Retail's realignment

Lessons from the Chinese retail market

Presenter

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About the report

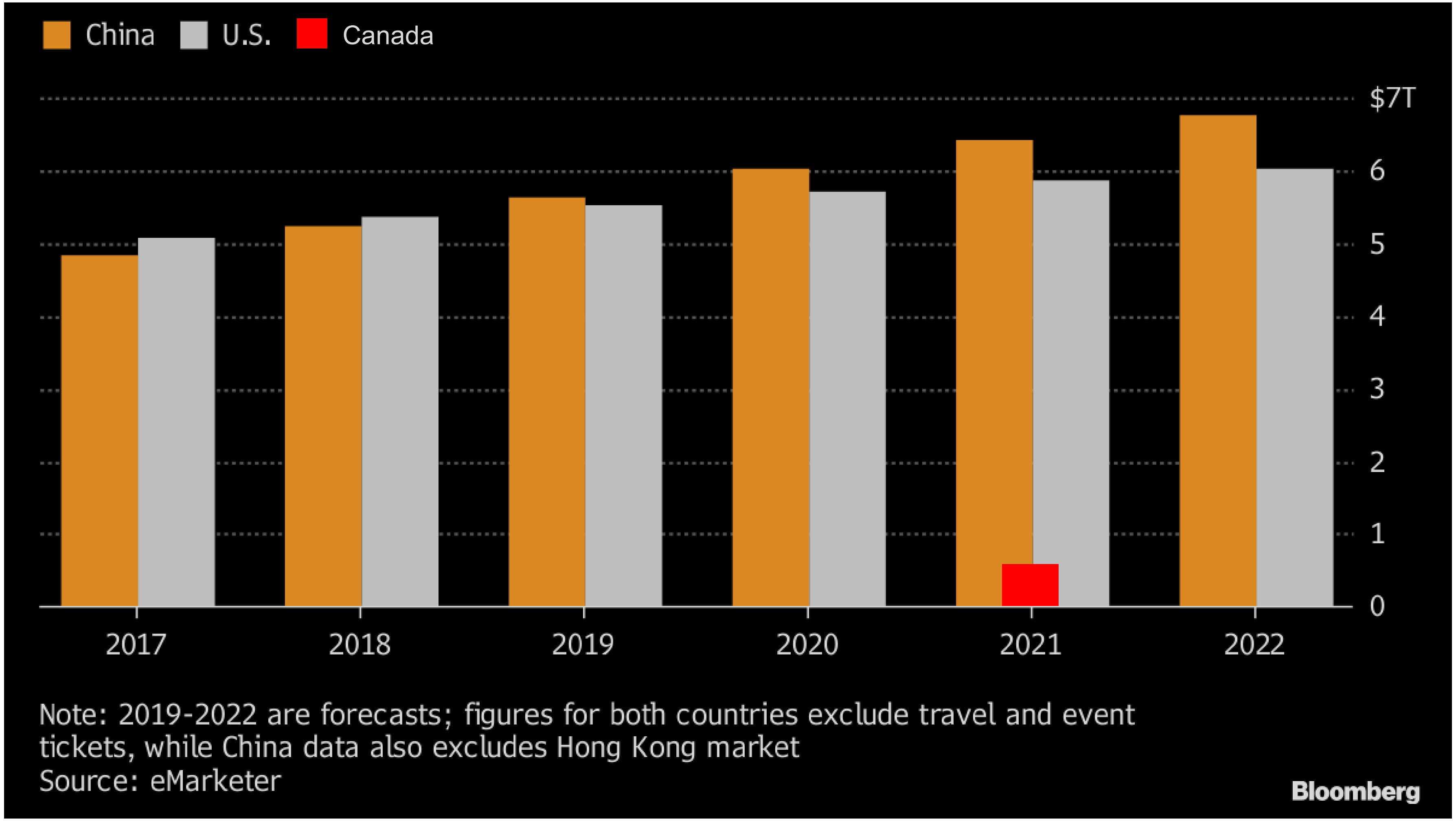
KPMG China, GS1 Hong Kong and HSBC commissioned YouGov to conduct two surveys in Hong Kong & nine mainland GBA cities

Data based on consumers in Hong Kong and Nine Greater Bay Area cities in mainland China

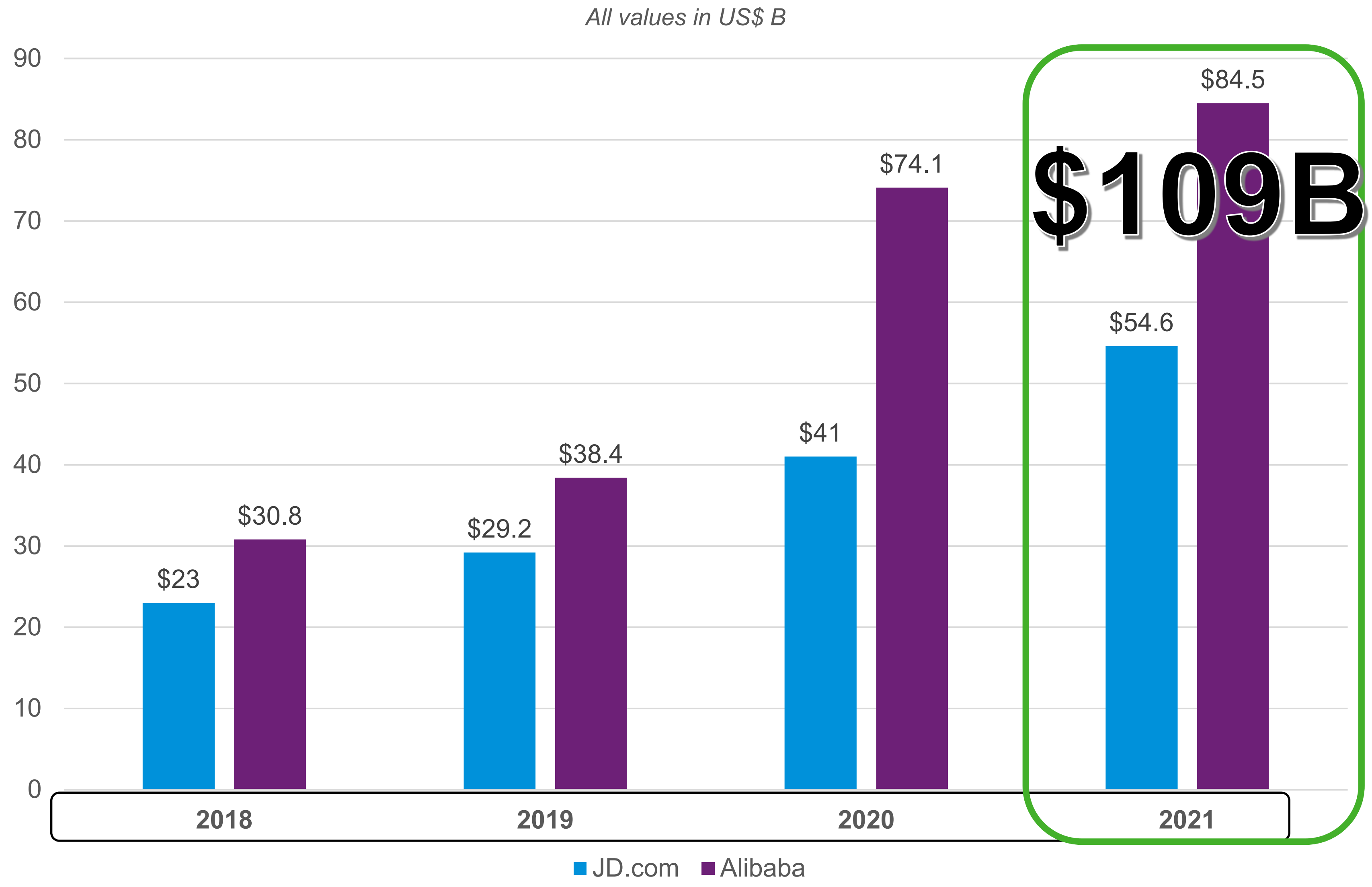
(Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai)

400 top retail C-level executives in the same regions

The Chinese retail market



Alibaba +JD.com GMV for the 11.11 Global Shopping Festival



2021 US Online Sales

Black Friday $8.9B
Cyber Monday $10.7B

What can we learn?

Retail's realignment: Online shopping continues to grow

Figure 1.1 Consumer sentiment during the ongoing COVID-19 pandemic

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

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

Source: KPMG, GS1 HK and HSBC Survey Analysis

Retail's realignment: Be prepared for product research

Figure 4.2 How consumers find product information before purchasing

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

Source: KPMG, GS1 HK and HSBC Survey Analysis

Retail's realignment: Information

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

Percentage of retailers changing how they use online and offline channels

- Increasing use of direct e-commerce — 55%
- Increasing use of third party e-commerce platforms — 55%
- Decreasing use of physical retail stores — 24%

