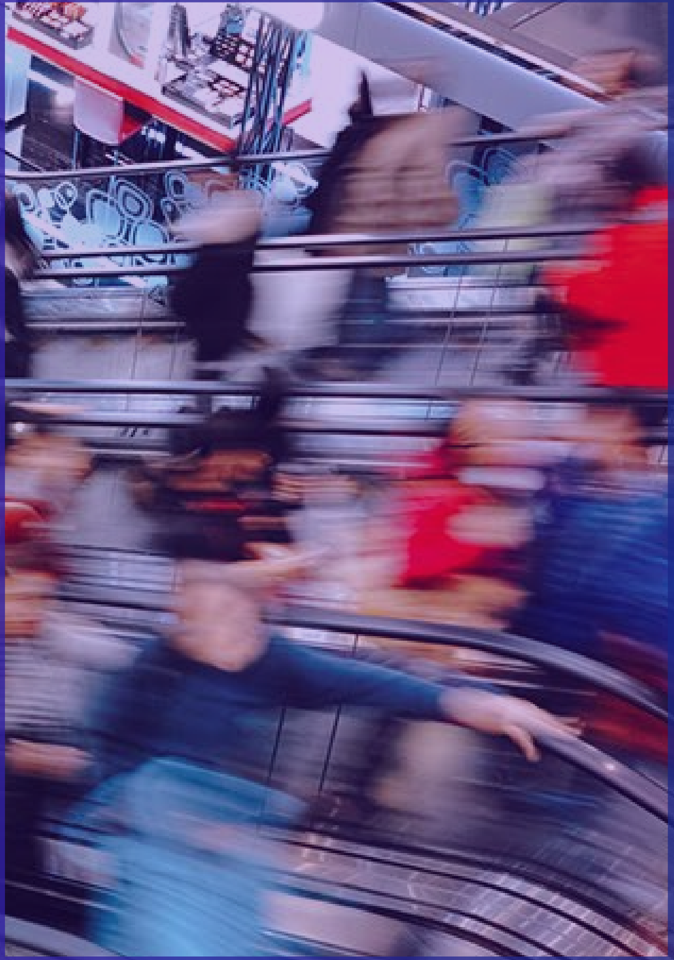
Retail realignment

Lessons from the Chinese retail market



October 27, 2022

KPMG

Presenter

Kostya Polyakov

Partner

National Consumer &
Retail Industry Leader KPMG in Canada

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**

KPMG China
168,496 followers
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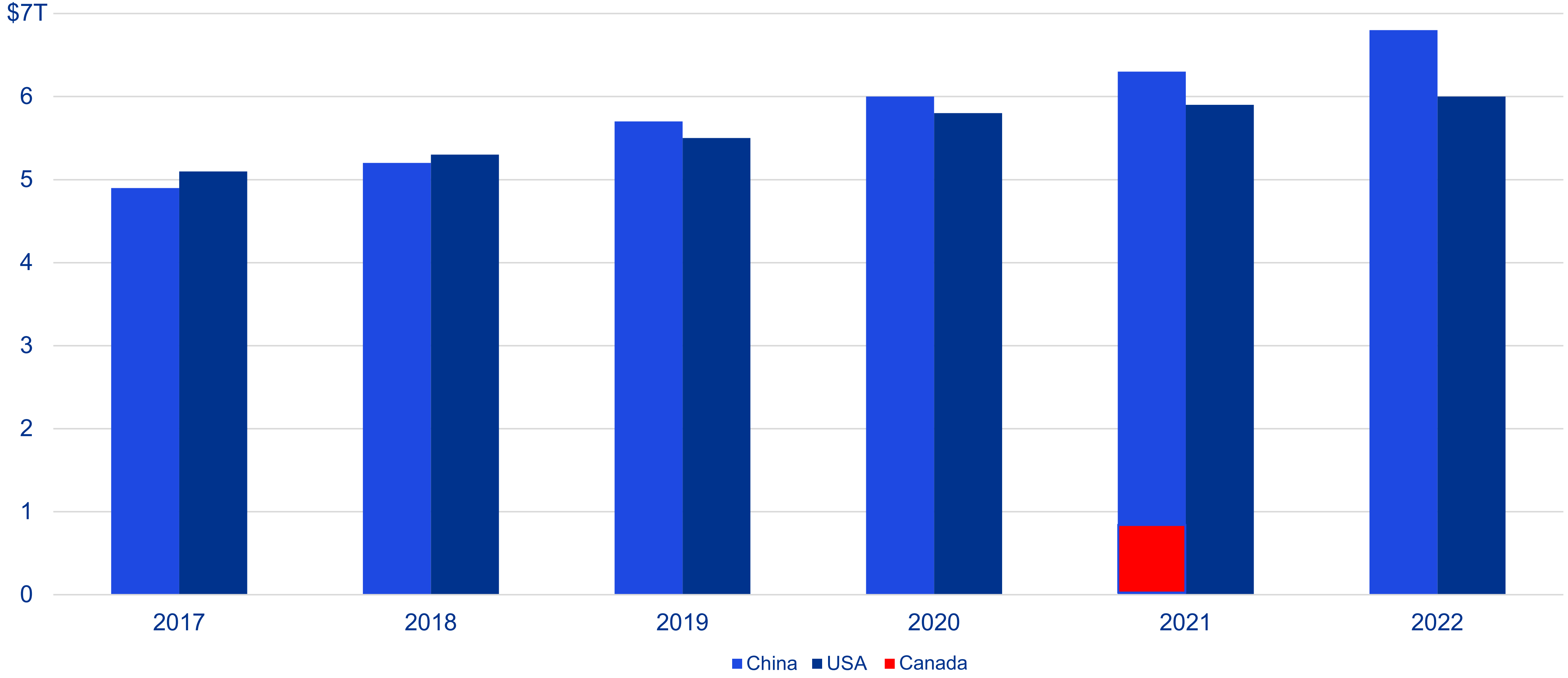
Greater Bay Area retailers need to focus on making the online experience user friendly, engaging and easy to transact on, according to a joint report by KPMG, **GS1 Hong Kong** and **HSBC**, The Standard reports: website //lnkd.in/gWmUmc …see more

Greater Bay Area retailers urged to up online game
thestandard.com.hk 2 min read

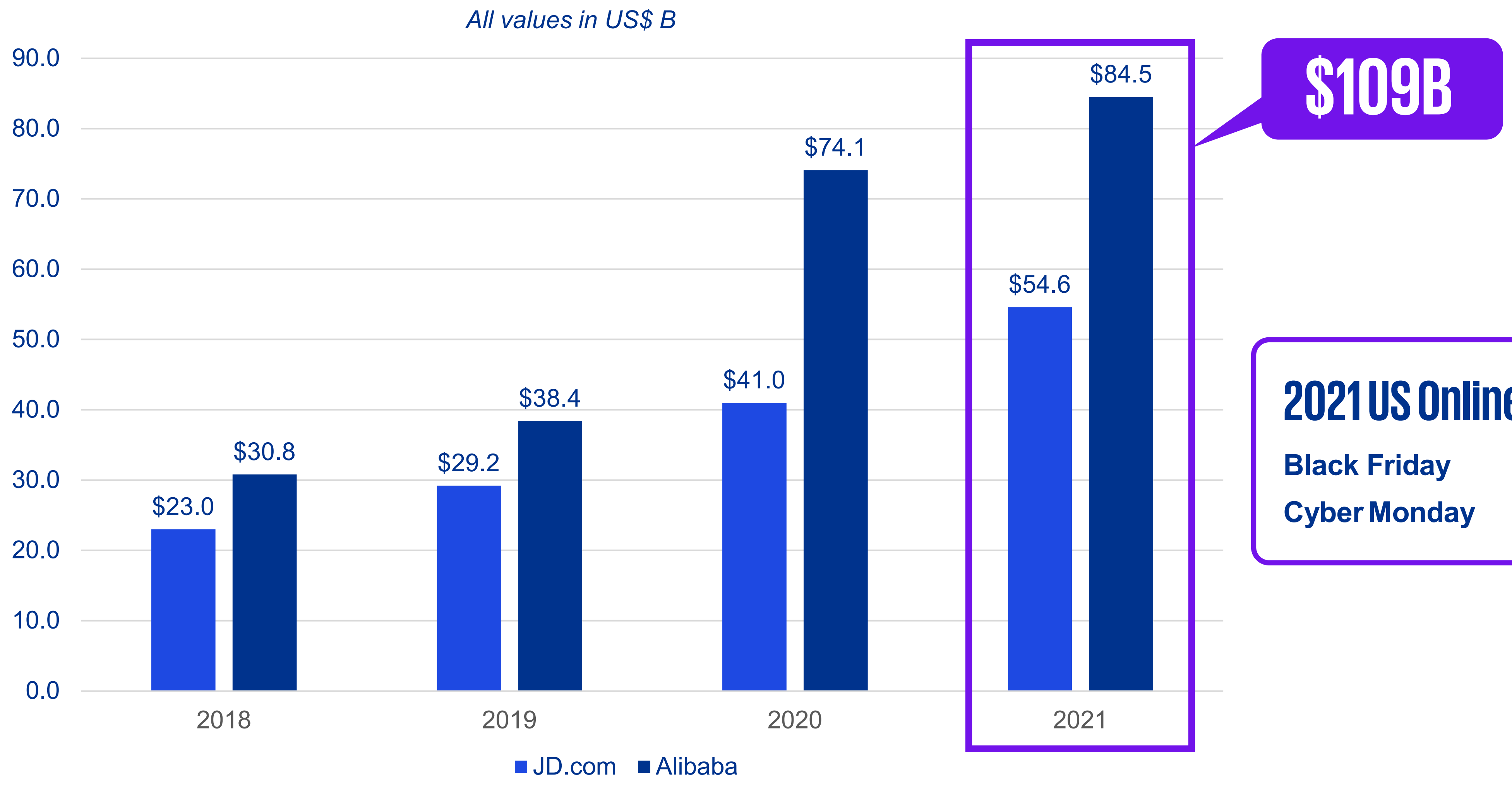
30

The Chinese retail market



Note:2019-2022 are forecasts; figures for both countries exclude travel and event tickets, while China data also excludes Hong Kong market. Source eMarketer Bloomberg

