CHALLENGING HONG KONG’S RETAIL COMPETITIVENESS
Exploring Hong Kong’s Digital Retail Trends and Drive to Pedestrianisation
“Normal” shopping was yesterday. Experience and entertainment are the determining requirements for future retail. With the digital world increasingly ubiquitous, and convenience becoming the norm, Millennials and Gen Z are setting a new benchmark for retailers and brands. Survival of the most connected will be a tag line for retail from now on.

We recommend retailers prepare for this connected future by embracing tech as an enabler for better customer engagement, both in-store and online. Retailers should work on presenting new shop formats. Looking ahead, we believe that smaller shops, and limited-editions will become even more popular. Thus, landlords should increase their flexibility on lease terms and subdividing large units.

We believe pedestrian precincts play a significant role as a facilitator that can connect the dots, resonating with people’s desire for lifestyle, walkability, public self-expression and convenience.

A transformation of Des Voeux Road Central, the historically valuable but congested core of the CBD, into an inviting destination, could help promote sustainable competitiveness for the local retail scene and beyond.

**Summary & Recommendations**

- **Millennial & Gen Z trends**
  - Online shopping
  - Mobile-first
  - Social media affinity
  - Prioritising experience and entertainment

- **E-shopping value on the rise**
  - HKD55.4 billion
  - Projection for e-commerce value in Hong Kong by 2020

- **New shop formats needed**
  - HKD18.4 billion
  - The amount lost by Hong Kong retailers in 2017 due to shopping frustration

- **Securing future retail competitiveness**
  - 23%
  - Retail sales premium in pedestrianised shopping streets

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Analyst

Research | Hong Kong
MILLENNIALS AND GEN Z ARE SHAPING THE FUTURE OF RETAIL

Mobile is at the centre

Hongkongers are spending more time online, with 66% of it (3.1 hours) via their smart phones (Fig. 1). This trend is accompanied by local residents, particularly Millennials and Gen Z, who are increasingly turning to online shopping, fuelled by its rising convenience, the growing number of shopping platforms, comprehensive product information, and often favourable prices and promotions.

Additionally, we see a shift towards online shopping on mobile devices, with recent research suggesting that this will account for the majority of online shopping, as early as 2019.

Not only are local online shops popular; three out of four shoppers have made cross-border purchases in the past 12 months. Hong Kong recorded the largest cross-border e-commerce shopping value during Alibaba’s Single’s Day in 2018, a spot previously held by Russia for two years, which we see as an indicator of the rising popularity of shopping online.

With digital increasingly disrupting traditional retail concepts and the city’s e-commerce value set to rise by 42% from 2018-2020 (Fig. 2), brands and retailers are under mounting pressure to engage shoppers to spend money in their brick-and-mortar stores.

Fig. 1: Time spent online by Hongkongers

<table>
<thead>
<tr>
<th>Year</th>
<th>Overall average time spent online (total, hours per day)</th>
<th>Thereof: Average time spent online on smart phone (hours per day)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>4.3</td>
<td>2.7</td>
</tr>
<tr>
<td>2017</td>
<td>4.7</td>
<td>3.1</td>
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</tbody>
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Source: Graphic and Nielsen Media Index 2017 Year End Report

Fig. 2: Projection of e-commerce value in Hong Kong (HKD billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (HKD billion)</th>
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<tbody>
<tr>
<td>2017</td>
<td>HKD 30.6</td>
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<td>2018</td>
<td>HKD 38.9</td>
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<tr>
<td>2020</td>
<td>HKD 55.4</td>
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</tbody>
</table>

Source: Graphic and PayPal Cross-Border Consumer Research 2018, HKET

Note: Market research firm Nielsen generally considers millennials as people currently about 22 to 35 years old and Gen Z people currently about 12 to 21 years old.
Digital experience and excitement wanted in store

Despite the rise of online shopping, people still enjoy physical stores. Even tech-aware Millennials and the digitally native Gen Z like shops for providing a sensory experience such as seeing and touching products, or to receive a personal face-to-face service that cannot be replicated online.

However, thanks to easily accessible product details, reviews and online market places, these generations are known to switch quickly between channels. Insufficiently connected retailers that fail to digitally engage with their customers may see lacklustre sales, as potential customers might use the physical stores only for *showrooming*, a term that describes shoppers who test products in store but buying online—often due to advantageous pricing.

