brands and retail groups to become more purpose-led and demonstrate both their societal and green credentials in the communities that we live and work in," he says.





As the saying goes, 'trust is hard to earn and easy to lose'. In today's retail marketplaces where consumers can buy a product through a host of different channels, it's more important than ever for brands to protect product authenticity by implementing proactive anti-counterfeit strategies

Dr. Stephen Lam
Chief Operating Officer,
GS1 Hong Kong

Differences exist among Hong Kong and mainland China GBA consumers on the sources of product information they trust

How consumers search for product information as well as their perception of which sources of information they trust can have a strong relationship with how they perceive brand authenticity.

Among consumers surveyed, the most trusted sources of product information are the opinions of family and friends, followed by the brand's website and online user reviews (Figure 4.1). Product videos and social-media posts rank lower but remain significant as a source of credible information.

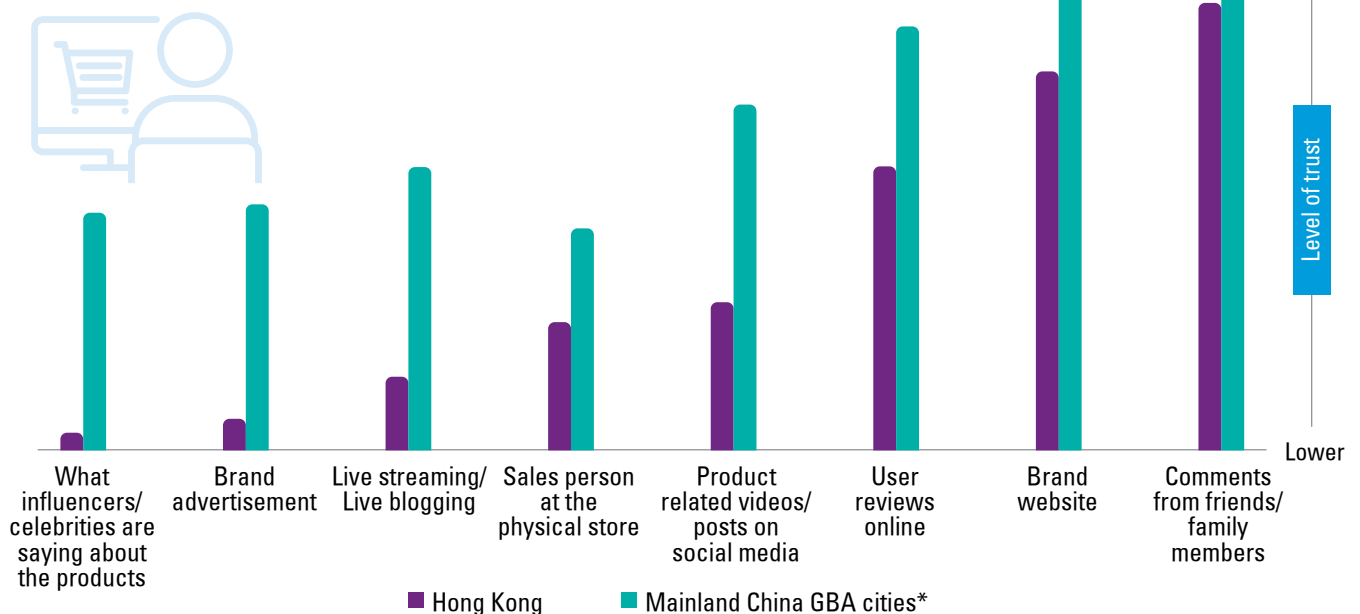
Comparatively speaking, mainland China GBA respondents are more likely to trust live streamers and live bloggers than salespeople in a brand's physical stores, but the reverse is true for Hong Kongers.

Brand advertising and the views of key opinion leaders (KOLs) rank lower, particularly in Hong Kong. Just 9 percent of Hong Kong shoppers and 19 percent of mainland consumers check if an influencer has endorsed a product (Figure 4.2).

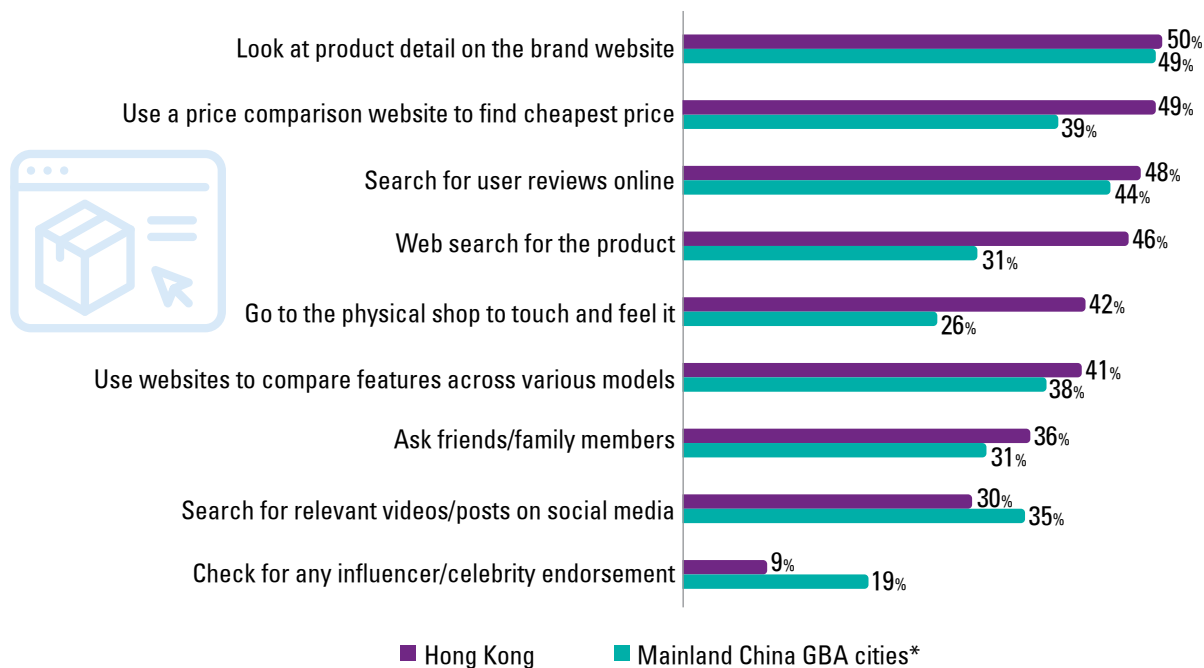
When asked where they go to research a product before purchase, about half of consumers polled in Hong Kong and mainland China GBA cities take a look at brand websites. While a similar proportion of Hong Kong shoppers will use a price-comparison website to find the cheapest price for an item, mainland China GBA respondents are less inclined (39 percent). Meanwhile, both groups are likely to search for user reviews online.

Where the behaviour between the two groups diverges most markedly is in the role of a physical store in the search of product information. Just 26 percent of mainland China GBA consumers said they sought the tactile experience of touching a product instore before purchasing, whereas 42 percent of Hong Kong respondents do.

Figure 4.1 Consumer trust in product information sources



* Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai
Source: KPMG, GS1 HK and HSBC Survey Analysis

Figure 4.2 How consumers find product information before purchasing

* Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai
Source: KPMG, GS1 HK and HSBC Survey Analysis

Brands seem to be understanding this subtle shift in attitude to KOLs. Keen Yim, Vice President of Brand & Community Asia Pacific for apparel brand Lululemon, says more consumers are now aware, if they were not before, that KOLs are being paid to endorse a product. This reality has prompted retailers to shift towards engaging KOLs that have a sense of connection with the brand and actually use it, even if that person has fewer followers compared to other influencers they may be considering.

Additionally, across all respondents, we found that the overall trust in information sources increased with age – demonstrating that trust needs to be earned, especially with younger consumers.

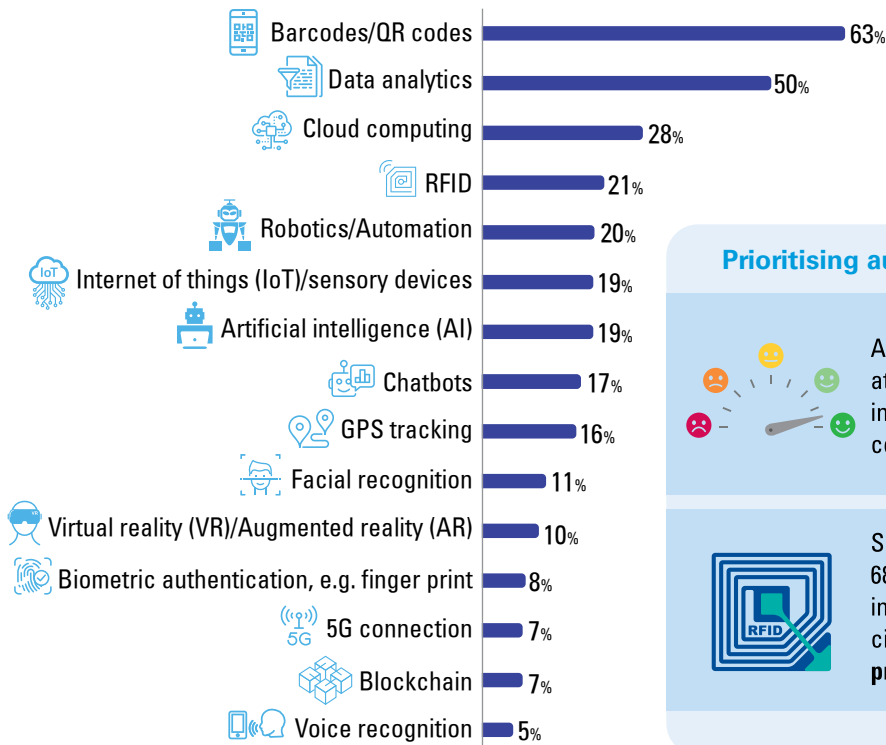
Consumers want supply chain authenticity

Consumers are also seeking authenticity in the supply chain – expecting to be able to trust retailers that they are buying genuine products. While leading marketplaces like Tmall and Amazon are promoting strategies to eliminate counterfeit goods there remains an element of consumer distrust.

Our survey of retail executives showed that brands are responding to these concerns by implementing a range of technologies allowing more accurate tracking and tracing of products. The most commonly adopted are barcodes and QR codes (63 percent) (Figure 4.3). Meanwhile, other technologies with supply chain applications, such as RFID tags, GPS tracking and blockchain, have relatively less adoption. Yet just 19 percent of retailers said they were prioritising end-to-end supply chain transparency, echoing the findings of our 2019 study, where this was a priority for roughly 25 percent of businesses polled.

Given the strong consumer demand for brands to ensure product quality and authenticity, these findings may be a sign that retailers need to re-evaluate how newer technologies can help them reduce risks and secure their brand reputation in the markets they operate in.

Figure 4.3 Digital technologies retailers are currently using in their operations



Source: KPMG, GS1 HK and HSBC Survey Analysis

Prioritising authenticity and product origin



Authenticity was the **number one** attribute attracting consumers to brands in the current environment, among consumers we surveyed.