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

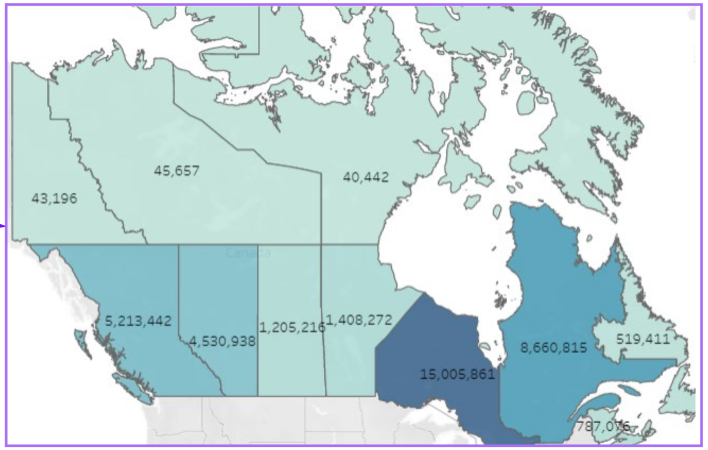


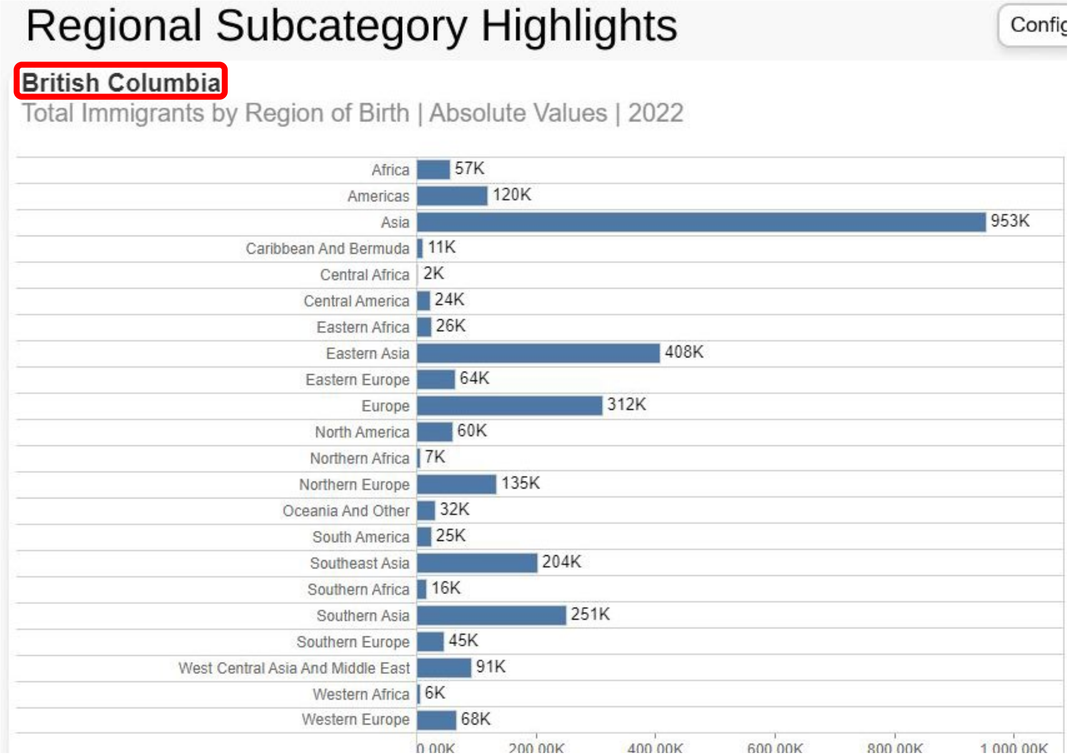
2021 US Online Sales

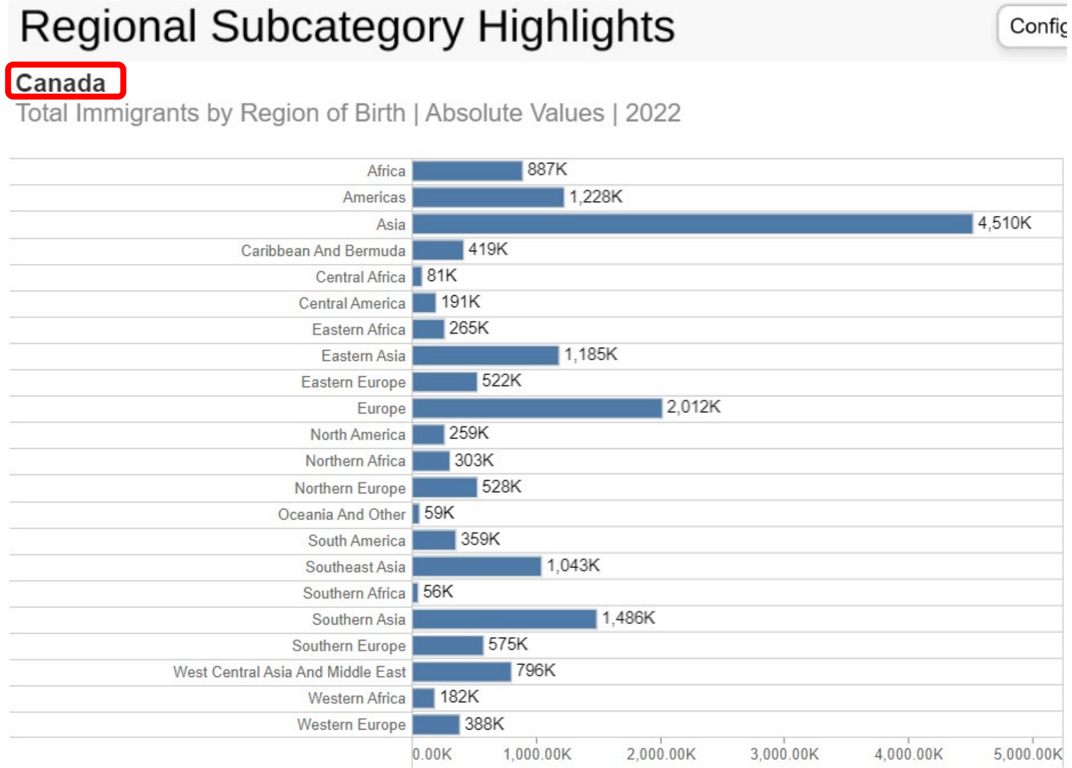
Black Friday	**$8.9B**
Cyber Monday	**$10.7B**

RCC Retail Pulse Dashboard

38.6M







What can we learn?

Retail's realignment: Online shopping continues to grow

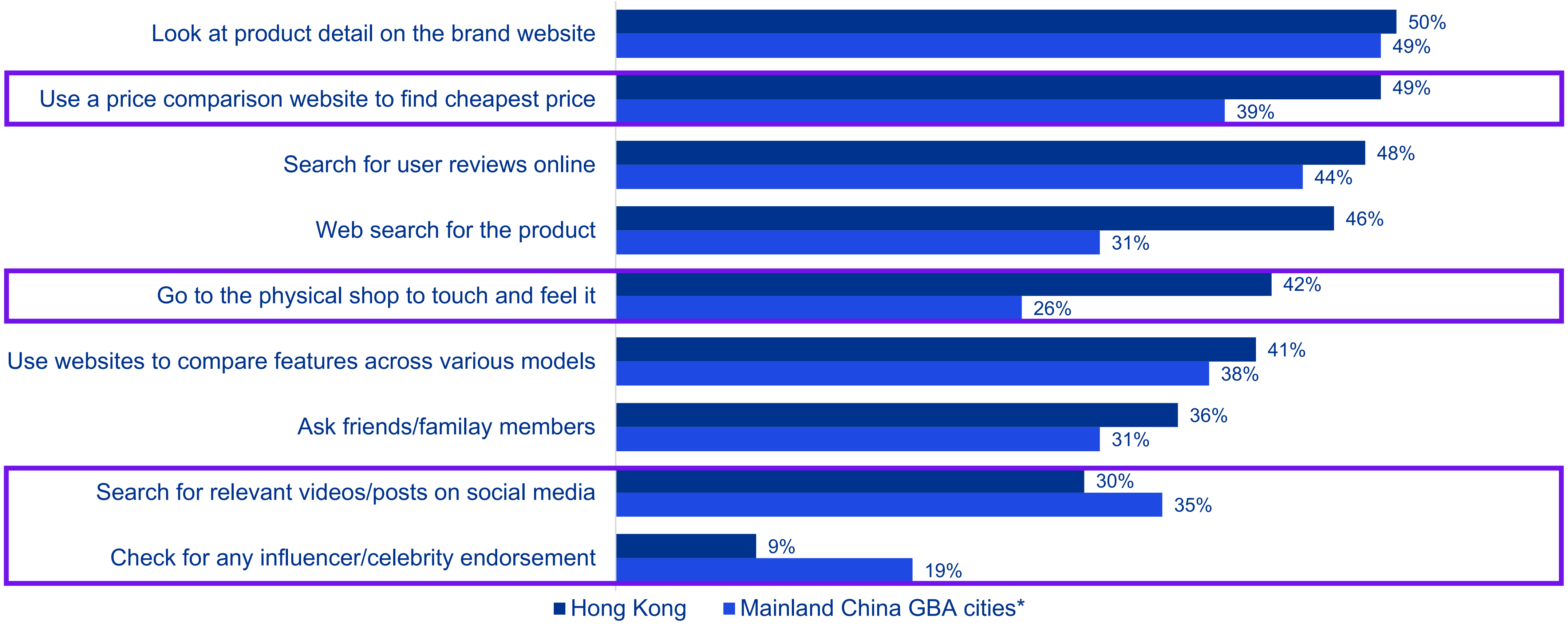
Consumer sentiment during the ongoing COVID-19 pandemic

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

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

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

55% ↑ Increasing use of direct e-commerce

55% ↑ Increasing use of third party e-commerce platforms

24% ↓ Decreasing use of physical retail stores

Source: KPMG, GS1 HK and HSBC Survey Analysis

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

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

Retail's realignment

Leading qualities that attract consumers to brands

- Product authenticity
- Convenience throughout the customer journey
- Personalised and interactive experience
- Self-service options
- Optimised experience on mobile
- A deeper, more immersive in-store experience
- Corporate social values and sustainability