The spending power and size of the Millennial and Gen Z populations are a large driver of future retail concepts. Their demand for experiential, entertaining, convenient and seamless shopping trips (Fig. 3) gave rise to the development of retail technologies able to bridge the gap between offline and online shopping, thus making physical shopping more attractive.

E-wallets and self-checkouts for instance, offer more payment options and help cut the checkout time for the customer. This is crucial, considering that frustrated shoppers, who abandoned their purchases due to long queues, have cost Hong Kong’s retailers more than HKD18.4 billion (USD2.35 billion) in 2017. The mobile app in which the e-wallet is embedded can also help retain shoppers. For instance, after a successful transaction using WeChat Pay, the system offers consumers the option to follow the brand digitally, allowing the brand to send more personalised content.

The recent emergence of smart stores empowers consumers, fostering digital interactions and better engagement with them, ultimately increasing satisfaction.

You can’t just expect shoppers to come into the store when you do nothing, you have to excite them.

You have to give customers a reason to come into the store.

— Daniel Grieder, CEO Tommy Hilfiger

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Fig. 3: The shopping drivers of Millennials and Gen Z

<table>
<thead>
<tr>
<th>Experience</th>
<th>Immediacy</th>
<th>Social media affinity</th>
<th>Tech-savvy</th>
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<tbody>
<tr>
<td><strong>Millennials</strong></td>
<td><em>Digital pioneers</em></td>
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<td></td>
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<tr>
<td><strong>Gen Z</strong></td>
<td><em>Digital natives</em></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>“Convenience is key”</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>▪ Lifestyle: Mix of dining experience, new concepts, premium fashion, culture and arts</td>
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<td></td>
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<tr>
<td>▪ Informed choices</td>
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<td></td>
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<tr>
<td>▪ Speed matters</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>“Instagrammable entertainment”</td>
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<tr>
<td>▪ Shopping offers social connectedness: digital world is ubiquitous, on the lookout for share-worthy real life moments</td>
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<tr>
<td>▪ Exclusivity</td>
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*Source: Colliers International*

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1. 451 Research, commissioned by Adyen, Survey: Hong Kong Unified Commerce Market, Q4 2018
PEDESTRIAN MALLS HELP MEET NEW DEMANDS

Wanted: a vibrant urban lifestyle

Create new retail occasions

As people are likely to shop more online in the future, it is crucial for retailers, as well as the government and landlords, to support a continuing desire to shop in physical stores. We believe the key is to create new retail occasions. High on the agenda, not only for Millennials and Gen Z, are exciting urban places where people can hang out, socialise, and enjoy themselves.

Offering a vibrant pedestrianised space with diverse layers of attractions and activities, including a wide variety of shops, entertainment, sensory experiences, as well as a diverse palette of F&B options that caters to different times of the day, can greatly increase footfall and invite people to linger. Furthermore, accessibility, sufficient public seating, green elements, and an appealing design are all crucial elements to a pedestrian-friendly street.¹

Make use of the space

Notably Gen Z is drawn to places that offer the perfect scene for their next social media post. We think that capitalising on the desire to see and to be seen, by introducing street cafés, visually aesthetic and interactive street kiosks and pop-ups, and street events can draw crowds. E-gaming, key opinion leaders (KOL), and lifestyle influencer events can also help satisfy the appetite for new things to excite us.

¹ K. Nakamura for International Association of Traffic and Safety Sciences, IATSS Research, Vol. 39, Issue 2
Retail precincts deliver a new leisure experience

Modern retail precincts that offer a plethora of easily accessible and experience driven concepts can boost customer satisfaction which can translate into higher retail sales.

Recommendation: Upgrade store formats

Omnichannel shop configurations: To optimally engage with the tech-aware shoppers, we advise store upgrades for retailers as we expect to see a growing number of omnichannel shops. In Hong Kong, Starbucks is an excellent example for new and seamless experiences. The Reserve flagship store in Lee Garden Three (Fig. 5), is a great place to socialise, and offers a wider F&B selection. Customers that download the app can order online, personalise their beverage, pay online and pick it up at any location. A digital rewards program, which allows collected stars to be exchanged into free drinks and extended WiFi, provides further incentives for customers, creating “brands stickiness”. In another example, Zara opened a revamped flagship store in London in 2018, offering AR\(^1\) window shopping, interactive mirrors, an automated click and collect system, and multiple checkout options including self checkout. Staff, equipped with iPads, can help customers order items online when they are not in stock (Fig. 6).\(^2\)

**Mini-programs**: Moreover, location based mini-programs, for instance those within the WeChat mobile app, can help draw foot traffic to a physical shop. Built on top of the platform, these small applications offer a wide range of discounts, without having to separately download multiple apps of different brands. While in the store, consumers will then be able to directly pay with the integrated e-wallet.