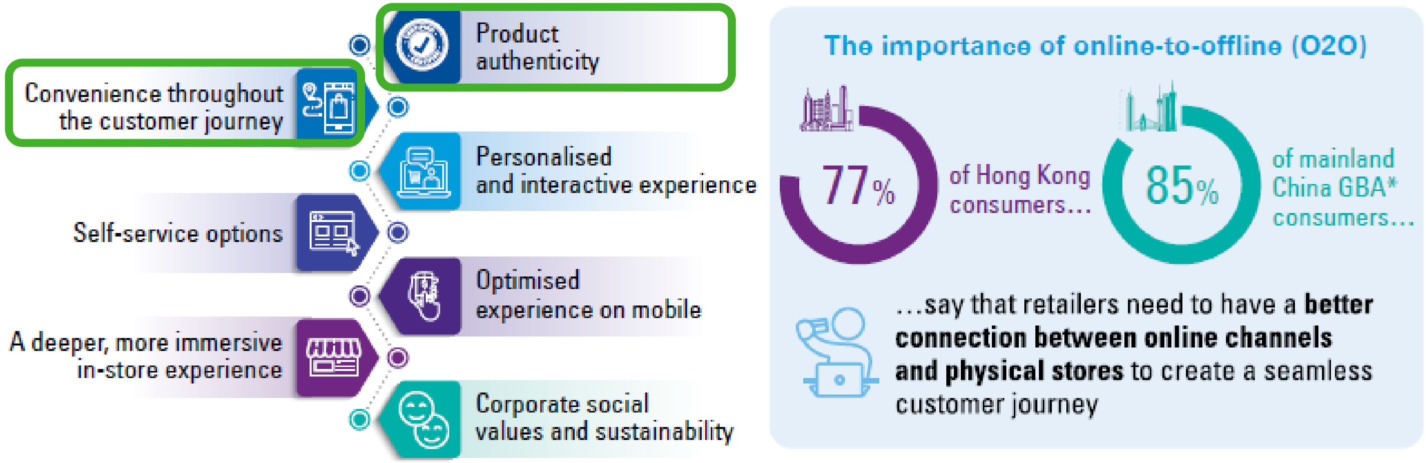
Top five ways retailers are adapting their supply chains during the COVID-19 pandemic:

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

Source: KPMG, GS1 HK and HSBC Survey Analysis

Retail's realignment

Figure 2.1 Leading qualities that attract consumers to brands



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

Prioritising authenticity and product origin

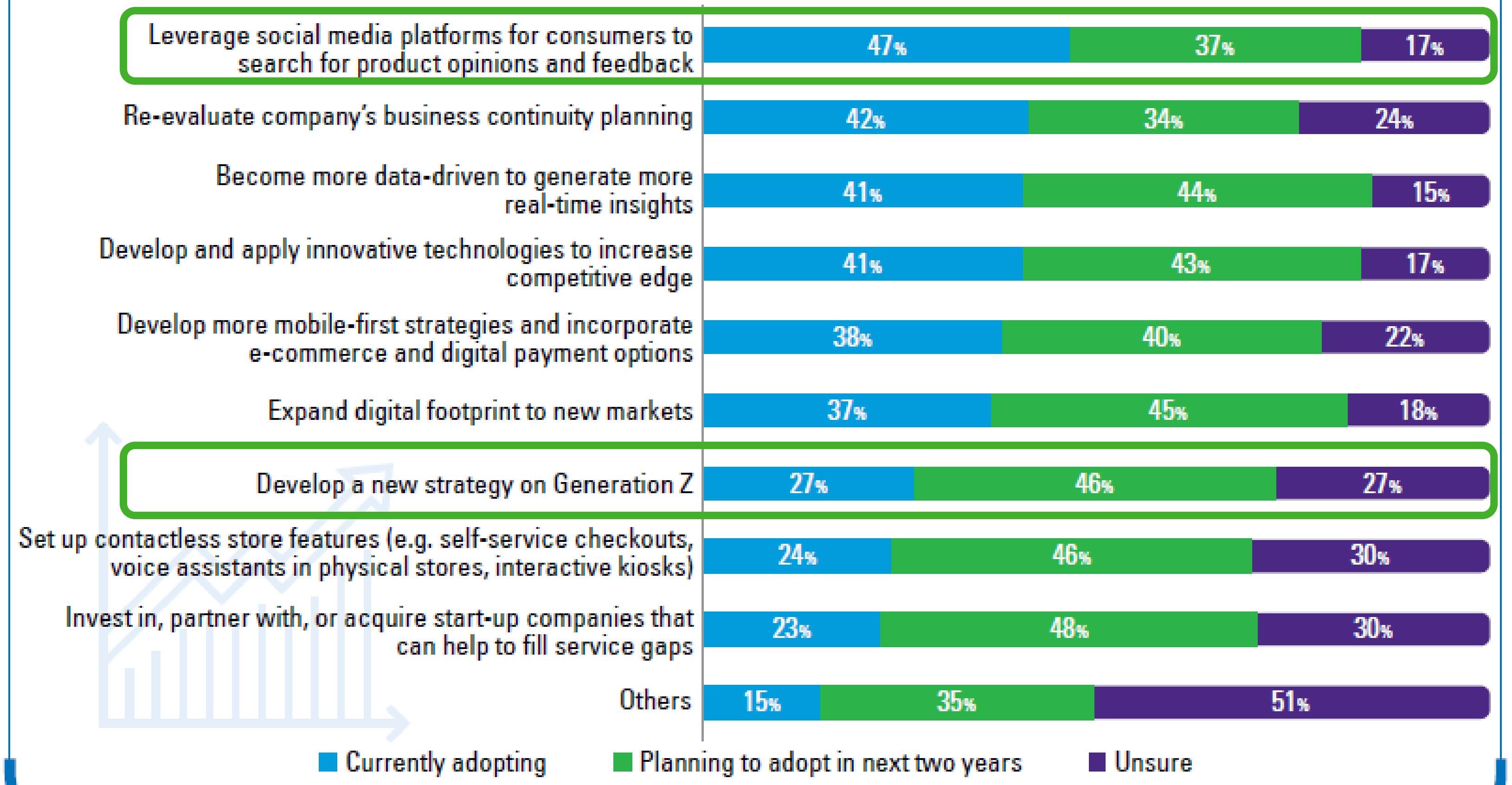
Authenticity was the **number one** attribute attracting consumers to brands in the current environment, among consumers we surveyed.

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

***Source**: 7Fresh Markets*

Retail's realignment

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



Source: KPMG, GS1 HK and HSBC Survey Analysis

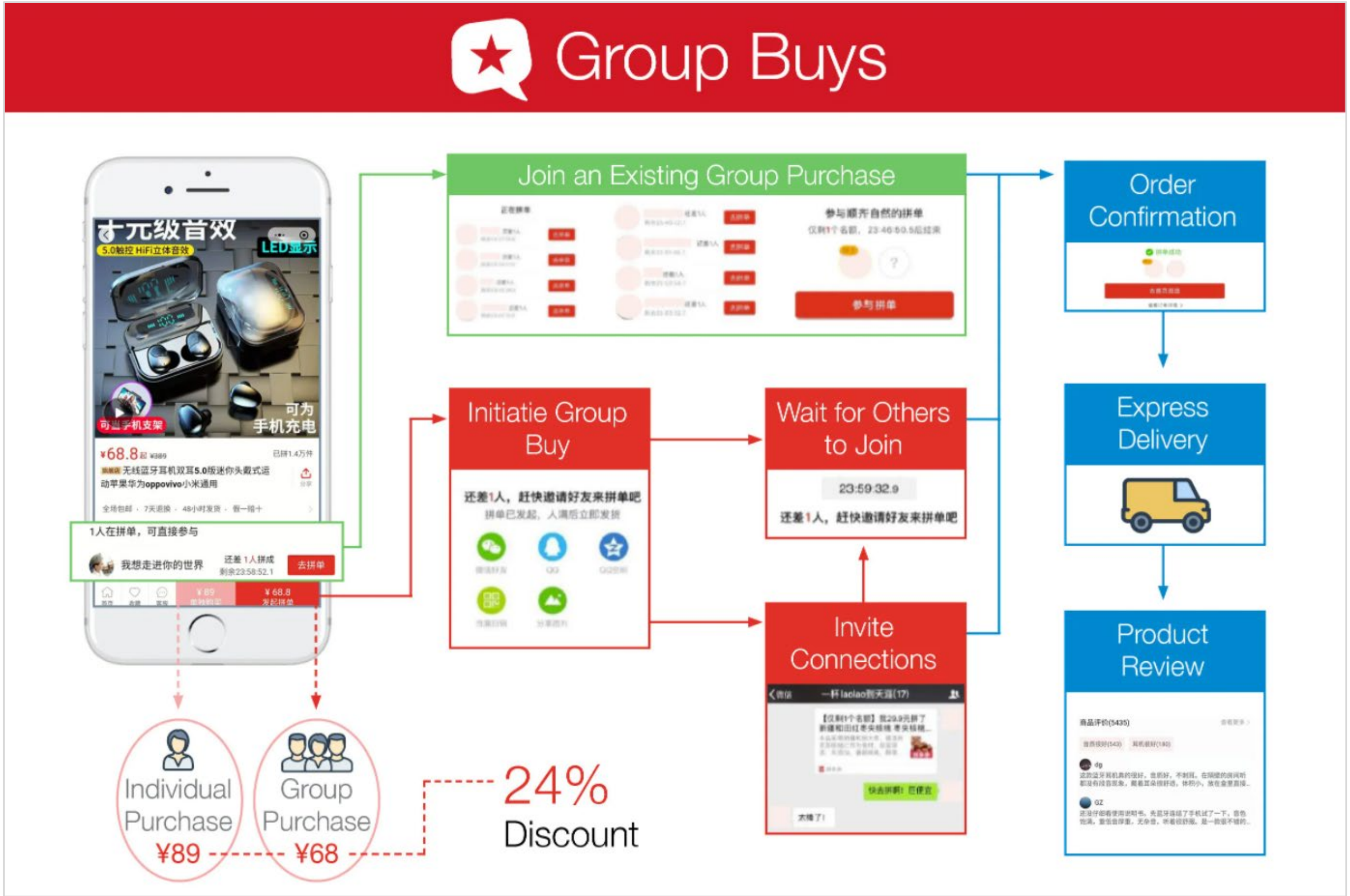
Live streaming social commerce sales

According to *e-marketer* inaugural forecast, livestreaming social commerce sales in China will reach $131.52 billion in 2021 and account for **37.4% of total social commerce sales** in the country.

By 2023, **60.9%** of social commerce dollars in China will come from livestreaming shopping, amounting to $281.21 billion!