Since the start of the COVID-19 pandemic, 68 percent and 65 percent of consumers in Hong Kong and mainland China GBA cities respectively are **more conscious of product origin and authenticity**

Changing the mindset of business leaders, technology enablement and education of consumers are all essential in the quest for a more sustainable omnichannel retail industry

Pat Woo

Global Head of Sustainable Finance Services, KPMG

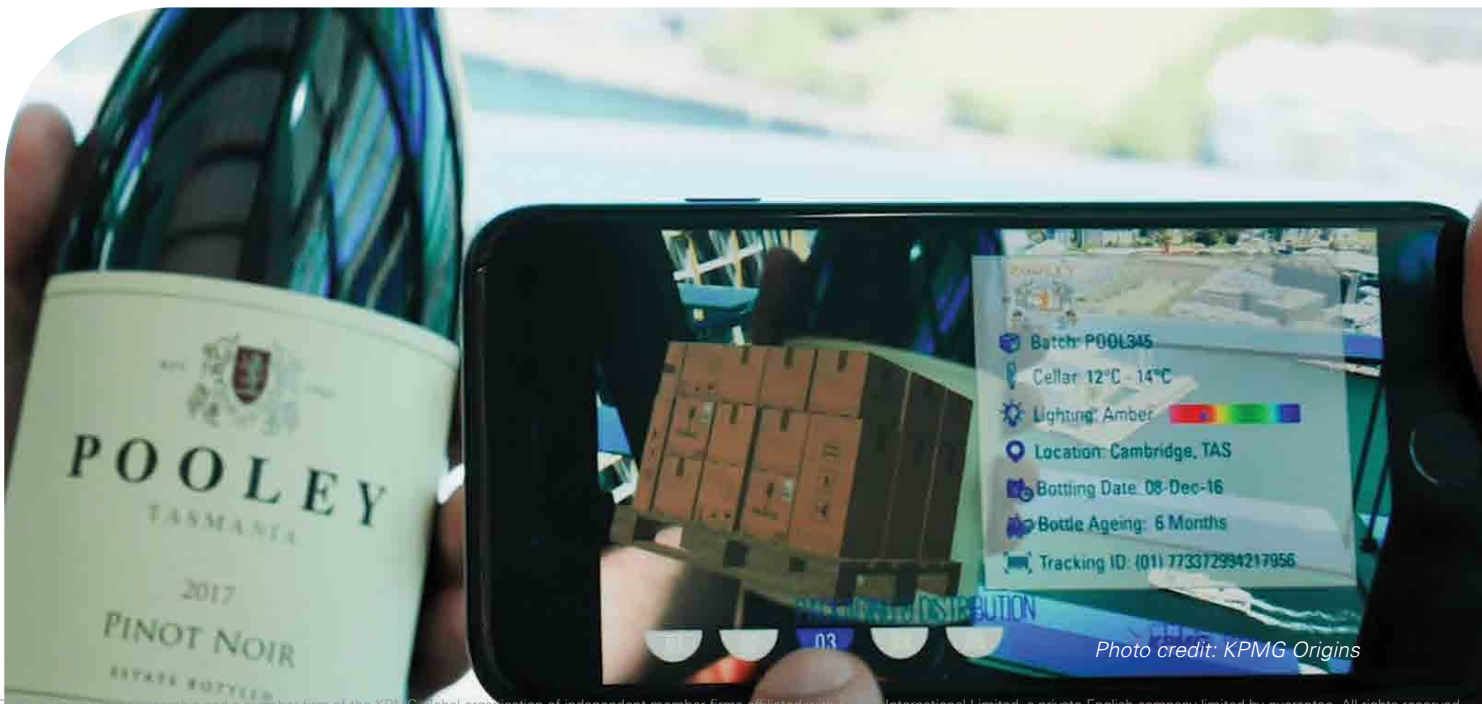


Photo credit: KPMG Origins



The best 'Key Opinion Leaders' are satisfied customers

Keen Yim

Vice President Of Brand & Community Asia Pacific, Lululemon

Lululemon is only 22 years old, but the Canadian-headquartered company has built a global following for its premium athletic lifestyle apparel. In six years since the brand launched in Hong Kong it has opened eight physical stores as well as a direct e-commerce site aimed at the Hong Kong market.

'Athleisure' is a term broadly used to describe Lululemon and its peers, but it is not a phrase the brand uses itself. "We like to say we 'solve our guest's needs'," explains Keen Yim, VP of Brand and Community for Lululemon Asia Pacific. "Whether that is an activity like yoga, running or training, We develop our products through our Science of Feel innovation platform, which is based upon the principle that when you feel your best, you can perform your best."

While the company does not reveal sales data for each market, Yim says Lululemon is seeing strong growth in Hong Kong, largely driven by e-commerce or omnichannel activities, despite the COVID-19 pandemic.

"That's attributed to the digital investments that we've been making as a company within the last three to four years, which include not only building out an e-commerce presence in all our key markets including Hong Kong, but also setting up the foundations of our data platform so that we have an ongoing understanding of our guests' behaviour and can actively build a relationship with them," Yim says.

Brand ambassadors need to be 'authentic'

Like other brands, the company uses brand ambassadors as key opinion leaders (KOLs) to drive digital engagement, but Yim says the best KOLs the company has are its customers, who he refers to as "key opinion consumers".

"Lululemon has never been known to have the biggest marketing budgets. We have grown because we offer a quality experience based on quality products delivered to our guests, and that has created word of mouth as well as sustainable growth," Yim says.

In every market in which Lululemon trades the company has ambassadors that include runners, physical fitness gurus and yoga experts. Authenticity plays a crucial role in the programme, because ensuring the KOLs are credible is more important than hiring those with larger reaches.

"If you look at where brands and digital culture are heading, there is increasing transparency. Everybody knows KOLs are getting compensated based on their followers and reach," explains Yim. "But we prefer collaborating with those who truly live our brand purpose and use our products. We believe that authenticity creates more impact than reach."

Lululemon works to develop trust and empathy with its customers, part of a broader commitment to wellbeing and communities. For example, when gyms were closed due to COVID-19 restrictions, the company set up a relief fund to help support its studio owner ambassadors who had rent to pay.

Diversity taskforces ensure inclusion across all markets

To further address the diverse needs of consumers in Asia, Lululemon has formed an inclusion taskforce in every market it operates in, comprising selected store staff and external advisors. "We discuss things like inclusion, diversity, and equity," says Yim. "Our way of solving a lot of these things is not to find a solution, but to have a dialogue because it is an on-going journey."

Among the products of the taskforces is a range for Muslim customers, including looser yoga pants and a hijab.

"Respecting the diverse range of religion and culture of this region is very important to our company. We are committed to support the wellbeing of the guests, employees and the communities we serve," concludes Yim.



Driving purpose throughout the business in product development, investments and advocacy

David Yeung

Co-founder & CEO, Green Monday Group

By advocating for change in the way people consume and investing in like-minded start-ups, eco-friendly F&B manufacturer and retailer Green Monday Group is aiming to incorporate purpose into all aspects of its business.

Green Monday operates nine retail and dine-in venues in Hong Kong under the Green Common brand specialising in plant-based and natural foods. It has also opened stores in Shanghai and Singapore, with plans to further expand in mainland China in the near-term. It also owns the start-up OmniFoods which manufactures and sells plant-based pork substitutes in supermarkets and restaurant chains including Starbucks and McDonald's. The company has also invested in plant-based foods manufacturer Beyond Meat, dairy alternative supplier Califia Farms and more recently Perfect Day, a dairy alternative protein pioneer.

The company was founded in 2012 by CEO David Yeung and his advocacy partner Francis Ngai without a store or a product – only a vision to educate consumers about the impact of climate change, and how meat consumption contributes to global warming.

"When we established Green Monday, we talked about a purpose-led company from day one," recalls Yeung. "We said we were going to be a mission-driven enterprise, but our mission comes before the enterprise."

Product development, marketing and advocacy go hand-in-hand

By tradition, NGOs tend to raise awareness of issues or work on advocacy, while businesses will try to provide innovations and solutions. Green Monday simultaneously does both.

The Green Monday Foundation is focused on education and advocacy, teaching children in schools and community groups about why consumption habits need to change. Meanwhile, Green Common and OmniFoods are working to make plant-based meat alternatives a mainstream choice for consumers in the markets they operate in. The food products themselves are the main revenue generator for the business, while the Green Common grocery stores serve to create an engaging experience for customers.

In particular, OmniPork has proven to be a very successful product, now sold through 40,000 points of sale in more than 20 international markets. However, Yeung explains that the company's mission and its commercial endeavours remain closely aligned.

"We don't create products just for the sake of it or because it fits into a lucrative market segment," Yeung says. "Everything we sell in our stores is helping to further the causes that our Foundation is advocating for."

COVID-19 highlights the urgent need for change

Yeung believes the COVID-19 pandemic has created a much higher awareness and level of urgency among individuals, corporations and governments about how unsustainable and fragile the Earth is.

"We all know how attention to Environmental, Social and Corporate Governance (ESG) has skyrocketed over the last 18 months, and a lot more companies are now pledging net zero or putting ESG as an important part of their corporate strategy. Investors are listing that as a requirement for companies they invest in. Ultimately, our mission is to be a changemaker," he says.

A big part of that mission is changing the mindset of consumers – and that will not happen overnight, says Yeung. "People all their lives have been eating burgers, hot dogs, luncheon meat, sausage and seafood. So, to ask them to make a 180-degree change is a tall task."

He explains that the company's name 'Green Monday' refers to encouraging people to eat plant-based foods at least one day a week, using Monday as a starting point. "We do not think it can be an all or nothing binary situation. If we say either you're a meat eater or you're a vegan, we will turn a lot of people off."

Once consumers are willing to adapt, 'Monday' is just the start of change for the better, Yeung adds. "We don't want people to stop at Monday. It's like exercise – if you can run 2km or 3km, you can also finish 5km or 10km. In this sense, Monday symbolises a new beginning."

Chapter 5



Deploying technology to improve experience, speed up fulfilment and drive down costs

Hong Kong and mainland China GBA consumer expectations of brands and retailers are rising as they become more comfortable shopping and paying on digital channels.

On the one hand, customers we polled expect digital technologies to provide a dynamic customer journey. This includes not only being able to quickly navigate channels, find the products they are looking for, and suggest products based on their previous buying habits, but also ensure speedy fulfilment and convenient after-sales service – all while keeping costs competitive.

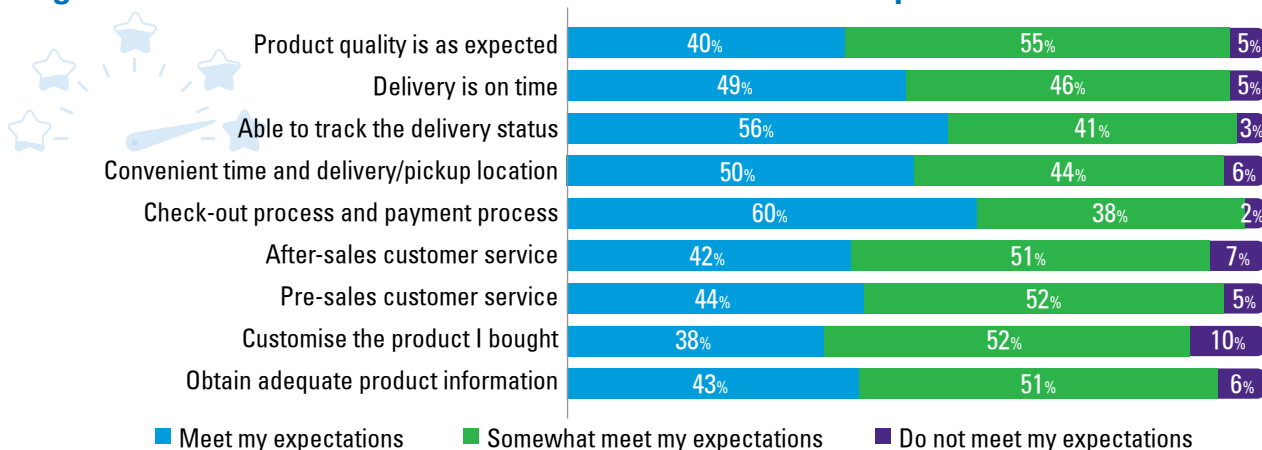
At the same time, there is significant consumer concern about the personal data they are required to provide to retailers to enable the customer experiences they demand – particularly about which types of data are collected and how securely their data is being stored.

