



# Navigating Turbulent Times

**Health check for retailers  
in Hong Kong**

September 2019



# Headwinds in the consumer and retail sector



Since February 2019, Hong Kong has been experiencing a decrease in retail sales volume compared to 2018\*.

The intensifying trade war and looming global economic recession are putting pressure on the industry in terms of both sales and sourcing.

In a recent KPMG survey (Figure 1), 79 percent of retailers in Hong Kong affirmed that high property rent was the biggest challenge the industry faces, followed by talent shortage and high staff turnover.

Leaders tasked with steering through this turbulent time see industry-wide collaboration as key. They need visibility, solutions, and optimal structure. This article outlines where we have deployed our expertise in helping management teams and boards address issues proactively.

## Main challenges facing Hong Kong's retail industry

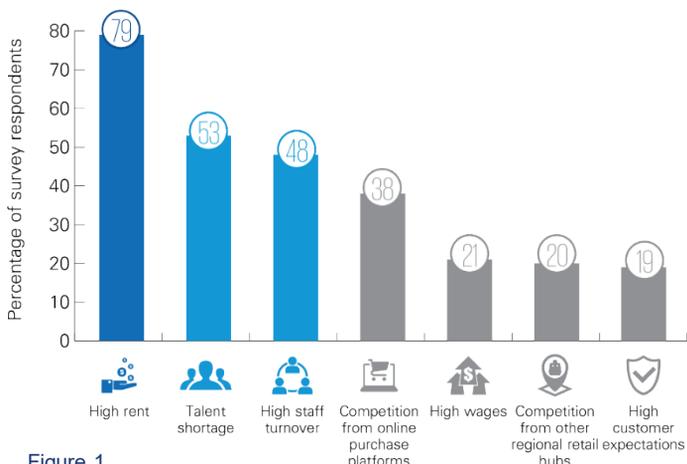


Figure 1

Source: KPMG/HKMA Retail Labour Survey

## Business health check



We identified three main headwinds for retailers in Hong Kong in the short, medium and long term. **Now** is the time to proactively tackle those challenges in order to stay afloat.

### 1. Structural and operational challenge

**Challenges:** Costs of goods sold, real estate rent, labour costs, falling sales – all affect one's cash position.

This is likely to be the most pressing short-term challenge, and action is required now.

**Interventions: Review operational efficiency and cash utilisation** in the following areas: store operations, buying, merchandising, supply chain and logistics, back office and overheads to identify savings and improvements in the short and medium term.

### 2. Global slowing/recession and trade war

**Challenges:** Besides the trade war, with the recent decrease in the number of tourists, retail sales are significantly affected due to its linkage with tourism. Local consumption has also declined, and discretionary spending will be affected the most.

**Interventions: Map out risk and business scenarios** and the impact on business; develop a contingency plan to survive in the short term; prepare restructuring and repositioning; digitise; communicate business decisions to stakeholders.

### 3. Strategic and competitive challenge

**Challenges:** Consumers are getting more demanding, opting for a more individualistic lifestyle. This is a longer term challenge for Hong Kong consumer and retail businesses, and indicates the need for local businesses to get ready for a stronger competitive landscape.

**Interventions: Strategic health check** on long term viability of the business model; brand repositioning; assortment refresh; channel, format innovation; widened geographic spread of portfolio, e.g. GBA, ASEAN countries; brands/ business collaboration to leverage one another's platform.

\*Report on Monthly Survey of Retail Sales (June 2019), Census and Statistics Department

# Deeper dives



## Our Retail Advisory Team can help you

### Local customer journey

We can help you review your customer segmentation, enhancing local customer journeys potential. This will help you balance volatility in demand, and focus on profitable customer segments.

### Redesigning agile organisations and operating models

We can help you redesign lean, cost-efficient and customer centric organisations in this challenging time.

### Reshuffle your portfolio

We can help you identify new opportunities to reshuffle your portfolio and adapt to a volatile environment with better agility.

### Reduce cost

We can help quickly identify levers for cost savings and cash-flow optimisation, with deep retail sector expertise and action-oriented results.

### Optimise supply chain routes

Our team of tax, legal and global supply chain experts can help define restructuring scenarios, optimising supply chain routes and tax implications, hence improving efficiency

### Analyse business performance

We have robust data and analytics using big data/AI, which can help analyse business performance, and identify pain points and highlight recommendations.

### Quantify risks and new opportunities

We can help identify, quantify and balance risks along your journey to explore new market opportunities and navigate turbulent times.

### Empower and engage employees

We can perform a rapid diagnostic across HR and Payroll processes to improve operational efficiency, allowing an optimal and lean workflow and empowering engaged employees.

### Recover loss from fraud/misconduct

We can help investigate fraud incidents and help recover the cash lost in those criminal activities.

### Restructure your organisation

We can help you navigate potential discussions and changes related to restructuring, or insolvency when it becomes unavoidable.

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