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Hong Kong International Entrepreneurs Festival Takeaways— Digitization and Differentiation as the Key Growth Drivers



Key Takeaways

- 1) The consumption upgrade in China will remain the key long-term trend in the country's retail landscape. As Chinese consumers shift to high-quality imports at the expense of domestic products, to stay relevant Chinese retailers will need to be innovative and differentiate their offerings.
- 2) The digital customer experience will be the key differentiator for brands. Consumers' drive for more rapid and flexible fulfilment will disrupt how businesses source, manufacture and display products. Digitization is the next wave of change, and companies are recommended to leverage digital technologies such as IoT (Internet of Things) and artificial intelligence (AI) to reimagine business models and optimize processes.
- 3) Network effects are most important for platforms operating in markets where buyers and sellers are dispersed. The platform with the largest market share will dominate.

The Fung Global Retail & Technology team attended the 2nd Hong Kong International Entrepreneurs Festival (HKIEF) held in Hong Kong. The theme of this year's event was "Hong Kong Plus, Dream Plus!" and featured veterans from internet companies and investors who spoke on topics ranging from e-commerce and the intersection of internet with retail, to travel and finance. Organizers of HKIEF include the China Internet Development Fund (CIDF), the Hong Kong Information Technology Joint Council (HKTDC) and the Internet Professional Association.



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Jiang Nan Chun, Founder of Focus Media

Jiang Nan Chun, the founder and chairman of Focus Media, one of China's largest advertising networks, shared his view on consumer demand in China and demonstrated how innovative business models could capture new opportunities.

- **China as a future growth engine:** Jiang believes China will remain the growth engine of the global economy, despite recent negative headlines of yuan depreciation and an economic slowdown. By 2025, he forecasts that half of the world's companies with revenues exceeding US\$1 billion will be headquartered in China.
- **Pockets of strength in China's retail landscape:** Jiang observed an abundance of opportunities for retailers with the rapid increase in the number of "high income, high education and high position" consumers. Sales of Imported consumer goods have been outperforming domestic goods, as Chinese consumers have been allocating more of their spending on imported goods, which are perceived as high quality, at the expense of domestic retailers.
- **The primary problem faced by Chinese retailers:** The rapid commoditization of Chinese consumer products has eroded pricing power. As a result, Chinese retailers have been competing on pricing, not on quality.
- **Product differentiation is critical:** The secret formula for Chinese retailers is to master mind-share to market-share conversion and product differentiation, according to Jiang. He gave several examples: Baidu for online search, Alibaba for e-commerce, Vipshop for online flash sales and Starbucks for coffee.
- **Recommendations for Chinese retailers:** Jiang recommended three ways that Chinese retailers can succeed in the future: 1) find differentiation in brand value; 2) seize opportunities to gain market share; and 3) cement their brands as representative household names.
- **China retail—the trend in the next 10 years:** We are, and will continue to, witness a consumption upgrade, as retailers seek to return value to customers through innovation. Jiang expects those retailers who can best cater to urban white-collar workers and the middle class to have a sustainable advantage.

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Scott Hunter, Chief Customer Officer of SAP

Scott Hunter, Chief Customer Officer of SAP Greater China, shared his insights on how digital transformation and innovative technology has been shaping the retail and manufacturing landscape.



Source: Fung Global Retail & Technology

- **The Future of work:** Hunter believes over 2 billion jobs will disappear or be replaced by 2030, as the future of work evolves radically, due to technology advancements such as artificial intelligence (AI).
- **Digital customer experiences will be the key differentiator:** Some 70% of consumers are more likely to recommend a brand with a simpler experience.
- **Structural changes to digital supply networks:** Digital customers' drive for more rapid and flexible fulfilment will disrupt how businesses source, manufacture and display products. Hunter forecasts annual B2B e-commerce sales will reach \$1 trillion by 2020, and the sharing economy is expected will grow by 30 times by 2030. To embrace these changes, companies will need to introduce new digital capabilities.
- **IoT:** The real value of IoT (Internet of Things) is its ability to be an agent of change—to change business models and create new business opportunities. By 2020, Hunter expects there to be 200 billion devices connected to the IoT. By 2018, 403 trillion GB of data is expected to be produced from IoT devices.
- **Digitization as the next wave of change:** As a response to disruptions, companies will need to construct an integral digital supply network to generate more value. Companies are advised to leverage the full spectrum of digital technologies such as IoT and AI to reimagine business models and optimize processes.
- **Future opportunities:** Hunter believes the financial and industrial sectors in Hong Kong should leverage the One-Belt-One-Road initiative and the Chinese market for future growth.

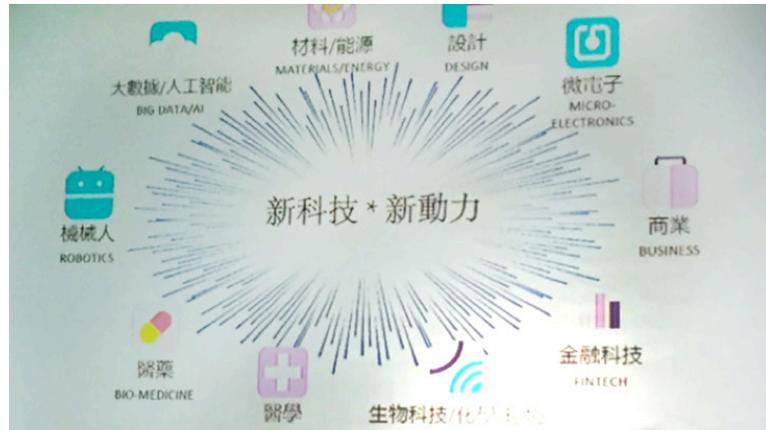
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Liu Xing, Partner of Sequoia Capital

Liu Xing, a partner of Sequoia Capital and former start-up founder, discussed the importance of network effects in digital platforms.

The Importance of Network Effects

Liu stated that the most powerful platforms are those that exhibit the strongest network effects. In a market where buyers and sellers are more dispersed, the company with the largest market share will dominate.



Source: Fung Global Retail & Technology

Conclusion

The key message of this year’s HKIEF was how companies—particularly those in China—could move up the value curve to increase customer satisfaction and sales. Digitization and product differentiation are cited as the primary levers that companies can use to overcome the challenges caused by the paradigm shift in evolving customer preferences and to pursue new revenue opportunities. Unleashing new technologies can pivot Chinese businesses to a more central role in driving innovation.



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