KPMG

GS1 Hong Kong

Tapping into Smart Retail

A survey of CEOs and Consumers in the Greater Bay Area

Third edition

In association with

YouGov®
What the world thinks

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Case Studies

About the survey:

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

The first was a survey of 1,400 consumers* in ten cities across the Greater Bay Area**. The aim was to understand Greater Bay Area consumers' level of self-identification as 'smart consumers' and their attitudes towards using 'smart' platforms and payment methods to make purchases. Furthermore, the survey aims to understand current challenges to wider 'smart retail' adoption and the benefits that advanced technology could bring to consumers. The findings strive to pinpoint opportunities for Greater Bay Area retailers to improve their e-commerce and omni-channel businesses. The data was collected from 22 to 25 October 2018.

The second was a survey of 286 CEOs in Hong Kong to better understand their views on the challenges and opportunities in adopting 'smart retail' and omni-channel business models. It also examined the development of more customer-centric approaches, corporate growth strategies and the latest trends in leveraging digital technology. The data was collected from 30 July to 24 September 2018.

Notes:

* Includes 500 consumers in Hong Kong and 100 consumers in each of nine cities in mainland China: Shenzhen, Guangzhou, Zhuhai, Foshan, Jiangmen, Zhaoqing, Huizhou, Dongguan, and Zhongshan.

**Greater Bay Area figures include Hong Kong and the nine mainland China cities listed above. Data for Macau consumers is not available due to insufficient sample size.

Executive Summary

One of the world's great smart consumer markets is taking shape in south China. Across the Greater Bay Area (GBA) – a region of 70 million people consisting of Hong Kong, Macau, Guangzhou, Shenzhen and seven other cities of the Pearl River Delta – consumers are increasingly using mobile devices for all their shopping needs. Online, they buy goods through platforms such as Alibaba or JD.com. Offline, they pay using digital wallets.

As consumers increasingly use mobile devices to compare brands and purchase products, retailers are evaluating their online to offline (O2O) presence to determine how to best reach customers. CEOs are weighing how to best implement digital technology solutions to improve both their businesses' online shopping experience as well as the cost-effectiveness of their physical stores.

To find out what is driving this mobile-centric world, KPMG and GS1 Hong Kong commissioned YouGov to conduct two surveys, one of 1,400 consumers across ten cities in the Greater Bay Area, and one of nearly 300 Hong Kong-based CEOs. We also conducted a series of interviews with retail companies and other businesses that support retailers.

We discovered that across the GBA as a whole – particularly in mainland Chinese cities – people already see themselves as smart consumers who are more reliant on their mobile devices than those in other cities. We also found that more than half of consumers (56 percent) we polled in mainland China say they expect their online spending will overtake their offline spending in the next year. Even in Hong Kong, that figure is one in five (18%).

CEOs see data analytics and artificial intelligence (AI) – which can interpret data gained from e-commerce and loyalty programmes and suggest products and services to buyers – as critical tools to improve online customer experience. 46 percent of CEOs surveyed cited developing and applying innovative technologies to increase their competitive edge as a necessity for their business.

The good news: technology is falling rapidly in price and becoming far easier to use. Solutions that just one or two years ago were too costly for many small and medium-sized companies – such as facial recognition software, or AI-driven data mining apps – are now becoming available for even single-outlet firms.

At the same time, pressure on retailers is growing. Omni-channel will soon be the norm. Data privacy and security is already an issue that all firms must deal with. New innovations will have to be absorbed at an accelerating rate. As retailers shift to omni-channel, it affects how they work with external suppliers. This includes logistics firms which help them stock their physical stores, fulfil online orders and manage the returns of unwanted goods.

Meanwhile, acquiring qualified talent that can help retailers maximise the benefits of omni-channel is a major challenge, our survey found. A majority of CEOs surveyed (57%) cited a lack of talent as their biggest challenge as they implement omni-channel. How to integrate data and determining which technologies will deliver the greatest return are also key concerns.

Moreover, consumers, especially millennials and their successors, are looking for a more seamless and transparent shopping experience. Today's younger shoppers want payment to be fully integrated and delivery to be immediate. They also seek increasingly detailed information about a brand's origins and history – including whether it is made in a sustainable way, and whether the narratives surrounding it fit with their self-image.

Our survey findings suggest that CEOs and consumers agree that more exhaustive efforts to ensure the authenticity and sustainability of products would go a long way towards building consumers' trust in brands. Digital technologies like blockchain will pave the future for consumer transparency in e-commerce, allowing both companies and consumers to trace products' lifecycles across the supply chain. Meanwhile, retailers are leveraging shared economy providers to meet consumers' increasing demands for customer support and last-mile logistics – while reducing their own cost and risk.

By combining available cost-effective technology with new ways of working, CEOs can stay ahead of disruptions while tapping into the buying potential of today's smart consumers.

Anson Bailey
Head of Consumer and Retail, ASPAC/
Head of Technology, Hong Kong
KPMG China

Anna Lin
Chief Executive
GS1 Hong Kong

Embracing smart retail across the Greater Bay Area

Consumers are spending more than ever online. In mainland China, more than half of those people we polled say that they expect to increase their online spending so that it overtakes their offline spending in the coming year. In Hong Kong, one in five people expects the same.

Factors driving this trend are new payment methods, advancements in delivery and logistics technologies, and greater customisation of services. And, above all, companies are placing greater emphasis on expanding their omni-channel offerings, selling to customers through an increasingly complex mix of online and offline means.

For companies, the challenge is meeting the demands of tech-savvy shoppers for convenience, value and experience. This will call for constant experimentation and agility – finding new ways of harnessing the stream of data businesses can now collect, both online and in brick-and-mortar stores – to deliver ever-more personalised products and services.
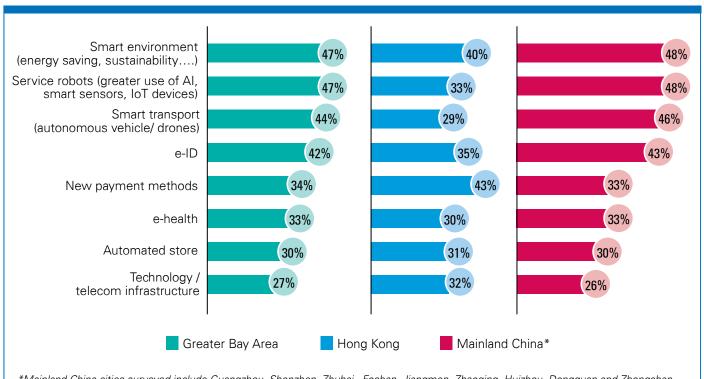
Moving toward a smarter future

Across the GBA, consumers have high expectations that technology will make the cities they live in smarter. Nearly half of those polled (47 percent) say they expect to see smart environment initiatives in areas such as energy saving and sustainability. A large portion (47 percent) of consumers also see the greater use of service robots – artificial intelligence (AI), smart sensors and internet of things (IoT) – as advancing the liveability of their cities.

In Hong Kong, the greatest expectations are around new payment methods. This suggests that the city's long-standing habit of using cash for most retail transactions is finally weakening as e-wallets, first licensed in mid-2016, gain a foothold. This trend will likely continue as mainland China-owned payment systems – notably Alibaba's Alipay and Tencent's WeChat Pay – continue to push for higher adoption of their e-wallet systems in Hong Kong.

In the nine cities polled in mainland China, consumers cited the greater use of sensors and AI (48 percent) and more environmentally friendly energy and systems (48 percent) as key drivers for smart city development. Consumers also identified smart transport, such as drones and autonomous vehicles (46 percent) as playing a key role in the development of their city.

Consumers: Key drivers for smart city development in the next two years

	Greater Bay Area	Hong Kong	Mainland China*
Smart environment (energy saving, sustainability….)	47%	40%	48%
Service robots (greater use of AI, smart sensors, IoT devices)	47%	33%	48%
Smart transport (autonomous vehicle/ drones)	44%	29%	46%
e-ID	42%	35%	43%
New payment methods	34%	43%	33%
e-health	33%	30%	33%
Automated store	30%	31%	30%
Technology / telecom infrastructure	27%	32%	26%

Mainland China cities surveyed include Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Zhaoqing, Huizhou, Dongguan and Zhongshan.
Source: KPMG and GS1 Survey Analysis, 2018

Who are the smartest consumers?

Across the cities of the Greater Bay Area, people have a healthy confidence in their own abilities to use digital devices.

Within the nine cities polled in mainland China, 83 percent say they regard their own city as smarter in its use of technology than other cities in the region. Just 2 percent regard their city as less smart than others in the area.

Among the cities expressing the most confidence as smart consumers are Zhuhai (91 percent believe they are smarter compared with other GBA cities), Shenzhen (87 percent), and Jiangmen, Zhongsan and Zhaoqing (83 percent). Guangzhou's 77 percent was below the mainland China average.

In Hong Kong, the figure was significantly lower, at 42 percent, with 20 percent regarding Hong Kong as less smart than other GBA cities and 32 percent regarding it as similarly smart.

Consumers: Are people in your city smart consumers, compared with other Greater Bay Area cities?

Greater Bay Area
- 79%
- 16%
- 4%
- 1%

Mainland China*
- 83%
- 14%
- 2%
- 1%

Dongguan
- 82%
- 17%
- 0%
- 1%

Zhaoqing
- 83%
- 17%
- 0%
- 0%

Guangzhou
- 77%
- 20%
- 2%
- 1%

Huizhou
- 83%
- 15%
- 2%
- 0%

Jiangmen
- 83%
- 14%
- 3%
- 0%

Hong Kong
- 42%
- 32%
- 20%
- 5%

Foshan
- 82%
- 13%
- 4%
- 1%

Shenzhen
- 87%
- 9%
- 3%
- 1%

Zhuhai
- 91%
- 5%
- 4%
- 0%

Zhongshan
- 83%
- 16%
- 1%
- 0%

- ■ Smarter than other Greater Bay Area cities
- ■ Similar to other Greater Bay Area cities
- ■ Less smart than other Greater Bay Area cities
- ■ Don't know

Mainland China cities surveyed include Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Zhaoqing, Huizhou, Dongguan and Zhongshan.

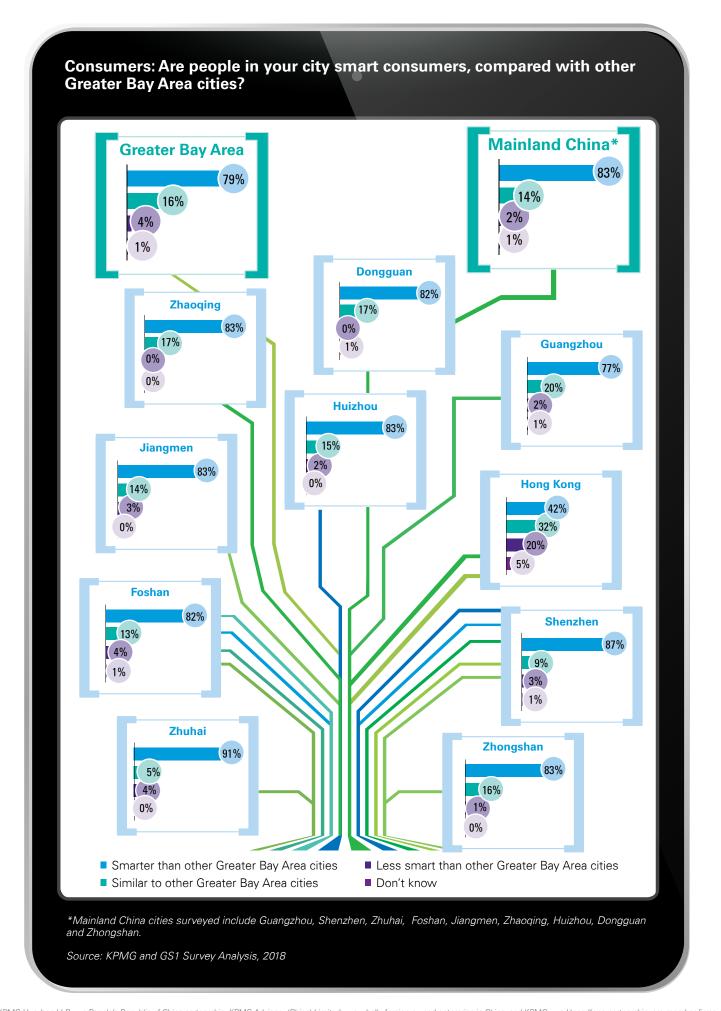*Source: KPMG and GS1 Survey Analysis, 2018*
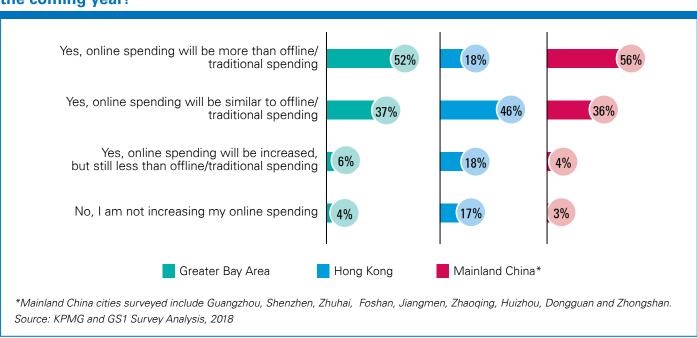
Consumer spending continues to move online

Across China, people are shopping online like never before. This year on Singles Day, 11 November, Alibaba once again broke its previous sales record, with gross merchandise value of sales through its websites hitting US$30.8 billion, up from US$25.3 billion in 2017[1], while its big rival, JD.com, sold US$23 billion, up 27% year on year[2].