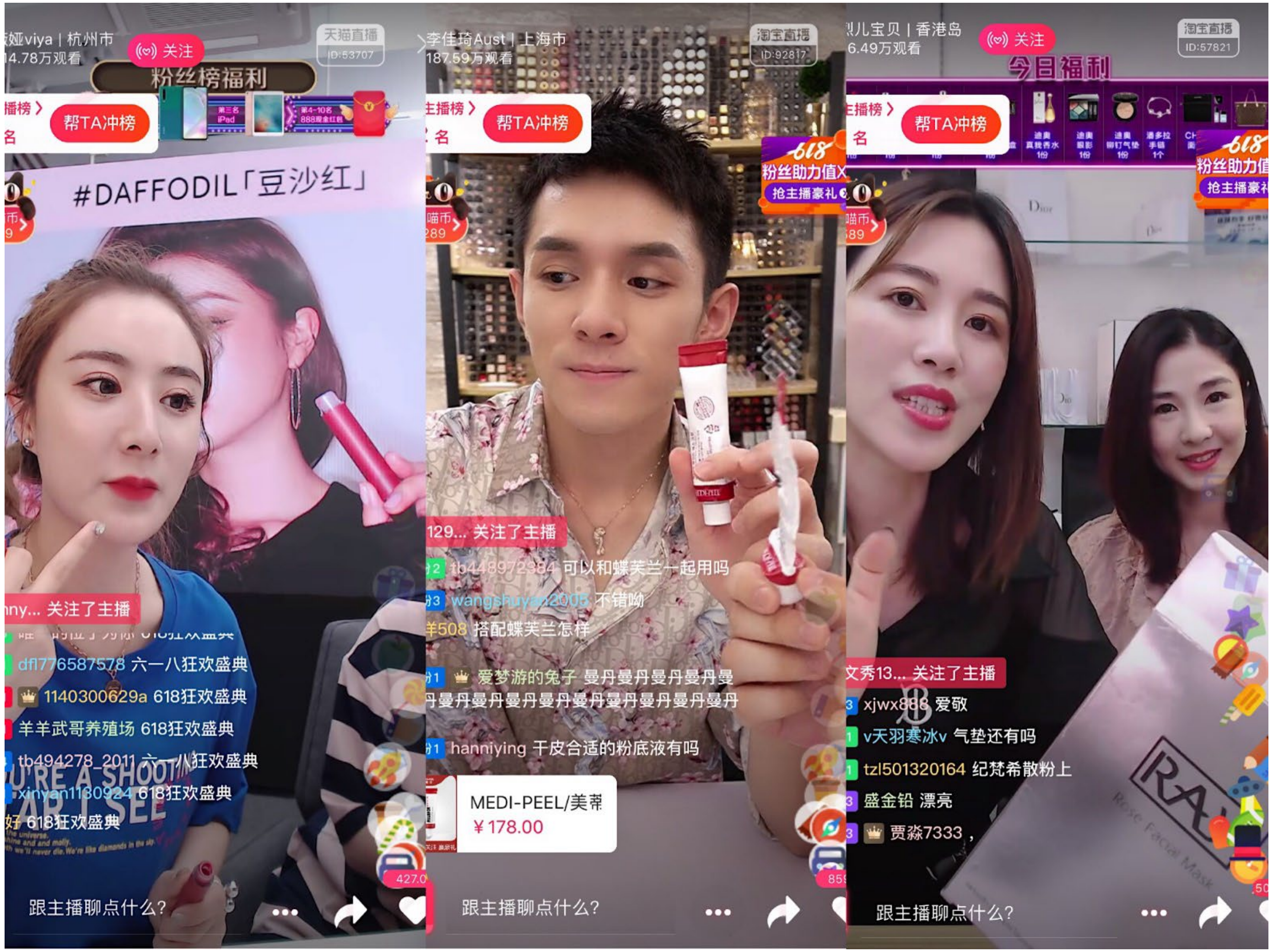
Source: eMarketer, How important will livestreaming be for social commerce?

Retail's realignment: Social commerce



Source: *Pinduoduo Inc*

Retail's realignment: Live commerce



KPMG

Generation Z at the forefront of consumer expectation change

Key characteristics of Generation Z consumers	Hong Kong	Mainland China GBA cities**
Expect better connection between **online and offline** channels	76%	86%
Want to get a swift response to product inquiries on **online chat** and use **tech and AI** to help shortlist new products based on purchase history and style	73%	86%
Will boycott brands without **good ethical standards**	71%	86%
Expect **augmented reality (AR)** to help them make better purchases online	61%	82%
Mobile-savvy	69%	88%

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

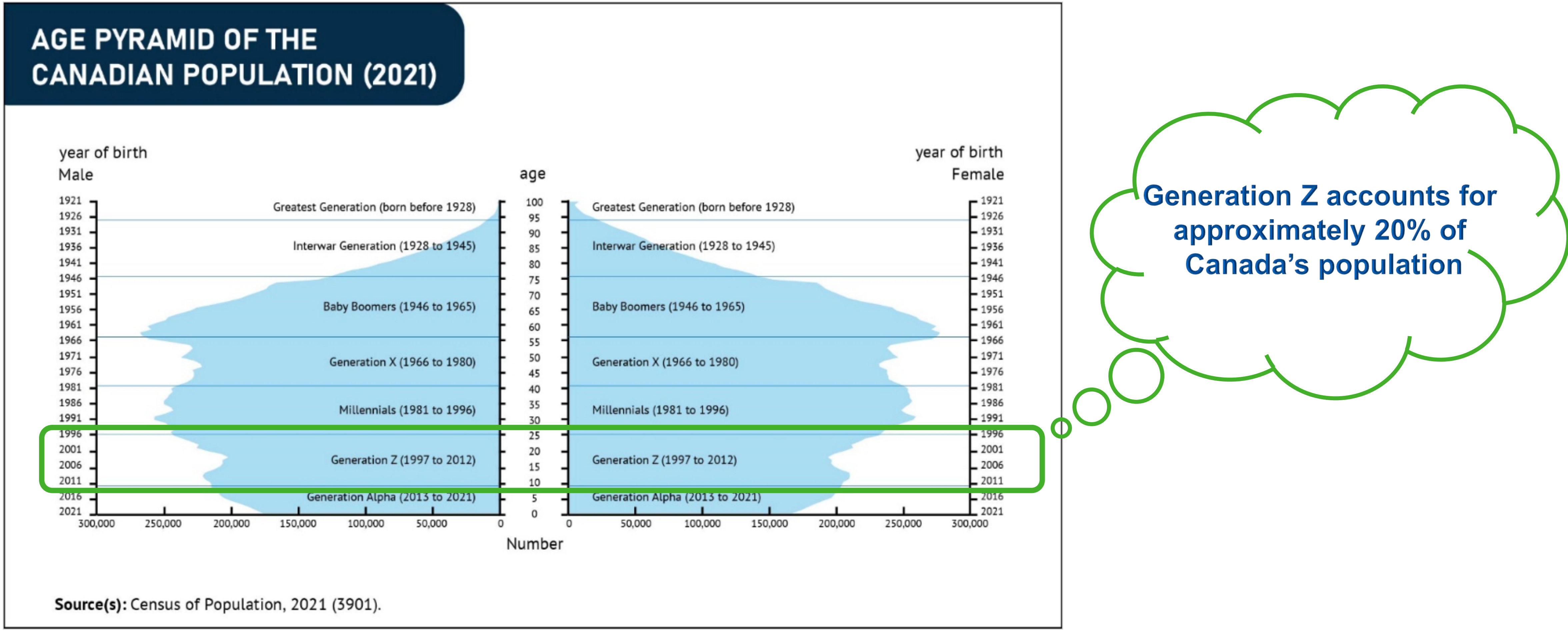
Business strategies

Top strategies that retailers are adopting to target Generation Z consumers

- Optimise mobile experience
- Provide personalised and interactive experiences
- Leverage micro influencers and user-generated content
- Promote corporate social values and sustainability
- Use video communication
- Prioritise authenticity

76% of retailers adopting **at least one type of Gen Z-specific strategy**, but less alignment on which strategies are the most critical

Retail's realignment: Generation Z



The number of people in Generation Z, aged 9 to 24, rose 6.4% from 2016 to 6.7 million in 2021. This is the second-fastest population growth of all generations.