*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

The importance of online-to-offline (O2O)

77% of Hong Kong consumers…

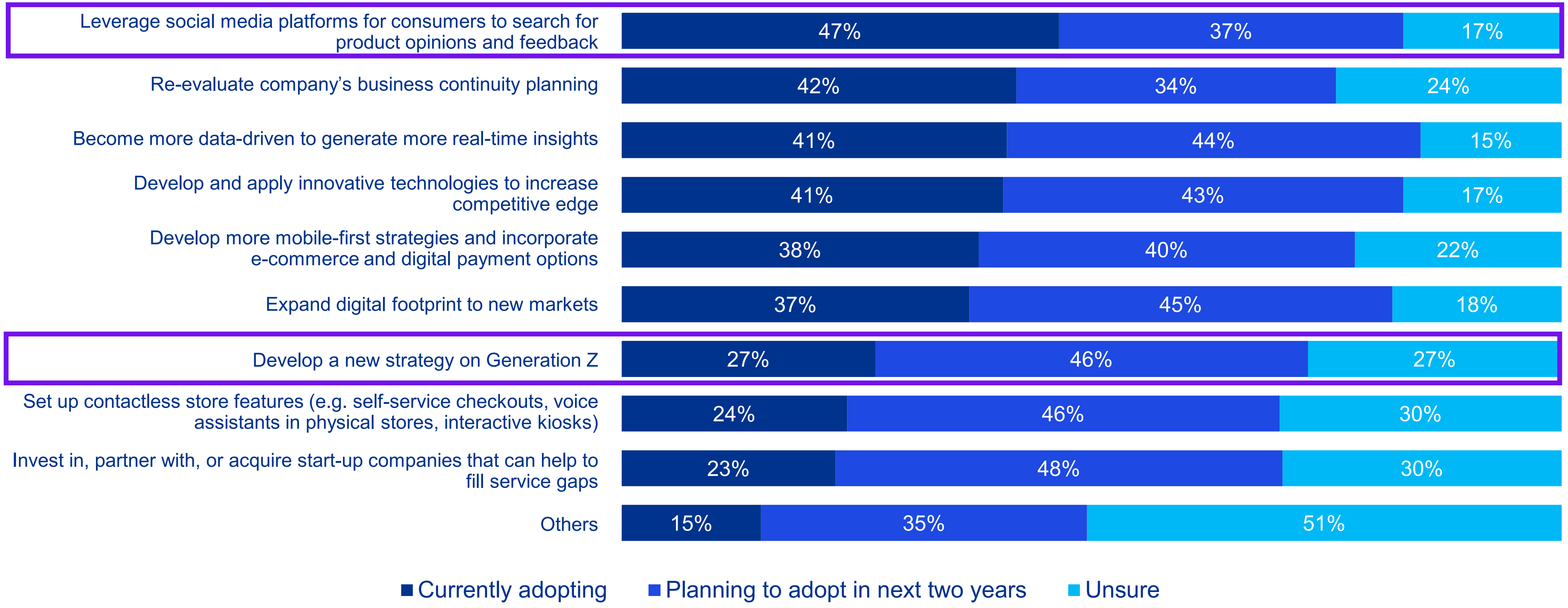
85% of mainland China GBA* consumers…

…say that retailers need to have a **better connection between online channels and physical stores** to create a seamless customer journey

Source: 7Fresh Markets (owned by JD.com)

Retail's realignment

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

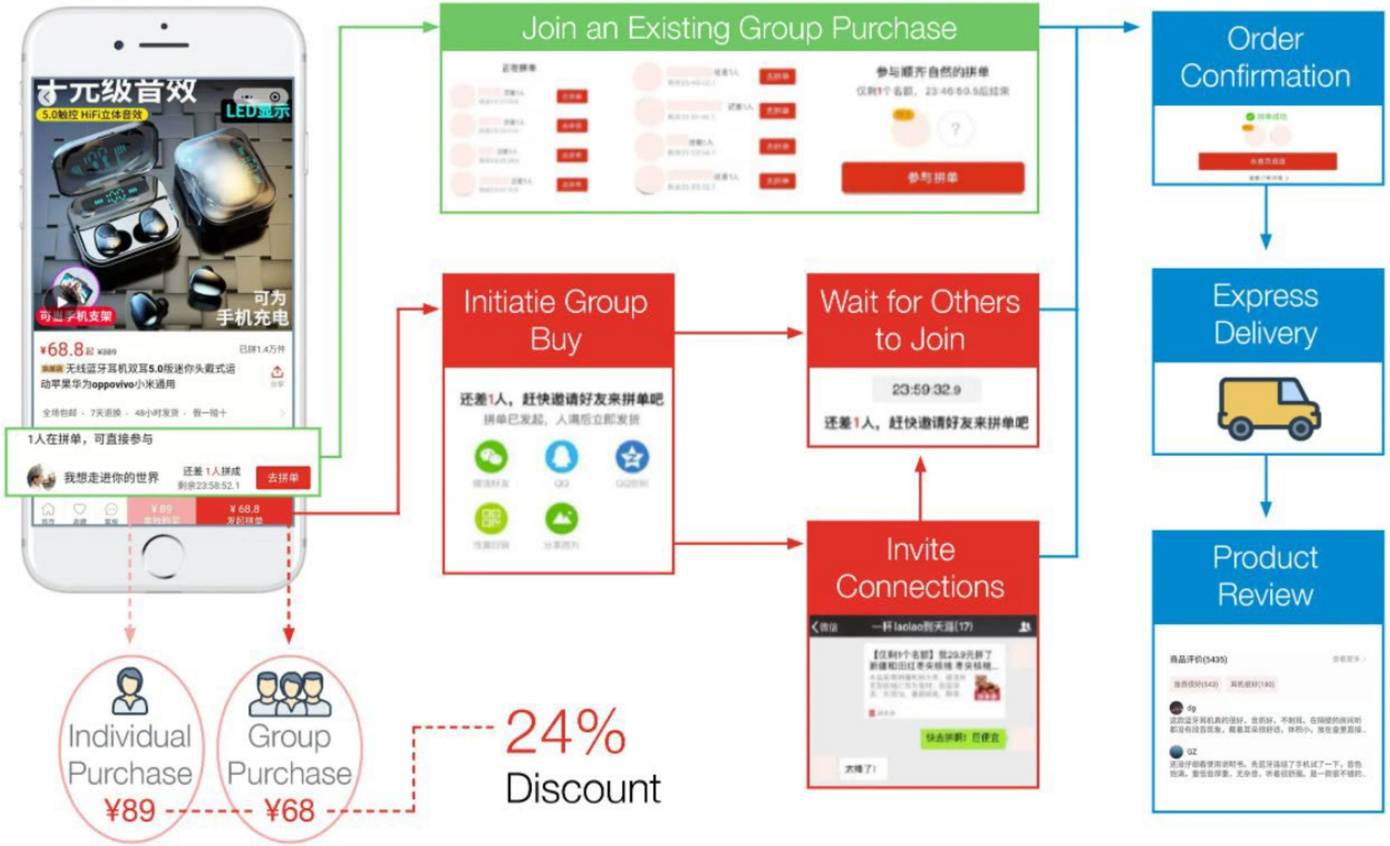
According to *e-marketer* inaugural forecast, livestreaming social commerce sales in China will reach $131.52 billion in 2021 and account for **37.4% of total social commerce sales** in the country.

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

Group Buys



Source: Pinduoduo

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

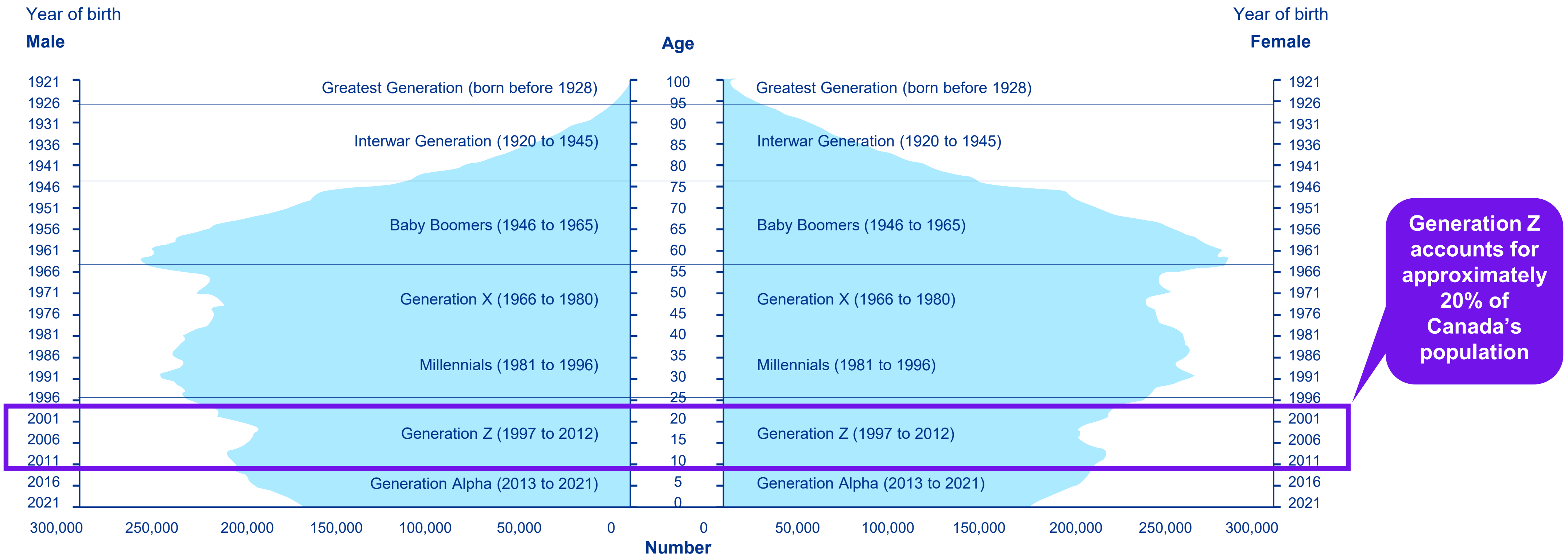
Top strategies that retailers are adopting to target Generation Z consumers

- Optimse 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

Age pyramid of the Canadian population (2021)



Source(s): Census of Population, 2021 (3901).