The impact of this continuing surge in e-commerce is reflected in consumers' expectations that they will continue to spend more online compared with offline. Within the Greater Bay Area, 56 percent of those we polled in mainland Chinese cities say they expect their online spending to increase in the next twelve months, and their online spending will eclipse their offline purchases. Another 36 percent say they expect online purchases to increase and be about the same as their offline spending. Just 3 percent say their online consumption will not increase.

Even in Hong Kong, where a variety of physical shops are within a few minutes' walk or less of most homes, some 18 percent of those polled say they expect their online spend to be more than their offline spending in the next twelve months, and another 46 percent expect it to increase to roughly the same amount of their offline spending.

This highlights that despite the convenience of physical shops, Hong Kong consumers' attitudes may be shifting – especially as retailers boost incentives and online payment methods become easier.

Consumers: Will you increase online spending compared to offline/traditional spending in the coming year?

	Greater Bay Area	Hong Kong	Mainland China*
Yes, online spending will be more than offline/traditional spending	52%	18%	56%
Yes, online spending will be similar to offline/traditional spending	37%	46%	36%
Yes, online spending will be increased, but still less than offline/traditional spending	6%	18%	4%
No, I am not increasing my online spending	4%	17%	3%

Mainland China cities surveyed include Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Zhaoqing, Huizhou, Dongguan and Zhongshan.
Source: KPMG and GS1 Survey Analysis, 2018

[1] Alibaba Group press release, 12 November 2018. https://www.alibabagroup.com/en/news/article?news=p181112

[2] JD.com Corporate Blog, 12 November 2018. https://jdcorporateblog.com/shoppers-snap-up-quality-and-imported-products-on-jd-com-for-record-breaking-singles-day-festival/
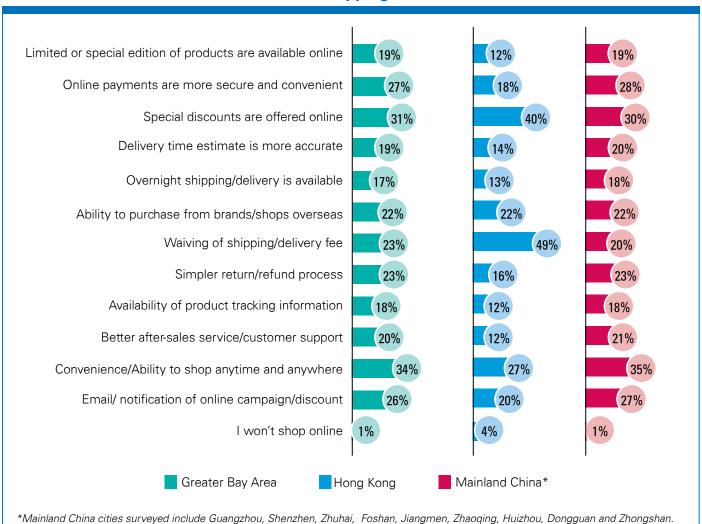
More incentives to click and buy

Across the Greater Bay Area, e-commerce's convenience and potential to offer lower prices are among the top reasons why people potentially see themselves being attracted to shop more online.

In Hong Kong, lower costs have wide appeal, with 40 percent of those polled say that special discounts would encourage them to buy more through their phones and computers. Even more consumers – 49 percent – say the waiving of shipping or other delivery fees would help.

In mainland Chinese cities, low prices are also a major motivator to spend more online, though to a lesser extent. Only 30 percent of those polled picked prices, behind convenience and the ability to shop anytime or anywhere (35 percent).

Peace of mind also counts, with 28 percent of mainland respondents saying they see online payments as secure and convenient. Being better informed about online sales or other discounts via emails or other messages would encourage consumers to shop more, say 27 percent, while 23 percent say simpler return and refund processes would also help.

Consumers: Incentives to do more online shopping

	Greater Bay Area	Hong Kong	Mainland China*
Limited or special edition of products are available online	19%	12%	19%
Online payments are more secure and convenient	27%	18%	28%
Special discounts are offered online	31%	40%	30%
Delivery time estimate is more accurate	19%	14%	20%
Overnight shipping/delivery is available	17%	13%	18%
Ability to purchase from brands/shops overseas	22%	22%	22%
Waiving of shipping/delivery fee	23%	49%	20%
Simpler return/refund process	23%	16%	23%
Availability of product tracking information	18%	12%	18%
Better after-sales service/customer support	20%	12%	21%
Convenience/Ability to shop anytime and anywhere	34%	27%	35%
Email/ notification of online campaign/discount	26%	20%	27%
I won't shop online	1%	4%	1%

■ Greater Bay Area   ■ Hong Kong   ■ Mainland China*

*Mainland China cities surveyed include Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Zhaoqing, Huizhou, Dongguan and Zhongshan.
Source: KPMG and GS1 Survey Analysis, 2018

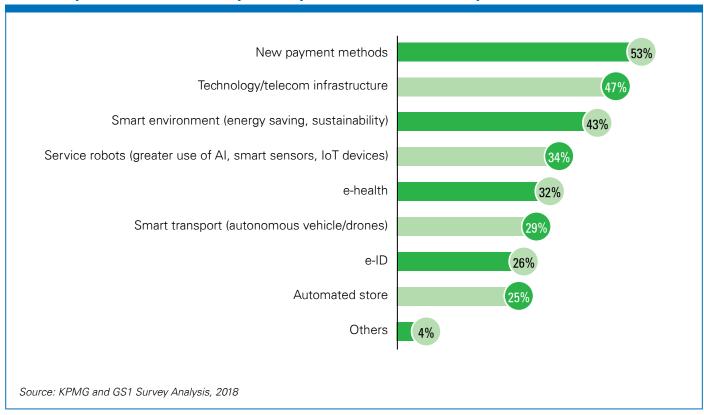## CEOs see new payment methods as a key driver for Hong Kong

For Hong Kong's CEOs, advancing the city's technology infrastructure is the key driver for it to realise its smart city – and 'smart retail' – ambitions in the next two years.

53 percent of CEOs polled said new payment methods would boost the city's smart development. This likely corresponds with the Hong Kong Monetary Authority's granting of 16 e-wallet licences and its launch of Faster Payment System (FPS) in September 2018. FPS allows instant transfers between banks and stored-value facilities using email addresses, mobile phone numbers and quick response (QR) codes. 21 banks and 10 e-wallet platforms are linked to FPS – allowing online and offline merchants to seamlessly accept Hong Kong Dollar or Renminbi payments[3].

In addition to new payment methods, also important to CEOs is having the appropriate telecom and other technology infrastructure (47 percent), as well as the energy-saving/sustainability mechanisms necessary for a smart environment (43 percent).

More specific drivers, such as service robots, e-health and autonomous vehicles and drones, are regarded as secondary factors. However, just one in four (25 percent) of CEOs polled see automated stores as a priority.

CEOs: Key drivers for smart city development in the next two years

New payment methods — 53%
Technology/telecom infrastructure — 47%
Smart environment (energy saving, sustainability) — 43%
Service robots (greater use of AI, smart sensors, IoT devices) — 34%
e-health — 32%
Smart transport (autonomous vehicle/drones) — 29%
e-ID — 26%
Automated store — 25%
Others — 4%

Source: KPMG and GS1 Survey Analysis, 2018

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[3] Hong Kong Monetary Authority, press release on the launch of Faster Payment System (FPS), 17 September 2018. https://www.hkma.gov.hk/eng/key-information/press-releases/2018/20180917-3.shtml
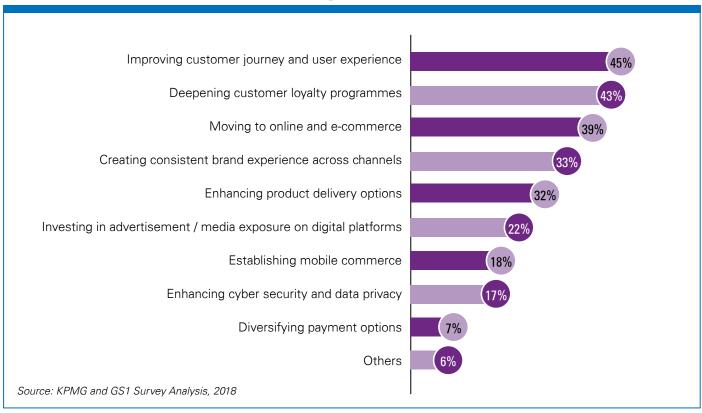
CEOs prioritise customer journey and user experience

In terms of preparing their own organisations for a smart future, Hong Kong-based CEOs rank strengthening the customer journey as the top priority, chosen by 45 percent of executives surveyed. This was closely followed by deepening customer loyalty programmes at 43 percent. In third place – and possibly reflecting the slightly slower pace of e-commerce adoption by consumers in Hong Kong – is moving their business online, picked by 39 percent.
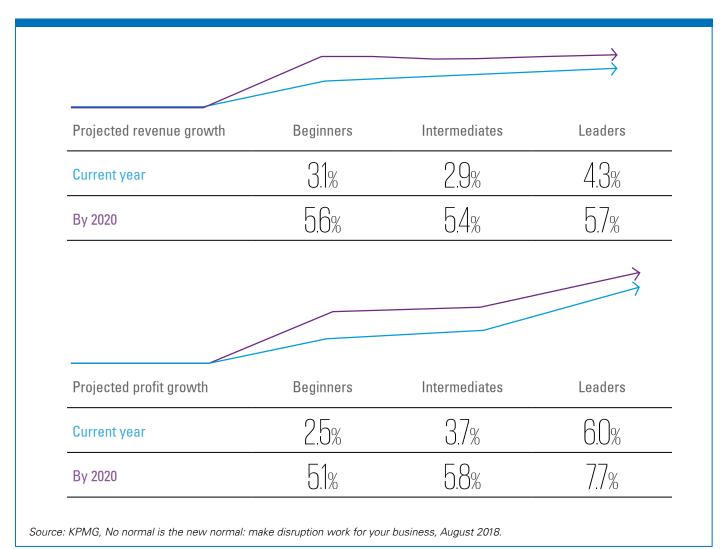
Diversifying payment options ranked at the bottom, picked by 7 percent, suggesting that while new payment methods are seen as an important driver for smart commerce in Hong Kong, businesses anticipate having few difficulties in managing such systems. Also ranked low is enhancing security and data privacy, picked by 17 percent of CEOs.

The findings show that businesses are betting on better user experience as a way to retain online customers, who are price sensitive and have an ever-increasing choice of e-commerce providers.

CEOs: Top business priorities for the coming year

Priority	Percentage
Improving customer journey and user experience	45%
Deepening customer loyalty programmes	43%
Moving to online and e-commerce	39%
Creating consistent brand experience across channels	33%
Enhancing product delivery options	32%
Investing in advertisement / media exposure on digital platforms	22%
Establishing mobile commerce	18%
Enhancing cyber security and data privacy	17%
Diversifying payment options	7%
Others	6%

Source: KPMG and GS1 Survey Analysis, 2018

Digital transformation correlates with growth

Projected revenue growth	Beginners	Intermediates	Leaders
Current year	3.1%	2.9%	4.3%
By 2020	5.6%	5.4%	5.7%

Projected profit growth	Beginners	Intermediates	Leaders
Current year	2.5%	3.7%	6.0%
By 2020	5.1%	5.8%	7.7%

Source: KPMG, No normal is the new normal: make disruption work for your business, August 2018.

Navigating omni-channel in Hong Kong's retail landscape

Simon Hui
Chief Executive, ecHome

Although Hong Kong's younger generation is increasingly shopping online, Simon Hui, Chief Executive of ecHome, says he believes brick-and-mortar retail will continue its significant role in the city's retail industry for the foreseeable future.

"Hong Kong is very different from other places," Hui says. "Unlike the US and Europe, where people tend to shop by driving to a mega-store once a week, and where mail order has existed for decades, here people simply step outside to buy things. Hong Kong is so densely populated and well-developed that you can get everything you need within fifteen minutes."