Among retail executives we interviewed, some suggested that many companies are asking for too much data and need to question whether they really need it. This is underlined by our corporate survey, which showed that fewer than one-third of retailers have the capacity to comprehensively analyse the data they already have.

Gaps exist between consumer expectations and brand delivery

Our consumer research highlighted shortcomings in several core areas: less than half of online shoppers surveyed consider retailers fully meet their expectations in product quality, providing adequate product information, pre- and post-sales service and on-time delivery, although most agree that brands somewhat meet their expectations in these areas. They also expect a higher level of product customisation than what is currently offered by brands (Figure 5.1). This data was generally consistent among the Hong Kong and mainland China GBA consumers we polled, albeit some subtle differences in some areas, with Hong Kong consumers slightly less satisfied as compared to mainland China GBA consumers in after-sales customer service, on-time delivery and ability to customise products.

Figure 5.1: Consumer views on how brands meet their expectations



Source: KPMG, GS1 HK and HSBC Survey Analysis

Artificial intelligence and machine learning will transform supply chain management from reactive crisis management into cognitive procurement and inventory management

Kin Chan

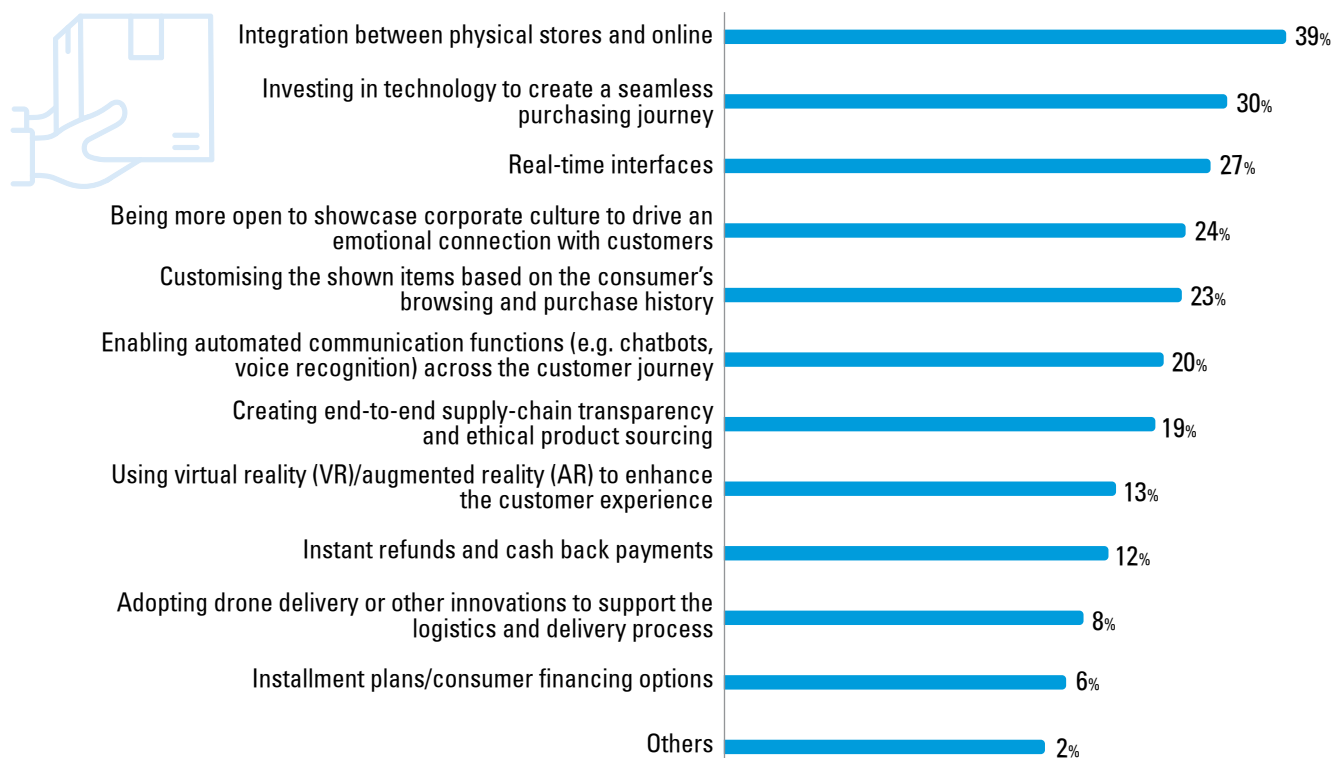
Head of Procurement and Supply Chain Advisory, GBA, KPMG China

Meanwhile, our corporate survey suggests a considerable gap between consumer expectations on key aspects of customer experience and the priorities of companies in actions to enhance them.

The most common focus of companies in this area right now is the integration between physical stores and online, mentioned by 39 percent of retailers, well below half of those surveyed. The second most common action was prioritising investment into technology that creates a seamless purchasing and transactional process, cited by 30 percent of respondents (Figure 5.2).

Customising items shown on e-commerce channels based on consumers' browsing and purchasing history is currently deployed by 23 percent of retailers; while roughly one in five retailers (20 percent) were using chatbots and voice recognition software to enable automated communication. Meanwhile, 13 percent are enhancing the online customer experience using virtual reality (VR) or augmented reality (AR). A surprising finding given market expectations was that 20 percent of retailers polled were not taking any action to improve customer experience on their channels.

Figure 5.2 Current retailer actions to enhance customer experience



Source: KPMG, GS1 HK and HSBC Survey Analysis



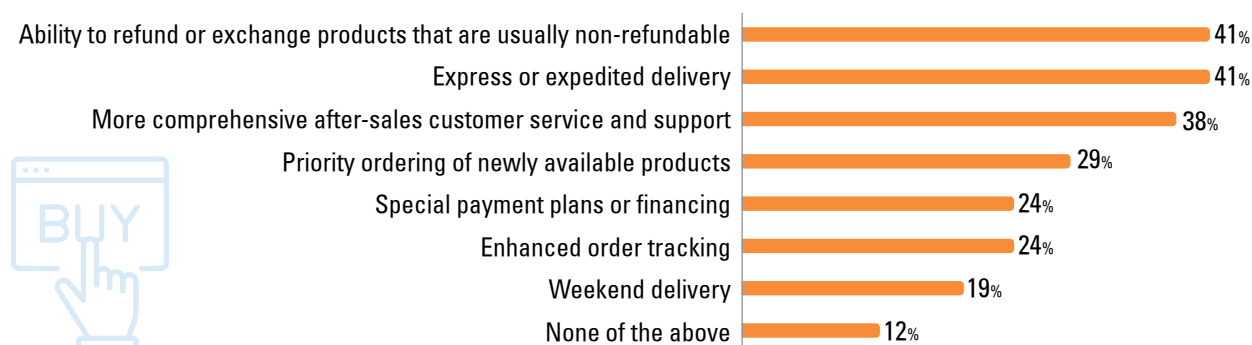
Customers are willing to pay a premium for add-on services

While there is a broad expectation among consumers that they should be able to save money when shopping online, consumers told us they are willing to pay a premium for certain services when using digital channels, pointing to areas where additional investment may prove to be a revenue generator for businesses.

The two service types most often mentioned by respondents were an ability to exchange products that might normally be non-refundable, and express or expedited delivery (Figure 5.3). A relatively high percentage of consumers also placed value in comprehensive after-sales customer service and support and being able to place priority orders for new product models.

Additionally, about one in four consumers (24 percent) indicated they were prepared to pay a premium for financing options, suggesting a ready market for buy-now, pay-later services in Hong Kong and mainland China GBA cities, especially in light of their rapid proliferation in digitally mature western markets such as Australia and the UK. Enhanced order tracking and weekend delivery were other services which might persuade customers to pay a premium. Significantly, only 12 percent of respondents indicated they would not pay for any of the added-value services mentioned.

Figure 5.3 Services consumers are willing to pay a premium for



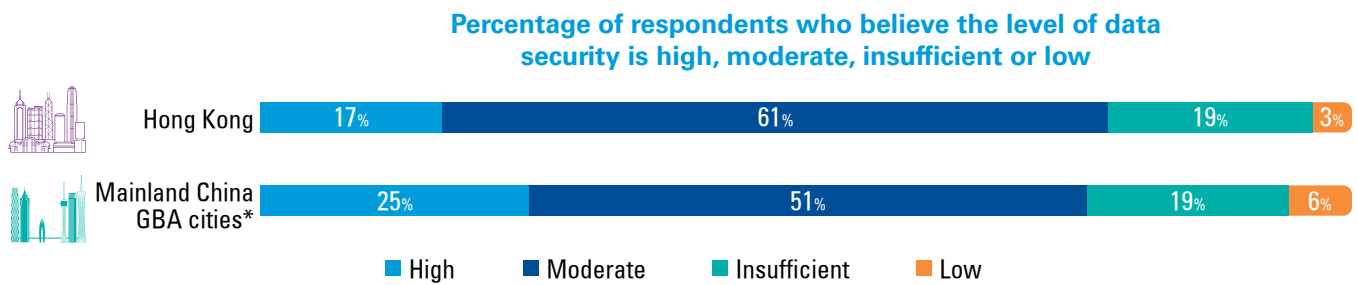
Source: KPMG, GS1 HK and HSBC Survey Analysis

Despite their desire for convenience and enhanced experience, consumers are concerned about data security

While there is a trend among online retailers to seek as much data from customers as possible, increasingly digitally savvy consumers are pushing back on requests for personal data they no longer consider relevant or justified. Our survey data suggests that consumers are increasingly asking 'What's in it for me?' before they provide data to companies.

Overall, our 2021 study suggests that consumers in both Hong Kong and mainland China GBA cities were less willing to share various types of personal data in order to receive more customised service, compared with our 2019 study. These categories include age, gender, marital status, employment status, income level, location, browsing history, and shopping preferences and spending habits. Among these categories, consumer willingness to share personal data in 2021 was noticeably lower than 2019.

This reluctance to provide personal data can be partially attributed to concern about the levels of data security currently provided by retailers. Roughly 17 percent of Hong Kong respondents and 24 percent of mainland China GBA respondents agreed that retailers provide a high level of data security, although a majority agree they provide at least a moderate level (Figure 5.4). Meanwhile, roughly a quarter of respondents (22 percent in Hong Kong and 25 percent in mainland China GBA) said they believed there is a low or insufficient level of data security provided by companies.

