

The Digital Pivot for Local Industries in Hong Kong SAR

Global Liquidity and Cash Management



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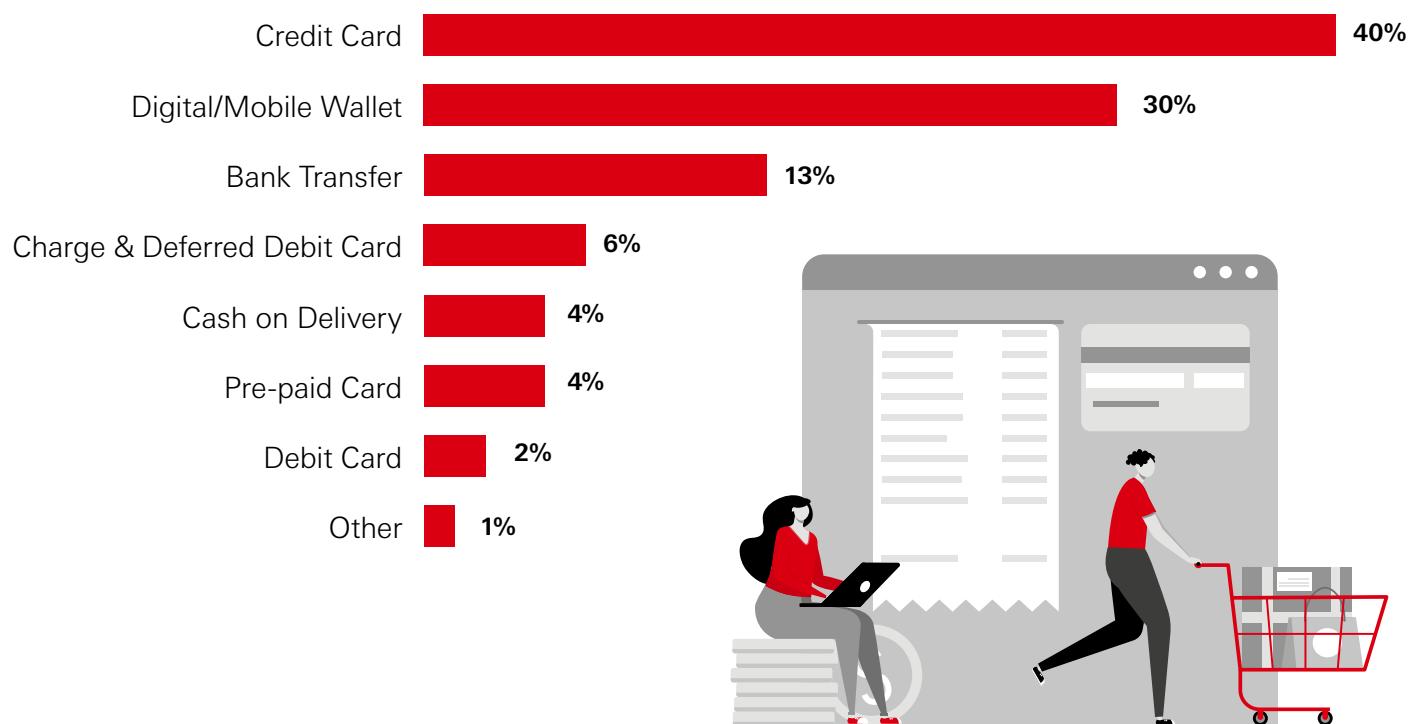
With COVID-19 lingering, Hong Kong SAR (HKSAR) consumers have adapted to new ways of shopping as much as new ways of working. Traditionally, online shopping is less prevalent in HKSAR than in many other developed markets, but it has gotten a boost from the recent pandemic. Only 9% of overall retail spending in HKSAR was conducted online in 2019, despite a strong 89% internet penetration rate in the local population as defined in a 2020 report¹. There is definitely upside potential for growth in the e-commerce landscape for HKSAR.

In terms of the digital payments landscape, the adoption of new payment methods such as digital wallets has been slow². Cards are king when it comes to e-commerce at 40% of all payment methods with digital wallets creeping up behind at 30%³. It is through the young and middle-aged where the usage of digital wallets is embraced (such as HSBC's PayMe, Alipay and WeChatPay) promoting e-commerce expansion.

Merchants also benefit from integrating the government-backed Faster Payments System (FPS) into their digital wallet schemes for instant deposits. To promote more efficient retail payments, the consumer adoption of the FPS QR into a common secure standard, supported by over 20 banks with their mobile banking apps versus the proprietary model from digital wallets, enables merchants to capture a larger customer pool which is important as many individuals (who are not comfortable with credit cards and e-wallets) are making their first online purchase given the prolonged social distancing measures.