E-commerce vs. brick-and-mortar: the Hong Kong dilemma

Hui first experimented selling branded home appliances and personal care items on the web at a very early stage in 2000. After one year, he put the idea on the back burner and continued with his original business of supplying goods to retail chains, later launching his own brick-and-mortar shops. From an initial four shops opened in 2011, ecHome's chain now numbers nearly 30 stores across Hong Kong. Hui expects to have around 35 shops in Hong Kong by next year and 40 by 2020.

With its retail chain already well-established, Hui re-entered the Hong Kong e-commerce market in 2012. The company now sells online through its own website echome.com.hk and online marketplace HKTVmall.

In addition, ecHome launched its international e-commerce platform last year. The company sells products in Mainland China on JD.com and Xiaohongshu (Little Red Book). Further abroad, it sells on popular Southeast Asian sites Lazada and Qoo10, and through Amazon and eBay in the UK, Australia, and the US.

Hui says his international e-commerce business is off to a great start, with overseas online sales making up 6% of his total business, up from 1% last year. "A lot of international platforms are impressed by our high growth rate and are identifying us as future top seller," he says. "We're expecting that to grow by a factor of ten in the next year."

The benefits – and risks – of boosting your online presence

As online purchases start to make up more and more of ecHome's overall revenues, Hui is looking at technology solutions that can boost his e-sales.

For example, the company has looked at how it can offer digital receipts, warranties and manuals to boost customer satisfaction as well as cut down on paper for both the buyer and the seller.

"When everything is electronically linked, including sales, customer service and maintenance/support, it creates a lot of possibilities to enrich the overall experience and leave a lasting impact with customers," Hui says.

However, making these investments also comes with risks, especially if the implementation is not backed up with a well-executed customer outreach plan.

"It's easy to offer multiple functions, but hard for any company to attract customers to download the app – and, more importantly, encourage customer engagement with the app."

High development costs also mean additional risk at a time when customers have become more demanding, Hui adds. "The rise of the internet has made it much easier for people to gather information before buying a product," he says. "At the same time, social media has also made it easier for people to share grievances."

Despite these factors, Hui says he sees enormous potential for omni-channel marketing to draw customers to his online sales platforms internationally, as well as O2O locally.

The benefits of an omni-channel marketing strategy are clear, he says, as tech-savvy younger generations of Hong Kong, Mainland China and overseas consumers seek a more personalised relationship with brands.

"There are clear benefits to providing a more customised experience for shoppers – the biggest being that it can help us establish closer ties with our customers," he says.

Harnessing technology to aid rapid expansion in China

Kevin Orr

Group Vice President and Chief Investment Officer
Winner Medical Group / Purcotton

As non-traditional players enter China's new retail markets, they need to have an integrated strategy as they grow new business lines. Utilising technology solutions both online and offline can help keep a company on track throughout a period of rapid expansion.

Winner Medical Group began in the 1990s as a trading company, later becoming a total supply value chain for manufacturing, research and development, distribution and exporting of medical dressings and other medical consumables from China to the world. Subsequently, it entered the retail health lifestyle business after developing a range of products made from a proprietary cotton non-woven fabric. In 2009 it launched Purcotton, a branded cotton lifestyle product line targeted at consumers.

Initially, Purcotton's sales were mostly online. But a huge surge in the number of its physical stores – from 100 stores opened in 2016 to 185 stores in over 40 Chinese cities today – has brought its online and offline revenues to parity.

Harnessing technology from end-to-end

Kevin Orr, Winner Medical Group's Vice President and Chief Investment Officer, says applying technology in every aspect of its business has tremendously aided its expansion efforts.

At the company's smart warehouse in central China, the base of most of its operations, it already uses robots to move pallets around and aims to input more automation technology in the future for greater efficiency. In addition, it constantly explores and upgrades its artificial intelligence (AI) technology when appropriate, including chatbots to handle customer queries in its call centre.

To train its staff, it has developed an e-academy platform so everyone can learn and share their experiences and product knowledge across the company at this online platform.

Within its physical stores, the company is also exploring more digital solutions – one example is exploring an electronic price tag system. This frees staff from having to change price tags manually. The smart pricing system technology also enables the company to instantly update all related information for items in certain stores or across all locations in response to special sales pricing and promotions.

These digital retailing solutions can connect with company's inventory management system and overall supply chain – allowing substantially lower stock inventory and reducing operation risks, Orr says.

"O2O omni-channel sales and stock management today rely more on digital technology and big data analysis. If you're not using a smart system, it's harder to make precise decisions," he says.

Maximising the benefits of customer data, in an ethical way

Through its loyalty scheme – comprising millions of members – Purcotton can analyse consumer purchasing and other big data to see how sales trends vary from region to region. It can then use these insights to plan new product lines and support store mangers in meeting the specific needs of their customers.

In the coming year, Purcotton is also looking to increase its digital engagement with its customers, says Orr. Customers have long been able to order goods online and also experience at stores where they can check that items fit and feel right. Now, the company is exploring more ways of interacting with shoppers – such as suggesting follow-up purchases supported with digital coupons or other personalised deals.

One goal here, he says, is maximising the benefits of a digitalised world for both consumers and the brand. "This is why we're putting great resources into technology – using artificial intelligence to mine data and exploring augmented reality/virtual reality to find out more about our customers," Orr says.

Another is to harness customer insights to create better functioning, higher quality products. When retailers maintain the right balance between their customers' needs for data privacy and their own needs for insights, Orr says, it can enable them to make better, more accurate decisions.

"A lot of people see sharing their personal data as a risk. For me, sharing your data fairly – and with your informed consent – opens the way to make things operate better, so you can shop smarter," he says.

Emerging platforms complement existing market leaders

Mainland China's status as one of the world's leading users of digital technologies received further confirmation from our survey. Across the nine mainland Chinese cities of the Greater Bay Area that we polled, more than 96 percent of people say they use e-commerce to buy apparel and fashion, food and beverages, and beauty and wellness goods. Meanwhile, in Hong Kong, e-commerce was strongest in apparel and fashion (92 percent adoption among consumers), with the other two sectors showing considerably lower usage.

In mainland China, much of this business is conducted through China's internet giants, above all Alibaba, via its range of business-to-consumer (B2C), consumer-to-consumer (C2C) and business-to-business (B2B) platforms. Also prevalent are Tencent with its widely popular messaging app WeChat, and e-commerce superstore JD.com. In Hong Kong, local platform HKTVmall is the biggest single platform.

Despite the continued dominance of these market leaders, our survey showed that alternative domestic and international platforms are gaining popularity across the Greater Bay Area. Two examples are mainland-based sites Pinduoduo and Yihaodian which achieved double-digit recognition in many of the mainland Greater Bay Area markets across sectors. Japan-based Rakuten was also recognised as a top ten platform in multiple markets surveyed. US-based Amazon was also a high performer across sectors in mainland Chinese cities.

Although consumers are buying products across a wide range of platforms, Hong Kong CEOs surveyed said that using their own website or platform is still the most common way for their businesses to sell their goods and services online. This points to an opportunity for businesses to gain market share if they can market products across emerging channels.

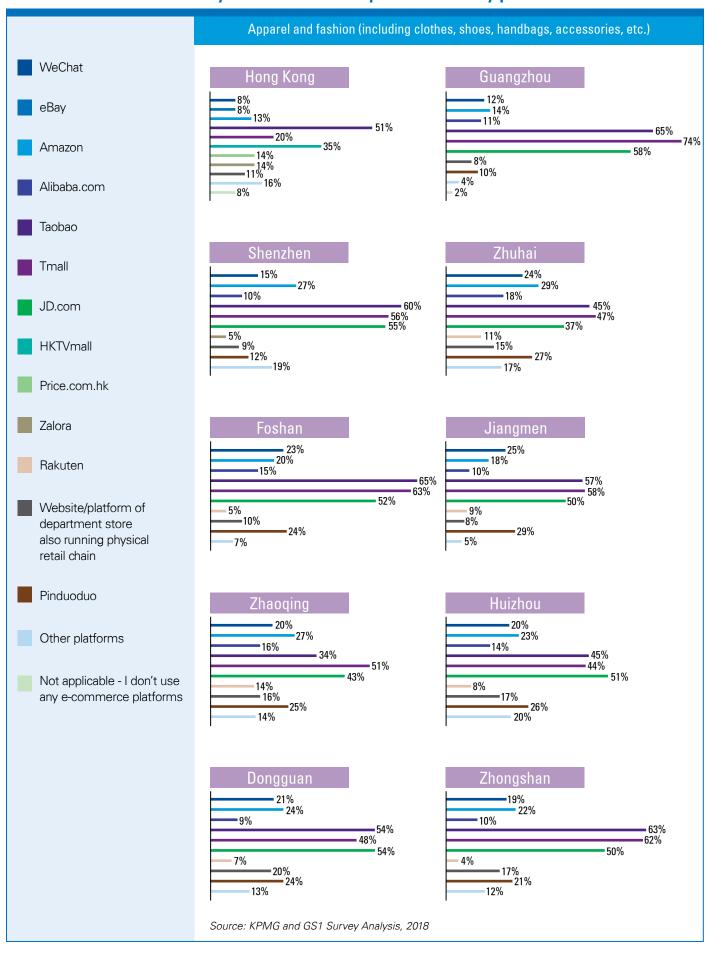## Greater Bay Area consumers' preferred platforms across three sectors

Adoption of e-commerce in mainland China is near universal, with barely any consumers in the nine mainland cities we polled not making at least some of their purchases online. Across the three categories we polled, those saying they don't shop online for apparel and fashion is 0-2 percent, for food and beverages it is 0-3 percent, and for beauty and wellness it is 0-4 percent.

In Hong Kong, in contrast, for beauty and wellness products, nearly a quarter of people say they don't use any e-commerce platform, and 22 percent say the same for food and beverage products. Only for purchases of fashion and apparel items do Hong Kongers buy at rates approaching consumers in mainland cities, with just 8 percent saying they don't buy such goods online.

In mainland cities, China's two leading e-commerce platforms dominate the listings. Taobao and Tmall, both owned by Alibaba, averaged around 48 percent adoption across all sectors, followed closely by Beijing-headquartered JD.com. In Hong Kong, local shopping platform HKTVmall leads the way, topping the listings for food and beverages (used by 40 percent) and beauty and wellness products (used by 27 percent) and coming second only to Taobao for apparel and fashion. JD.com's presence in the city is minimal at only 5 percent or under in all three categories. Meanwhile, Alibaba's Tmall is also far less of a shopping source in Hong Kong as compared to the mainland.

Consumers: Most commonly used e-commerce platforms to buy products

Apparel and fashion (including clothes, shoes, handbags, accessories, etc.)

Legend:
- WeChat
- eBay
- Amazon
- Alibaba.com
- Taobao
- Tmall
- JD.com
- HKTVmall
- Price.com.hk
- Zalora
- Rakuten
- Website/platform of department store also running physical retail chain
- Pinduoduo
- Other platforms
- Not applicable - I don't use any e-commerce platforms

Hong Kong
- WeChat: 8%
- eBay: 8%
- Amazon: 13%
- Alibaba.com: 51%
- Taobao: 20%
- Tmall: 35%
- JD.com: 14%
- HKTVmall: 14%
- Price.com.hk: 11%
- Zalora: 16%
- Rakuten: 8%

Guangzhou
- WeChat: 12%
- eBay: 14%
- Amazon: 11%
- Alibaba.com: 65%
- Taobao: 74%
- Tmall: 58%
- JD.com: 8%
- HKTVmall: 10%
- Price.com.hk: 4%
- Zalora: 2%