Retail's realignment: Social influencers

AKA: Key Opinion Leaders

$2 billion sold on 2021 Singles Day

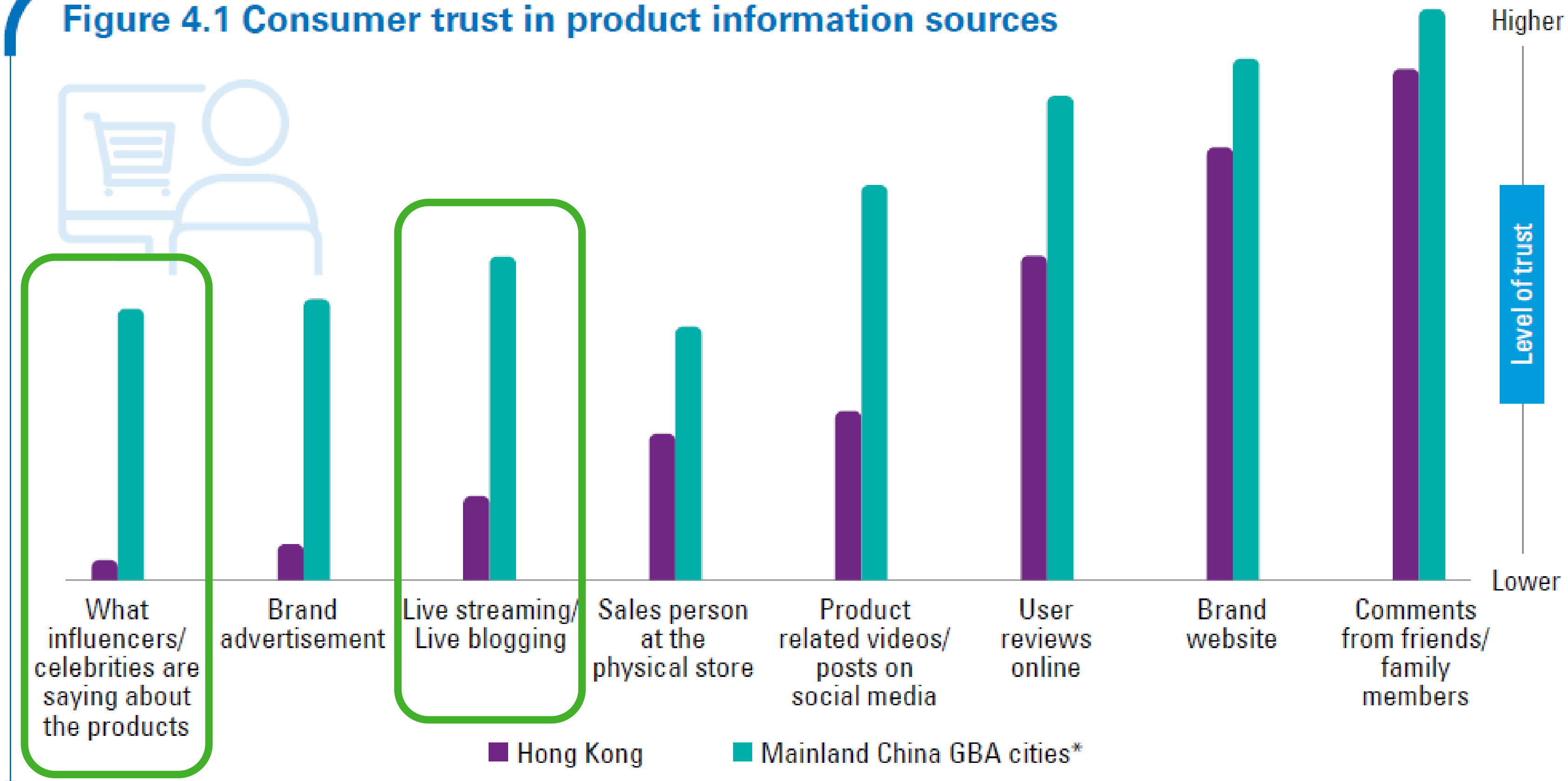
Sold 15,000 Lipsticks in 5 minutes

Projected worth $15 billion by 2023 [Time]

Austin Li

Retail's realignment: Sources of trust

Figure 4.1 Consumer trust in product information sources



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

Source: KPMG, GS1 HK and HSBC Survey Analysis

Retail's realignment

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

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

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

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

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

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

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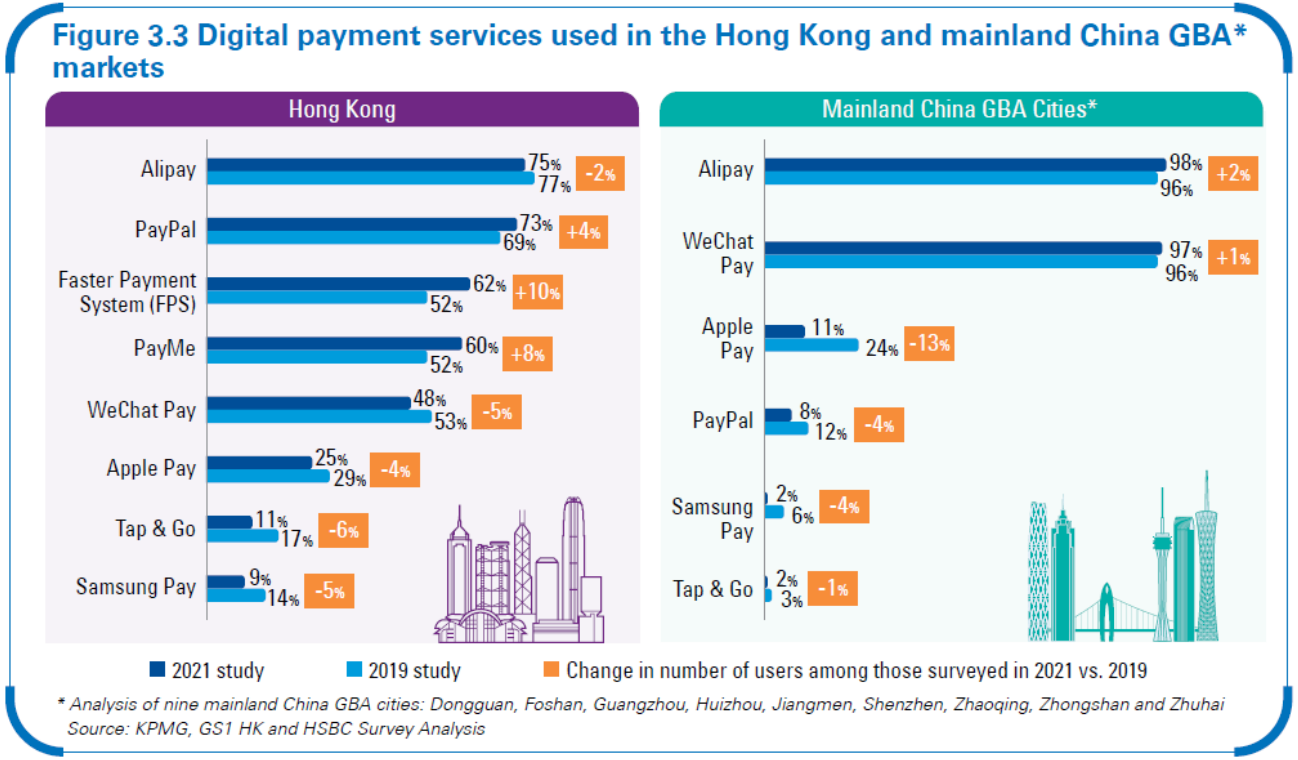
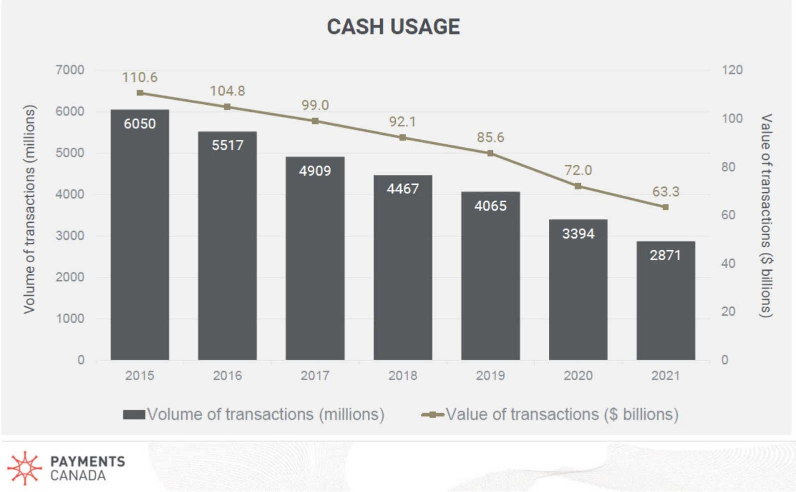
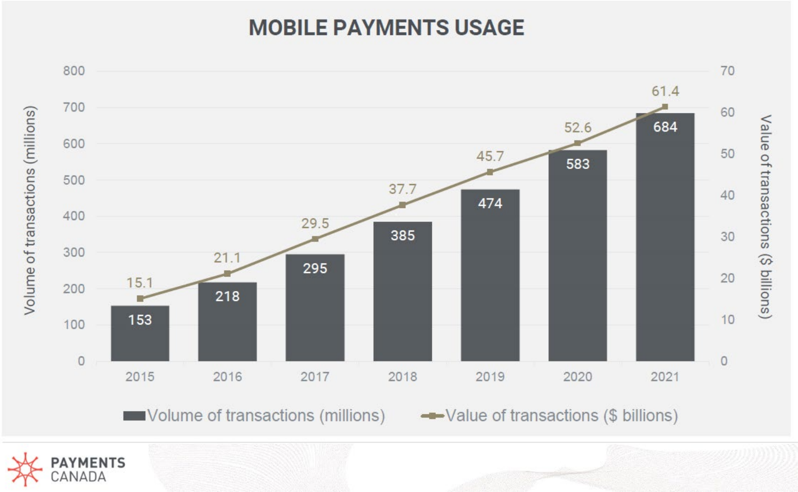
Retail's realignment: Mobile payments

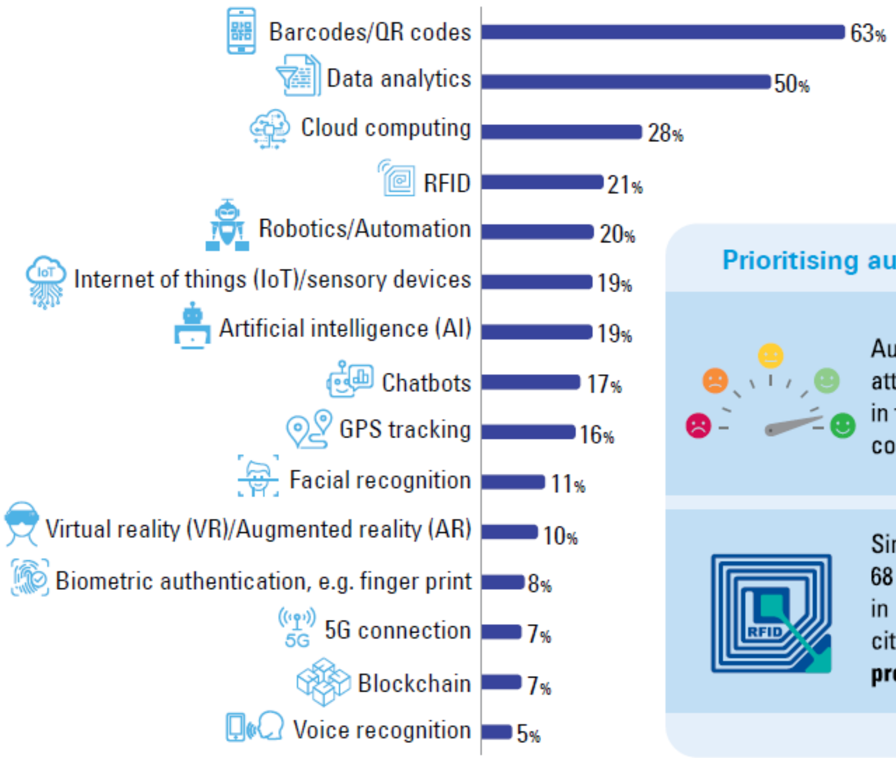






Retail's realignment: Technological influence

Figure 4.3 Digital technologies retailers are currently using in their operations