**Small is the new big**: We believe that destination stores, featuring attractive layouts and activities beyond shopping are likely to become more popular. H&M, for instance, opened a smaller store in Stockholm that has fewer, but higher quality items, a coffee bar, and offers invitation-only events for premium members – delivering a sense of exclusivity and catering to local tastes.\(^3\)

**Exclusivity and product testing**: What will likely get people into shops is aesthetic experiences, limited editions, and a better way to test products, because many Millennials and Gen Z shoppers want to test before they buy.

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\(^1\) AR: Augmented Reality, \(^2\) Bloomberg

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**Source**: photo courtesy Melanie Kotschenreuther, AR: Augmented Reality, Bloomberg

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**Source**: photo courtesy Lin, I-Chun, Reuters
The facilitator – A walkable and connected urban landscape

New retail technologies and attractions have their limitations. A walkable, pedestrianised, public realm can tie all the different elements together and tackle new challenges arising from changing consumer behaviour. A better linkage of multiple attractions through pedestrianisation can meet the requirement of convenience, as it should make it much easier to get around.

A pedestrianised zone in the heart of the city can make for a destination, a street, people want to go to, not just through. When enjoying the place, people tend to stay longer, increasing the likelihood of spending.

People, especially Millennials, favour walkable communities. Internationally, there are scores of cases that show that walkability can in fact improve competitiveness.

Barcelona, La Rambla (Spain): Restricting vehicle access to La Rambla, a famous partially pedestrianised area, made pedestrian crossings faster and more convenient. Pedestrianising this street amounted to a time saving of more than 2,500 hours daily, which then was quantified to a spending of HKD70.8 million (EUR7.92 million) a year.

We therefore believe that pedestrianisation can greatly contribute to the creation of a competitive landscape that should be more sustainable in the long term.

Fig. 7: Future vision of a partially pedestrianised Des Voeux Road Central

Source: photo courtesy Walk DVRC Initiative, Colliers International
1 Project for Public Spaces
2 CIVITAS
3 Walkscore
PEDESTRIANISATION IS CHALLENGING

Hong Kong’s issue: Competition between livability and business operations

A city with car priority

With the population almost doubling in the past 50 years, Hong Kong’s growth into a global city has led to prosperity, but also a tremendous growth in its car fleet. Despite the city’s efficient public transportation system, the number of private cars per 1,000 people surged from 2007 to 2016 by more than 35% to 72.7, while the average daily use of public transportation grew by 9.4%. The latest figure from May 2017 brings the total number of private cars to over 540,000, which is 72% of all licensed vehicles. With it, traffic jams and roadside pollution have become a daily companion for residents.

Keen competition for urban space

We think that Hong Kong lacks a sufficient amount of inviting public spaces. In this context, the historically valuable and highly frequented CBD is of particular importance. Constricted by limited walkability due to rails and severely overcrowded pavements, many residents demand a new focus on pedestrians, with better livability and more space for leisure and activities.

The demand for people-first street design stands in contrast to the needs of businesses and retailers, who fear that a pedestrianisation will harm their businesses, due to lack of passing visitors and limited accessibility, leading to loss of revenue (Fig. 8). Moreover, retailers are voicing concerns that the loading and unloading of goods will bring major difficulties. And it is argued that rerouting traffic will cause even greater congestion due to narrow roads.

A balancing act to meet different needs

The opposing demands of residents and commerce pose a challenge for the successful implementation of a pedestrianisation project in Hong Kong’s CBD. However, we believe a pedestrian friendly city centre, efficient business operations and traffic can coexist – with a holistic approach.

Streets are now chasms, and a vast majority of public space is taken up by roads.

We want a fairer sharing of space.

Marcus Shaw, Chairman, Walk DVRC Initiative

Source: Colliers International

Fig. 8: Competition of livability and business operations
Lessons learnt from international projects

Common issues

We have taken a closer look at international pedestrianisation projects, including famous examples like New York’s Times Square, Barcelona’s vibrant La Rambla, and Istanbul’s Kadiköy and found that public concerns usually focus on fears of traffic chaos and adverse economic impacts - pain points also found in Hong Kong.