Banks will continue to be important in the drive to the digitalisation trends of the HKSAR landscape, case in point, HSBC's Business Collect helping local enterprises capture their digital payment methods effectively.

2019 HKSAR E-Commerce by Payment Method



¹ 2020 Global Payments Report – Worldpay FIS

² The Digital Payments Landscape in Hong Kong 2019 – Tofugear

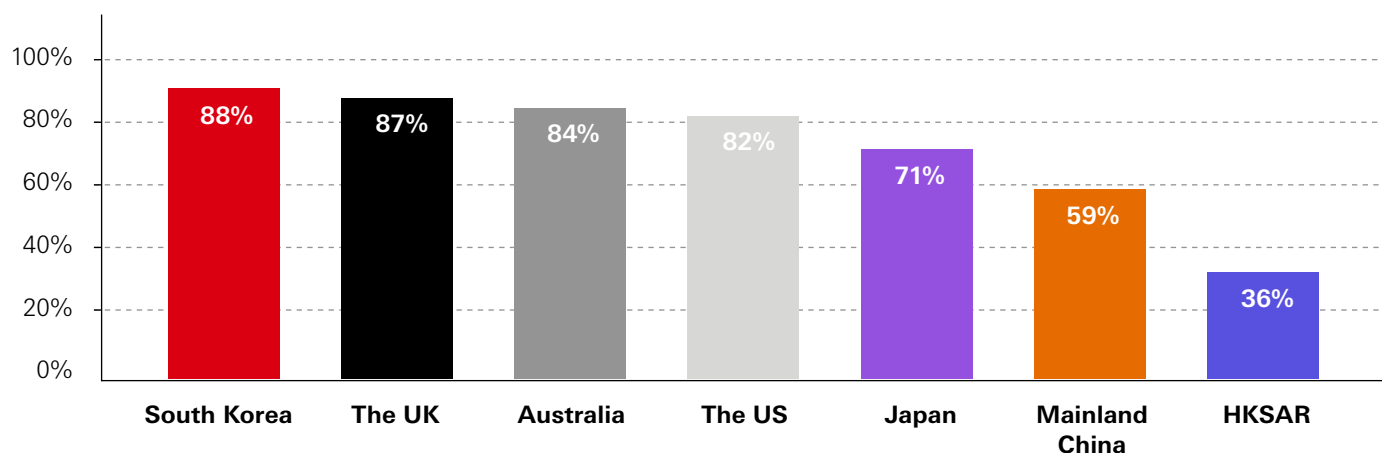
³ 2020 Global Payments Report – Worldpay FIS



A government report in 2020 showed that approximately 36% of HKSAR people aged 15 and above had made an online purchase⁴, a number lower than some of the most developed markets. Additionally, there are barriers hindering consumers

from transitioning to e-commerce with the top two concerns being privacy and data security noted in a 2019 study.⁵ Much needs to be improved on perceptions and consumer experience to change buying behaviours towards online shopping.

Online Buyer Penetration Rate, 2019 or Latest Year



⁴ Legislative Council Secretariat, Research Office – ISSH34/19-20

⁵ The Digital Payments Landscape in Hong Kong 2019 – Tofugear



Innovation amid calamity

Innovation is key. Small and medium-sized enterprises (“SMEs”) are crucial to e-commerce adoption in HKSAR during these times of crisis. From the latest metrics in 2019, there are over 340,000 SMEs in HKSAR driving the engine of growth and job creation amounting to over 98% of the total business establishments and 45% of the labour force in the private sector.⁶

SMEs hit hard by the pandemic have been looking at innovative e-commerce platforms like Boutir* and SHOPLINE* to help ease their transition into online commerce through the lack of resources and financial difficulties.⁷ Vendors are setting up their online stores selling company products to capture the stay-at-home market and save their businesses. They still control the pricing and logistics but are charged commissions from selling through these

portals. Banks also facilitated in easing the transition through the offering of digital payment solutions like FPS and Commercial Cards. Many were forced to try these new methods, and traditional businesses were quick to realise that their first taste at e-commerce was simple enough to start an online shop with just a mobile phone app.

Smart lockers, apart from courier service and store self-pickup, are a recent innovation as e-commerce businesses allow users accessing the mobile phone app to pick up goods 24 hours a day without waiting for delivery or opening hours. Smart lockers provide services such as parcel collection, product returns, laundry and soup delivery, amongst other daily amenities. It is innovations like these that will spur the transformation of e-commerce and business-to-business collaboration in HKSAR.