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

Austin Li

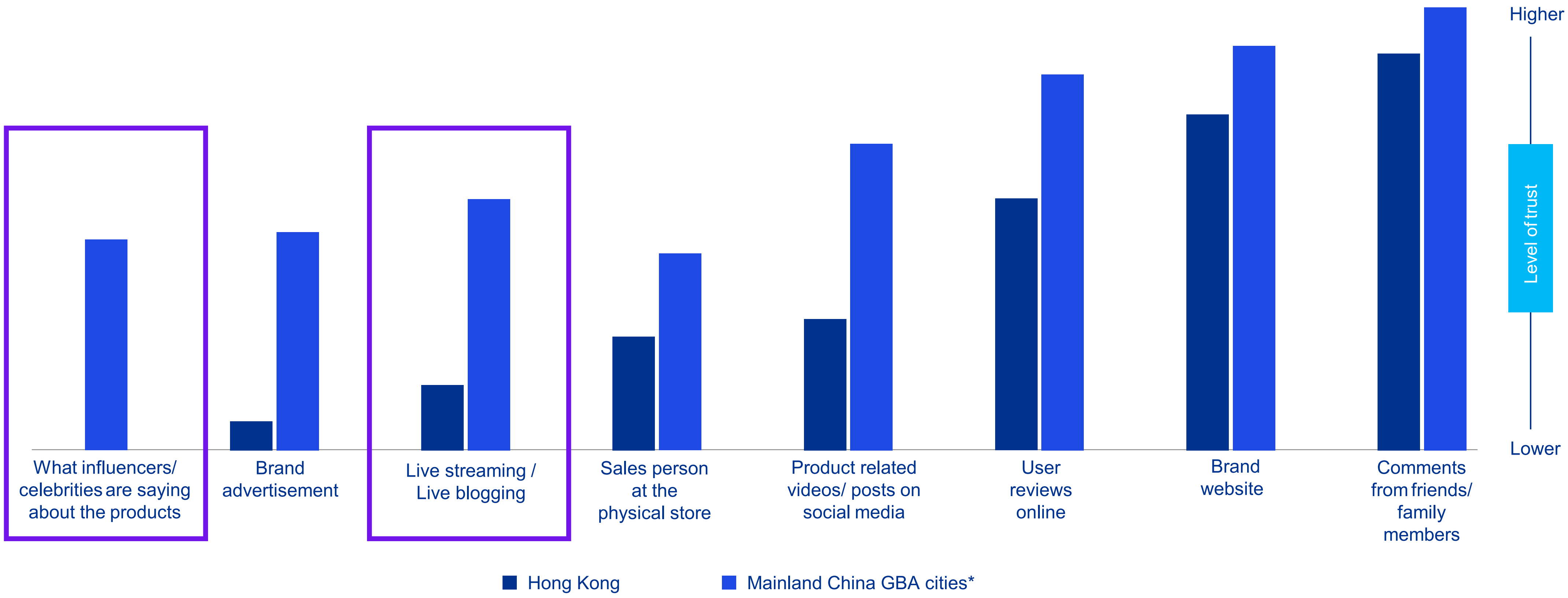
$2 billion sold on 2021 Singles Day

Sold 15,000 Lipsticks in 5 minutes

Projected worth $15 billion by 2023 (Time)

Retail's realignment: Sources of trust

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

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

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

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

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

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

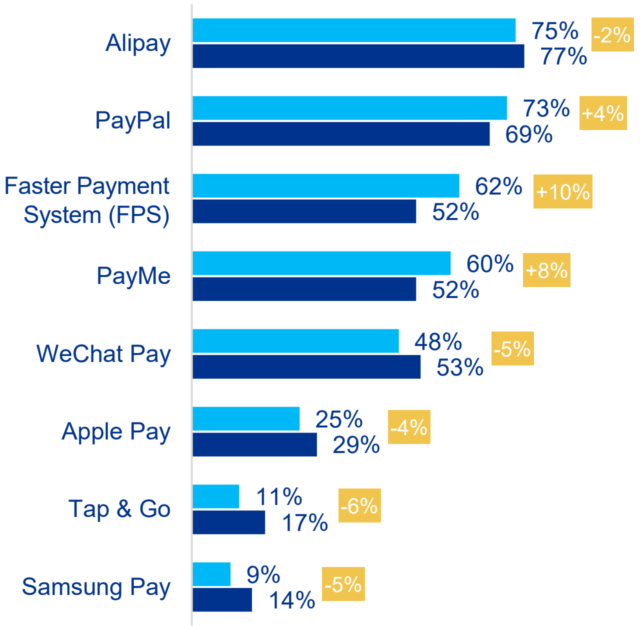
* Analysis of nine mainland China GBA cities: Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai

Source: KPMG, GS1 HK and HSBC Survey Analysis

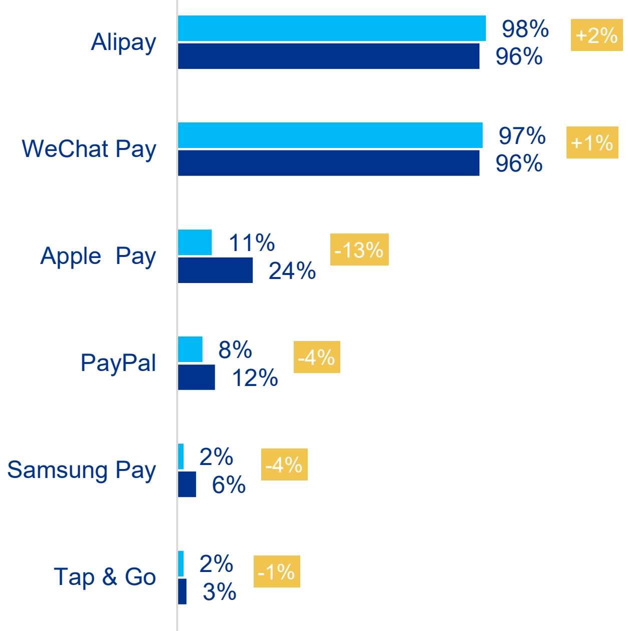
Retail's realignment: Mobile payments

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

Hong Kong



Mainland China GBA Cities*

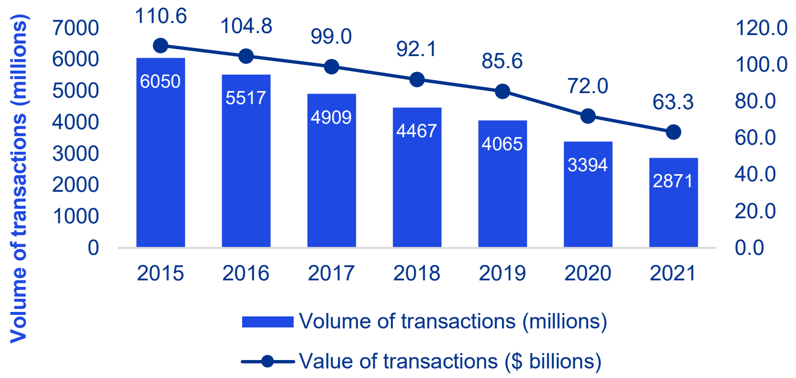


2021 study ■ 2019 study ■ Change in number of users among those surveyed in 2021 vs. 2019

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

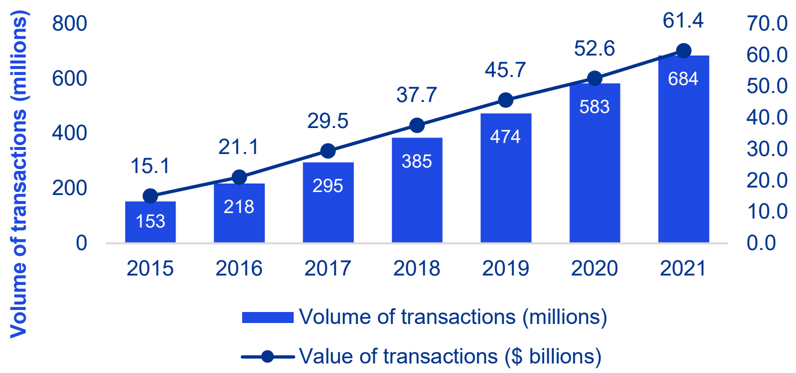
Source: KPMG, GS1 HK and HSBC Survey Analysis