Figure 5.4: Consumer views on data security provided by retailers

* Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai
Source: KPMG, GS1 HK and HSBC Survey Analysis

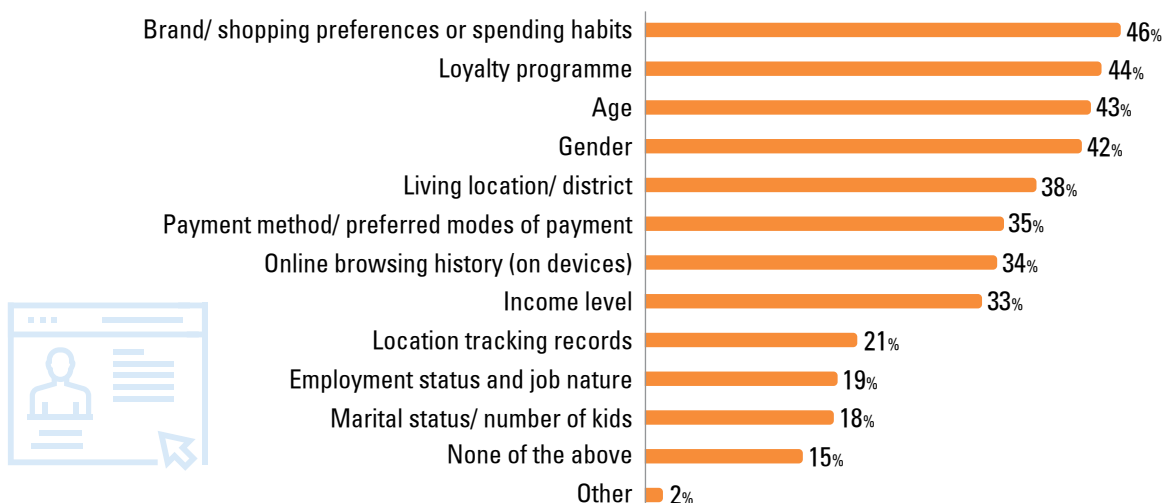
Access to real-time data at every point in the supply chain has been becoming more and more important. Yet, without abilities to link, structure and share the data, companies will suffer from having too much data and not enough insight. Data interoperability and visibility are key to enable smart business operations and deliver consistent consumer experience

Dr. Stephen Lam
Chief Operating Officer,
GS1 Hong Kong

The vast majority of brands are collecting customer profiling data, but gaps exist in their current analytics capabilities

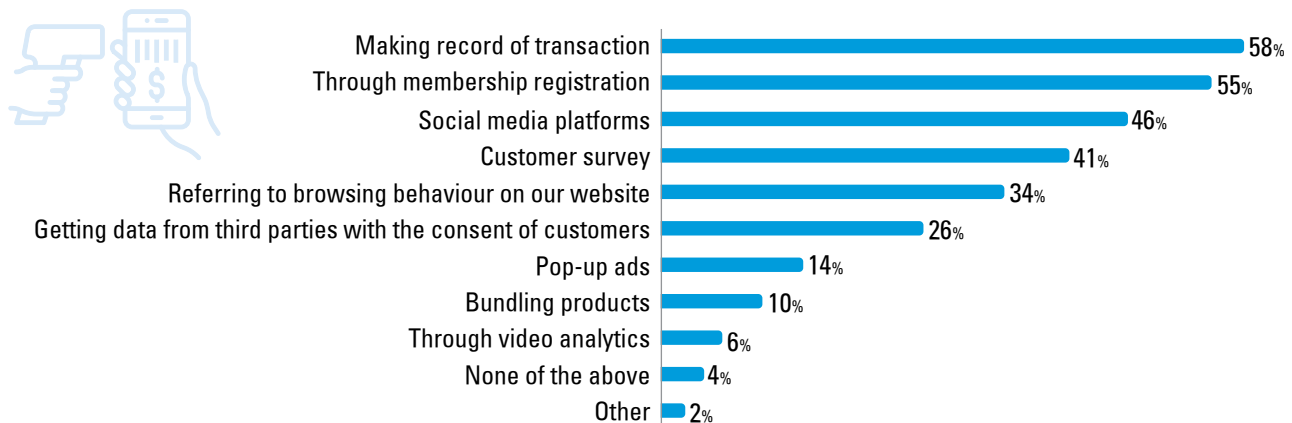
Our corporate survey found that 78 percent of companies are collecting data on customers, most of them through transaction records, loyalty programmes, social-media platforms and customer surveys (Figure 5.6, see next page). However, 34 percent say they refer to browsing behaviour on their websites and 26 percent source data from third parties with the consent of their customers.

Predictably, the most commonly collected data relates to brand preferences and shopping habits, loyalty programme information, age, gender and location details (Figure 5.5). In addition, 34 percent of brands say they retain online browsing data, 33 percent record income levels and 21 percent keep location tracking information. This reemphasises that effectively communicating to customers about how the company plans to use their personal data, and fully informing them of their right to control the company's access to their data in accordance with local laws is increasingly important.

Figure 5.5: Consumer data retailers are collecting

Source: KPMG, GS1 HK and HSBC Survey Analysis

Figure 5.6: How retailers capture customer data



Source: KPMG, GS1 HK and HSBC Survey Analysis

Deploying transformative technology innovations such as AI and machine learning has enabled retailers to access enhanced consumer insights and purchasing trends. Effectively analysing and utilising the data will be increasingly important for them to build meaningful customer experiences and cater to evolving customer demands

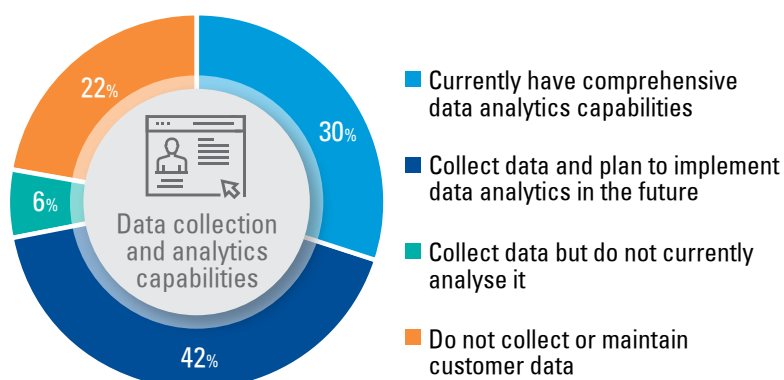
Irene Zeng

Head of Global Liquidity and Cash Management, China, HSBC

While the vast majority of companies are collecting data, our survey found that relatively few are analysing it effectively, with 30 percent of companies reporting they had comprehensive data analytics capabilities (Figure 5.7). The largest proportion – 42 percent of respondents – said they collected data with a view to implement comprehensive analytics sometime in the future, while another 6 percent said they collect it but do not analyse it. Further, 22 percent of retailers say they do not currently collect or maintain customer data.

The top three reasons given for not implementing comprehensive analytics include a lack of available talent, high investment cost, or a failure to see significant benefit from doing so. Specific challenges surrounding talent shortages facing retail businesses will be detailed in the next chapter of this report.

Figure 5.7 Retailers' current data analytics capabilities



Source: KPMG, GS1 HK and HSBC Survey Analysis

Retailers' top five reasons for not implementing comprehensive data analytics

1. Lack of available talent
2. High investment cost
3. Cannot see significant benefits
4. Only a small amount of data available
5. Don't know how to make use of the data



Safeguarding the health and safety of customers has been a key priority for retailers during the COVID-19 pandemic. Hong Kong-based start-up Rice Robotics has introduced disinfection robots, delivery robots and security robots at several of the city's major shopping centres. The robots can operate elevators, charge themselves and navigate through indoor spaces without help. The Jasmine disinfection robot (pictured here at the K11 Musea mall) disinfects 12 hours per day from 10 am to 10pm.

Source: Rice Robotics



Growing consumer demand for choice is redefining last-mile delivery

Christian Secci

Co-Founder and CEO at Alfred24 (by Pakpobox)

As Hong Kong consumers buy more goods online, companies in the last-mile delivery space are facing increasing pressure to deliver convenient and flexible solutions for both vendors and shoppers.

Hong Kong-based logistics solutions provider Pakpobox, which from this year is operating under the brand Alfred24, is a pioneer in automated parcel lockers, to which consumers shopping online can opt at checkout to have their purchases shipped. Over the past seven years since its founding, the company has progressively added more last-mile logistics solutions, including delivery to convenience stores and other pickup points.

With its network of lockers and pickup points in place spanning Hong Kong SAR, Australia and Italy, the company has also developed fully integrated logistics solutions, selling its hardware and software solutions to postal organisations in over a dozen overseas markets via local distributors. Operators can monitor lockers in real time via an internet connection, so they know how many units are empty at any given time and record for the sender the exact time a recipient collects a parcel. The key to the concept is convenience: buyers do not need to commit to a specific time and place to receive deliveries; while shippers can aggregate deliveries to a single location.

Co-founder and CEO Christian Secci says the company has witnessed considerable change in the nature of the digital retail market in Hong Kong since its founding. "First of all, people want things delivered as fast and as cheaply as possible," he explains. "And now people want multiple delivery options where they can choose to have goods delivered to their home at a specific time, or collect them from a locker near or inside their residential building, or pick them up at a convenience store." Secci says the locker concept also addresses an evolving desire among shoppers for privacy, ensuring only the designated customer has access to the parcel.

Last year 1.3 million people collected a parcel from Alfred24 lockers. "That might seem a lot, but our target is 1 million per month within the next 36 months," says Secci. Since the onset of the COVID-19 pandemic, Alfred24 now offers a contactless delivery option, with shoppers able to access a locker by scanning a QR code

instead of the traditional option of entering a PIN code sent by SMS. Alfred24's busiest locker installation in Hong Kong is at Tseung Kwan O Plaza, where 2,000 people collect parcels every month. The average locker size required by Alfred24's customers is also changing. Traditionally, says Secci, 80 percent of the parcels were within the size of a shoe box. "But lately, we are seeing a trend towards asking for bigger sizes."

Having lockers accessible 24 hours a day is also convenient for shift workers – and it allows shippers to make deliveries at night when there is less traffic congestion in the city. For shippers, locker networks lower last-mile delivery costs because more packages can be delivered in a single stop. "One courier can deliver to 60 individual homes in one day. To our Alfred24's lockers, they can deliver 600 per day – that's 10 times more – because we make the logistics efficient," Secci explains.

Working towards a carbon-neutral future

Earlier this year, the company unveiled plans to transform itself into a zero-emissions company by 2025, using an entirely electric fleet of vans – and its automated parcel lockers – to reduce the environmental impact of e-commerce.

"We are trying to give our customers the tools to be sustainable, like the plastic-free mailer bag, and then we can provide a delivery network that is fully sustainable which they can plug into," Secci says. The company distributed 300,000 biodegradable bags to vendor partners in the first quarter of this year, and is working with partners to develop plastic-free packaging solutions. It has also engaged a design company to produce driver uniforms made with fabric from recycled ocean plastics.

To move towards a more sustainable digital retail industry, Secci believes that while it is not possible to force others to change, companies like Alfred24 can lead by example. "Sustainability is a major factor in everything we do," he says, "and we can use green logistics solutions to make our cities more liveable and efficient."



Building a digital ecosystem for the F&B sector

Joe Yau
CEO, OpenRice

OpenRice started out in Hong Kong 20 years ago as a rate-and-review platform for consumers searching for somewhere new to eat. Since then, it has transformed into a multi-purpose platform selling dining vouchers, taking table reservations and most recently accepting takeaway orders.

The booking-reservation service opened a new commercial avenue for OpenRice four years ago, helping to build the company's user database to around 6.5 million. It has processed more than 45 million dining reservations since its initial launch. In addition to Hong Kong, the service has also been rolled out in the Macau, Singapore, and Taiwan markets.