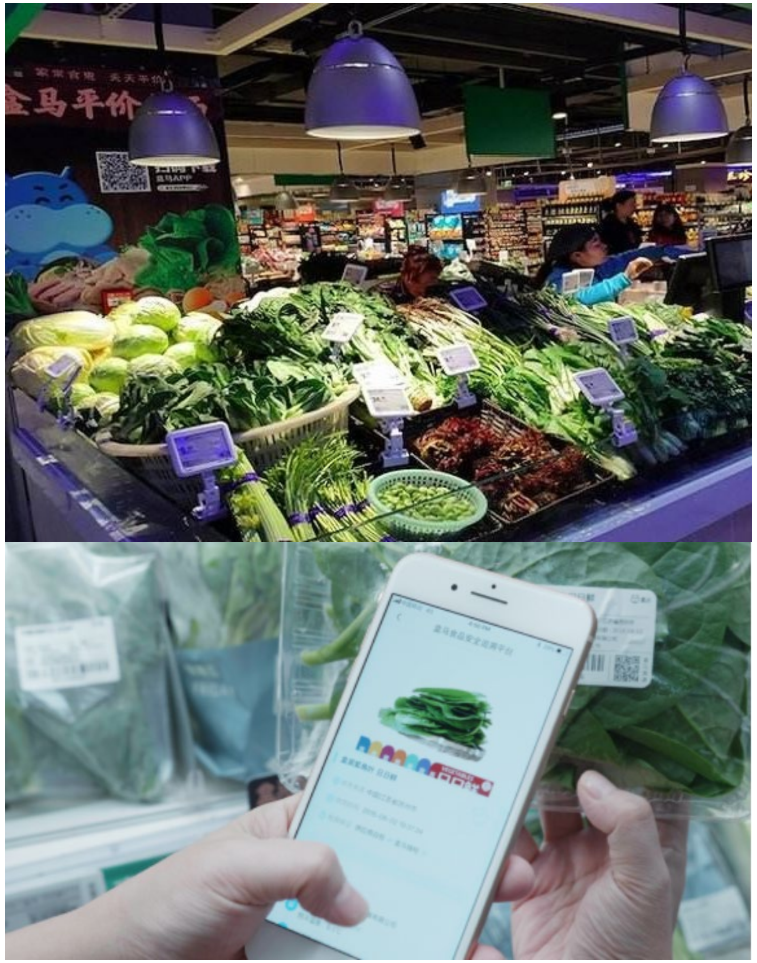


Prioritising authenticity and product origin

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

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

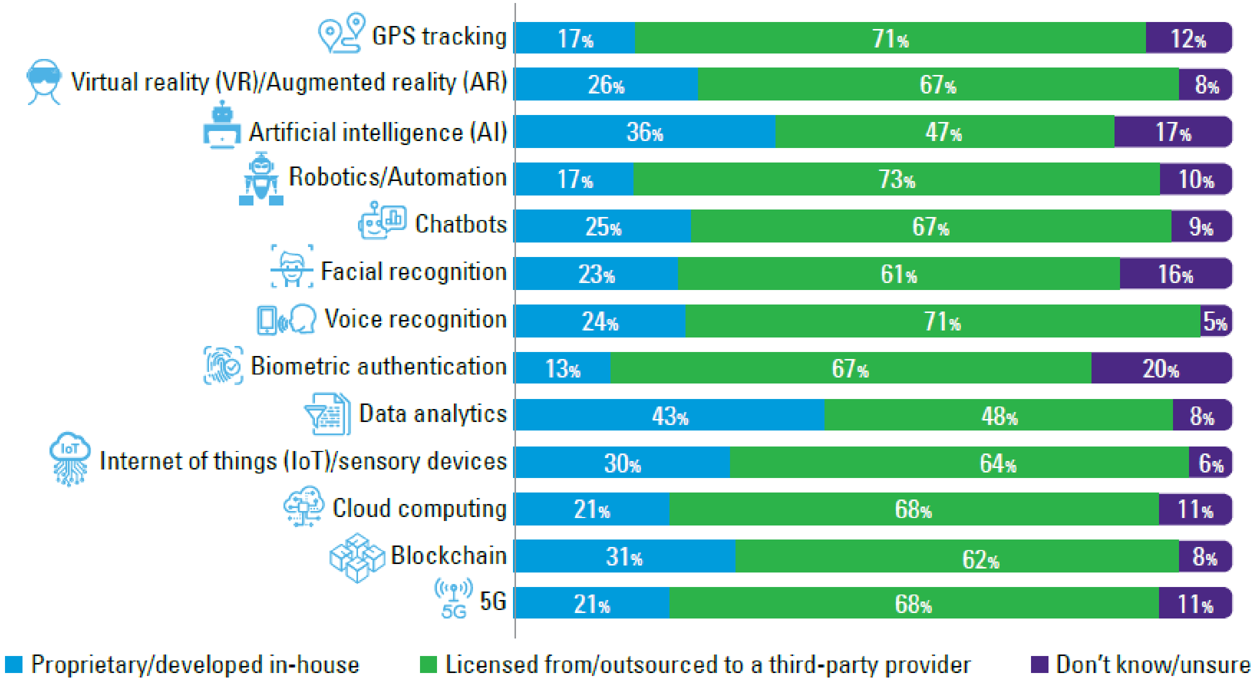
Source: KPMG, GS1 HK and HSBC Survey Analysis