⁶ Census and Statistics Department, 2020

⁷ Hong Kong retailers turn to staff-run online shops to boost sales hit by protests, Covid-19 pandemic – South China Morning Post, 2020

* Boutir Limited (“Boutir”) and Starling Labs Limited (“SHOPLINE”) are integrated partners of HSBC Business Collect and PayMe for Business

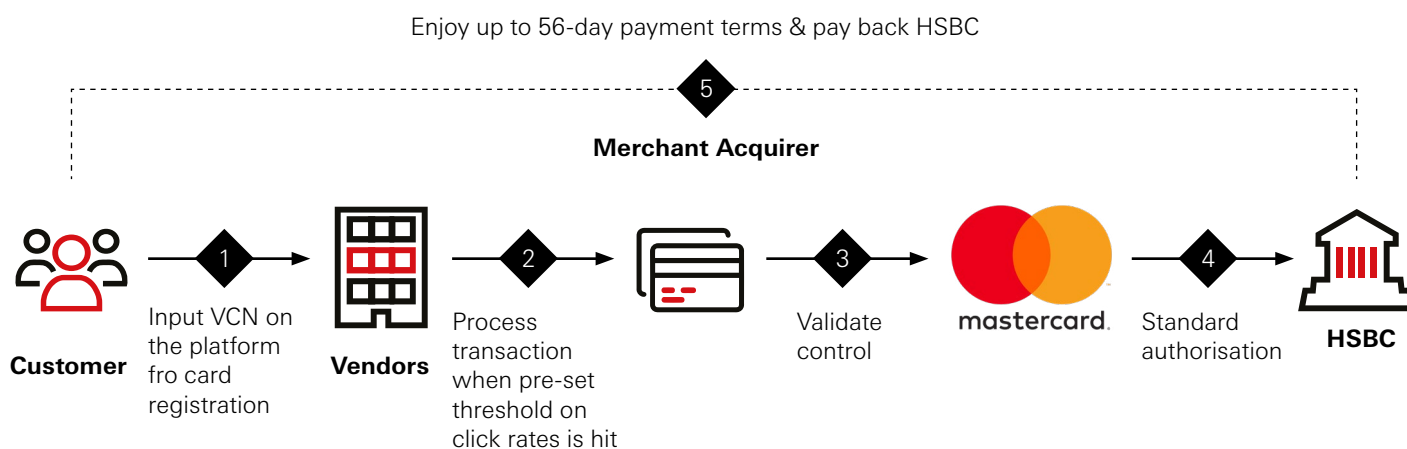
All eyes on advertising and logistics

With the coronavirus pandemic hastening the development of thousands of small online business in HKSAR, having an omni-channel marketing strategy can enhance sales in a saturated market by setting up pop-up stores along with their online commerce presence. E-commerce has also given merchants better access to shopping behavior data for analysing the effects of their digital advertising and social media efforts.

Solutions like HSBC's Virtual Cards have enabled vendors to continue their digitalisation momentum. For example, an e-commerce company headquartered in HKSAR is primarily involved in establishing and operating online stores on multiple platforms across the world, on which they sell a variety of products.

As part of their business operations, the company was making large amounts of payments for digital advertising space to web platforms to advertise their product lines. They typically issued new cards for each new store or advertising campaign that they started operating and even new products, which resulted in them accumulating a large number of card relationships over time.

To meet the company's business needs, HSBC provided Virtual Cards which the company could generate a unique Virtual Card Number (VCN) for each of their stores in real-time through the Virtual Card web portal. This eliminated the manual paperwork needed to apply for new cards.



The risks previously associated with physical card possession by employees. Self-set parameters could be established on each card number regarding various vendors, transaction limits or number of uses.

Transactions could now also be monitored through the various stages of authorisation and processing

in real-time via the virtual card web portal, helping improve overall visibility on the status of transactions. The solution enabled flexibility and reduced operational risk so the business could focus more of their efforts on the logistics of their e-commerce delivery. By using Virtual Cards, it helps to improve working capital with up to 56 days of interest free payment terms.

Since ranking as one of the highest in the world in terms of logistics capabilities, HKSAR has the infrastructure to meet high delivery volumes and customer expectations for demand from merchants to the growth of e-commerce. The pandemic has also opened the door for cross-border transshipment and middleman platforms to drive inbound and outbound business for online shoppers. One particular HKSAR-based company operates warehouses globally helping consumers in HKSAR, for example, to purchase limited-edition shoes from the U.S. Another company headquartered in HKSAR provides a logistics optimisation platform offering low cost bulk and ad-hoc delivery solutions for merchants.

Normally, individuals pay on the logistics portal, but other models have elected for merchants to put cards on file or opt for cash-on-delivery. Through Virtual Cards, logistics services can issue single use cards to their vendors for payments processing, thus automating and streamlining previously manual processes for significant savings on time and work. When every business decision counts in times of economic difficulties, HSBC provides the digital tools and a range of solutions for companies to concentrate their e-commerce efforts straight-through from advertising all the way to their logistics delivery.