Shenzhen
- WeChat: 15%
- eBay: 27%
- Amazon: 10%
- Alibaba.com: 60%
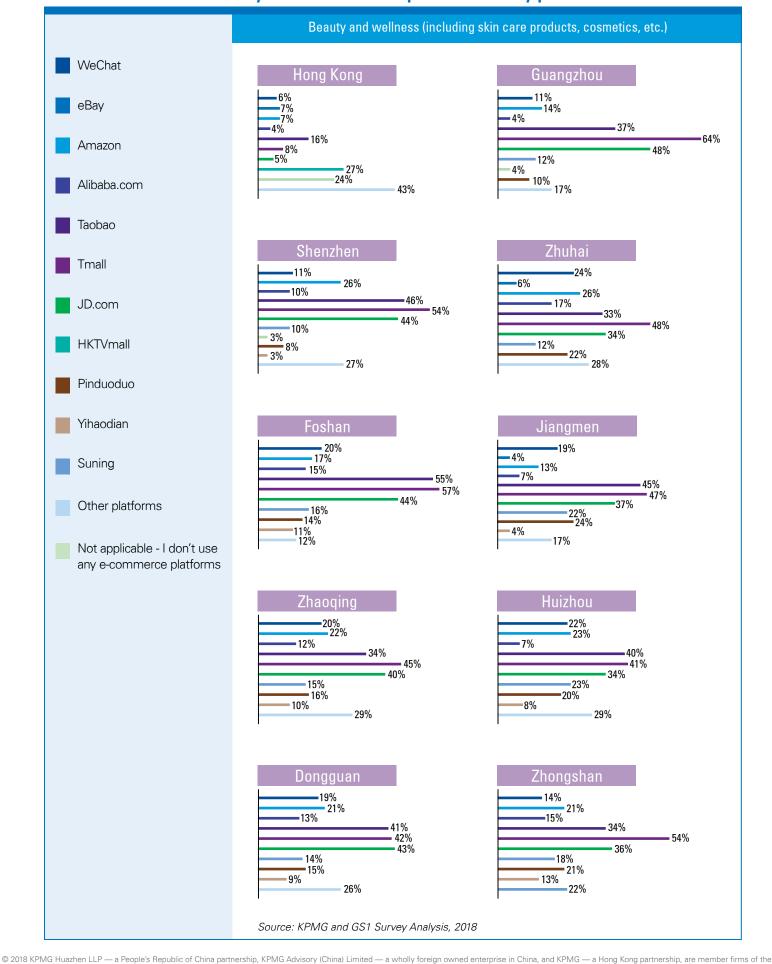- Taobao: 56%
- Tmall: 55%
- JD.com: 5%
- HKTVmall: 9%
- Price.com.hk: 12%
- Zalora: 19%

Zhuhai
- WeChat: 24%
- eBay: 29%
- Amazon: 18%
- Alibaba.com: 45%
- Taobao: 47%
- Tmall: 37%
- JD.com: 11%
- HKTVmall: 15%
- Price.com.hk: 27%
- Zalora: 17%

Foshan
- WeChat: 23%
- eBay: 20%
- Amazon: 15%
- Alibaba.com: 65%
- Taobao: 63%
- Tmall: 52%
- JD.com: 5%
- HKTVmall: 10%
- Price.com.hk: 24%
- Zalora: 7%

Jiangmen
- WeChat: 25%
- eBay: 18%
- Amazon: 10%
- Alibaba.com: 57%
- Taobao: 58%
- Tmall: 50%
- JD.com: 9%
- HKTVmall: 8%
- Price.com.hk: 29%
- Zalora: 5%

Zhaoqing
- WeChat: 20%
- eBay: 27%
- Amazon: 16%
- Alibaba.com: 34%
- Taobao: 51%
- Tmall: 43%
- JD.com: 14%
- HKTVmall: 16%
- Price.com.hk: 25%
- Zalora: 14%

Huizhou
- WeChat: 20%
- eBay: 23%
- Amazon: 14%
- Alibaba.com: 45%
- Taobao: 44%
- Tmall: 51%
- JD.com: 8%
- HKTVmall: 17%
- Price.com.hk: 26%
- Zalora: 20%

Dongguan
- WeChat: 21%
- eBay: 24%
- Amazon: 9%
- Alibaba.com: 54%
- Taobao: 48%
- Tmall: 54%
- JD.com: 7%
- HKTVmall: 20%
- Price.com.hk: 24%
- Zalora: 13%

Zhongshan
- WeChat: 19%
- eBay: 22%
- Amazon: 10%
- Alibaba.com: 63%
- Taobao: 62%
- Tmall: 50%
- JD.com: 4%
- HKTVmall: 17%
- Price.com.hk: 21%
- Zalora: 12%

Source: KPMG and GS1 Survey Analysis, 2018

Consumers: Most commonly used e-commerce platforms to buy products

Food and beverage (including health supplement, wine, etc.)

Legend:
- WeChat
- Amazon
- Alibaba.com
- Taobao
- Tmall
- JD.com
- HKTVmall
- Website/platform of department store also running physical retail chain
- Website/platform of supermarket also running physical retail chain
- Pinduoduo
- Yihaodian
- Hema
- Other platforms
- Not applicable - I don't use any e-commerce platforms

Hong Kong
- 6%
- 7%
- 5%
- 16%
- 9%
- 40%
- 16%
- 10%
- 22%
- 28%

Guangzhou
- 9%
- 6%
- 39%
- 62%
- 60%
- 14%
- 7%
- 6%
- 7%
- 9%

Shenzhen
- 18%
- 13%
- 41%
- 55%
- 49%
- 18%
- 10%
- 11%
- 15%
- 19%

Zhuhai
- 23%
- 23%
- 24%
- 43%
- 33%
- 15%
- 19%
- 18%
- 16%
- 24%

Foshan
- 17%
- 11%
- 10%
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- 63%
- 41%
- 13%
- 16%
- 14%
- 16%

Jiangmen
- 15%
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- 14%
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- 44%
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Zhaoqing
- 22%
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- 33%
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- 15%
- 21%
- 17%

Huizhou
- 20%
- 15%
- 35%
- 41%
- 39%
- 14%
- 16%
- 15%
- 28%
- 29%

Dongguan
- 18%
- 11%
- 40%
- 45%
- 42%
- 17%
- 11%
- 22%
- 20%
- 19%

Zhongshan
- 19%
- 18%
- 38%
- 49%
- 31%
- 13%
- 15%
- 17%
- 20%
- 26%

Source: KPMG and GS1 Survey Analysis, 2018

Consumers: Most commonly used e-commerce platforms to buy products

Beauty and wellness (including skin care products, cosmetics, etc.)

Legend:
- WeChat
- eBay
- Amazon
- Alibaba.com
- Taobao
- Tmall
- JD.com
- HKTVmall
- Pinduoduo
- Yihaodian
- Suning
- Other platforms
- Not applicable - I don't use any e-commerce platforms

Hong Kong
- WeChat: 6%
- eBay: 7%
- Amazon: 7%
- Alibaba.com: 4%
- Taobao: 16%
- Tmall: 8%
- JD.com: 5%
- HKTVmall: 27%
- Not applicable: 24%
- Other platforms: 43%

Guangzhou
- WeChat: 11%
- eBay: 14%
- Amazon: 4%
- Taobao: 37%
- Tmall: 64%
- JD.com: 48%
- Suning: 12%
- Yihaodian: 4%
- Pinduoduo: 10%
- Other platforms: 17%

Shenzhen
- WeChat: 11%
- eBay: 26%
- Amazon: 10%
- Taobao: 46%
- Tmall: 54%
- JD.com: 44%
- Suning: 10%
- Yihaodian: 3%
- Pinduoduo: 8%
- Other platforms: 3%
- 27%

Zhuhai
- WeChat: 24%
- eBay: 6%
- Amazon: 26%
- Alibaba.com: 17%
- Taobao: 33%
- Tmall: 48%
- JD.com: 34%
- Suning: 12%
- Pinduoduo: 22%
- Other platforms: 28%

Foshan
- WeChat: 20%
- eBay: 17%
- Amazon: 15%
- Taobao: 55%
- Tmall: 57%
- JD.com: 44%
- Suning: 16%
- Pinduoduo: 14%
- Yihaodian: 11%
- Other platforms: 12%

Jiangmen
- WeChat: 19%
- eBay: 4%
- Amazon: 13%
- Alibaba.com: 7%
- Taobao: 45%
- Tmall: 47%
- JD.com: 37%
- Suning: 22%
- Pinduoduo: 24%
- Yihaodian: 4%
- Other platforms: 17%

Zhaoqing
- WeChat: 20%
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- Pinduoduo: 16%
- Yihaodian: 10%
- Other platforms: 29%

Huizhou
- WeChat: 22%
- eBay: 23%
- Amazon: 7%
- Taobao: 40%
- Tmall: 41%
- JD.com: 34%
- Suning: 23%
- Pinduoduo: 20%
- Yihaodian: 8%
- Other platforms: 29%

Dongguan
- WeChat: 19%
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- Tmall: 42%
- JD.com: 43%
- Suning: 14%
- Pinduoduo: 15%
- Yihaodian: 9%
- Other platforms: 26%

Zhongshan
- WeChat: 14%
- eBay: 21%
- Amazon: 15%
- Taobao: 34%
- Tmall: 54%
- JD.com: 36%
- Suning: 18%
- Pinduoduo: 21%
- Yihaodian: 13%
- Other platforms: 22%

Source: KPMG and GS1 Survey Analysis, 2018

User experience, loyalty programmes, and payment options top consumers' needs

Across the Greater Bay Area, consumers are relatively consistent in what they consider important for brands, products and services to offer them, with only minor variations between the three different categories of goods polled (apparel and fashion, food and beverages and beauty wellness).

Most important for consumers is the ability to shop online and to pay in the way that suits them. Having both an e-commerce option and diversified payment options ranked high in both the apparel and fashion and the food and beverages categories, and almost as highly for beauty and wellness goods. Also important across all three categories, but especially for beauty and wellness, are being able to offer a dynamic user experience and attractive customer loyalty programmes.

For the food and beverage sector, having a variety of product delivery options and arrangements ranked higher than for apparel and fashion and beauty and wellness. This reflects a greater need for timely delivery of such items.

For all types of goods, mobile commerce ranked at the bottom, picked by just 20 percent of consumers in all three categories. This suggests that a majority of platforms are already offering this as an option.

Consumers: Key smart retail elements a brand should offer

Greater Bay Area			
	Apparel and fashion	Food and beverage	Beauty and wellness
Online and e-commerce	36%	33%	32%
Mobile commerce	20%	20%	20%
Variety of product delivery options and arrangement	26%	30%	27%
Consistent brand experience across channels	26%	24%	25%
Good user experience	33%	30%	32%
Attractive customer loyalty programmes	27%	26%	32%
Diversified payment options	33%	37%	30%
Advertisement/media exposure on online platforms	25%	24%	24%
Others	2%	1%	2%

■ Apparel and fashion (including clothes, shoes, handbags, accessories, etc.)

■ Food and beverage (including health supplement, wine, etc.)

■ Beauty and wellness (including skin care products, cosmetics, etc.)

Source: KPMG and GS1 Survey Analysis, 2018

Under-utilised platforms present an opportunity for businesses

Retailers in the Greater Bay Area sell goods and services online through a diverse range of platforms. Between its various sites, Alibaba remains the most popular overall channel, with 15 percent of the companies polled selling through its business-to-consumer site Tmall, 10 percent through its consumer-oriented Taobao and 8 percent through its business-to-business site Alibaba.com.

Tencent's WeChat, Amazon and JD.com are all used by 12-14 percent of the companies polled, but platforms operated by department stores (picked by 12 percent) and supermarkets (9 percent) also remain important.

Hong Kong-based HKTVmall is used by 8 percent of the companies polled, twice as many as eBay and south-east Asia-based Lazada (which is also owned by Alibaba).

However, the single most important e-commerce outlet, picked by 27 percent of CEOs polled, continues to be a business's own website or platform. Furthermore, 19 percent of CEOs indicated that e-commerce platforms were not relevant to their business. This shows that CEOs may be missing opportunities across the Greater Bay Area if they do not market their goods and services on a wide variety of platforms.

CEOs: Most commonly used e-commerce platforms to sell products

Platform	Percentage
Tmall	15%
WeChat	14%
Amazon	13%
JD.com	12%
Website/platform of department store also running physical retail chain	12%
Taobao	10%
Website/platform of supermarket which also running physical retail chain	9%
HKTVmall	8%
Alibaba.com	8%
eBay	4%
Lazada	4%
Others	19%
Only via our own website / platform	27%
Not applicable to my business	19%

Source: KPMG and GS1 Survey Analysis, 2018
Note: survey respondents could select up three choices

Reaching Hong Kong's millennials by living your purpose

Diego Dultzin Lacoste and Delphine Lefay
Co-founders, OnTheList

Millennials have access to far wider variety of information than ever before. When it comes to their shopping habits, they are increasingly evaluating brands based on sustainability, ethical sourcing and the transparency of their supply chains.

In 2016, Diego Dultzin Lacoste and Delphine Lefay created OnTheList, a members-only shopping club which offers end-of-season flash sales featuring designer apparel at discounted prices.

Nearly three years later, the company has more than 170,000 registered members. The company currently works with more than 250 brands – mostly designer fashion labels – and their distributors. The overstock merchandise is sold at weekly sales held at its storefront in Hong Kong's Central business district.

In helping brands reduce their oversupply from the Hong Kong market, OnTheList aims to promote more sustainable industry practices, while helping brands win loyalty from the younger generation of consumers.

At the same time, offering premium brands at a deep discount helps OnTheList appeal to millennials' aspirational tendencies, Lacoste says. Participating brands want the company to be discreet about the fact that it is helping them sell surplus stock, but are also keen for it to help them to find new customers, he says.

 "Brands see us as both a different channel and a network to talk to new generations of consumers," he says. "These are aspirational consumers who the brands are looking to convert to full-price sales in the future."