Source: Hema supermarket - Alibaba

Retail's realignment

Figure 6.2 Development of technology solutions for retail operations

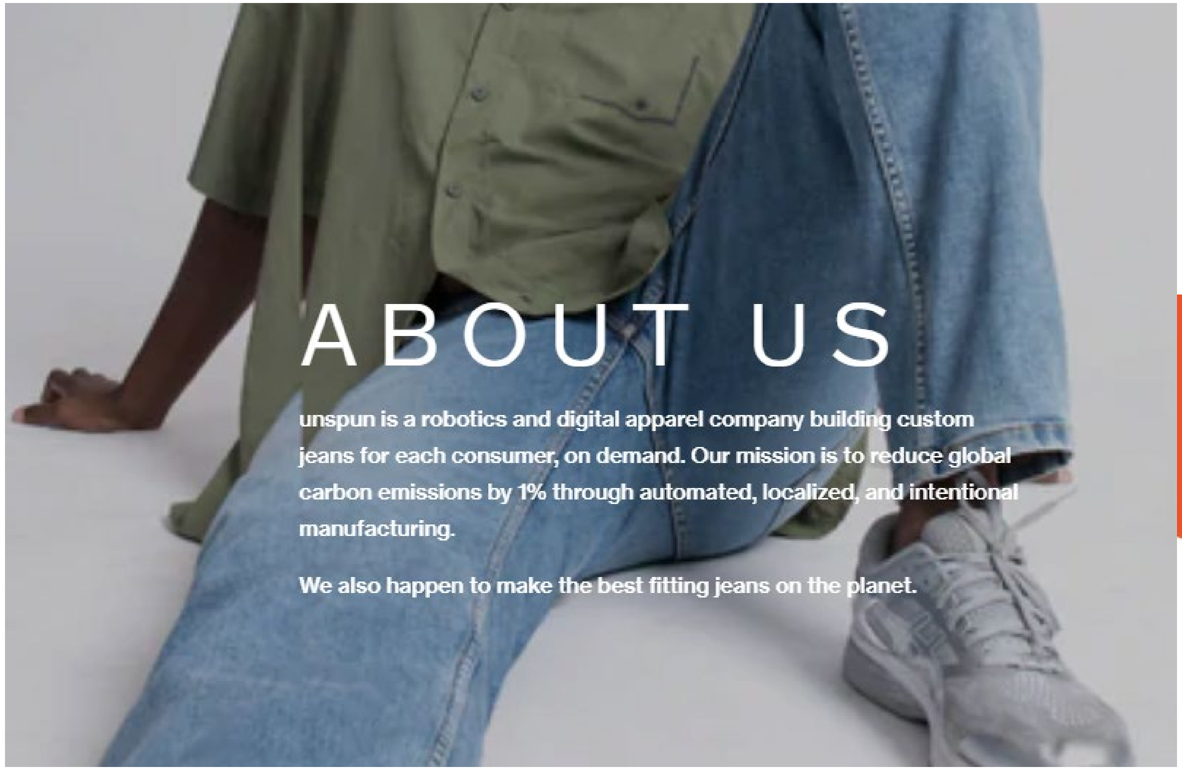


Top considerations for retailers when partnering with third-party providers

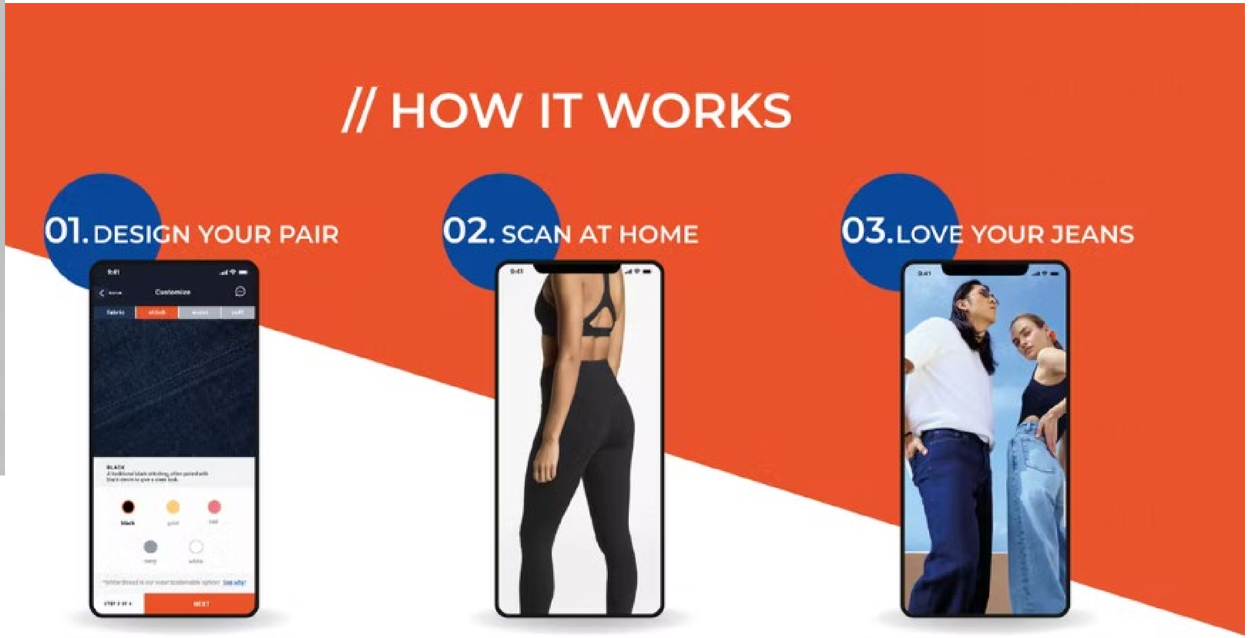
1. Cost
2. Ability to integrate with in-house systems
3. Industry expertise

Source: KPMG, GS1 HK and HSBC Survey Analysis

The rise of startups



Source: unspun



The rise of startups: Robots

Source*:* Rice Robotics; KEENON Robotics

NFT trends globally

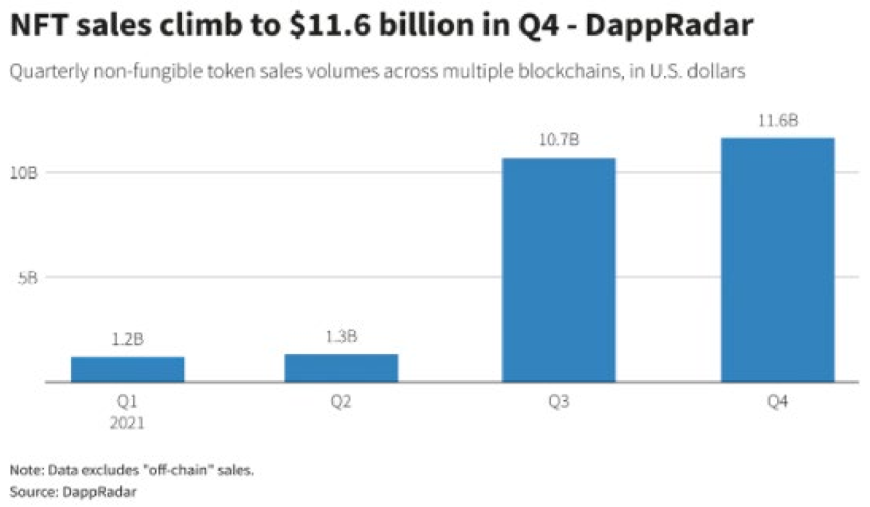
NFT sales volume totaled $24.9 billion in 2021, compared to just $94.9 million the year before as per DappRadar

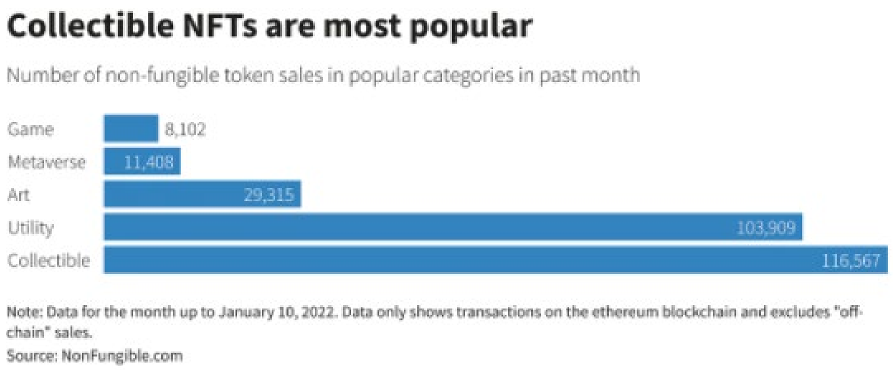
NRFs

CryptoPunks

BAYC

***Source**:* Nike Acquires Fashion and Sneaker NFT Site RTFKT



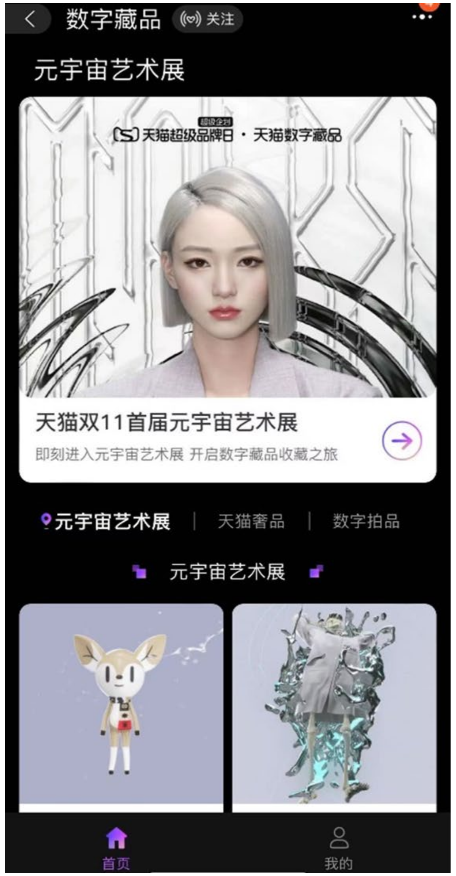


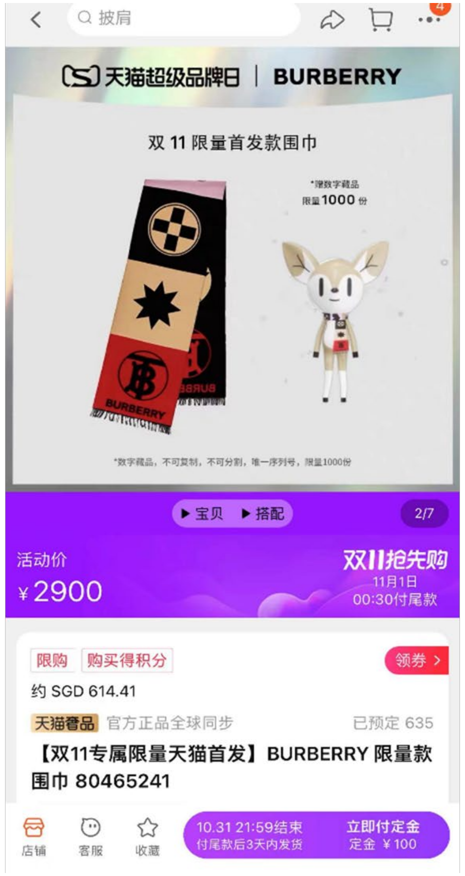
Collectible NFTs are most popular

NFT sales hit $25 billion in 2021, but growth shows signs of slowing, January 11, 2022

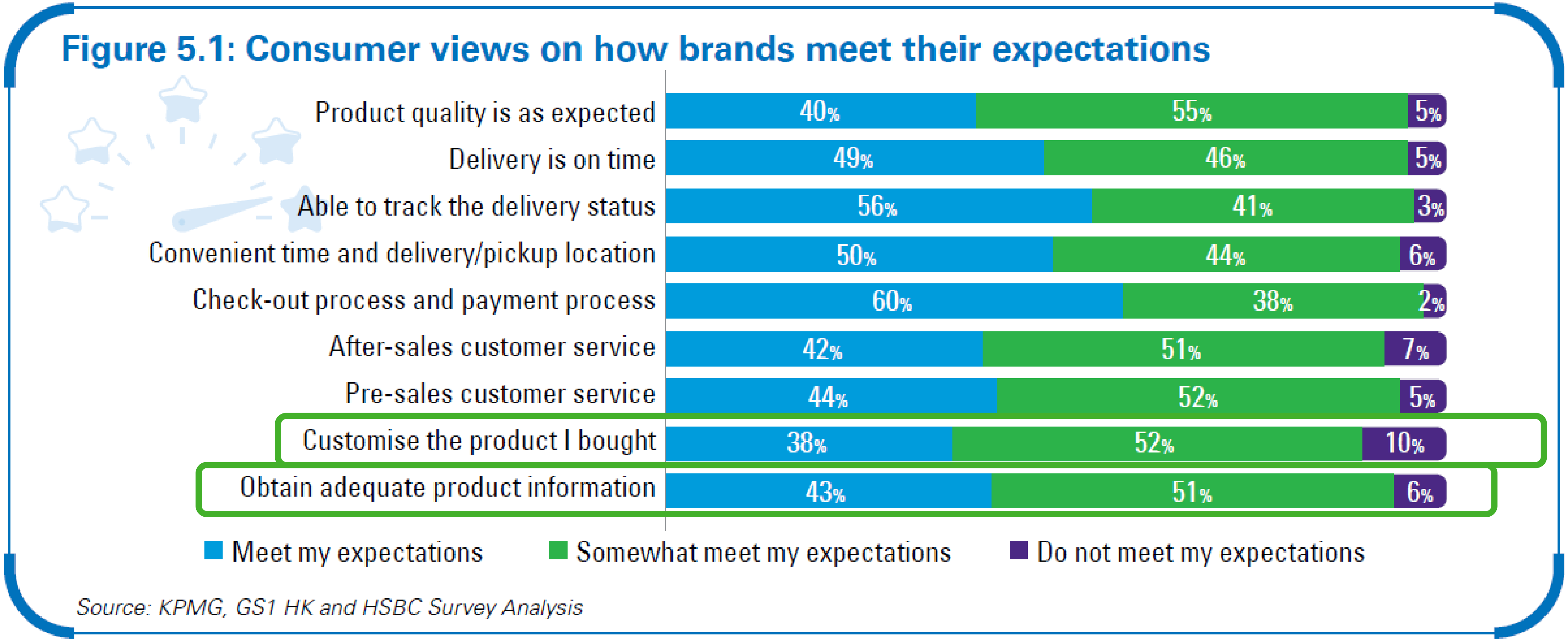
NFTs: Digital collectibles are status symbols for the new generation of consumers

Among Chinese consumers, the ownership of an NFT is not to make money, but a status symbol for the new generation of Chinese who are well-versed in technology with an appreciation for the arts – valuing experiences and intangibles over the materialistic goods they are known for.