Since the onset of the COVID-19 pandemic, OpenRice has adapted its restaurant self-ordering service to accept takeaway orders. Using an app, Hong Kong residents can now order and pay for food they then collect from partner restaurants, the ranks of which grew from 900 to more than 6,000 in the city over the past year. Since it is pick-up service only, OpenRice is able to charge restaurants a lower commission compared to food delivery apps. Meanwhile, customers can conveniently pay via AlipayHK, Visa Card, MasterCard, American Express, Apple Pay, Google Pay and some local digital wallets on its desktop and mobile platforms.

Communicating the benefits of going digital

CEO Joe Yau, who is also CTO of the Group, says the company is working to build an ecosystem for restaurants with multiple, technology-enabled services including expanding into table-side payments. "We are focused on how we engage restaurants, our users and our business partners together into a single, unified connected way, so that we can leverage each other's strengths during these challenging times," Yau says.

As OpenRice has expanded its restaurant base, Yau says one challenge was convincing some traditional-style restaurants that they needed to be online. "We had to train our sales team members to help some restaurant owners understand the new possibilities that come with a digital presence. In this sense, we have had to act as technology consultants for the F&B industry."

Expanding the reach of digital payments for dine-in

Beyond takeaway, Yau observes that the pandemic is also changing the way consumers pay for dine-in meals, which has hastened the need for companies to be able to accept a wider variety of digital payment options. "In the past, restaurant goers usually used a plastic credit card to pay. Now, we're seeing higher demand for contactless payment options, such as being able to pay using a debit card or digital wallet via a mobile app." Yau says the company is currently testing mobile payment options for its table reservations service which it plans to roll out in the coming one to two years.

The technology behind OpenRice's platforms is fully developed in-house, which has proved challenging at times as it is often difficult to find good developers Yau says. Another pain point is finding specialists to help scale the platform to the point it can handle 10 to 20 million users a year as well as locating sales specialists to help educate the restaurants on the potential of its platforms. To prepare the company for the future ahead, the company has been expanding its development team in Hong Kong and Shenzhen to support its growing Asia operations.



We are focused on how we engage restaurants, our users and our business partners together into a single, unified connected way, so that we can leverage each other's strengths during these challenging times



Chapter 6



Addressing the growing demand for talent amid digitalisation

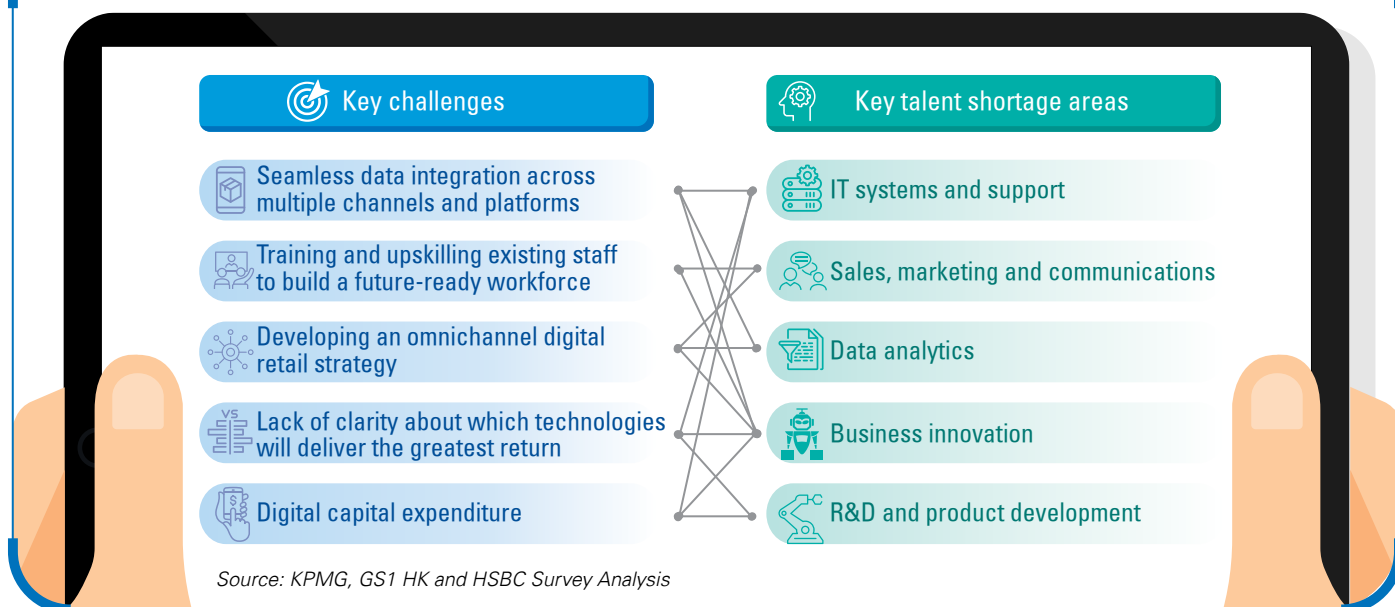
As retailers and brands develop more complex digital channels and deploy new technologies, a recurrent challenge is sourcing sufficiently skilled talent.

Senior executives interviewed for this report almost unanimously cited skill shortages as a barrier to implementing digital solutions at a pace they aspire to.

Plato Wai, General Manager of smart commerce solutions provider SHOPLINE, likened the challenge to a battle with rival companies to attract the right people: "In Hong Kong, there's a shortage of talent in e-commerce, digital marketing, AI and big data. Recruiting top talent in these areas is always of prime importance to us," he says.

Asked about the key challenges facing retailers, roughly one in three respondents in our corporate survey highlighted seamless data integration across multiple channels and platforms as the greatest pain point, but this was only marginally ahead of training and upskilling existing staff to build a future-ready workforce and recruiting talent with the right skill sets in data analytics – which were both mentioned by 31 percent of those surveyed. Additionally, retaining the right talent already on board is a key concern for 21 percent polled. (Figure 6.1 visualises how key talent shortage areas facing retailers relate to the top overall challenges that retailers face).

Figure 6.1 Retailers' leading challenges and talent shortage areas



Third parties are playing a key role in high-technology solutions

Skilled talent shortages are most prevalent in the fields of digital and data analytics, but also extend to marketing & communications, IT support and product development. This has led to a majority of retailers becoming heavily reliant on third-party providers to manage solution implementation.

Among senior executives we interviewed, most companies prefer to outsource technical functions to third parties rather than managing them in-house. "[Third-party vendors] are always going to be able to innovate something at a much faster pace than you would be able to if you brought it in-house," says Robert Esser, President of APAC and China for footwear brand Havaianas.



This report highlights key skillsets that will

be required in the future, including IT system and support, data analytics, and R&D in the GBA. As the vibrant city cluster continues to flourish, the demand for talent will grow exponentially as businesses become more digital, innovative, and seek to incorporate the latest technologies

Lewis Sun

Head of Product Management,
Asia Pacific, Global Liquidity
and Cash Management,
HSBC

Our corporate survey results also echo this sentiment. We asked which technology solutions for retail operations companies are being developed in-house and which were being contracted out to third parties. We found that in every single technical field, licenced software or outsourced services are relied on more than in-house management, but the ratios for various types of functions differed markedly.

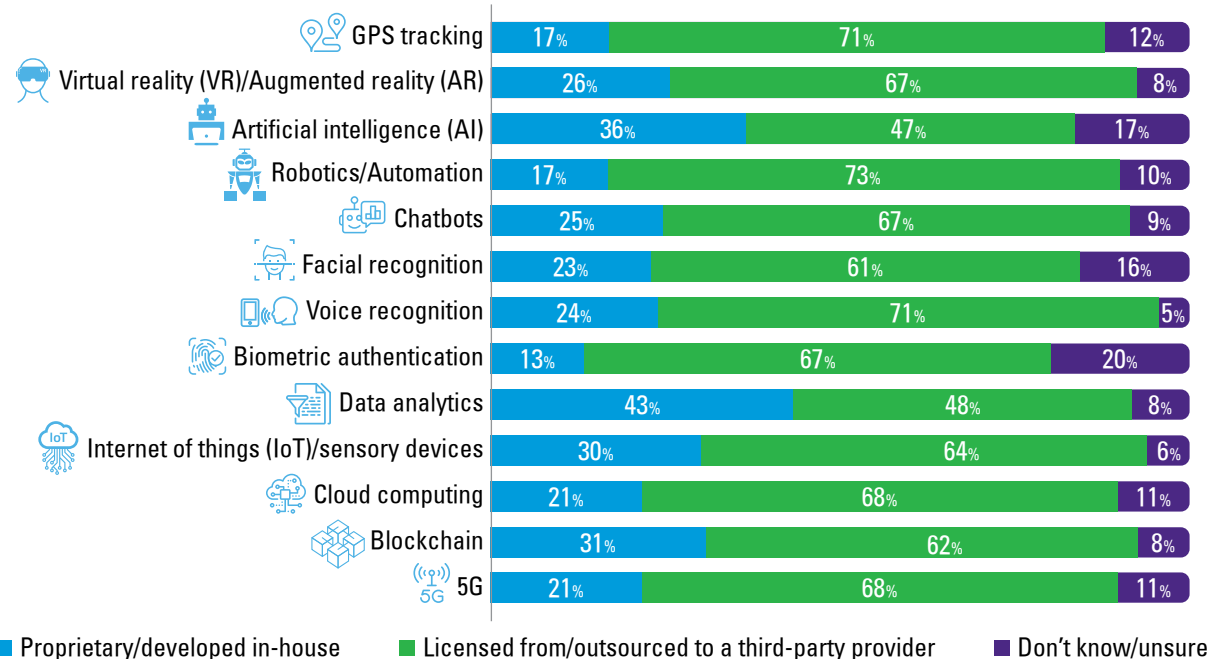
The findings suggest that robotics and automation, GPS tracking, voice recognition, 5G, cloud computing, AR and VR, blockchain and biometric authentication solutions are more likely to be developed by third parties. However, 43 percent of businesses have their own proprietary or in-house-developed data analytics systems, with just 48 percent of businesses contracting that role out. More than two-thirds of businesses (36 percent) develop their own AI programmes and 31 percent their own blockchain technology.

When choosing third-party vendors, respondents to our corporate survey told us their top consideration for choosing a vendor was cost, followed by the ability of solutions to integrate with their own in-house systems, and relevant industry expertise of the supplier. The results emphasise that the ability for vendors to provide industry expertise that is mutually beneficial to both parties is valued nearly almost as much as cost competitiveness and technical integration capabilities in the decision-making process.

Robert Esser of Havaianas emphasises that higher efficiency among third-party vendors tends to make up for any difference in cost compared to in-house: "If you assume the vendor is making a 30 to 35 percent margin on what they do, which is standard for back-office functions, they are probably 30 to 35 percent more efficient at it than you would be."

Further expanding on the strengths of third-party vendors, Esser adds: "I would keep core capabilities like brand messaging, commercial management and finance in-house, but when it comes to really cutting-edge consumer-facing functions and third-party logistics, external suppliers are more agile."

Figure 6.2 Development of technology solutions for retail operations



Top considerations for retailers when partnering with third-party providers



1. Cost



2. Ability to integrate with in-house systems



3. Industry expertise

Source: KPMG, GS1 HK and HSBC Survey Analysis



If we want to have a future-ready workforce, corporates need to come together with academia and EdTech providers to upskill and reskill our current workforce and incoming Gen Zs, covering the latest coding, AI, data and blockchain skills

Anson Bailey

Head of Consumer & Retail,
ASPAC, KPMG China

Retailers want educational institutions to step up

For Hong Kong-based retailers, addressing talent shortages means encouraging more local students in Hong Kong to pursue Science, Technology, Engineering, Applied Sciences and Mathematics (STEAM) career paths. It also requires firms to more effectively leverage STEAM talent from mainland China. According to HSBC research, mainland China will produce more than four million STEAM graduates in the coming five years, more than the US, Europe, Japan and Korea combined.⁶ This large supply of professional engineers, scientists and technicians will create a unique human capital advantage for GBA-based firms looking to upgrade their technology infrastructure.

