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EXPORT MARKETING BUREAU
G/F and 2/F DTI International Bldg.
375 Sen. Gil Puyat Avenue
Makati City 1200, Philippines

Tel. No.: (632) 465.3300
Fax No.: (632) 899.0111

<http://www.dti.gov.ph/exports/>
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Internet Retailing in Hong Kong

PROSPECTS

Hong Kong to Continue to Embrace Internet Retailing

Hong Kong has long lagged behind in the development of internet retailing compared to many of its neighboring cities in mainland China such as Shen Zhen. With a high level of store concentration and consumer preference for shopping in physical stores, the penetration of online shopping in Hong Kong was lower than that of many Asian countries. While shopping online is usually cheaper in regions such as mainland China, physical retailers in Hong Kong can offer verbal prices that are usually at a discount of 10% to 20% of the original price, and hence undermine the pricing advantage of online platforms.

As a result, the overall retailing environment in Hong Kong is more challenging for the rapid penetration and adoption of online retailing. However, major players from various categories such as apparel and footwear and grocery retailers have been actively investing in the development of their online channels and market education of online retailing. In 2018, Hong Kong witnessed strong growth in its online sales. HKTVmall, for example, registered strong sales growth in 2018. As HKTVmall is a pure homegrown online shopping platform, it targets local consumers; this platform serves as a mirror for the local development of online retailing, and is a clear indication of the strong development and adoption of the channel as a whole.

Older Generation is Potential Audience

While the younger population has always been the leading group testing new concepts and pushing for the fostering of advanced online retailing and smart initiatives, the older generation remained relatively behind in the adoption of internet retailing. The conservative attitude of the older generation in Hong Kong, compared to other regions, has dampened Hong Kong's development into a well-balanced smart city with a strong online presence for retailing. As a result, while the city has showcased an increasing level of acceptance for shopping online behavior driven by the younger population, there is still much room for growth before maturity emerges, especially among older consumers. In this case, continuous education through offline channels and a seamless connection between online and offline stores is expected to be the key factor for online development over the forecast period.

Online Registers Strong Growth while Physical Stores Remain Relevant

Major brands in Hong Kong across different categories emphasize the importance of digitalization. Compared to pure online development, more popular in regions such as Hong Kong is the application of omnichannel retailing. While the online platform delivers a high level of convenience for brands' existing consumers, physical stores remain an important point of connection for brands to educate local consumers about their online sales channels, and a crucial marketing tool for new consumer acquisition. For example, HKTVmall opened more than 30 physical outlets with the aim of further educating the older population into adopting the habit of online shopping. Following the opening of the physical stores, online orders from the nearby region all experienced an increase, indicating the power of education and marketing effect of physical stores.

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COMPETITIVE LANDSCAPE

Alibaba Group's Growing Presence

Alibaba Group, the online retailing giant from mainland China, continued to work on improving its presence outside of its core market. In the last year of the review period, both the player's Tmall and Taobao platforms registered increasing popularity in Hong Kong, while offering a wide variety of products at very low prices, catering to consumers looking for bargain deals. Alibaba introduced its FashionAI that combined technologies such as RFID racks and AI mirrors into a bricks-and-mortar store directly next to Hong Kong Polytechnic University's fashion faculty. In this concept store, consumers can check into the store with a mobile ID code and experience all the smart features it has to offer, enjoying an environment with seamless connection between online and offline.

Hktvmall Registers Tremendous Growth

HKTVMall continued to register significant value growth and gained strong value share to take the leading position in overall internet retailing in 2018. In addition to intense marketing efforts, growth of the shopping platform is also attributed to adoption of the bricks-to-clicks conversion facilitated by HKTVMall's offline stores acting as collection location, market education centres and marketing "tools". Continuing to diversify its product mix through the platform, HKTVMall is outgrowing its original image as an "Online Supermarket" and evolving into an "online shopping mall" with more than 60% comprised of products such as e-vouchers, electronics and household products other than groceries. Over the forecast period, HKTVMall is expected to continue its strong growth, mainly supported by its ongoing investment in O2O shops and development of delivery capacity catering to the local market in Hong Kong. ■



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