Combining online and offline elements to create the right buzz

Entrance to OnTheList sales events is restricted to people who have registered with the company through its website or app, or at the door on a tablet. Registering every potential buyer gives the company powerful insights into what its customers are purchasing – and what they might be interested in buying in a future visit.

Meanwhile, flash sales on its website focus on accessories such as jewellery and sunglasses, cosmetics and other items that people don't have to try for size or want to touch before they buy.

OnTheList's customer data gained through online registrations allows it to segment its business and client base. This enables the company to offer bespoke events for a specified category of consumer or preferred clients, which helps to create buzz and an air of exclusivity.

"The business is based on data – knowing the customer as well as possible," Lacoste says.

To attract millennials, be aspirational, authentic and responsible

To Lacoste, the future of retail means more than just better utilising customer data. He sees technology as a key enabler to help retailers become more efficient and more transparent.

Blockchain technology, for example, will enable both brands and customers to track the production and lifecycle of apparel from fabric to store and beyond. "Through blockchain entries tracking products, both retailers and consumers will be able to easily spot counterfeits," Lacoste says.

Technologies such as virtual reality, he adds, can aid staff in helping shoppers discover more about a brand's origins, history and values.

 "By freeing staff from manual tasks such as checking inventory or processing payments, you allow them to focus on telling the brand's story," he says.

Enhancing customer experience: challenges and opportunities

Consumers across the Greater Bay Area have high expectations that technology will enhance their online shopping experience – especially by offering them more personalised treatment, allowing them to find out more about goods before they buy them.

In exchange for a more personalised experience, consumers say they are happy to share some information about themselves. However, concerns remain, particularly over location tracking, and to a lesser degree over information about families, work, browsing histories and income.

Companies, in response, are searching for innovative technologies that can help boost their competitiveness and working with data to become more able to react to real-time changes in customer activity and behaviour.

As businesses implement omni-channel to better target customers across a wide range of channels and platforms, a lack of suitable talent and uncertainty over which technologies to use are challenges CEOs hope to address.

Consumers expect a more personalised experience

Across the Greater Bay Area, consumers expect e-commerce to deliver a range of benefits – notably a more personalized browsing experience (picked by 47 percent), better communication with brands before purchase (44 percent), and a faster and easier online checkout and payment process (42 percent).

Hong Kong consumers expect cheaper prices online than in physical stores. Our results show that consumers feel companies should be able to use technology to lower the cost of goods and services bought through e-commerce.

Worries about the security of online payments persist, selected as a concern by 38 percent of those polled across the Greater Bay Area. Such concerns are slightly lower in Hong Kong (34 percent) than across most of the other GBA cities, particularly Guangzhou (52 percent).

Consumers: Expected benefits from an enhanced e-commerce experience

Greater Bay Area
- 34%
- 47%
- 42%
- 38%
- 34%
- 30%
- 44%
- 35%
- 37%
- 2%

Hong Kong
- 51%
- 36%
- 42%
- 34%
- 35%
- 30%
- 36%
- 22%
- 32%
- 9%

Guangzhou
- 43%
- 36%
- 37%
- 52%
- 36%
- 29%
- 39%
- 28%
- 38%
- 5%

Shenzhen
- 39%
- 58%
- 45%
- 42%
- 34%
- 31%
- 38%
- 35%
- 40%
- 4%

Zhuhai
- 34%
- 47%
- 37%
- 34%
- 28%
- 24%
- 43%
- 33%
- 42%
- 1%

Foshan
- 31%
- 48%
- 45%
- 41%
- 38%
- 32%
- 47%
- 42%
- 41%
- N/A

Jiangmen
- 39%
- 47%
- 38%
- 31%
- 28%
- 34%
- 47%
- 46%
- 33%
- N/A

Zhaoqing
- 20%
- 54%
- 37%
- 37%
- 38%
- 27%
- 46%
- 32%
- 41%
- N/A

Huizhou
- 27%
- 52%
- 42%
- 32%
- 28%
- 27%
- 49%
- 37%
- 35%
- N/A

Dongguan
- 28%
- 55%
- 49%
- 32%
- 36%
- 33%
- 44%
- 37%
- 39%
- 1%

Zhongshan
- 28%
- 32%
- 46%
- 46%
- 38%
- 32%
- 48%
- 39%
- 33%
- 2%

Legend:
- Cheaper price
- More personalized browsing experience
- Faster and easier check-out and online payment process
- More secured online purchase and payment process
- Expedited delivery time
- More convenient return logistics
- Easier to communicate with the brands for service/ product enquiry prior to the purchase
- Easier to provide feedback to brands after the purchase
- More personalized customer relationship experience
- None/ Not much benefit is expected

Source: KPMG and GS1 Survey Analysis, 2018

Ready to share

To get a more customised service, consumers across the Greater Bay Area are willing to share various kinds of information with online businesses, notably their brand and other shopping preferences, their gender, their age and where they live. Notably, only 5 percent of those polled say they are not willing to share personal information for more customised service.

People living in mainland Chinese cities are a little more willing to share income information than people in Hong Kong, otherwise there are no major differences in what data GBA residents are prepared to share.

Less than a third of those polled are happy to share their online browsing history or information about their work or families, and just 17 percent said they are willing to location tracking data.

Our poll of Hong Kong CEOs on what data they collect from consumers was mostly aligned with consumers' preferences, with some differences. CEOs were slightly more inclined to collect data on location tracking records (24 percent of those polled). Meanwhile, 74 out of 286 CEOs polled (26 percent) cited 'none of the above' when asked what data they collect, indicating a potential gap in their collection capabilities. Only 5 percent of consumers indicated they were not willing to share any of the mentioned data points with companies.

Consumers: Personal information most likely to share online

Category	Percentage
Your brand/ shopping preferences or spending habits	50%
Gender	49%
Age	44%
Living location/ district	41%
Income level	33%
Your online browsing history (on your devices)	32%
Employment status and job nature	31%
Marital status/number of kids	29%
Your location tracking records	17%
None of the above	5%

Source: KPMG and GS1 Survey Analysis, 2018

CEOs' priorities show more focused growth, with heightened challenges

Companies are becoming more focused in their growth strategies. When polled in 2017 about what they would be doing to develop their businesses in the next two years, CEOs named five key areas they would be focussing on. This year, there are only two standout priorities – developing and applying innovative technologies aimed at increasing competitiveness (picked by 46 percent) and becoming more data driven in order to generate more real-time insights (picked by 42 percent).

Developing mobile-first strategies in particular has fallen in importance, named by just one in five CEOs, down from 37 percent in 2018. But also seeing sharp declines are developing more integrated O2O marketing and fulfilment strategies (from 46 percent to 28 percent) and leveraging social media platforms for customer feedback (from 42 percent to 31 percent).

Partially compensating for the decline in interest in these areas are the emergence of two new secondary areas of focus: online campaigns aimed at engaging customers (picked by 26 percent) and expanding digital reach to new markets (picked by 20 percent).

CEOs: Preferred growth strategies for your business in the next two years

Strategy	2018	2017
Develop and apply innovative technologies to increase your competitive edge	46%	44%
Become more data driven to generate more real time insights	42%	46%
Leverage social media platforms for consumers to search for product opinions and feedback	31%	42%
Develop more integrated O2O marketing and fulfilment strategies (online and offline channels)	28%	46%
Launch online campaigns to engage customer	26%	N/A
Develop a marketplace platform by directly connecting suppliers and manufacturers with the end buyer	21%	23%
Develop more mobile first strategies incorporating e-commerce, payments options	20%	37%
Expand digital footprint to new markets	20%	N/A
Leverage key online festivals (e.g. Singles' day)	7%	10%
Others	3%	4%

Source: KPMG and GS1 Survey Analysis, 2018

The talent gap

As they focus their priorities, there is a noticeable shift in the challenges CEOs are facing, particularly in implementing an omni-channel strategy. 57 percent of CEOs surveyed say a lack of talent is the biggest hurdle they face in developing omni-channel, as compared with 27 percent in 2017. Furthermore, 45 percent of CEOs say they are uncertain about which technology would deliver the greatest return, compared with only 23 percent of respondents the previous year.

Pop up stores: levelling the playing field

Al Hong
Managing Director, K Style Lab

As omni-channel retailing takes off, companies in Hong Kong are realising that it pays to have both an online and offline presence.

One strategy for online retailers looking to expand their physical presence without the high overhead of fixed rental contracts is pop-up stores.

"Pop-ups level the playing field," says Al Hong, who launched the pop-up retail business K Style Lab two years ago with his wife and business partner EJ Kim.

Taking advantage of a downturn in Hong Kong's retail sector to test the market, the couple opened a multi-brand pop-up store in Times Square shopping plaza in Causeway Bay, one of the city's top shopping areas, on a three-month lease. After sales soared, the couple extended their lease for another two months, before they moved to another short-term location in Hong Kong's Central business district.

Advantages for newcomers and major retail players

Hong says his initial experience operating pop-up stores in Hong Kong helped him discover the broader opportunities pop-ups offer to the retail industry.

For malls, many of whom are struggling as retailers sell more through e-commerce, pop-ups can both help fill short-term vacancies and bring in new brands and products, which helps to attract new foot traffic.

Meanwhile, established retail players can use pop-ups to trial new marketing strategies, he says. In one recent example, a French perfume company transformed a pop-up space in one of Hong Kong's top malls into a Mediterranean café to allow shoppers to try its products while experiencing the ambience of French countryside.

But the biggest gainers are smaller companies looking to expand their reach. In particular, pop-ups can be a game-changer for direct to consumer (DTC) brands, which are reliant on word of mouth or viral marketing campaigns.

Such businesses, Hong points out, can take full advantage of all the technology that's becoming available online to promote their goods – "better payment systems, virtual reality/augmented reality, scans of your body so you can see how clothes will look on you, and so on."

Through pop-ups, consumers can get "the emotional and physical experience of taste, touch, smell and scent that you can't get online," all with having to take on a long-term lease or the costs of outfitting a store, he adds. "Online has made shopping easy and convenient, but it can never replace face-to-face intimate retailing of physical stores."

Making stores a place for showing, in addition to selling

As companies balance their online and offline sales efforts, they're also looking at how the roles of their physical stores will change in the future as e-commerce drives a greater percentage of overall sales.

Hong says physical stores will serve a purpose to showcase products in innovative ways that are not yet possible online. "Technology has become affordable," he says. "So many companies want to show off what they've got, that it's now available and economical in a way that it wasn't two or three years ago."

Hong adds that in the future, physical stores will be able to provide companies with data that is hard to collect from online sources alone. "We're talking to tech companies about facial recognition that will allow us to categorise customers by age, gender, who came in, who bought, and so on," he says.

"There are going to be so many avenues to selling in the future," says Hong. "Businesses will have to continuously adapt to stay relevant – allowing customers to shop as they choose to."

Building brand loyalty, both online and offline

Derek Ng
CEO, Pricerite Stores

Home goods retailers are looking for new ways to attract millennials, which are quickly becoming their core customer segment. This means creating robust online platforms to provide these consumers with accurate and transparent information about products.

Hong Kong-based Pricerite, first established in 1986, bills itself as the city's first 'omni-channel' homeware store chain – a business where customers can see, pick and buy furniture and other goods through its online shop via desktop or mobile device, or through one of its brick-and-mortar stores.

As retailers cater to this new group of consumers, they need to adjust their online and offline strategies in order to win business, says Derek Ng, CEO of Pricerite's parent company CRMG Holdings.

Using omni-channel to improve customer experience and create brand loyalty

As Pricerite makes efforts to improve its omni-channel business, it is looking at how to integrate technology and talent to deliver a more seamless customer experience.

On the technical side, the most important priority for Pricerite is to create a single view of customers that can link customer profile, transaction history and last interaction with the company. Ng says the company has implemented SAP Hybris – a leading CRM solution – to provide more personalised services to customers.

In addition, the company is looking at how to present product information in innovative formats. Last year it released an augmented reality/virtual reality app that allows people to see how furniture will look and fit in their homes.

"Even if your apartment is really small, our smart furniture app can help you save some space," says Ng.

Another challenge that occurs in today's online environment is when shoppers use their phones to do comparison shopping while in a store. These shoppers typically take pictures of items and then go home to see if they can find a better bargain online.

To better facilitate brand loyalty, Pricerite shares information about the company and its values with target consumers through its online channels. This allows potential buyers to more comfortably associate the company's products with their own personal aspirations. Shared through social media, these connections can have a viral effect to help build the brand, Ng says.

"The behaviour of millennials is different," Ng says. "They prefer to seek recommendations from friends or key opinion leaders through their social network to browsing at websites or apps."

Leveraging in-store staff to drive online sales

Pricerite's loyalty program already boasts more than 600,000 members, most of whom have shared their address and contact details with the company. The program already enables Pricerite to deliver targeted marketing to customers based on their preferences. To multiply the impact of its marketing efforts, Pricerite also uses its in-store sales staff to help drive online sales, Ng says.