Michelle Leung of Fung Omni Services suggests that educational institutions in Hong Kong should bolster the range of courses available in digital and IT qualifications. “Essentially, we have a small workforce facing huge competition, whether from marketplaces or other brands. Educational institutions should expand programmes to upgrade or retrain people so that graduates from colleges and universities with in-demand skillsets can grow their career in e-commerce from day one. I’m sure these graduates will have a great career, because e-commerce is here to stay,” she says.

To bridge the gap, Leung says Fung Omni Services is investing in its own internal training and working with marketplaces’ own internal programmes across Asia.

“While marketplaces’ training programmes are often mostly about their own platform, it still builds that mindset about how you operate an e-commerce store, how you increase traffic and conversion rates. So those are also useful tools to train our employees to catch up with the newest trends and ensure that they are performing at their best level,” she adds.



⁶ HSBC Global Research, “Fewer workers, more engineers: why we are bullish on China’s growth,” October 2019.



Employing a new economy business model to upskill the future generation of workers

Anson Wong

Founder and CEO, Acadsoc

As companies across Greater China continue to face shortages of talent with the necessary skillsets, online education is increasingly seen as a way to address the growing need to upskill and reskill employees. With COVID-19 pandemic travel restrictions continuing to impact the supply of native-level English teachers for adult education in China, one online education platform is investing big to respond to the growing need for teachers.

Founded in 2011, Acadsoc is one of China's largest online education platforms. Based in Shenzhen, the company employs about 12,000 teachers located internationally who teach a wide variety of English-focused curricula to roughly 40 million Chinese students.

Founder and CEO Anson Wong says that the company has seen swift growth in market demand and a rising sales conversion rate since the start of the pandemic. By incurring significantly less marketing costs compared to traditional offline English training schools in China, Wong says the company can invest more in technology to deliver outstanding customer experience and develop teaching programmes that best serve the needs of its customers.

Product R&D is further enabled by the use of data analytics and algorithms which help to track students' learning progress and areas where they can improve, and suggest additional courses or learning materials based on their specific needs.

Wong further predicts that 5G-enabled technology will play a role in the future of online education. "In the next one to two years, with the advent of 5G technology, the interactive experience of teaching and learning will be better. In my alma mater of Imperial College London, professors now can do holographic interaction in class. If these tools could be successfully applied to online education, the implications for the industry would be game-changing."

While traditional classroom teaching will certainly pick up again once the pandemic subsides, Wong says pandemic-related shifts towards remote working and education have given online education companies a significant opportunity to increase consumers' comfort level with e-learning. "With the technological investments we've made, going forward we are well prepared to meet the diversified learning needs of users in China's fiercely competitive education industry."





Pandemic-impacted international brands look to Asia for growth

Michelle Leung

Senior Vice President, Fung Omni Services

COVID-19-related lockdowns and social-distancing measures across Europe and North America for much of 2020 left many retailers struggling to maintain sales. For luxury brands in particular, border closures significantly reduced revenues coming in from high-spending overseas travellers, many of whom come from China and other Asian markets. With the pandemic hurting sales in their home markets, many international brands are turning to Asia, eyeing a share of the rapidly rising online shopping spend there.

Fung Omni, the e-commerce arm of global supply chain logistics provider LF Logistics, specialises in helping global brands expand their online presence across Asia. Fung Omni currently operates more than 50 digital points-of-sale for brands located on different online marketplaces and websites that serve consumers in mainland China, Hong Kong, Japan and Southeast Asia. They help a diverse array of clients in the luxury goods, fashion, beauty and health products market segments to manage product selection, launch and maintain virtual stores, market brands, manage customer service and handle returns.

Michelle Leung says Fung Omni's current inbound business growth is being led by many second-tier and emerging brands. "We're seeing brands that have no digital presence getting into e-commerce, while those that already have a digital presence are expanding and using more channels," Leung says, adding that new-arriving brands are embracing e-commerce because it is easier and more cost effective to test brands and products online than in physical stores.

Online shift accelerated by COVID-19 is here to stay

Leung says China's e-commerce growth in the luxury space has accelerated since the pandemic because more consumers who previously would have shopped in Europe, Hong Kong or the US have been forced to buy locally. "More and more people are buying online because they don't have any other option, or they just want to minimise the type of contact you have with offline retail," she says.

Likewise, Leung predicts that the current growth in online shopping across the region will endure once the pandemic passes. "Ultimately, we will see

current trends continue, because consumers are developing habits that are hard to break," she explains. Furthermore, brands are finding ways to reduce costs online through economies of scale, delivering greater value for customers.

Local adaptation is key to Fung Omni's approach to help their clients stay competitive in various markets across Asia. For example, live streaming might work well on a social media platform in one market, but in another a marketplace platform works better, Leung says. Product ranges should be tailored to the market and promotional offers or packaging adapted for regionally observed events such as Lunar New Year or the Qixi Festival.

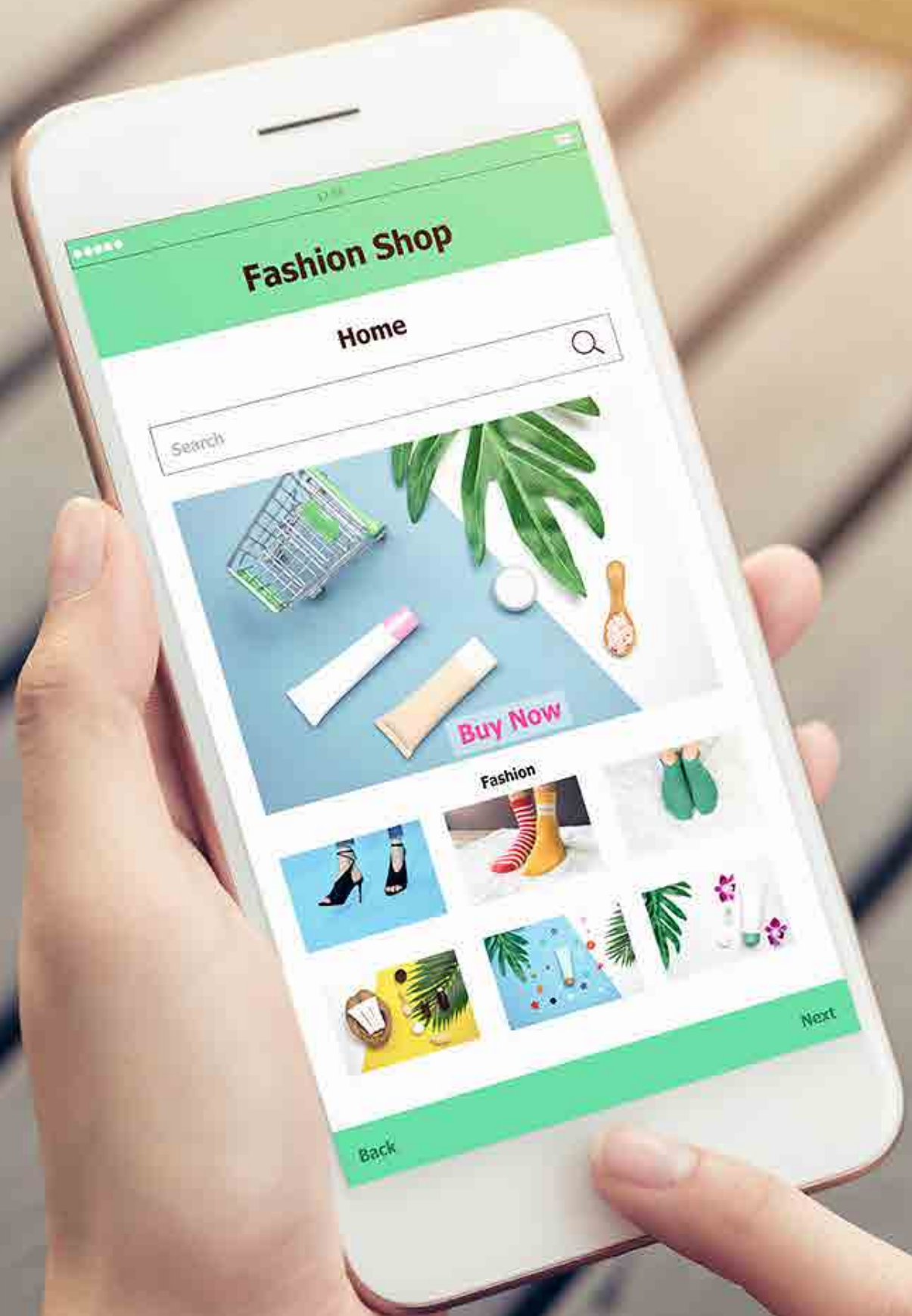
Supply chain digitisation and addressing talent gaps critical to success

Meanwhile, as the pandemic has inevitably put pressure on the global supply chain with lockdowns interrupting factory production flows and logistics, broader adoption of digitalisation has had a significant impact on product life cycles.

In fashion in particular, 3D digital design has simplified the sampling process, compressing the timeline from concept to shelf from an industry average of 40 weeks to a little over half. "A lot of companies are aiming to digitise their supply chain completely, so with the support of technology, the design process will become much shorter," Leung explains.

Since online consumer behaviour is tracked and measured, retailers can also make supply chain decisions much faster compared with brick-and-mortar stores where only limited behaviour data is available.

Despite the benefits of growing online sales as a proportion of total sales, Leung says too many businesses in e-commerce are not dedicating enough staff or resources to channels. "For example, if companies derive 20 percent of their business online but just have one dedicated e-commerce manager, that is totally out of proportion," she says. "You should have at least 10-15 percent of your workforce focused on it." Hiring experienced e-commerce operators, she says, is a solution for companies looking to address this talent gap.



Chapter 7



Developing effective strategies for the GBA and the rest of Asia

Since the initial cooperation framework for the Greater Bay Area was put in place four years ago, businesses in Hong Kong, Macao and mainland China have been assessing how they can leverage R&D and production capabilities of GBA cities as well as talent and capital markets to better compete regionally and internationally. The release of the Outline Development Plan of the GBA in 2019 further defined the specific roles and contributions of each GBA city.

Keys to Success in the Greater Bay Area, a 2020 KPMG China study in cooperation with Hong Kong General Chamber of Commerce and HSBC, found that companies in Hong Kong are keen to benefit from the revenue growth and talent recruitment opportunities the GBA offers.⁷ The study found that a significant majority of companies expect the Greater Bay Area to grow at a faster rate than the rest of mainland China, especially in the fields of technology and innovation, financial services and trade and logistics. Corporates are expected to capitalise on Hong Kong's position as a regional business hub, with mainland China and Macao SAR top targets for R&D investment.

While the ongoing COVID-19 pandemic has effectively frozen cross-border movement of tourists and business visitors for more than a year, the areas' economies remain intrinsically linked.

Retailers are implementing GBA strategies, but most often only for front-office functions

Our corporate survey conducted for this report reflects that a majority of retailers are implementing strategies for regional growth across the GBA, with 73 percent implementing a GBA-specific strategy for at least one business function, compared to 27 percent of retailers still not yet implementing any kind of GBA strategy (Figure 7.1).