Despite the diversified benefits that pedestrian precincts deliver to the respective cities, they also experienced some unwanted consequences. Many can be clustered into traffic and street management problems. These include illegal parking and unloading of delivery vehicles, limited effectiveness of some traffic diversions; and issues like overcrowding and nuisance from undesired behaviour. In addition, Kadiköy’s increased attractiveness has led to rising rents, resulting in a lack of shop diversity.

Stakeholder collaboration and management

Critical factors for success, as evidenced by numerous cities around the globe, include comprehensive collaboration with all stakeholders involved (the government, landlords, businesses and residents), constant communication, and revised street management policies. Some solutions include traffic modifications, street activity zones and the management of large groups. Looking forward, we believe that Hong Kong can learn from pedestrianisation projects in other cities and create a highly successful new destination itself.

Merits of the public realm

Based on the major opposition points we have compiled a list of quantified benefits, seen in Figure 9, from international projects in metropolitan areas, showcasing that the creation of inviting and well managed public places has tangible positive effects. For instance:

New York City: Despite concern about more traffic congestion in the gridlock-plagued city New York, the speed of buses increased significantly after the pedestrianisation of Times Square. It is noteworthy that, after a trial lasting six months, 68% of businesses called for a permanent road closure.

In upper Manhattan, retail sales growth of the new precinct outperformed that of the entire district – a result not exclusive to this project. A higher pedestrian volume and stationary population, e.g. people that eat, drink and take photos, increase the likelihood of more retail spending. 1
OPPORTUNITY FOR HONG KONG’S DES VOEUX ROAD CENTRAL (DVRC)

A future-ready hub

We believe that the existing proposal to transform the historically valuable Des Voeux Road Central in the heart of Hong Kong’s CBD into a pedestrian and tram precinct, can not only prevent a further decay of the district, but also, as noted in Figure 10, offer overarching benefits that go beyond DVRC itself. Creating an inviting pedestrian-friendly destination that promotes cultural heritage, inclusiveness and the adoption of new retail concepts should aid the city’s positioning as an innovative, future-proof hub.

Synergy-effects

In fact, we expect a pedestrianised DVRC to act as a connector, creating synergy that turns the entire area and adjacent districts into an integrated commercial and leisure hub. With improved walkability, residents and tourists can walk to the future Central Harbourfront development with ease. The enhanced connectivity, along with better signage, should also make it more convenient to use the Central ferries to access the upcoming West Kowloon Cultural District. Moreover, SOHO’s vibrant F&B scene is likely to be another direct beneficiary of the project.

We think that the improved attractiveness of the precinct can help retailers increase their visibility and strengthen their image. By offering a more human-centred city, more residents, tourists and even employees should be attracted to the area, making a valuable contribution to the city’s future competitiveness.

Smart concepts to overcome obstacles

In our opinion, some challenging obstacles can be overcome by the adoption of advanced technological applications. As laid out in the government’s Smart City Blueprint, more extensive use of the internet of things (IoT) is planned. Next to real-time traffic information (2020), an intelligent traffic signal priority system is planned for 2021. The implementations has proven to be highly successful in cities like Pittsburgh, reducing travel time by 25%. Currently rolled out in numerous pilot schemes around the world, we think that smart mobility should be a major focus in alleviating traffic. The fact, that the current proposal reserves one lane for traffic, should ease the issue of unloading and access for emergency vehicles.

“It’s about time”

In our view, now is a good time to start implementing a new pedestrian precinct in DVRC. In terms of traffic, the newly launched Central - Wan Chai Bypass and Island Eastern Corridor Link should ease traffic in Central. Facing an increasingly challenging retail environment with rising penetration of e-commerce, more demanding customers, and more international competition, offering a new destination to enjoy public space is an excellent opportunity for Hong Kong to build up sustainable competitiveness. The planned “Sheung Wan Fiesta”, a 90-day trial, where parts of DVRC would be closed to traffic is a great way of warming residents and businesses to the new concept.

Source: 1 by Hong Kong Institute of Planners and MTRC, 2 ITU News, 3, 4 Information and Technology Bureau, 5 Traffic21, research institute of Carnegie Mellon University, 6 Walk DVRC Initiative
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