Consumers everywhere now have the flexibility to purchase most types of goods via traditional bricks-and-mortar stores or online channels. Although worldwide adoption of e-commerce is rising rapidly, it’s only recently that landlords and retailers in Hong Kong have had to re-evaluate their strategies to meet these changing market dynamics.

**Online Disruption: Smaller stores in the crosshairs**

Hong Kong has all the ingredients for a thriving e-commerce scene, with consumer spending amongst the highest in the region, and a robust mobile and payment infrastructure. However, as it turns out, Hong Kong consumers are spending less online as a proportion of total retail sales compared to their counterparts in other major world cities.

Although most retailers in Hong Kong have yet to experience e-commerce’s bite, the lower-end of the market is one segment being squeezed by rising competition, with the likes of Taobao competing directly with traditional ‘mom and pop’ shops and smaller shopping centres built around subdivided shops.

**The Profitability Myth of Online Retailing**

With high retail rents, you wouldn’t be alone in thinking that e-commerce presents a more profitable alternative to operating a physical store in Hong Kong, however, JLL’s latest white paper, *Reimagining Retail: Bricks, mortar, and the evolution of e-commerce in Hong Kong*, reveals otherwise, with shipping costs and high return rates being the Achilles’ heel for online retailers. The majority of online retailers provide free returns to remain competitive, and as a result, savings on rental and labour costs are often marginalised.
Adapting to the changing retail ecosystem

The retailers and landlords JLL has surveyed foresee e-commerce playing an important role in the city’s retail sector over the next five years.

The future of Hong Kong’s retail market lies in its evolution to omni-channel retailing, which allows consumer preferences to be shared across all retail platforms and formats – mobile, social media, and physical and online stores.

As new technologies emerge and more consumer data becomes available, retailers and operators will seek to better understand their customers to deliver personalised solutions that improve customer experience and retailers’ bottom lines.

“Experiential Retail”: Putting consumers’ experience first

The price gap between e-commerce and physical stores is often cited by shoppers as the reason they choose to buy online, but bricks and mortar retailers and landlords are trying everything from personalised products and mobile payment options, to in-store value added services, to maintain the relevance of high streets and malls.

Technology is one way traditional retailers are implementing this customer-centric retail experience. Take Farfetch’s “store of the future” concept in London. Sensors within the store track shoppers’ movements and automatically populate a wish-list on their phones using RFID and ultrasound technologies. Shoppers can even create and view custom designs through interactive holographic displays, and utilise digital mirrors in its fitting rooms.

Time to move into bricks and mortar

Despite the rising need to invest in technology, e-commerce will not spell the end for bricks and mortar stores. An online presence is important for any retailer, but e-commerce doesn’t replace the shopping experience and enjoyment provided by physical stores.

Tourist arrivals and retail sales were up 12.9% and 12.0% year-on-year in June 2018 respectively, according to government statistics, and the opening of the Hong Kong-Zhuhai-Macau Bridge will give the sector another boost. At the same time, the cost of opening a physical store in Hong Kong has dropped significantly following a three-year downswing in the city’s retail market.

Given that uptick in the market, JLL believes there is currently a window of opportunity for online retailers to establish a physical presence in bricks and mortar stores – but that window won’t stay open for long.!

Download your copy of Reimagining Retail: Bricks, mortar, and the evolution of e-commerce in Hong Kong from www.jll.com.hk

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