To do this, the company gives staff a promotion code that they can provide to browsing shoppers. If that shopper later uses that code to make an online purchase, then the sales staff is rewarded with a commission.

These efforts are bearing fruit, Ng says. Pricerite's online sales, although still relatively small compared to brick and mortar sales, are growing fast – up 40 percent compared with last year. Ng further expects online revenues to increase between two- and threefold in the coming years.

In the context of Hong Kong's high real estate costs, Ng says he hopes that Pricerite's online business will eventually be strong enough to operate fewer brick and mortar stores. "I envision our physical stores as hubs for customers to try out our furniture and get ideas from our specialists about how to better utilise their home space. Meanwhile, online will drive a larger portion of our overall sales," he says.

Using social media to drive engagement and sales

Retailers across the Greater Bay Area are increasingly using social media as part of an omni-channel strategy to engage consumers and sell their products and services. This year's survey findings show broad similarities with last year in how consumers and CEOs are utilising social media channels, with some key differences.

Among mainland Chinese consumers, Tencent's WeChat – China's dominant social media app – and Weibo – its leading microblog service – are the primary social media platforms for consumers to purchase goods, view advertisements, and otherwise engage with brands.

This year's data also showed that significantly fewer mainland China consumers were not using social media to engage with brands, at only 2 percent compared with 13 percent last year.

In Hong Kong, Facebook and WhatsApp remain the most popular channels, with YouTube and Instagram making gains in helping customers interact with brands. Meanwhile, customers showed a declining preference in using Facebook to make purchases – with only 38 percent of respondents saying they use the platform to buy products and services compared with 48 percent in 2017.

91% of people in China use WeChat

60% of Chinese millennials wish they were more like the person they describe themselves as on social media (compared to 31% global average)

Source: KPMG: Me, My Life, My Wallet, February 2018

For Greater Bay Area consumers, a wide diversity in social media preferences

Social media continues to be popular with mainland Chinese consumers as a means both to engage with brands and buy products and services. Hong Kongers are similarly willing use it to engage with brands, however they are less likely to use it as a means to shop online.

Mainland consumers use social media for buying products and services to a far higher degree than people in Hong Kong, principally due to their use of Tencent's WeChat (named by 54 percent) and to a lesser extent Weibo (used by 34 percent). For Hong Kong consumers, Facebook is also their favoured social media shopping channel, but used by just 38 percent, followed by WhatsApp with 30 percent.

Meanwhile, the social channels used in the two markets continue to diverge. For people in the mainland cities of the GBA, WeChat is the preferred channel for brand engagement (picked by 59 percent), followed by Weibo (47 percent). For Hong Kongers, the figures are similar, but the channels different: Facebook (60 percent) and WhatsApp (44 percent).

Only 6 percent of the mainland China consumers polled say they don't use any major social media for online shopping, compared with 26 percent in Hong Kong.

Consumers: Preferred social media channels to engage with brands and make purchases

	Engage with brands		Purchase products and services	
	Hong Kong	Mainland China*	Hong Kong	Mainland China*
Facebook	60%	17%	38%	14%
WhatsApp	44%	13%	30%	16%
YouTube	38%	17%	21%	17%
Instagram	30%	14%	19%	12%
WeChat	25%	59%	22%	54%
Line	15%	13%	12%	15%
Twitter	14%	16%	8%	13%
Weibo	14%	47%	7%	34%
LinkedIn	11%	17%	6%	15%
Pinterest	11%	14%	7%	13%
Snapchat	10%	13%	6%	12%
Telegram	10%	N/A	8%	N/A
Others	5%	3%	5%	2%
None of the above	12%	2%	26%	6%

■ Hong Kong   ■ Mainland China*

*Mainland China cities surveyed include Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Zhaoqing, Huizhou, Dongguan and Zhongshan.

Alignment between consumers and CEOs

For the CEOs polled, Facebook remains the dominant e-commerce social media tool, particularly for customer engagement (picked by 72 percent of those polled, down from 76 percent in 2017), but also for selling products and services (picked by 55 percent, up from 53 percent in 2017). However, businesses' preference to use Facebook for sales exceeded consumers' preference to use the platform to buy (55 percent vs. 38 percent).

Tencent's WeChat is rising sharply in popularity. Some 61 percent of the CEOs polled say they now use it for customer engagement (up from 48 percent in 2017), and 49 percent use it for sales purposes.

Facebook-owned WhatsApp is also growing in popularity as a commercial tool, with 45 percent of CEOs saying their companies use it for customer engagement (up from 38 percent) and 28 percent for sales (up from 18 percent), as – albeit to a lesser extent is LinkedIn (named by 32 percent for customer engagement, up from 24 percent; and by 20 percent for sales, up from 10 percent).

Almost all other channels, including Instagram, YouTube, Weibo and Twitter, saw declines in usage for customer engagement, offset by rises in usage for sales.

CEOs: Preferred social media channels for customer engagement and sales

	Engage with customers		Sell products and services	
	2018	2017	2018	2017
Facebook	72%	76%	55%	53%
WeChat	61%	48%	49%	35%
WhatsApp	45%	38%	28%	18%
Instagram	40%	43%	25%	18%
LinkedIn	32%	24%	20%	10%
YouTube	32%	47%	20%	15%
Weibo	24%	29%	17%	11%
Line	13%	12%	10%	6%
Twitter	12%	29%	7%	10%
Pinterest	6%	12%	4%	3%
Snapchat	3%	N/A	3%	N/A
None of the above	4%	7%	17%	21%

■ 2018   ■ 2017

Mainland China cities surveyed include Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Zhaoqing, Huizhou, Dongguan and Zhongshan.

For e-wallet users, an e-loyalty program

Frans Walter Biegstraaten
Chief Executive Officer, The Coffee Academïcs

Hong Kong consumers are increasingly able to pay for local goods and services with their phones as local vendors accelerate their acceptance of wallet apps like AliPay, WeChat Pay and Apple Pay.

43% of Hong Kong retailers surveyed said they now accept mobile payments in addition to other non-cash methods like credit cards, EPS and Octopus Card, according to a July 2018 study from the Hong Kong Productivity Council.

As the use of wallet apps becomes more prominent in Hong Kong, local coffee chain The Coffee Academïcs is hoping to capitalize on the trend by introducing an e-loyalty card that customers can store in their e-wallets.

The Coffee Academïcs opened its first store in Hong Kong's Causeway Bay in 2012. The chain has grown to 15 stores in Hong Kong, with another five or six due to open by the middle of 2019. The company also has stores in Singapore and China.

The rollout of the new e-loyalty card corresponds with the launch of an upgraded point of sales system at its Hong Kong stores by the end of 2018, says Frans Walter Biegstraaten, Chief Executive Officer of The Coffee Academïcs.

When customers use the e-loyalty card when they pay for their drinks or food via mobile payment, The Coffee Academïcs collects real-time data about how often they are making purchases at which locations. This will enable the company to send customised offers – for example a discount coupon for a member who hasn't made a purchase at a specific location within a certain time period.

Until now, The Coffee Academïcs has been using a physical Club Card, that allows customers to buy store credit and get rewarded for pre-paying, but that provides only limited useful data to the company.

"The e-loyalty card will change our business, as for the first time, we will be able to reach out to individuals and hyper target," Biegstraaten says.

E-wallet card or mobile app?
When deciding on how to implement its e-loyalty platform, The Coffee Academïcs opted for a card in a

customers' electronic wallets over a separate mobile app for various reasons, Biegstraaten says.

One reason is that app development remains tricky – apps have to work across multiple platforms, and require constant updating. Another is that apps compete with each other for space on a person's phone.

A card in an e-wallet, in contrast, is relatively straightforward to maintain – and it is the wallet developer's responsibility to make sure it functions.

The e-loyalty card was also an optimal solution for The Coffee Academïcs because it could be implemented quickly and it was easy for their marketing team to manage. "In the food and beverage industry, you need something that's off the shelf – that works," Biegstraaten says.

Now is the time to go digital
The Coffee Academïcs' adoption of its new point of sale platform corresponds with the trend of digital technologies becoming more accessible to small-and-medium enterprises (SMEs) in Hong Kong, Biegstraaten says.

Platforms, systems and solutions that have emerged are both affordable and flexible, he says.

"You can have proof of concept right here right now," Biegstraaten says. "Before, there was not much sharing. Today, things are very open – they're all about getting things done now, not in three or four months."

In addition, Biegstraaten says that work practices in the city have changed. A rise in the number of people with programming skills, the gig-economy and the number of co-working spaces has led developers to increasingly embrace collaboration.

"Software developers no longer work in isolation - instead they are willing to sit with their customers and co-create solutions to problems," he says.

The outcome, says Biegstraaten, is that over the last ten years, it has become possible for companies such as The Coffee Academïcs to install advanced customer-centric technology at a cost that doesn't kill the bottom line.

Bridging the O2O gap in China

Dr. William Lo
Founder, OtoO Academy

Companies facing declining revenues from traditional business models are increasingly turning to e-commerce sales in order to survive. In entering this new market, they must compete with established retailers in the online space.

Hong Kong-based start-up OtoO Academy advises retail businesses trying to figure out how to thrive today's online/offline (O2O) world. Dr. William Lo, OtoO Academy's founder, has worked in a plethora of different fields, experiencing first-hand how digital technology has caused industries to collide and has blurred lines between online and offline.

"A lot of new players in retail are prioritizing how to attract customers, but they should be digging deeper into how to merge the boundaries of offline and online," Lo says. "Online or offline can no longer be treated as separate realms. The imperative is figuring out how best to combine them."

After acquiring a doctorate in pharmacology and molecular neuroscience, Lo worked as a consultant with McKinsey & Company, as a banker with Citibank, and as an executive with Hong Kong Telecom, where in the 1990s he set up Netvigator, Hong Kong's leading internet provider. He has also headed various retail brands such as I.T. fashion house. He is currently the vice-chairman and chief financial officer of Kidsland International Holdings, the largest toy retailer in Greater China.

Understanding the O2O gap in e-commerce

One starting point for understanding O2O, Lo says, is to understand how shopping is evolving and how retailers need to respond.

"Consumers are changing. The internet has liberated them. It's given them more information and a lot more power. They have more choices, and more channels to buy through," Lo says. "This means retailers have to leverage different channels if they want to maximize their reach."

In the future, Lo says utility buying – the purchasing of everyday items such as foodstuffs and household items – will migrate largely to e-commerce sites. In addition, customers will increasingly use e-commerce platforms to make repeat purchases and buy brands they are already familiar with.

Despite these shifts, brick-and-mortar shops will continue to play an essential role for brands, Lo says. "Physical stores will continue to be the place for inspirational buying," says Lo. "They will still be the place for introducing you to new things and for establishing brand recognition."

Using online data to inform offline retail – and vice versa

E-commerce creates trails of information about the habits, interests, tastes and purchasing abilities of individuals. But how people shop in physical stores also leaves a similar trail. In an O2O world, both sets of data will be increasingly subjected to tracking and analysis, Lo says.

To find out what is possible, Lo is trialling "HAPPIPLAYGROUND ", a pilot scheme in partnership with an AI company that is looking at how children and their parents influence toy purchases at Kidsland's shops.

"I'm excited by a lot of this new technology," says Lo. "We can use data to improve the retail environment. We can use virtual merchandising for front-window displays. It's O2O in all directions – more complicated, yes, but also a lot more interesting."

Although advanced technology and more comprehensive data will allow retailers to make better-informed business decisions, Lo cautions that it will not completely replace traditional intuition.

"AI will generate data, but you will need the right people asking the right questions if you're going to be able to interpret that data in useful ways," he says. "Technology is a means to an end – the basics of retailing, knowing your customers and meeting their needs will still hold."

Building consumer confidence and trust

As companies look to offer more personalised services to their customers, building and maintaining consumer confidence is a crucial challenge.

Insufficient product information available online – as well as discrepancies with how products appear as opposed to how they are marketed through e-commerce sites – topped the list of Greater Bay Area consumers' frustrations in our survey. Inadequate customer service is also a main sticking point for Mainland China consumers.

Our survey finds that to win consumers' trust, businesses will have to offer greater detail about their products and services. This means doing more to certify product authenticity and to show a commitment to sustainable and responsible business practices throughout their supply chains. Technologies like blockchain will play a key role in verifying these assurances.

Finally, to gain trust, retailers will have to demonstrate that they are trustworthy guardians of the huge flows of data they are collecting about their customers' habits and behaviour. This is especially relevant for Hong Kong consumers who expressed a higher degree of concern over data privacy.

Despite the challenges ahead, the overall outlook is positive: our survey data shows only 16 percent of the consumers we polled in the Greater Bay Area say they shop in physical stores because they lacked trust in online shopping. In Hong Kong, that figure (16 percent) dropped from 37 percent last year, indicating rising trust in e-commerce platforms.