Cash usage



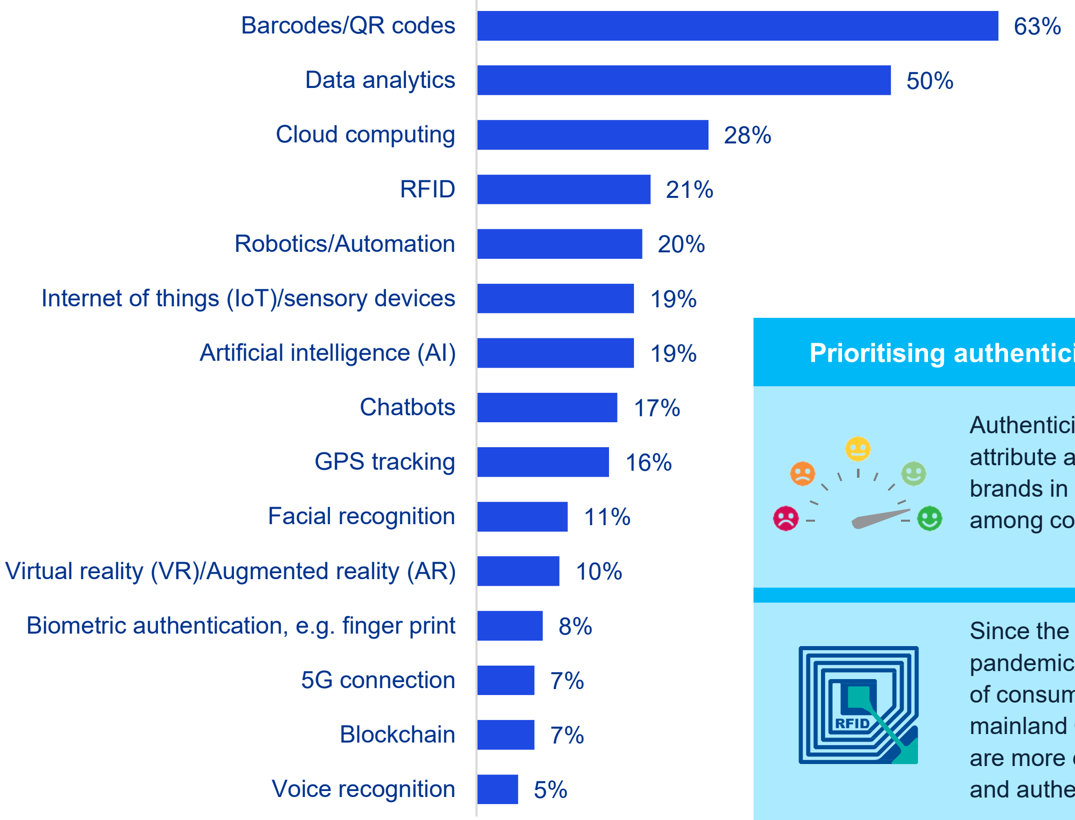
Mobile payments usage

PAYMENTS CANADA



Retail's realignment: Technological influence

Digital technologies retailers are currently using in their operations

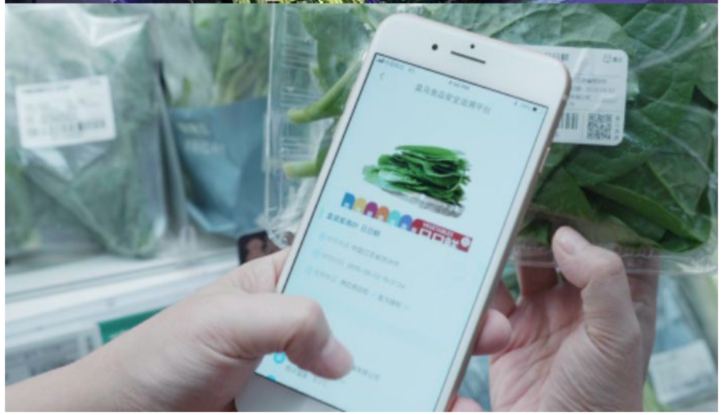


Source: KPMG, GS1 HK and HSBC Survey Analysis

Prioritising authenticity and product origin

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

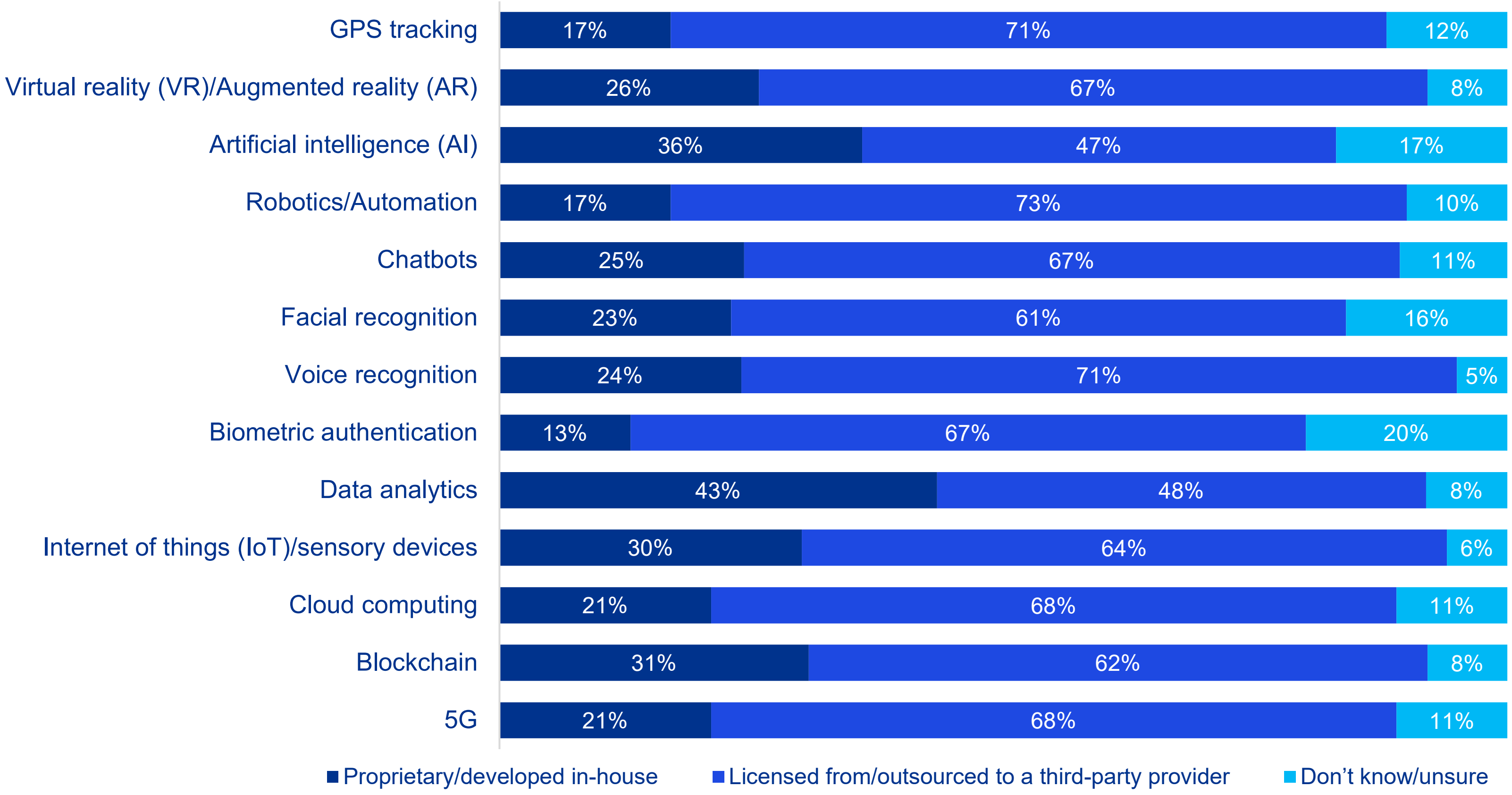
Since the start of the COVID-19 pandemic, 68 percent and 65 percent of consumers in Hong Kong and mainland China GBA cities respectively are more conscious of product origin and authenticity



Source: Hema supermarket - Alibaba

Retail's realignment

Development of technology solutions for retail operations

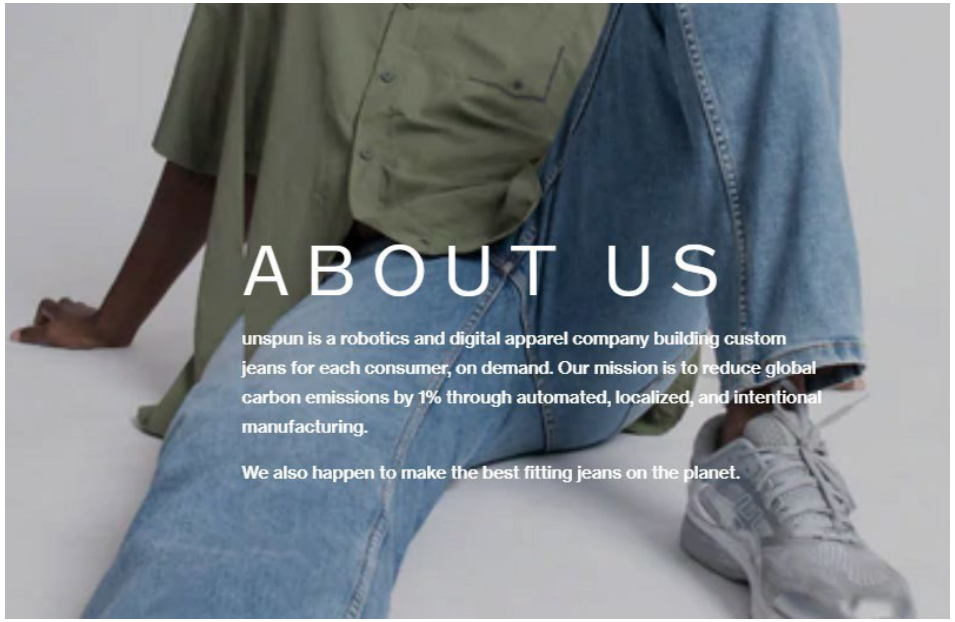


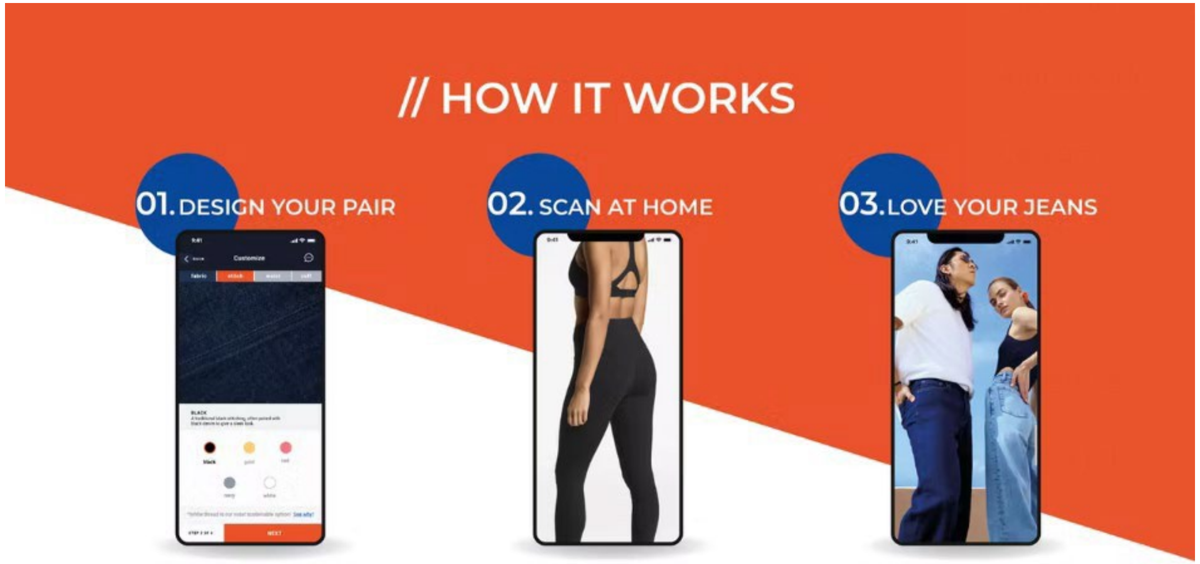
Top considerations for retailers when partnering with third-party providers