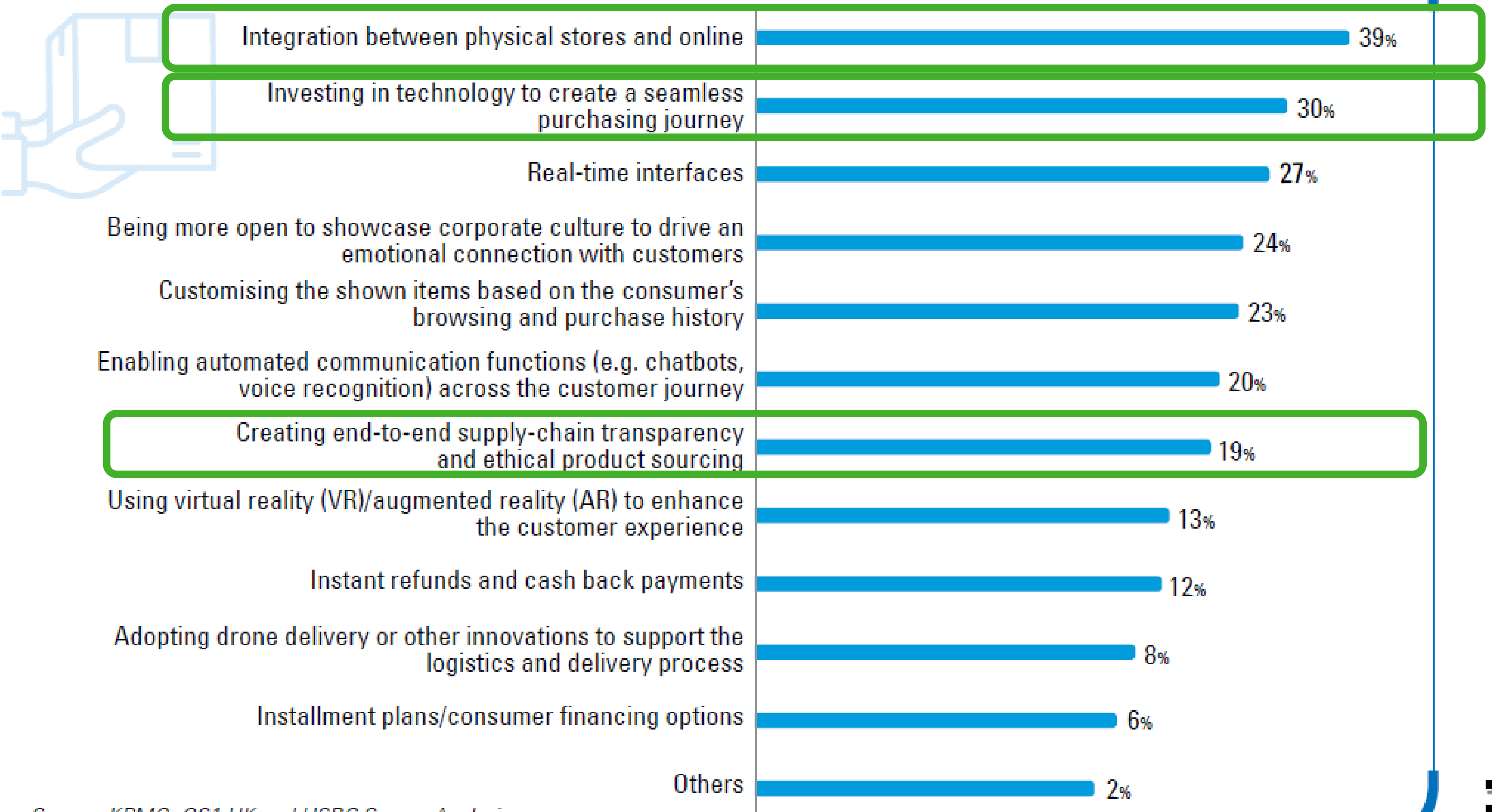
Retail's realignment



Source: KPMG, GS1 HK and HSBC Survey Analysis

Retail's realignment

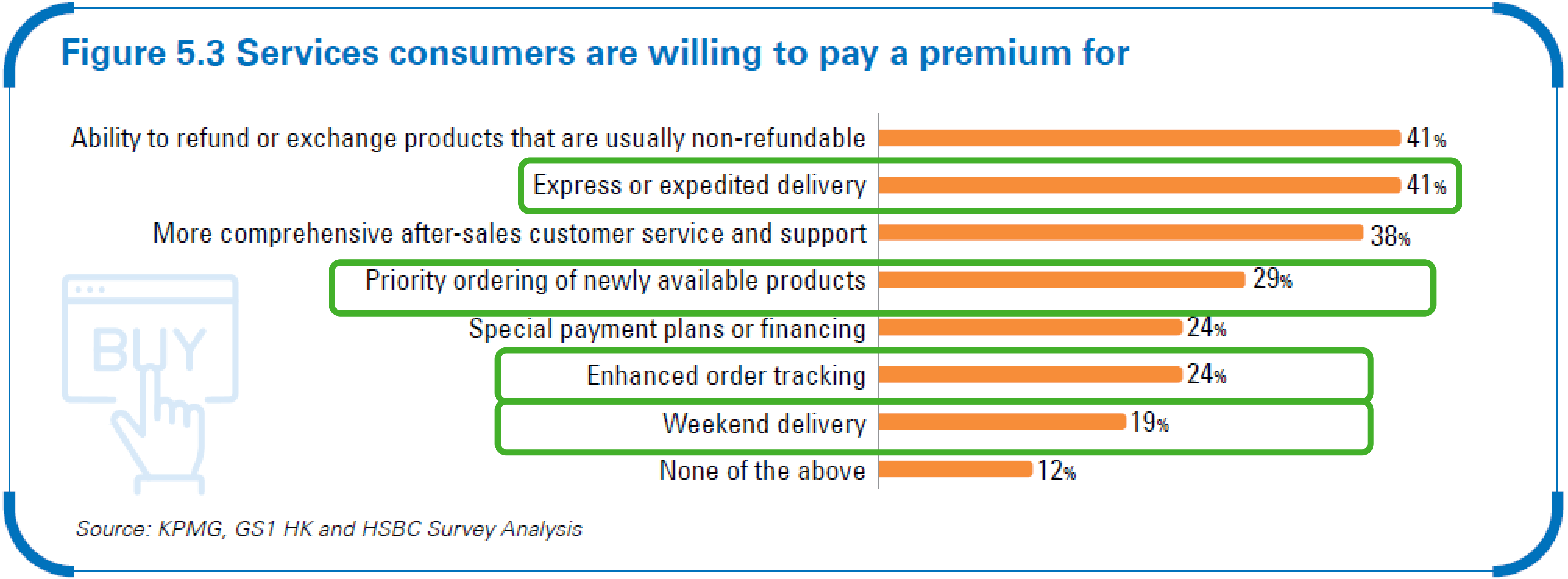
Figure 5.2 Current retailer actions to enhance customer experience