Current barriers

For consumers across the Greater Bay Area, the biggest frustration with online shopping is discrepancies in the size and colour of goods that arrive compared with how they look and are described online – an issue named by 38 percent of people in Hong Kong and 36 percent in mainland China.

In Hong Kong, insufficient product information and problems with returns and refunds (both picked by 34 percent of those polled) and delivery problems and poor customer service (both picked by 30 percent) are also key sticking points for consumers.

Another key concern for mainland China buyers is inconsistent search results about products, affecting 26 percent of survey respondents. Customer service, product information and delivery issues are also major concerns (cited by 26 percent, 25 percent and 24 percent respectively). Additionally, 23 percent say that too many product sources is a major challenge when buying items online.

Consumers: Key challenges with online shopping

Challenge	Hong Kong	Mainland China*
Potential discrepancy of size and colour	38%	36%
Insufficient product information	34%	25%
Complicated/lack of return and refund policy	34%	25%
Late delivery/no suitable delivery option	30%	24%
Bad/unresponsive customer service	30%	26%
Insufficient level of online payment security	28%	22%
Inconsistent search results for information about products	23%	26%
Insufficient stock	22%	18%
Too much information from brand through social media	13%	18%
Technical problems	14%	14%
Too many product sources	13%	23%
Lack of interaction with brand through social media	10%	17%
I didn't face any online shopping challenges	6%	11%
Others	1%	N/A

■ Hong Kong   ■ Mainland China*

*Mainland China cities surveyed include Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Zhaoqing, Huizhou, Dongguan and Zhongshan.
Source: KPMG and GS1 Survey Analysis, 2018

> **As e-commerce prevails, rampant counterfeit and fraud issues have undermined consumers' confidence. Shoppers are increasingly demanding trusted sources of product information.**
>
> **Anna Lin**
> *Chief Executive,*
> *GS1 Hong Kong*

Trust builders

Consumers across the board want more information about the products they are buying. More than 95 percent of those polled in the Greater Bay Area, both in Hong Kong and the region's nine mainland Chinese cities, say that full traceability of materials and inputs, product authentication and sustainability certifications will help them build trust in products.

Companies look set to rise to this challenge. CEOs polled see applying such measures as likely to be helpful in building consumer trust to an almost identical degree.

Technologies that can assist with product authentication are readily available in Hong Kong. For example, GS1 Hong Kong has launched the REAL Visibility solution which allows consumers to easily verify product authenticity by a simple mobile phone scan, and to track and trace the product from its origin to the point of sale[4]. Meanwhile, blockchain solutions are frequently cited as a key enabler to improve transparency and visibility between financiers, manufacturers, logistics companies, and end users[5].

Consumers: Measures to help build trust in products

Greater Bay Area

Ensuring full traceability/origin of products and raw materials: 96% Helpful, 4% Not helpful

Product authentication: 96% Helpful, 4% Not helpful

Product certifications (e.g. organic, energy saving): 97% Helpful, 3% Not helpful

Note: "Helpful" includes three response categories: helpful to a large extent, helpful to a certain extent, and helpful to a limited extent.
Source: KPMG and GS1 Survey Analysis, 2018

CEOs: Measures to help build consumer trust for products

Greater Bay Area

Ensuring full traceability/origin of products and raw materials: 94% Helpful, 6% Not helpful

Product authentication: 95% Helpful, 5% Not helpful

Product certifications (e.g. organic, energy saving): 93% Helpful, 7% Not helpful

Note: "Helpful" includes three response categories: helpful to a large extent, helpful to a certain extent, and helpful to a limited extent.
Source: KPMG and GS1 Survey Analysis, 2018

[4] GS1 Hong Kong, REAL Visibility Solution, https://www.gs1hk.org/REALvisibility

[5] KPMG, *Key blockchain trends impacting Hong Kong's logistics industry*, May 2018. https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2018/05/key-blockchain-trends-impacting-hk-logistics-industry.pdf

Five keys to building a trusted and connected customer experience

1 Enabling technology

Successful companies are leveraging the latest technology to deliver quicker, easier and more personalised experiences

2 Integrity is key

Integrity is key to establishing and maintaining customer relationships, and is demonstrated strongly by leading brands

3 Human touch

Despite the offline-to-online trend, customers still desire human interaction, particularly in Hong Kong

4 Glocalisation

Adaptation of products/services to reflect local cultures is a successful tactic, especially in mainland China

5 Seamless interactions

Customers expect a consistent experience from brands, regardless of the channels they use

Source: KPMG, Customer first – Building a trusted and connected consumer experience in China, October 2018.

Delivery and logistics: tackling the complexity of omni-channel

As retailers move towards omni-channel, the roles of physical stores are changing. Particularly as more consumers use their mobile devices for shopping, online purchases are rising as a percentage of brands' overall sales.

As this occurs, established retailers are recognising the utility of physical stores as places to strengthen relationships with consumers and give them the opportunity to touch and feel goods. Concurrently, companies who initially entered the market as online-only are using physical stores to broaden their reach, particularly in markets outside of their home base.

Online to offline (O2O) integration is requiring companies to re-examine how they manage inventory, logistics and fulfilment – creating new challenges for businesses. For consumers in mainland China cities, our survey found that one in five consumers (21 percent) of those polled prefer to buy certain products offline because they are commonly out of stock online.

At the same time, consumers are requiring more personalised delivery and return support when they shop online while still expecting low prices. The high cost of these services is particular problem for Hong Kong CEOs, our survey found. 43 percent of CEOs polled saying high cost to arrange last-mile logistics and support is a major challenge for their business.

Furthermore, our consumer survey notes that delivery fees are a major reason Hong Kong consumers are still choosing to shop in physical stores. With as much as 40% of online orders being returned, ensuring smooth and seamless return logistics will be a big part of retailers' efforts to build a better customer experience, necessitating a need for innovative thinking and solutions in this space.

Reasons for visiting brick-and-mortar stores point to logistics challenges

The principal reason why Greater Bay Area consumers prefer to buy products in physical shops rather than online is wanting to touch and feel products (43 percent for Hong Kong shoppers, 29 percent for mainland ones).

For Hong Kong consumers, the next most important reason is wanting to avoid delivery charges (picked by 32 percent of respondents), followed by close proximity of physical shops (26 percent). Cheaper prices for offline goods is the fourth most important factor (21 percent).

For mainland China shoppers, having shops close by is the second most important reason for not buying online (picked by 24 percent), followed by products being out of stock online and a wish for more personalised service (both picked by 21 percent). For 19 percent of those surveyed, not being able to deliver goods on the same or the following day is another reason for shopping in physical stores.

Concerns over data privacy as a reason for not shopping online was another factor, mentioned by 18 percent of those polled across the GBA.

Consumers: Key drivers to buy offline versus online

Driver	Hong Kong	Mainland China*
Desire to physically compare products	43%	29%
Avoid delivery fee for online orders	32%	18%
Travel distance to brick and mortar stores is too short to consider buying similar products online	26%	24%
The pricing of products from the online stores (vs. offline, competition)	21%	19%
Cash rewards	20%	12%
I have concern over data privacy	18%	18%
More flexible payment options (e.g. cash)	18%	18%
More customized personal service	17%	21%
Not many online stores provide same-day or next-day delivery	16%	19%
I don't trust online shopping	16%	16%
Only a handful of big companies have online stores	14%	14%
Products/services I want to buy are always out of stock online	13%	21%
Cost for last mile delivery and return logistics	9%	14%
I am mostly buying from companies overseas	7%	11%
I am reluctant to use new technology for purchases	6%	11%
Not applicable - I always prefer buying products/services online	4%	10%
Others	1%	N/A

*Mainland China cities surveyed include Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Zhaoqing, Huizhou, Dongguan and Zhongshan.

Source: KPMG and GS1 Survey Analysis, 2018

■ Hong Kong
■ Mainland China*

For CEOs, high logistics cost tops list of e-commerce challenges

Particularly as they face intense price competition among online customers, 43 percent of CEOs surveyed cite high last-mile delivery and return costs as their biggest challenge for e-commerce.

The convenience of Hong Kong's physical stores is also a problem for online sales: 35 percent of CEOs agree that the travel distance to brick-and-mortar stores in Hong Kong is too short for consumers to consider buying similar products online. 34 percent of CEOs also indicated consumer concerns over data privacy as a significant challenge.

However, in contrast to perceptions that Hong Kong's e-commerce usage is lagging as compared to mainland China, less than one-fifth of those polled say Hong Kong consumers are reluctant to use new technology for purchases.

With logistics identified as the major difficulty, this is evidence that technology-driven logistics solutions would make a big difference for businesses as they further integrate O2O.

CEOs: Key challenges for e-commerce

Challenge	2018	2017
High cost to arrange last mile delivery and return logistics	43%	N/A
Travel distance to brick and mortar stores in Hong Kong is too short for consumers to consider buying similar products online	35%	38%
Consumers' concerns over data privacy	34%	N/A
Ensuring the right pricing (online vs. offline, competition)	33%	30%
The market is dominated by a handful of big players	31%	27%
Consumers' lack of trust in online shopping	26%	22%
Difficulty to provide same-day or next-day delivery in Hong Kong	23%	23%
Consumers are mostly buying from companies overseas	21%	19%
Hong Kong consumers are reluctant to use new technology for purchases	19%	17%
Difficulty to manage inventory sold at different channels	18%	20%
Others	8%	6%

■ 2018   ■ 2017

Source: KPMG and GS1 Survey Analysis, 2018

For logistics, omni-channel means enhanced online and offline support

Mary Oxley

Regional Sector Head, Consumer & Retail, Asia Pacific
DHL Global Forwarding

The customer of today wants to engage seamlessly with brands, regardless of whether that is online or through a physical store. To this end, Hong Kong and Mainland China retailers are looking to further integrate their online and offline (O2O) presence to better interact with customers, reduce overhead and leverage manpower and other resources more efficiently.

With increased O2O integration comes a need for retailers to proactively manage their inventories as they fulfil online orders and stock their physical stores. To help companies meet these needs, global logistics leader DHL is expanding its online and offline services, says Mary Oxley, Regional Sector Head of Consumer & Retail for DHL Global Forwarding Asia Pacific. DHL has had a presence in Hong Kong since 1960 and Mainland China since 1980.

Boosting capacity to meet China's growing e-commerce demand

The rapid shift in Chinese consumer spending from offline to online has boosted demand for urgent shipments and more personalised service, Oxley says.

To increase the success rate of first-time deliveries, DHL Express' On Demand Delivery service offers real-time email or SMS notifications. Additionally, DHL Express has introduced mobile service stations in China that feature in-vehicle shipment processing and direct transfer of shipments to the airport, both of which aim to speed up delivery times.

This year, DHL Express announced plans to increase its annual cargo handling capacity at Hong Kong International Airport by 50% to 1.06 million tons by 2022, an investment necessitated by the hub's consistent 12% average year-on-year growth over the past decade.

As online purchases rise, product returns have also skyrocketed, adding a new degree of complexity to retail businesses' total supply chains. Online retail platforms can experience return rates of up to 40% in some cases.

To respond to retailers growing 'reverse logistics' needs, DHL Express is upgrading its service centres in Hong Kong and Mainland China to offer 'click-and-collect' points for online retail customers.

DHL is also testing new services for online customers aimed at reducing delivery costs for retailers. For example, in Europe, DHL Express has introduced fitting rooms for online shoppers at its parcel collection points. Customers can try on apparel and directly return items if necessary, instead of having to make an extra trip to return items later.

Digitalising supply chains to improve O2O experience

With an unprecedented level of consumer choice both online and offline, Chinese customers are demanding better post-sales service and support from retailers. They are expecting logistics companies to provide them with customised options such as customer service support through WeChat and payment-on-delivery via digital wallets.

For retailers to provide a more integrated O2O experience for customers, they will need to leverage digital technologies across their supply chains, Oxley says. Supply chain digitisation, she says, enables both the retailer and end consumer to have easy visibility of the end-to-end supply chain flow, regardless of the sales channel.

Looking forward, Oxley says that strategic alliances with shared economy businesses will also help logistics companies better fulfil retailers' needs. One example includes partnering with online freight platforms – where shippers can compare and select suitable freight carriers that can help them optimize deliveries while reducing cost and risk.

"Digitalisation is making dynamic fulfilment the new reality by connecting buyers, sellers and logistics partners," Oxley says. "Omni-channel visibility across e-commerce, store replenishment and wholesale will drive greater efficiency, and ultimately, higher sales."

Making logistics more sustainable – a win-win for brands

Seb Poole
Co-Founder & Chief Technology Officer, Olasso

Logistics is a significant contributor to the total carbon footprint of the e-commerce industry. As such, retailers and consumers are increasingly looking for alternative logistics models that can reduce the carbon footprint of their purchases.