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

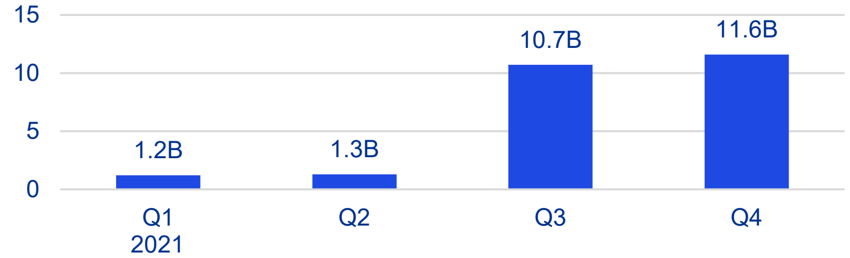
CryptoPunks

BAYC

Source: Nike Acquires Fashion and Sneaker NFT Site RTFKT

NFT sales climb to $11.6 billion in Q4 – DappRadar

Quarterly non-fungible token sales volumes across multiple blockchains, in US dollars

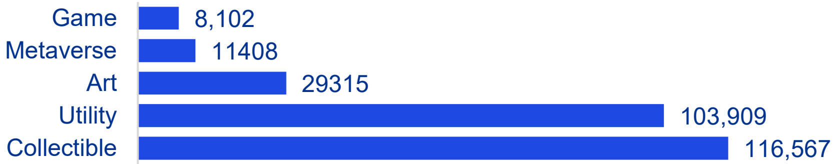


Note: Data excludes “off-chain” sales.

Source: DappRadar

Collectible NFTs are most popular

Number of non-fungible token sales in popular categories in past month



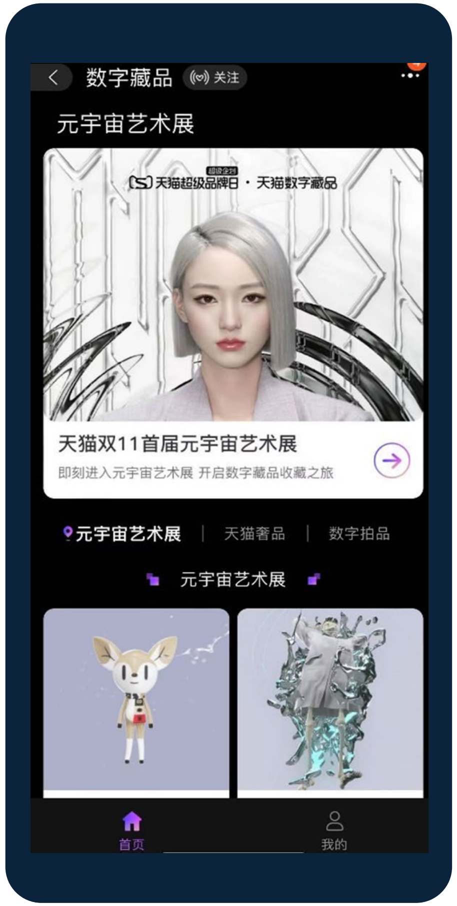
Note: Data for the month up to January 10, 2022. Data only shows transaction on the Ethereum blockchain and excludes “off-chain” sales.

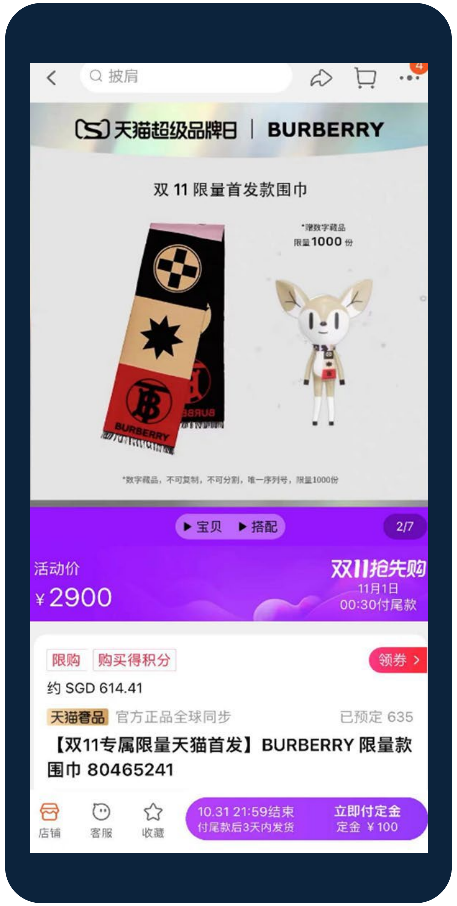
Source: NonFungible.com

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

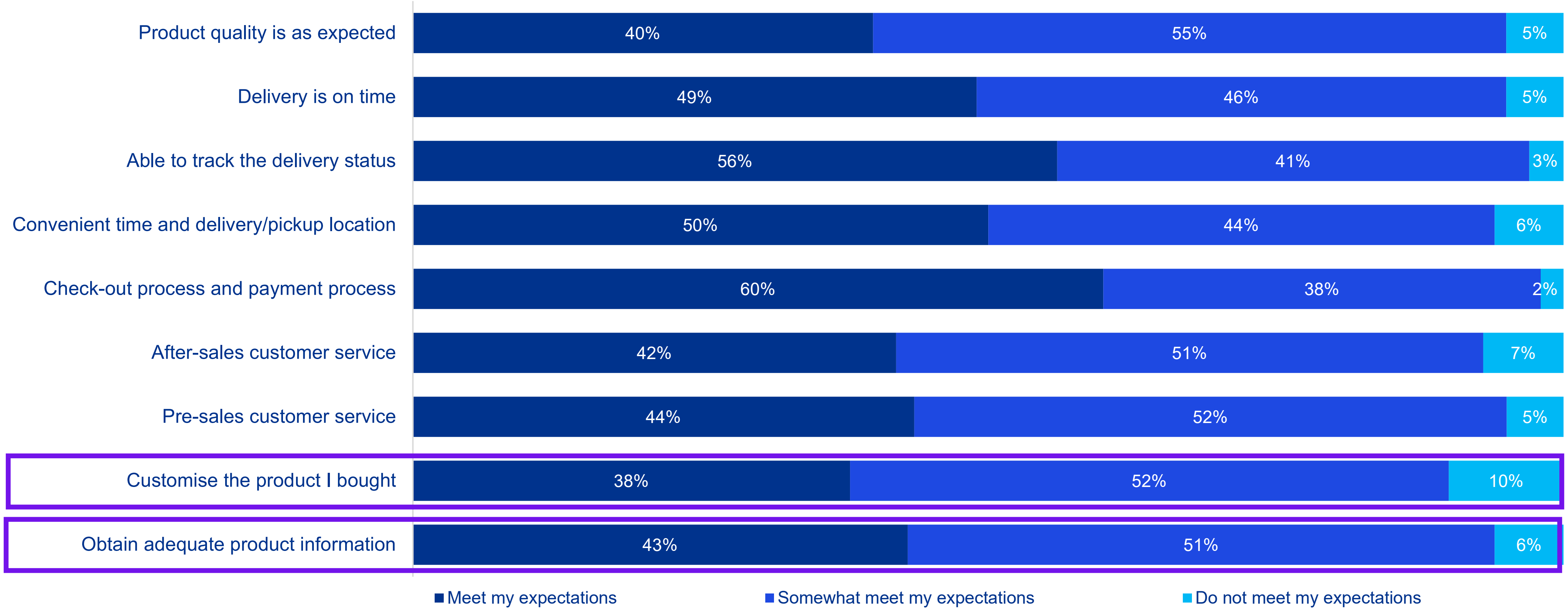
Among Chinese consumers, the ownership of an NFT is not to make money, but a status symbol for the new generation of Chinese who are well-versed in technology with an appreciation for the arts – valuing experiences and intangibles over the materialistic goods they are known for.