The most common functions where retailers are implementing a GBA strategy are sales and marketing, and communications (43 percent), as companies look to attract customers in the mainland China market. This reflects our finding that a majority of retailers in both Hong Kong and mainland China GBA cities are increasing their use of both direct-to-consumer e-commerce and third-party platforms. In addition, roughly 30 percent of those polled are implementing a GBA strategy for fulfilment, logistics, operations or supply-chain management.

In contrast, just 16 percent have rolled out a GBA strategy for finance or human resources and 10 percent for legal. Given ongoing regulatory changes as well as tax and legal considerations for cross-border recruitment and capital flows, this suggests that a potential gap exists in how retailers are planning their back-office functions with relation to the GBA.

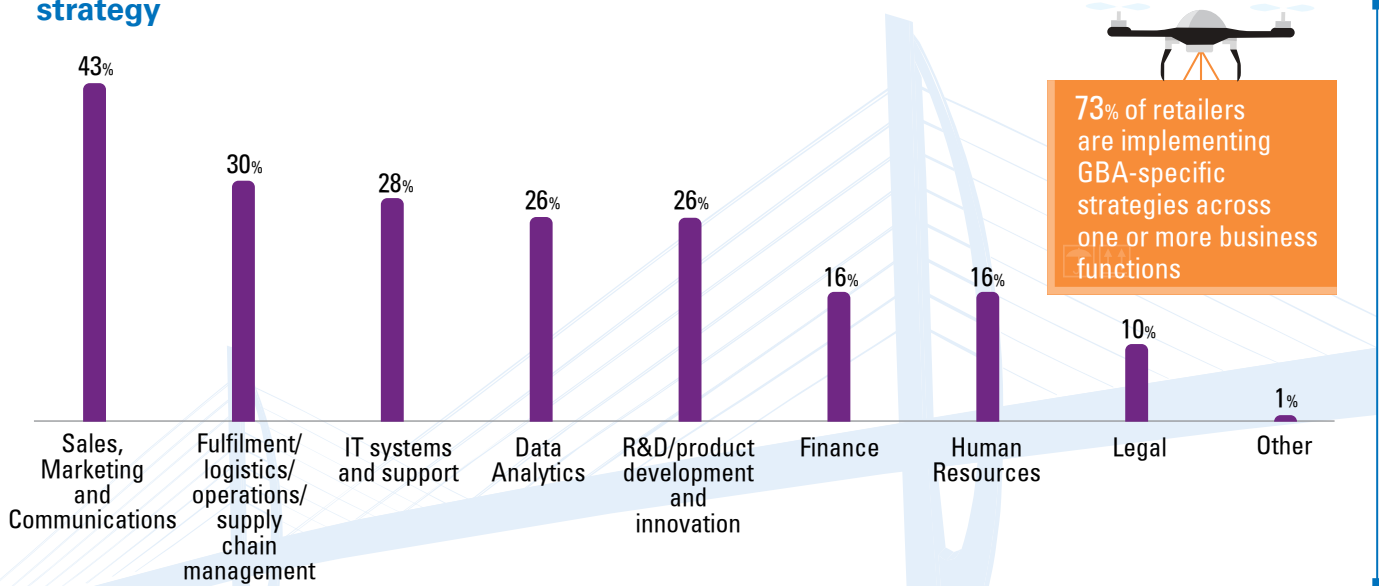


In addition to thoroughly researching the local markets they plan to enter or expand, corporates should also focus on their organisational structure and people management strategy. In particular, corporates with separate mainland China and Hong Kong management structures should bring in elements for regional management within the GBA

Maggie Lee

Head of Capital Markets Development, Hong Kong, KPMG China

⁷ KPMG China, *Keys to success in the Greater Bay Area*, January 2020. <https://home.kpmg/cn/en/home/insights/2020/01/keys-to-success-in-the-greater-bay-area.html>

Figure 7.1 Business functions for which retailers are implementing a Greater Bay Area strategy

Source: KPMG, GS1 HK and HSBC Survey Analysis



Digital transformation has become a necessity for

businesses to thrive in the new normal, in particular for retailers in the GBA where e-commerce markets within and beyond GBA have been booming over the past year. On top of new innovation and technologies, this vibrant city cluster also provides a comprehensive package of what businesses need to be successful, such as talents, transportation and logistics infrastructure, manufacturing capabilities, and more importantly a sizable consumer market for retail products and services

Daniel Chan

Head of Greater Bay Area,
HSBC

Maggie Lee, Head of Capital Markets Development, Hong Kong, at KPMG China, says regulatory ambiguity and issues relating to the cross-border movement of capital are often key hurdles for businesses as they look to expand across the GBA. In particular, smaller companies located in Hong Kong may need additional support as they do not have the resources of their larger counterparts to navigate regulatory complexity.

Lee advises that businesses should look into all parts of their operations when considering cross-border expansion in the GBA. "In addition to thoroughly researching the local markets they plan to enter or expand, corporates should also focus on their organisational structure and people management strategy. In particular, corporates with separate mainland China and Hong Kong management structures should bring in elements for regional management within the GBA," she says.

In addition, the GBA offers retailers the ability to set up shared service centres or back-office functions to support their China operations. For large companies, this can centralise repetitive and labour-intensive back-office tasks from various business units and departments. This allows them to reduce overhead and create value by leveraging economies of scale and cost differences between mainland China GBA cities and Hong Kong or other tier-one cities. Based on KPMG's experiences, most companies are able to save 10 to 20 percent of cost within a five-year time frame.

Lilly Li, Partner-in-Charge, National Tax Markets, KPMG China, says retailers establishing a beachhead in the GBA can benefit from local government policies such as tax benefits, financial incentives, and expedited customs clearance. One example, the Preferential Individual Income Tax Policy for the Guangdong-Hong Kong-Macao Greater Bay Area (IIT), provides tax incentives for Hong Kong and Macao permanent resident employees to be based in mainland GBA cities to support local operations.⁸

⁸ HKSAR Government Constitutional and Mainland Affairs Bureau, "Notice on Continuing to Implement the Preferential Individual Income Tax Policy in the Guangdong Hong Kong - Macao Greater Bay Area", December 2020. <https://www.bayarea.gov.hk/en/resource/mainland-policies-measures-20201231.html>

In addition, the upcoming rollout of the Hainan Free Trade Port (“Hainan FTP”) in the coming three years will provide an additional option for international retailers to enjoy preferential tax treatment and supply chain optimisation as they import goods bound for the mainland China market. The initial implementation plan for the Hainan FTP, announced by China’s central government in July 2020, will allow for many types of goods to be imported into Hainan at zero tariff and then allow them to be sold tariff-free elsewhere in China following further processing.⁹

Localisation strategy essential for Greater China-based businesses entering Southeast Asia

With the rapid surge of mobile internet users in Southeast Asia and the COVID-19 pandemic driving more consumers online, many companies in Hong Kong and the rest of the GBA are developing strategies to expand into the region. Although e-commerce currently accounts for only about 3 percent of the region’s total retail sales, e-commerce sales are to reach US\$153 billion by 2025.¹⁰

Retail industry leaders interviewed for this study point to the region’s good mobile infrastructure and swift rise of mobile internet users as a key driver of online sales in the coming years. To enter these markets, companies say they are recruiting staff who understand local consumer demographics and speak the language. They are employing personalities who resonate with the community to promote brands.

Further, executives we talked to emphasised the need for local adaptation to ensure their brands are competitive in Southeast Asian markets, for example by tailoring their product ranges to the market and adapting promotions or packaging for regionally observed holidays. Partnering with the right local e-commerce marketplaces and logistics providers can also help facilitate speedy customs clearance and order fulfilment.



With the upcoming rollout of the Hainan Free Trade Port in the next three years, Hainan Province is poised to become a major distribution hub for international retailers selling in mainland China. Pictured: harbourfront in Sanya, Hainan.

⁹ KPMG China, “Hainan Free Trade Port – Business Opportunities with new Customs Regime”, July 2020. <https://home.kpmg/cn/en/home/insights/2020/06/china-tax-alert-24.html>

¹⁰ Hong Kong Trade Development Council, “Navigating Covid-19: A Cross-Border E-Commerce Matchmaker”, 28 September 2020. <https://research.hktcdc.com/en/article/NTQzNzQ2MjM3>



Harnessing the potential of the Southeast Asia e-commerce market

Jianghong Liu

Head of Cross Border at Shopee

As online shoppers' behaviour has evolved and e-commerce technologies have improved, digital retailing has become a much more social and interactive experience, according to Jianghong Liu, Head of Cross Border at online marketplace Shopee.

Liu believes Southeast Asia offers a huge potential growth opportunity. While e-commerce trade last year accounted for 31 per cent of China's total retail sales, in Southeast Asia just 5 per cent of total retail spending is online. He cites independent research projecting the region's e-commerce market to reach \$172 billion in 2025.

Founded in 2015, Shopee currently helps brands and vendors sell to nearly 800 million consumers spread across eight markets, including Singapore, Malaysia, Thailand, Taiwan, Indonesia, Vietnam, the Philippines and Brazil.

"The rise of mobile internet users in Southeast Asia offers a good business environment and infrastructure to do mobile business. Last year, the total number of internet users reached 400 million – and 40 million of those were new users," Liu says.

Improving customer retention with localisation and data analytics

Liu believes a commitment to localisation in each of these markets has been the key to Shopee's success. "Our deep understanding of local markets is our most important competitive strength. We hire local employees to serve local customers, we have built separate mobile apps for each of the markets and we apply dedicated business strategies according to different market preferences," he says.

Shopee uses data-driven insights from its in-house data capabilities and artificial intelligence (AI) to predict user preferences based on past purchasing behaviour, which offers more customised and relevant shopping suggestions, promotions and push notifications via its recommendation engine.

"Making the online shopping experience more personalised is the key to driving more traffic as well as improving customer retention," Liu explains.

Support for Hong Kong sellers helps reduce barriers

While Shopee has no consumer face in mainland China or Hong Kong, the company works with Hong Kong-

based sellers to help them reach the marketplace's massive catchment.

"In the very beginning, we focused on brand owners and enterprise sellers only. From last year, we recognised there are many potential SME high-sellers in Hong Kong, especially companies selling hobby supplies and collectibles. We started approaching and recruiting different kinds of sellers to unlock more possibilities."

With logistics a challenge to selling across borders, Shopee has developed a hassle-free logistics flow. Hong Kong sellers need only ship orders to its warehouse in Cheung Sha Wan. From there, Shopee Logistics Service (SLS) will deliver to purchasers across the markets it sells in, with support in tracking service and local customs declarations.

Understanding that sellers may encounter cultural and language differences when doing cross-border business, Shopee provides a one-stop solution including translation into English, Thai, Bahasa Indonesia, Vietnamese and Portuguese in customer service and product descriptions online.

Live streaming boosted sales fourfold amid pandemic lockdowns

In 2019 Shopee Live launched as a live streaming function aiming to make the shopping experience more socialised and entertaining. That strategy paid off: During COVID-19 lockdowns, Shopee Malaysia boosted the number of daily orders four-fold during live-streaming shows.

Recognising the steady emergence of key opinion leaders (KOLs) in Southeast Asia, the company introduced Shopee KOL Service (SKS) to match local personalities with sellers, to create a highly engaged audience and generate more sales during live streaming.

Liu says Shopee will continue to expand its use of live streaming and KOLs because it fits the company's focus on changing customers' shopping mindset from 'killing time' to 'developing shopping habits'.