Source: KPMG, GS1 HK and HSBC Survey Analysis

#supplychain

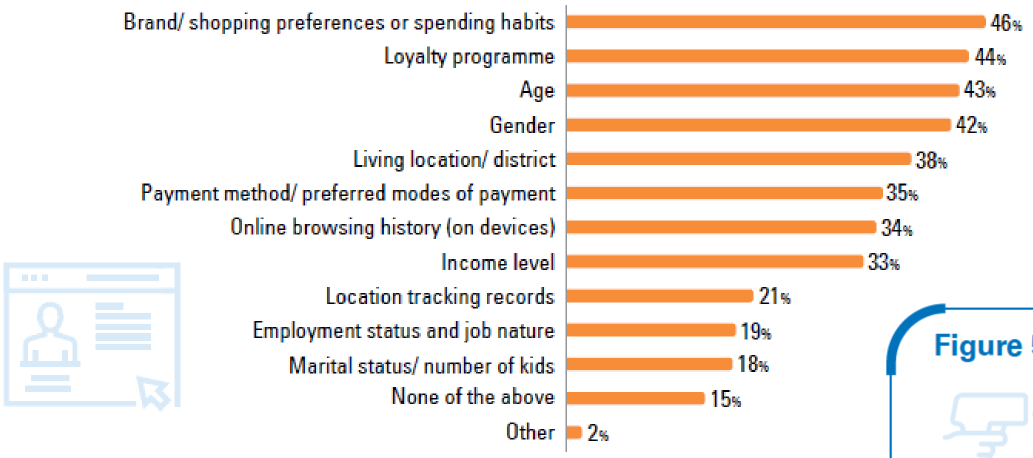
Retail's realignment



#supplychain

Retail's realignment: Give data a seat at the boardroom table

Figure 5.5: Consumer data retailers are collecting

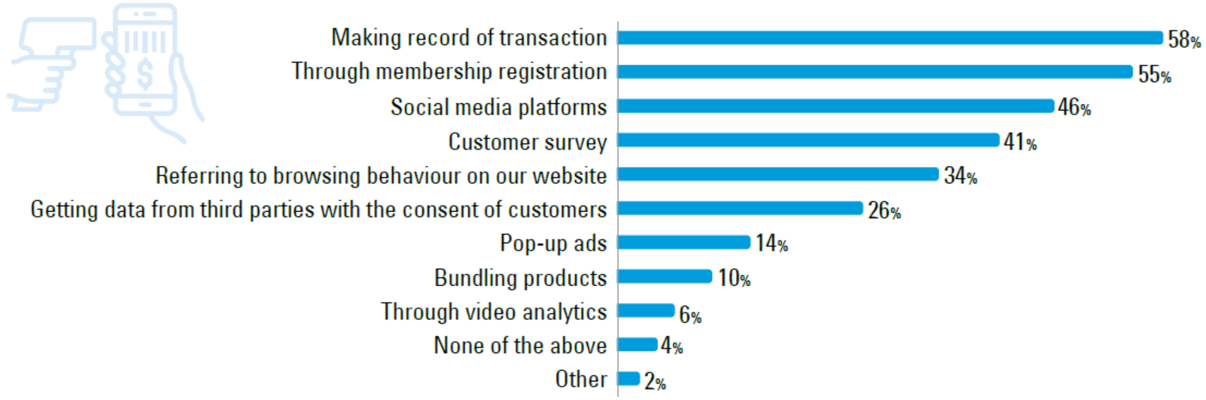


Source: KPMG, GS1 HK and HSBC Survey Analysis

Trove of microdata increasingly helping influence retailer decisions

URL: https://bit.ly/3t7Aa1r

Figure 5.6: How retailers capture customer data



Source: KPMG, GS1 HK and HSBC Survey Analysis

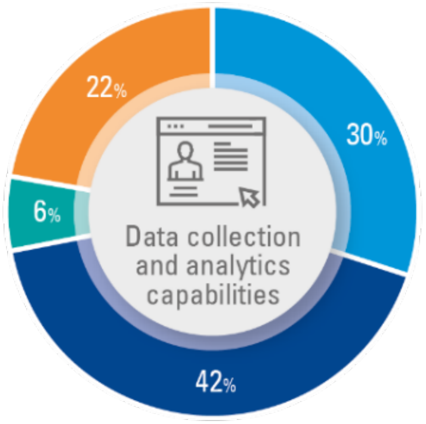
Data deja vu

Retailers' top five reasons for not implementing comprehensive data analytics

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

…**And it continued** in 2021 after waging against the pandemic for more than two years

Retailers' current data analytics capabilities



- Currently have comprehensive data analytics capabilities
- Collect data and plan to implement data analytics in the future
- Collect data but do not currently analyse it
- Do not collect or maintain customer data

Source: KPMG and GS1 HK survey analysis, *Retail's Realignment*, 2021

Growing demand for talent amid digitalization

Retailers' key challenges

Key challenges

- Seamless data integration across multiple channels and platforms
- Training and upskilling existing staff to build a future-ready workforce
- Developing an omnichannel digital retail strategy
- Lack of clarity about which technologies will deliver the greatest return
- Digital capital expenditure

Key talent shortage areas

- IT systems and support
- Sales, marketing and communications
- Data analytics
- Business innovation
- R&D and product development

Source: KPMG, GS1 HK and HSBC Survey Analysis

As more complex digital channels and new technologies are deployed, retailers **see an increasing need to source more tech talents and upskill + reskill staff**

Brands are waking up and starting to make an effort in the quest for sustainability

ESG megatrends in the retail industry

Circular Economy

Businesses adopting circular models benefit from less waste, innovation, and stronger customer relationships

Supply Chain Transparency

Supply chain transparency nurtures consumers' trust by responding to growing expectations for sustainable and fair products and

Decarbonization

Aside from carbon neutrality, some organisations are going even further by aiming to be climate positive

Engaging the workforce in climate action

Harnessing the goodwill of your workforce through social norms to support net zero ambitions

Increasing standards for Social License to Operate (SLO)

What are executives telling us?

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

Carsten Brenker
Managing Director of
Jebsen Consumer,
Jebsen Group

“

Everything is tribal now…you have to find a specific way to reach each group of people, whether offline or online.

Jessie Qian
Country Sector Head,
Consumer & Retail,
KPMG China

“

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

What are executives telling us?

Adapt O2O strategy to reflect the changing roles of physical and online retail channels

Thomas Woo
President,
city'super

"it is hard to replicate an instore experience online, I see online and offline complementing each other. Customers can experience our products digitally, which can encourage them to come to get the full experience at our physical stores.

Plato Wai
General Manager,
SHOPLINE

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

What are executives telling us?

Harness technology to meet consumer expectations for experience and product authenticity

Keen Yim
VP of Brand & Community,
Lululemon Asia Pacific

We are building out an ecommerce presence in all of our key markets including Hong Kong and also setting up the foundations of our data platform so that we have an ongoing understanding of our guests' behavior and can actively build a relationship with them. If you look at where brands and digital culture are heading, there is increasing transparency.

Anson Bailey
Head of Consumer Markets, ASPAC
Head of Technology, Media & Telecoms, Hong Kong,
KPMG

We are seeing a perfect storm emerge with investors, bankers, regulators and consumers all calling out for brands and retail groups to become more purpose-led and demonstrate both their societal and green credentials in the communities that we live and work in.

Anna Lin
Chief Executive
GS1 Hong Kong

Pandemic induced supply chain disruptions have triggered businesses to enhance supply chain transparency and flexibility. Companies that have digitised their supply chains and invested in ecommerce capabilities are better able to serve the needs of their customers.

What are executives telling us?

Align data collection practices with analytics capabilities while recognising consumer preferences

Randy Lai
CEO,
McDonald's Hong Kong

Digitalisation not only allows us to expand our customer touchpoints and provides enhanced services such as mobile ordering and delivery, but it also helps us better understand customer purchase behaviour through machine learning, to keep customers informed of our new product developments and personalised offers.

Ricky Wong
Vice Chairman and Group Chief Executive Officer,
HKTVmall

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

Retail's realignment: Preferred e-commerce platforms

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

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

*"Generation Z" sample is defined as consumers aged 18 to 24 at the time of the survey
**Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai

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

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

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

Retail's realignment: Preferred e-commerce platforms (contd.)

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

Hong Kong – all consumers

1	HKTVmall	39%
2	Website/platform of department store also running physical retail chain	19%
3	Taobao	15%
4	Only via company's own website/platform	7%
5	Tmall	7%
6	Large online retailer	7%
7	eBay	7%
8	Gmarket	6%
9	WeChat	5%
10	Strawberrynet	4%
11	JD.com	4%
	Don't use e-commerce platforms:	26%

Hong Kong – Generation Z*

1	HKTVmall	32%
2	Taobao	20%
3	Website/platform of department store also running physical retail chain	15%
4	Only via company's own website/platform	12%
5	Large online retailer	11%
6	Gmarket	9%
7	Tmall	9%
8	Strawberrynet	5%
9	eBay	5%
10	JD.com	5%
11	WeChat	2%
	Don't use e-commerce platforms:	22%

Mainland China GBA** – all consumers

1	Taobao	53%
2	Tmall	47%
3	JD.com	39%
4	Pinduoduo	13%
5	WeChat	11%
6	Xiaohongshu	10%
7	Website/platform of department store also running physical retail chain	8%
8	Sunning	8%
9	Douyin	8%
10	Kuaishou	6%
11	Large online retailer	5%
12	Only via company's own website/platform	2%
13	Strawberrynet	1%
	Don't use e-commerce platforms:	3%

Mainland China GBA** – Generation Z*

1	Taobao	70%
2	Tmall	37%
3	JD.com	29%
4	Xiaohongshu	15%
5	WeChat	12%
6	Pinduoduo	12%
7	Website/platform of department store also running physical retail chain	8%
8	Douyin	5%
9	Sunning	4%
10	Kuaishou	3%
11	Large online retailer	1%
12	Only via company's own website/platform	1%
13	Strawberrynet	1%
	Don't use e-commerce platforms:	3%

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

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

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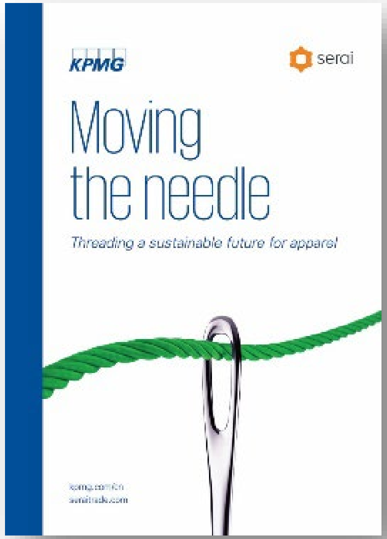

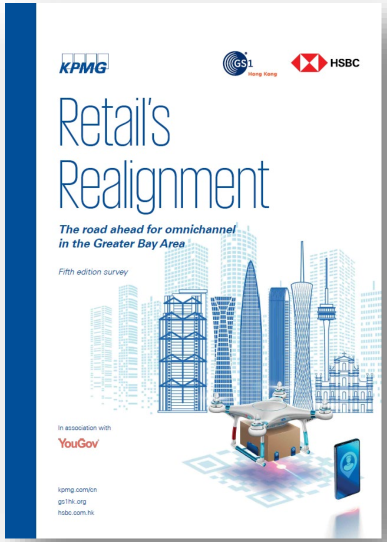

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