Retail's realignment

Consumer views on how brands meet their expectations

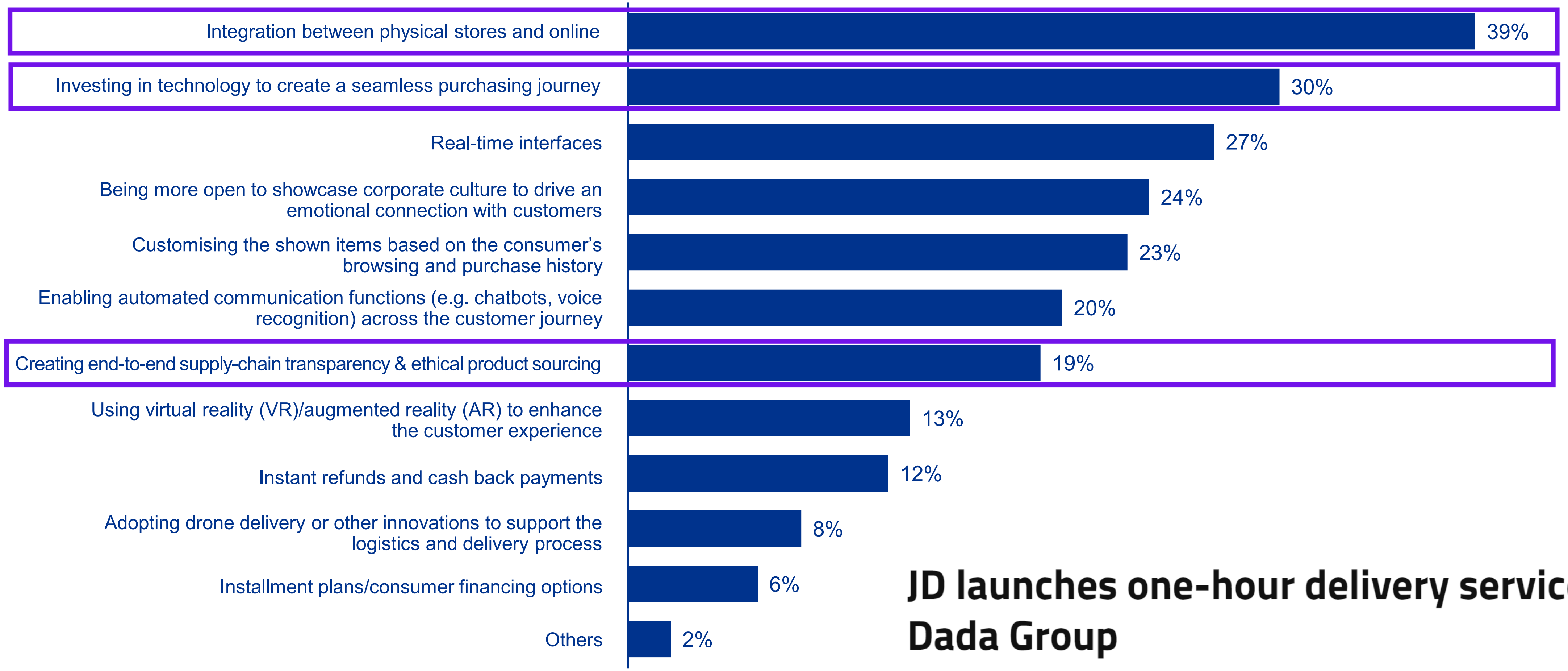


Source: KPMG, GS1 HK and HSBC Survey Analysis

Retail's realignment

Current retailer actions to enhance customer experience

#Supplychain



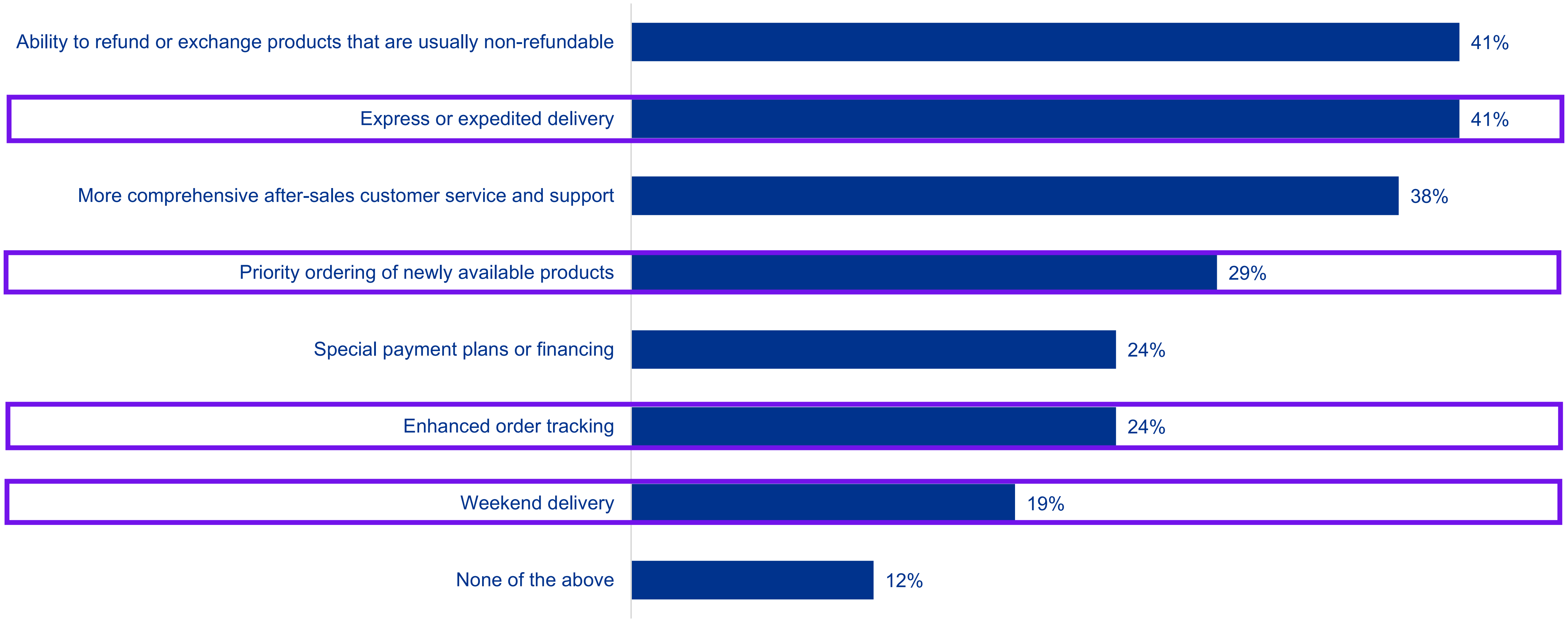
JD launches one-hour delivery service with Dada Group

Source: KPMG, GS1 HK and HSBC Survey Analysis

Retail's realignment

#Supplychain

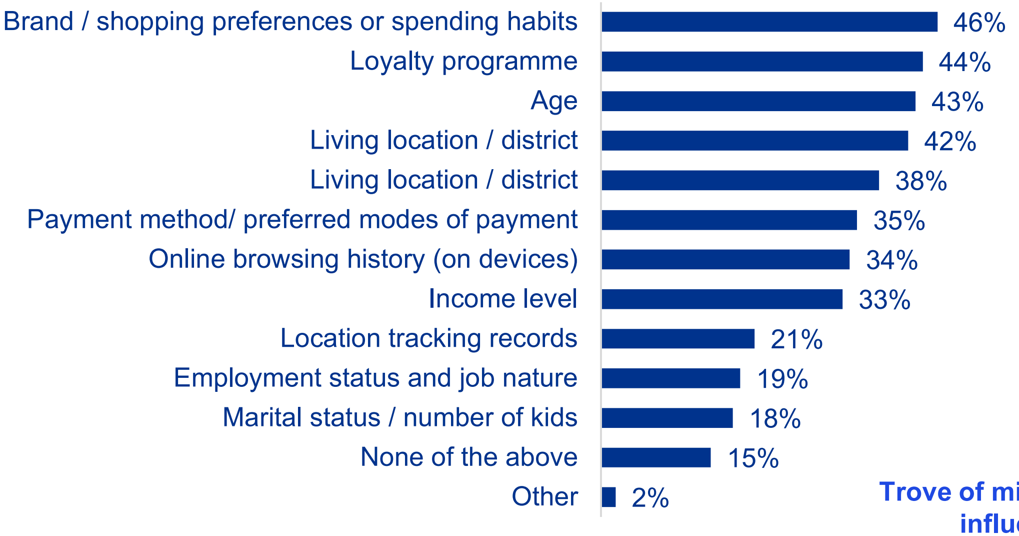
Services consumers are willing to pay a premium for



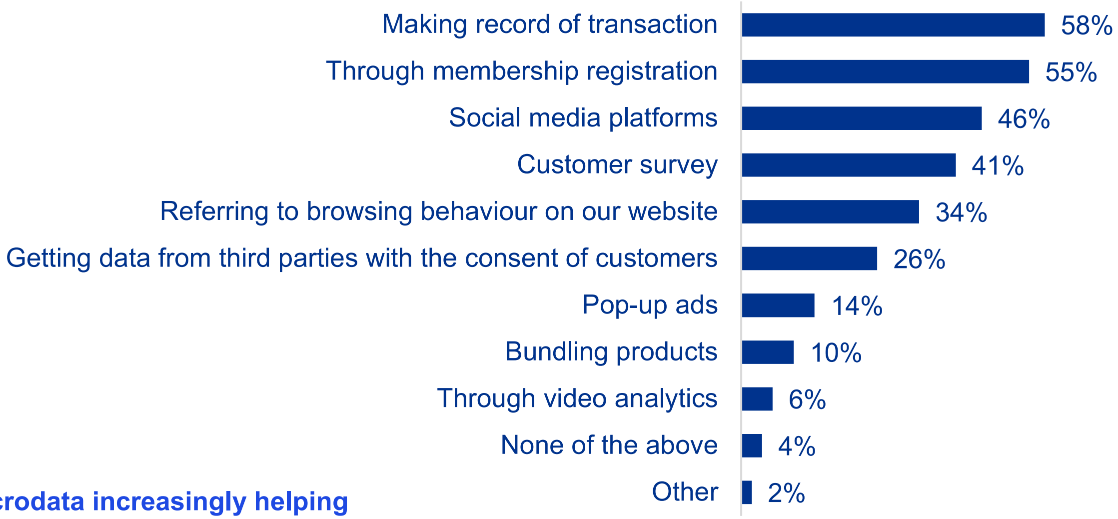
Source: KPMG, GS1 HK and HSBC Survey Analysis