Hong Kong-based Olasso, launched in March this year, helps online retailers manage the delivery and return of goods, lower their environmental impact and offer a better service to their customers.

Olasso's platform allows retailers to manage global post-purchase experiences through a readily-accessible network of over 40,000 localised pick up and drop off locations and 50+ carriers. The platform's suite of management tools also allows retailers to completely brand the post-purchasing journey.

Reducing carbon footprint through 'alternative logistics'

Seb Poole, Co-Founder and Chief Technology Officer of Olasso, says the company aims to help retailers and consumers make conscious decisions on their delivery and return choices to account for not only price and service levels, but also the impact global logistics has on the environment.

One way it can do this is by working with like-minded new economy businesses like ride-sharing and space-sharing services. Poole foresees that ride-sharing companies will add e-commerce deliveries to their services, while space-sharing companies will emerge as a source of "micro-warehouses" where goods can be held for collection.

"We are actively integrating with innovative sharing-economy type businesses, as we're excited at the opportunity, they can play in delivering personalised and sustainable last-mile delivery and first-mile return experience for customers," he says.

Making logistics an 'experience' rather than just a process

While working to make logistics more sustainable, Olasso is also paying attention to what Millennials and Generation Z shoppers are looking for in terms of how they identify with brands.

Younger-generation shoppers want to connect with a brand – by gaining a better understanding of a brand's origins, story, and manufacturing processes before they buy, Poole says. Having a personalised delivery and return experience can go a long way in helping brands better connect with target customers, he says.

Through utilising consumer data acquired through its platform, Olasso can automatically tailor logistics options to a customer's known habits and offer related services. It can also modify its communication style based on customer preferences.

"We are seeing a general trend towards a demand for social experiences as opposed to purely products," Poole says. "Through integrating with communication services and apps such as WeChat, WhatsApp and Facebook Messenger, we give global retailers tools that allow them to customise and localise delivery and post-delivery services, allowing them to better engage with their customers."

Harnessing disruptive technologies – and learning from disruptive business models

Hong Kong's small size, population density and convenient access to physical stores has resulted in e-commerce in the city developing at a slower rate than the rest of China.

However, Poole says that disruptive technologies will increasingly blur the lines between online and offline shopping, boosting commerce as a whole and giving shoppers a more efficient, convenient and personalised experience.

For example, Olasso is examining how voice recognition can enable retailers to offer intelligent and exceptional post-purchase experiences which will prompt customers to remain in the brand's ecosystem, he says.

"The possibility to use voice technology to provide customers with an ability to query the status of their orders, discuss purchase delivery times, and even for the system to offer suggestions on product purchases are exciting areas we are actively exploring," he says.

Olasso is also studying the business models of food delivery pioneers like Deliveroo, Foodpanda, and Uber Eats, and seeing how their innovative logistics models can be applied to e-commerce retail transactions.

"These companies have managed to digitise a disconnected industry and improve convenient access for Hong Kong consumers to their local restaurants and eateries," Poole says. "In turn, this has redefined consumer expectations for e-commerce."

Logistics solutions to match China's e-commerce boom

Sean Kakikawa
Managing Director, Yamato Logistics (HK)

The phenomenal growth of e-commerce platforms like Alibaba and JD.com has contributed to a rise in Chinese consumers' demand for Japanese goods – particularly fashion apparel, cosmetics, and kitchenware. As a result, logistics companies are adapting their business models to facilitate easier shipping of consumer goods from Japan to key markets in Mainland China and Asia.

Yamato Transport, Japan's largest door-to-door delivery company, first established its presence in Hong Kong in 1982 when it set up a freight forwarding, logistics and warehousing business to move goods in and out of Mainland China. Since then, the core focus of Yamato Transport's China business, Yamato Logistics (HK), has evolved to specialise in delivering Japanese goods to Chinese markets.

Utilising Hong Kong's advantages as a logistics hub

Hong Kong remains an excellent intermediary to import goods ordered via e-commerce platforms into Mainland China, says Sean Kakikawa, Managing Director of Yamato Logistics (HK).

One main reason for this is accessibility. Nearly any consumer good with the exception of medical products can be shipped into China from Hong Kong, Kakikawa says. Another good reason is that shipments sent directly to Mainland China from overseas markets can typically not be returned once they cross the border. In contrast, if a company stores its goods in Hong Kong it can easily ship surplus goods to Southeast Asia or other destinations if it finds demand to be less than anticipated.

To better fulfil e-commerce orders in China, Yamato offers Hong Kong-based storage services as well as a range of distribution and transfer services including repacking and addressing before dispatch.

"Storing goods in Hong Kong means that orders can be fulfilled far more quickly than if they have to come from Japan – a major consideration now that Chinese consumers expect rapid delivery of everything they buy on the internet," Kakikawa says.

A viable alternative: importing goods through Shenzhen

Another option Yamato utilizes for shipping Japanese goods to Mainland Chinese consumers is to import goods through Shenzhen. From an e-commerce

perspective, moving goods through Shenzhen is often easier than taking goods through other major Chinese ports such as Shanghai or Tianjin, Kakikawa says.

One reason for this is Shenzhen's status as a 'cross-border e-commerce experimental zone' allowing for faster and standardized processing of orders, logistics, customs clearance and tariff settlement, Kakikawa says. Shenzhen currently operates the world's third busiest container port and is the second busiest in China behind Shanghai.

"Shenzhen is often used as a test-bed for e-commerce," Kakikawa says. "Once something is found to work smoothly there, it is then allowed to spread to other places, usually Guangzhou next, then Shanghai, and finally to cities in North China such as Beijing and Tianjin."

Within Mainland China, Yamato operates more than a dozen offices. It principally uses China Post-owned China EMS, the country's largest integrated express and logistics service provider, to deliver goods to end users.

Niche markets in Hong Kong

Yamato Logistics (HK) is also catering to highly specialised logistics needs for Hong Kong customers, capitalising on the city's perennially strong demand for Japanese products.

For example, thanks to its expertise in handling chilled and frozen goods, it has developed a niche business shipping organic fruits and vegetables from Japan to restaurants and consumers in Hong Kong.

In addition to produce, Yamato Logistics has also continued to develop its business of shipping premium Japanese cosmetics to Hong Kong's boutiques and duty-free shops, which attract high-end tourists.

"Given the city's continuing tax-free treatment of cosmetics and perfume, Hong Kong will remain a global centre for shipments of make-up, beauty products and fragrances," Kakikawa says. "The cosmetics sector is definitely one that logistics companies with specific know-how and expertise should explore."

Embracing today's smart consumers

The surge in e-commerce development in China presents a number of opportunities for companies to expand operations and grow in the Greater Bay Area (GBA), tapping into the region's technological savviness and fast-growing consumer market.

For retailers, this means tackling the omni-channel challenge to offer goods and services seamlessly across brick-and-mortar stores, on computer and mobile apps, via online platforms and through social media.

For online sellers, it may include deciding how to add a physical presence that can allow broader brand exposure and let potential buyers touch and feel their goods. And for brick-and-mortar chains, it can be looking for ways to use technology to enhance customer experience.

For logistics and delivery businesses, it means leveraging new GBA infrastructure developments to more efficiently move goods in and out of mainland China. Key points will be how to arrange last-mile deliveries with a focus on customer service and provide innovative 'return logistics' solutions to handle the 40 percent of goods that online customers return unused.

Negotiating the complexity of these challenges will not be easy. Based on our customer and CEO survey findings and interviews with GBA executives, three areas stand out as ways businesses can take action to stay ahead of disruptions and achieve lasting growth:

- **Make customer-centricity your number one goal**. Thanks to their digital devices and the internet, today's consumers, particularly millennials, are hyper-empowered. They have more information at their fingertips than ever before, gathered via online reviews, from key opinion leaders and through communication with their peers via social media. They can shop anywhere on their phones, tablets or laptops. They want brands that are sustainable and also align with their personal values.

For companies, the challenge is to develop seamless systems that will enable them to offer customised incentives and services to shoppers, take payment in forms that suit the customer, and deliver purchases

(and process returns) with an adequate level of personalised service. Meanwhile, as GBA companies increasingly make business decisions based on user-generated data, they need to ensure that they are respecting customers' needs for data privacy and security.

- **Integrating online and offline (O2O)**. The need for businesses to integrate online and offline (O2O) is more urgent than ever before. This is not just about adding websites or offering an e-commerce combination – it's about combining the two. Smart retailers need to figure out the O2O combination that best suits customers' needs. This includes physical stories where shoppers can browse, discover new products and brands, and touch and feel goods. It also may include utilising new digital technologies such as augmented or virtual reality, so that customers can see how goods suit them or their homes.

Retailers operating in both Hong Kong and mainland China need to adapt their O2O approaches to suit differences in the respective markets. Meanwhile, increased connectivity within the GBA – allowing freer movement of goods, capital and labour – presents opportunities for companies to assess their existing sourcing, manufacturing, warehousing and distribution structures to optimise their supply chains in the region.

- **Keeping up with technology**. Omni-channel retailing places huge demands on IT developers, requiring the end-to-end integration of a business's operations from inventory through sales channels to distribution and logistics.

Technology may be a must for every aspect of all businesses, but the barriers to deploying and using it are falling. From point-of-sales systems to AI-driven facial recognition programs, applications that two years ago could only be afforded by big companies can now be bought and installed by small and medium-sized firms.

The GBA's focus on tech and innovation, supported by a growing number of accelerators and incubators, is helping to foster a vibrant small and medium-sized

enterprise ecosystem that promotes entrepreneurship. Co-workspace-based and shared-economy software services firms, who are part of this ecosystem, are offering new ways of collaboration at rates affordable by even single-store firms. Retailers in the GBA should leverage these lower-cost solutions to stay competitive. In addition, they should take advantage of new initiatives aiming to further integrate payments across the GBA, including Hong Kong's newly-launched Faster Payment System (FPS).
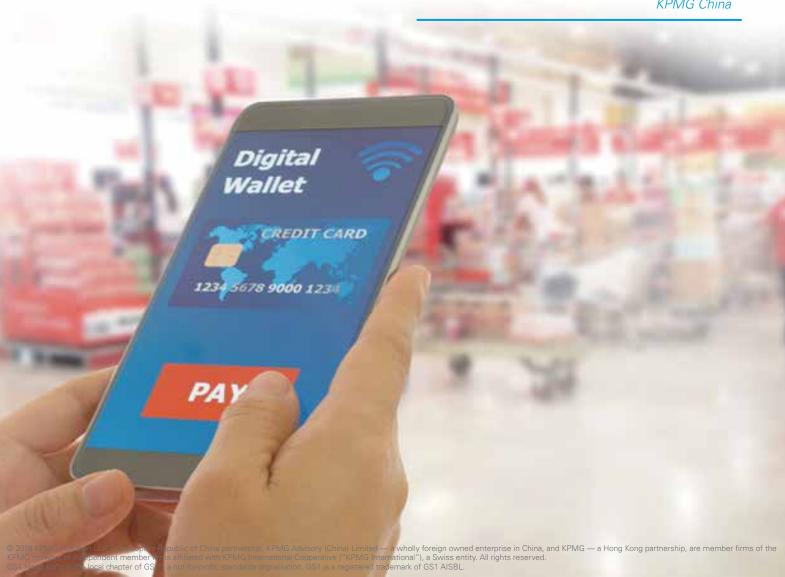
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>
> *As we continue to see customer needs changing and digital platforms emerging, CEOs need to better understand consumers across the GBA – since they are more tech savvy than ever before and are looking for a better and more streamlined customer experience.* "
>
> **Anson Bailey**
> *KPMG China*

About KPMG

KPMG

KPMG member firms and its affiliates operating in Mainland China, Hong Kong and Macau are collectively referred to as "KPMG China".

KPMG China is based in 21 offices across 19 cities with around 12,000 partners and staff in Beijing, Changsha, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Wuhan, Xiamen, Xi'an, Hong Kong SAR and Macau SAR. Working collaboratively across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 154 countries and territories and have 200,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

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

About GS1 Hong Kong

Hong Kong

Founded by the Hong Kong General Chamber of Commerce in 1989, GS1 Hong Kong is the local chapter of GS1®, a not-for-profit, standards organisation that develops and drives adoption of easy-to-implement global standards for business to uniquely identify, accurately capture and automatically share vital information about products, locations and assets. Headquartered in Brussels, Belgium, GS1 has over 110 national chapters in 150 countries.

GS1 Hong Kong's mission is to empower business to grow and to improve efficiency, safety, authenticity and sustainability across multiple sectors and facilitates commerce connectivity through the provision of a full spectrum of platforms, solutions and services based on our global standards. We provide a trusted foundation for accurate, sharable, searchable and linkable data. We also engage with communities of trading partners, industry organisations, government, and technology providers to understand and respond to their business needs through the adoption and implementation of global standards.

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

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

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About YouGov

YouGov
What the world thinks

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

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

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

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