"We believe that their enthusiasm and potential for online shopping still have a long way to unleash. Shopee is open for opportunities to cooperate with various multi-channel networks and KOLs."



Key takeaways for Greater Bay Area retailers



online shopping

In the past four editions of this study, we have been chronicling the steady rise of digital retail channels and the growing importance of omnichannel for retailers in Hong Kong and the rest of the GBA. At the time of our last study in 2019, no one could have predicted the unprecedented disruptions the world would continue to face in 2021. Nearly 18 months since the onset of the COVID-19 pandemic, it is clear that consumer spending on online retail channels has greatly accelerated. But beyond that, there is overwhelming evidence that how consumers browse, buy and pay for goods will not go back to the way things were before once the pandemic subsides.

Businesses we interviewed for this year's study have responded to the massive shifts in consumer behaviour in innovative ways. Just a few examples, which we highlight in case studies throughout this report, include revamping their apps and online platforms; targeting emerging consumer segments through strategic brand positioning on digital platforms and in physical stores; or by developing strategies to tap into emerging e-commerce markets across Asia. Through in-depth conversations with these leading industry players as well as our survey data analysis, we have identified the following suggestions for retailers as they chart their own courses over the coming one to two years:



Align data collection practices with analytics capabilities and consumer preferences

Our survey suggests consumers are becoming increasingly wary of the depth and volume of data they are sharing, as data privacy and security becomes more important to them. Retailers need to be more disciplined in collecting data, restricting the information they request to that which is actually useful in improving the quality of products or services, or to understanding their customers and target market.

At the same time, businesses should assess their current analytics capabilities to ensure that they are able to fully leverage the data they are collecting as well as gaps that need to be addressed.



Harness technology to meet consumer expectations for experience and product authenticity

While the majority of consumers are embracing new technologies, they do so with an expectation it will deliver benefits such as an improved customer experience searching for goods online, shopping and checking out, addressing product or order inquiries, or providing more convenience in delivery options. Retailers need to ensure they offer a broad range of payment solutions both online and offline. As consumers become more used to digital commerce, their expectations are more demanding, challenging businesses to constantly lift their game.



Adapt O2O strategies to reflect the changing roles and interconnectivity of digital and physical retail channels

Today's consumer sees a shopping journey very differently to past generations. They expect a seamless integration of range, inventory and pricing whether browsing online or offline. If retailers are selling a product across multiple channels they must wholly integrate physical stores and online channels with social-media strategies that create a comprehensive brand proposition.



Leverage the GBA, EdTech and third-party tech providers to source qualified talent and upskill/reskill workers

Retailers we polled are facing challenges sourcing qualified, experienced staff in both technology fields and across sales & marketing. Educational institutions need to work more closely with the



business community to provide higher levels of qualification training as well as post-graduate courses and pathways to retrain or upskill people already working in the industry. In addition, Hong Kong-based retailers should take advantage of GBA-related talent schemes to tap into the large pool of technology talent in mainland China. Finally, they should examine their selection process for third-party technology providers, focusing not only on cost but also industry expertise, technology integration capabilities and cultural fit, in order to maximise the value in working with those providers.



Tailor products, services and marketing for Gen Z and other demographic groups

Consumers are increasingly splitting into different demographic groups, largely – but not exclusively – shaped along generational lines. Our study reflects that in the wake of COVID-19, these gaps are even more apparent than before. Generation Z – the first born into a permanently connected world – have different expectations of customer experience, yet comparatively few retailers we polled have a comprehensive strategy to optimise engagement with them. Businesses should examine how to better target Gen Z and other consumer segments through data-driven research as well as differentiated product and service offerings.



Develop comprehensive strategies for expansion in the GBA and other Asian markets, taking into account the need for localisation and back-office considerations

With its strong logistics capabilities and a wide-ranging incentives for technology-driven retail businesses, the GBA is an ideal base for omnichannel retailers as they look to expand operations in Greater China and the rest of Asia.

Two recent developments further strengthen the GBA's proposition for retailers: First, in November 2020, 15 Asian economies including China signed the Regional Comprehensive Economic Partnership (RCEP), a framework for facilitating free and more streamlined trade arrangements between member countries by providing greater levels of certainty and consistency for businesses managing their supply chains across the region. The pact adds to the existing broad-ranging strategies adopted within the GBA to standardise customs processes, simplify paperwork, minimise taxes and reduce red tape. Second, the construction of the Hainan Free Trade Port announced in July 2020 provides an additional logistics and customs clearance facilitation option for international retailers looking to sell to mainland China e-commerce customers.

Despite the obvious advantages, retailers face the challenge of how to best leverage the GBA for their operations. Our survey suggests that while most retailers are looking at GBA strategies for specific business functions, most have yet to develop a comprehensive GBA strategy that incorporates back office functions such as legal, human resources and finance. As companies expand their sales and marketing operations in the GBA, they should also consider the GBA's advantages for establishing shared service centres and back office functions, and assess how evolving regulations will affect the cross-border flow of goods, talent and human capital.

As GBA-based retail businesses look to take advantage of the RCEP framework in coming years, they should carefully consider their localisation strategy when expanding into Southeast Asia, which may include operating in multiple languages, working with local logistics partners and e-commerce marketplaces, and also tailoring marketing strategies for local social media and digital channels.

Appendices



Appendix 1: Consumers' preferred e-commerce platforms (Apparel and fashion sector)

Hong Kong – all consumers			Hong Kong – Generation Z*			Mainland China GBA** – all consumers			Mainland China GBA** – Generation Z*		
1	Taobao	49%	1	Taobao	46%	1	Taobao	74%	1	Taobao	86%
2	HKTVmall	43%	2	HKTVmall	38%	2	Tmall	51%	2	Tmall	43%
3	Tmall	21%	3	Amazon	20%	3	JD.com	48%	3	JD.com	40%
4	Amazon	16%	4	Tmall	17%	4	Pinduoduo	26%	4	Pinduoduo	33%
5	Website/platform of department store also running physical retail chain	14%	5	Zalora	14%	5	WeChat	18%	5	WeChat	20%
6	Zalora	11%	6	Website/platform of department store also running physical retail chain	11%	6	Douyin	9%	6	Alibaba.com	9%
7	WeChat	8%	7	Only via company's own website/platform	7%	7	Alibaba.com	9%	7	Xiaohongshu	8%
8	eBay	7%	8	SHEIN	5%	8	Xiaohongshu	7%	8	Douyin	6%
9	Rakuten	6%	9	eBay	4%	9	Amazon	5%	9	Website/platform of department store also running physical retail chain	5%
10	Only via company's own website/platform	4%	10	WeChat	4%	10	Website/platform of department store also running physical retail chain	4%	10	Amazon	3%
11	ASOS	4%	11	Rakuten	4%	11	Kuaishou	4%	11	Kuaishou	2%
12	SHEIN	3%	12	ASOS	3%	12	SHEIN	1%	12	SHEIN	1%
13	Yoox Net-a-Porter (YNAP)	2%	13	Yoox Net-a-Porter (YNAP)	2%	13	Shopbop	1%	13	Goxip	1%
14	Goxip	1%	14	Shopbop	2%	14	Yoox Net-a-Porter (YNAP)	1%	14	Shopbop	1%
15	Shopbop	1%	15	Goxip	2%	15	Goxip	1%	15	Yoox Net-a-Porter (YNAP)	1%
Don't use e-commerce platforms:		10%	Don't use e-commerce platforms:		7%	Don't use e-commerce platforms:		1%	Don't use e-commerce platforms:		1%

* "Generation Z" sample is defined as consumers aged 18 to 24 at the time of the survey

** Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai



Appendix 2: Consumers' preferred e-commerce platforms (Food and beverage sector)

Hong Kong – all consumers	Hong Kong – Generation Z*	Mainland China GBA** – all consumers	Mainland China GBA** – Generation Z*
1 HKTVmall 50%	1 HKTVmall 35%	1 Taobao 60%	1 Taobao 75%
2 Website/platform of supermarket which running physical retail chain 19%	2 Taobao 19%	2 Tmall 50%	2 Tmall 41%
3 Taobao 17%	3 Amazon 14%	3 JD.com 42%	3 JD.com 33%
4 Website/platform of department store also running physical retail chain 13%	4 Website/platform of supermarket also running physical retail chain 12%	4 Pinduoduo 20%	4 Pinduoduo 28%
5 iHerb 10%	5 iHerb 10%	5 WeChat 13%	5 WeChat 12%
6 Ztore 10%	6 Tmall 10%	6 Freshippo 10%	6 Website/platform of supermarket also running physical retail chain 11%
7 Tmall 8%	7 Website/platform of department store also running physical retail chain 8%	7 Website/platform of supermarket also running physical retail chain 9%	7 Website/platform of department store also running physical retail chain 8%
8 Amazon 7%	8 Ztore 6%	8 Sunning 8%	8 Freshippo 6%
9 eBay 5%	9 eBay 6%	9 Website/platform of department store also running physical retail chain 7%	9 Sunning 5%
10 WeChat 5%	10 WeChat 4%	10 Amazon 5%	10 Amazon 4%
11 Only via company's own website/platform 3%	11 Only via company's own website/platform 3%	11 Yihaodian 4%	11 Yihaodian 2%
12 Foodwise 1%	12 Foodwise 2%	12 iHerb 2%	12 iHerb 1%
Don't use e-commerce platforms: 18%	Don't use e-commerce platforms: 25%	Don't use e-commerce platforms: 2%	Don't use e-commerce platforms: 2%

* "Generation Z" sample is defined as consumers aged 18 to 24 at the time of the survey

** Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai



Appendix 3: Consumers' preferred e-commerce platforms (Beauty and wellness sector)

Hong Kong – all consumers	Hong Kong – Generation Z*	Mainland China GBA** – all consumers	Mainland China GBA** – Generation Z*
1 HKTVmall 39%	1 HKTVmall 32%	1 Taobao 53%	1 Taobao 70%
2 Website/platform of department store also running physical retail chain 19%	2 Taobao 20%	2 Tmall 47%	2 Tmall 37%
3 Taobao 15%	3 Website/platform of department store also running physical retail chain 15%	3 JD.com 39%	3 JD.com 29%
4 Only via company's own website/platform 7%	4 Only via company's own website/platform 12%	4 Pinduoduo 13%	4 Xiaohongshu 15%
5 Tmall 7%	5 Amazon 11%	5 WeChat 11%	5 WeChat 12%
6 Amazon 7%	6 Gmarket 9%	6 Xiaohongshu 10%	6 Pinduoduo 12%
7 eBay 7%	7 Tmall 9%	7 Website/platform of department store also running physical retail chain 8%	7 Website/platform of department store also running physical retail chain 8%
8 Gmarket 6%	8 Strawberryret 5%	8 Sunning 8%	8 Douyin 5%
9 WeChat 5%	9 eBay 5%	9 Douyin 8%	9 Sunning 4%
10 Strawberryret 4%	10 JD.com 5%	10 Kuaishou 6%	10 Kuaishou 3%
11 JD.com 4%	11 WeChat 2%	11 Amazon 5%	11 Amazon 1%
		12 Only via company's own website/platform 2%	12 Only via company's own website/platform 1%
		13 Strawberryret 1%	13 Strawberryret 1%
Don't use e-commerce platforms: 26%	Don't use e-commerce platforms: 22%	Don't use e-commerce platforms: 3%	Don't use e-commerce platforms: 3%

* "Generation Z" sample is defined as consumers aged 18 to 24 at the time of the survey

** Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai





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