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

Consumer data retailers are collecting



How retailers capture customer data



Trove of microdata increasingly helping influence retailer decisions

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

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

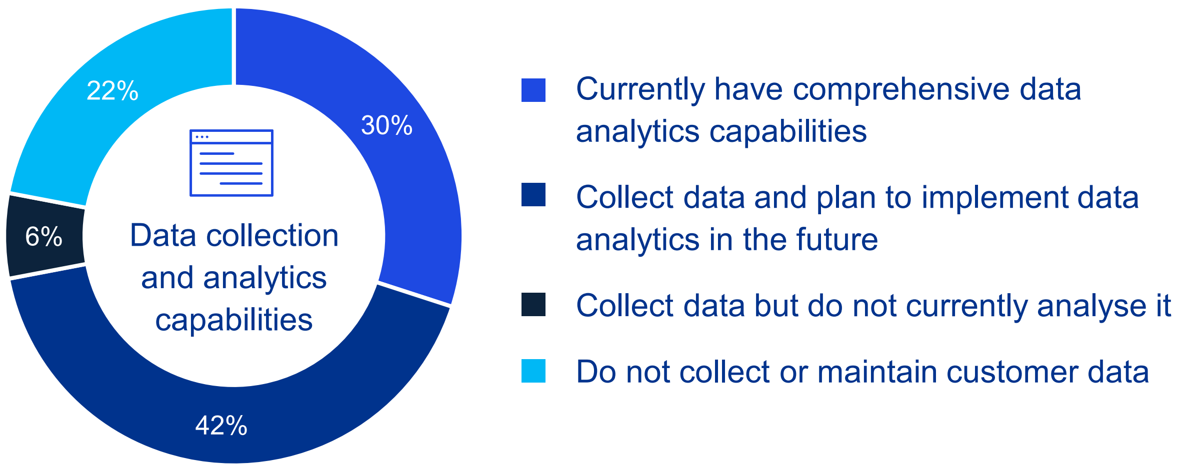
3. Cannot see significant benefits

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



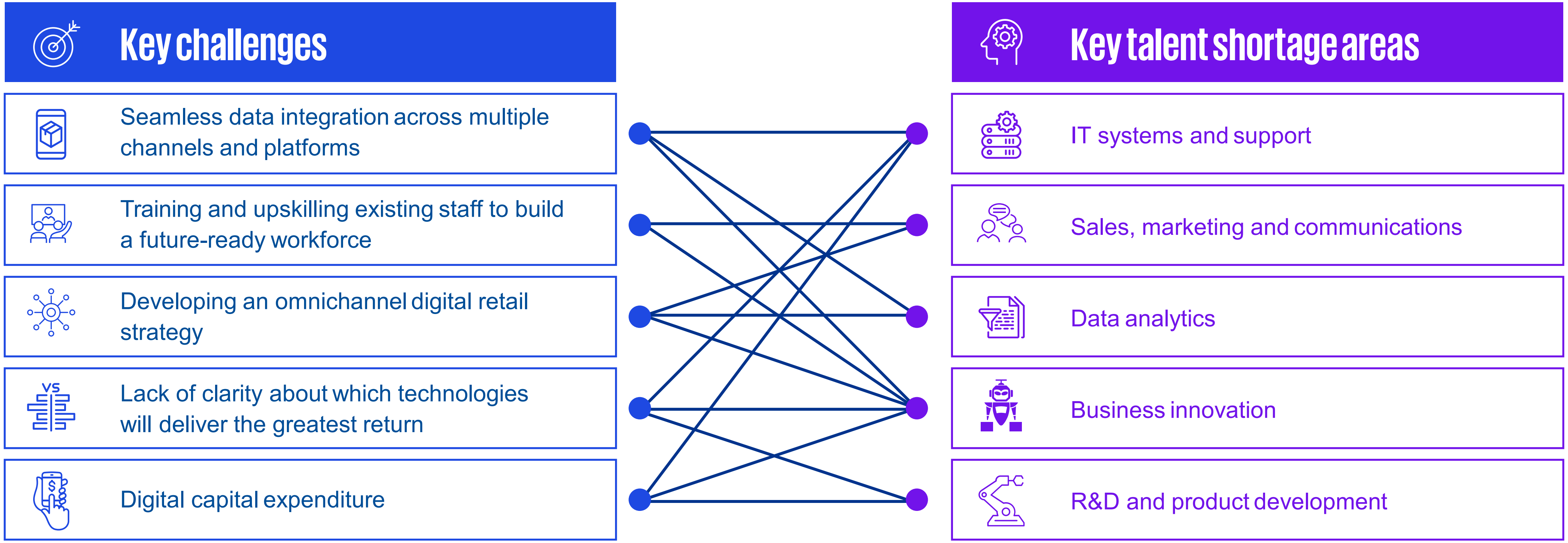
Source: KPMG and GS1 HK survey analysis, Retail's Realignment, 2021

Growing demand for talent amid digitalization

Retailers' leading challenges and talent shortage areas

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

Retailers' key challenges



Source: KPMG, GS1 HK and HSBC Survey Analysis

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

ESG megatrends in the retail industry

Circular Economy	Supply Chain Transparency	Decarbonization	Engaging the workforce
Businesses adopting circular models benefit from less waste, innovation, and stronger customer relationships	Supply chain transparency nurtures consumers' trust by responding to growing expectations for sustainable and fair products and	Aside from carbon neutrality, some organisations are going even further by aiming to be climate positive	Harnessing the goodwill of your workforce through social norms and high social standards

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

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

Hong Kong – all consumers

1	Taobao	49%
2	HKTVmall	43%
3	Tmall	21%
4	Large online retailer	16%
5	Website/platform of department store also running physical retail chain	14%
6	Zalora	11%
7	WeChat	8%
8	eBay	7%
9	Rakuten	6%
10	Only via company's own website / platform	4%
11	ASOS	4%
12	SHEIN	3%
13	Yoox Net-a-Porter (YNAP)	2%
14	Goxip	1%
15	Shopbop	1%

Don't use e-commerce platforms: 10%

Hong Kong – Generation Z*

1	Taobao	46%
2	HKTVmall	38%
3	Large online retailer	20%
4	Tmall	17%
5	Zalora	14%
6	Website/platform of department store also running physical retail chain	11%
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14	Shopbop	2%
15	Goxip	2%

Don't use e-commerce platforms: 7%

Mainland China GBA – all consumers**

1	Taobao	74%
2	Tmall	51%
3	JD.com	48%
4	Pinduoduo	26%
5	WeChat	18%
6	Douyin	9%
7	Alibaba.com	9%
8	Xiaohongshu	7%
9	Large online retailer	5%
10	Website/platform of department store also running physical retail chain	4%
11	Kuaishou	4%
12	SHEIN	1%
13	Shopbop	1%
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15	Goxip	1%

Don't use e-commerce platforms: 1%

Mainland China GBA – Generation Z***

1	Taobao	86%
2	Tmall	33%
3	JD.com	40%
4	Pinduoduo	33%
5	WeChat	20%
6	Alibaba.com	9%
7	Xiaohongshu	8%
8	Douyin	6%
9	Website/platform of department store also running physical retail chain	5%
10	Large online retailer	3%
11	Kuaishou	2%
12	SHEIN	1%
13	Goxip	1%
14	Shopbop	1%
15	Yoox Net-a-Porter (YNAP)	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

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

Hong Kong – all consumers

1	HKTVmall	50%
2	Website/platform of supermarket which running physical retail chain	19%
3	Taobao	17%
4	Website/platform of department store also running physical retail chain	13%
5	iHerb	10%
6	Ztore	10%
7	Tmall	8%
8	Large online retailer	7%
9	eBay	5%
10	WeChat	5%
11	Only via company's own website / platform	3%
12	Foodwise	1%

Don't use e-commerce platforms: 18%

Hong Kong – Generation Z*

1	HKTVmall	35%
2	Taobao	19%
3	Large online retailer	14%
4	Website/platform of supermarket which running physical retail chain	12%
5	iHerb	10%
6	Tmall	10%
7	Website/platform of department store also running physical retail chain	8%
8	Ztore	6%
9	eBay	6%
10	WeChat	4%
11	Only via company's own website / platform	3%
12	Foodwise	2%

Don't use e-commerce platforms: 25%

Mainland China GBA – all consumers**

1	Taobao	60%
2	Tmall	50%
3	JD.com	42%
4	Pinduoduo	20%
5	WeChat	13%
6	Freshippo	10%
7	Website/platform of supermarket which running physical retail chain	9%
8	Sunning	8%
9	Website/platform of department store also running physical retail chain	7%
10	Large online retailer	5%
11	Yihaodian	4%
12	iHerb	2%

Don't use e-commerce platforms: 2%

Mainland China GBA – Generation Z***

1	Taobao	75%
2	Tmall	41%
3	JD.com	33%
4	Pinduoduo	28%
5	WeChat	12%
6	Website/platform of supermarket which running physical retail chain	11%
7	Website/platform of department store also running physical retail chain	8%
8	Freshippo	6%
9	Sunning	5%
10	Large online retailer	4%
11	Yihaodian	2%
12	iHerb	1%

Don't use e-commerce platforms: 2%

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

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

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

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%

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

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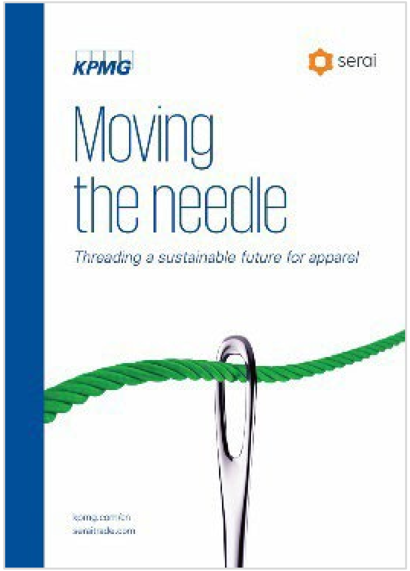

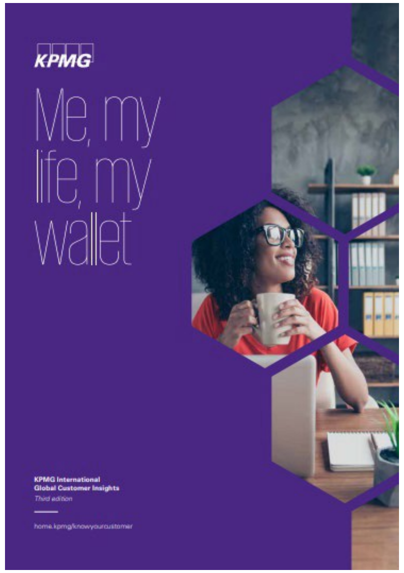

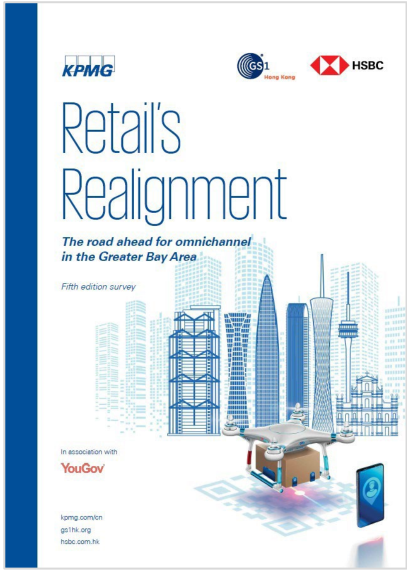

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