The squeeze is on

Hong Kong retailers are in for a hard time as the economy shrinks and mainland visitor numbers dwindle. Can they ride it out? As Sophie He and Frannie Guan write, much would depend on how well they gear themselves up to meet the challenges.

Amid a stalled economy and Hong Kong mulling over whether to cut back the number of mainland visitors, retailers and even toys vendors are feeling the pinch.

The scenario is simply uninspiring, with the retail market in the first half of the year branded as gloomy and mainland shoppers turning "less generous" and tightening their belts.

Many local retailers admitted they're no longer on a roll, the heaps of pressure are being felt, and that they're apprehensive about their future. Some are being forced to diversify or come up with new strategy to keep their heads above the water in the second half.

The SAR's retail sales in April saw their biggest decline since February 2009 against the prospect of Hong Kong slicing the number of mainland arrivals.

Retailers in Mong Kok and Sha Tin — two of the core districts that had been "magnets" for mainland shoppers in the past — told China Daily they've seen a distinct fall in the number of mainland tourists, accompanied by an abrupt change in their shopping behavior.

"They (mainland shoppers) used to trawl along bulky shopping bags cramped with clothing and luxury brand products. But, nowadays, they're merely shopping for groceries," groaned Ah Chiu, who've been running his toys business in Mong Kok for more than five years.

At Sha Tin, it's the same pathetic story. A jewelry store manager complained it's no longer a bed of roses as he watched his sales dwindle. In the past, half of his sales had come from mainland shoppers.

"We're only a small shop and most mainland travelers who visit our shop were introduced by our regular customers. What we're doing now is to offer bigger discounts for our loyal clients so that they will continue to bring more mainland shoppers here," he said.

Just 'pull your socks up'

A wine dealer said it's now promoting some low-priced wine to attract local customers to try to make up for the loss in business.

Mr Yeung, the store owner, said local clients living nearby love such promotions while mainland big spenders would go for more expensive wines with fancy packaging.

A Mong Kok drug store operator said he has told his staff to work harder to win more business.

"Right now, we don't have other plans to make up for the decline in mainland business. We can only work harder and if that won't help, we may have to cut staff," he warned.

Prominent retail companies are also fine-tuning their business strategy and launching new products to cope with falling revenues.

Water Oasis Group Limited, which distributes ~H2O+ brand skin-care products, said it has started focusing on spa centers to reduce dependency on mainland tourists.

The company operates spa centers under the Oasis Spa, Oasis Beauty and Oasis Beauty Homme labels.

Chief Executive Stevie Wong Man-lai acknowledged that the pressure on the retail industry is on as retail sales plunge, and the government considers taming the flow of mainland visitors to the city.

A VOTE OF CONFIDENCE

British retail giant, Marks & Spencer, is to raise its portfolio in the HKSAR by opening new stores in the city this year.

Bruce Findlay, regional director for Asia at Marks & Spencer, told China Daily the company already has 15 stores in Hong Kong and, recently, it added two stand-alone food stores.

"We're looking at new locations to open more stores in Hong Kong this year … both food stores and mainline stores (selling food and clothing) and even flagships like the one we have on Queen's Road Central," he said.

At present, he said international markets account for some 10 percent of Marks & Spencer's total revenues, and Asia has been the group's key overseas market as its growth rate is the fastest. Hong Kong has always been one of the group's key strategic markets.

"Hong Kong is our Number One international market after Ireland — that's how important Hong Kong is to us," he said.

Findlay pointed out that he expects Marks & Spencer's food business to grow faster than its apparel business in future as, currently, the company's food business makes up about 25 percent of total sales in Hong Kong, while in the UK, its food business contributes half of the revenue.

"So, you can see the opportunity for us in an important overseas market like Hong Kong. We see a great opportunity and potential for growth in the food business."

Asked whether the company is worried about the city's retail market amid gloomy economic forecasts, Findlay said all markets do have ups and downs.

> **"Hong Kong is our Number One international market after Ireland — that's how important Hong Kong is to us. We see a great opportunity and potential for growth in the food business."**
>
> BRUCE FINDLAY
> REGIONAL DIRECTOR FOR ASIA, MARKS & SPENCER

"Marks & Spencer has been here in Hong Kong for 25 years. We've seen a lot of changes (in terms of business environment) and we've adapted ourselves to those changes."

Although it has been widely reported there are challenging conditions out there, the company's businesses are still growing, said Findlay, adding that its businesses grew again last year not just because of new stores, but growth has been positive.

"We expect the market to be challenging (in the second half), but we have a strong local base. We don't rely on any one consumer, and as our offer is so wide, we are better positioned for the challenge."

Findlay said that apart from expanding in Hong Kong, the company plans to add more stores on the mainland.

"We've been on the mainland since 2008, Currently, we have 15 stores there, two of which were opened last year," he said.

Findlay believed there are great opportunities on the mainland for the company, which plans to open a flagship store in Beijing and is looking for prime locations in Shenzhen and Guangzhou.

Bonjour Holdings Limited — the beauty and healthcare products retail store chain — is selling snacks under the brand name "More Mall" at seven of its shops across Hong Kong.

The group is reported to have been using the brand "More Mall" for a long time, but it had not been promoting snacks as its focus had been on big spenders from the mainland.

Michael Cheng, Asia Pacific, China and Hong Kong Retail and Consumer Leader at PwC, told China Daily several factors have been responsible for the retail sector's poor showing in the year's first half.

Firstly, there's the base effect in the first quarter of last year when a large number of mainland visitors came to shop for gold, which also boosted sales of other retail products in Hong Kong. But in the first half of this year, the "gold rush" had waned, which explains the cutback in retail sales.

Political backlash

Secondly, politics has played its part, casting a negative impact on the retail market, with rising concern over the "Occupy Central" movement as local activists called for a boycott of mainland tourists.

Thirdly, mainland tourists are indeed spending less, which Cheng attributes partly to the central government's anti-corruption and frugality drive.

Looking to the second half of this year, he expects it to be challenging, saying many people have become very pessimistic, with some even doubting whether Hong Kong's retail sales would see any growth at all in the second half.

"But, I think the situation may not be so bad," said Cheng, adding that he believed the city's retail sales will grow by seven to eight percent in the second half, compared with a year ago.

He pointed out that the ongoing World Cup should give retailers a lift, notably the catering industry, as people would consume more food and beverages for the duration of the month-long tournament.

Besides, most people remain bullish about the local stock market in the second half, while the property market has stabilized, providing a degree of support for consumer confidence.

"But, we still need to pay close attention to the number of mainland visitors and their shopping behavior. I think the Hong Kong government should launch new initiatives to attract more mainland travelers," Cheng urged.

He said many local retailers are strongly against the plan to reduce mainland visitor numbers, and have already made their views known to the authorities.

He warned that many retailers are still heavily dependent on mainland tourists, and it would be very hard for them to change their business model. Local consumption is unlikely to offset the impact of reduced mainland patronage.

He suggested that small retailers should resort to cost control, launch online stores to increase their overall revenue, and improve their product mix with lower prices.

Contact the writer at sophiehe@chinadailyhk.com

FROM PAGE 1

"With a possible US interest rate hike in 2015 and property developers accelerating first-hand property construction, local home prices will exhibit a downward trend," CCB International Managing Director Peter So said. He added that the faster-than-expected deceleration of property investment will present an economic risk to the local equities market during the second half of this year.

Hong Kong's lackluster economic prospects may be examined against the backdrop of the global economy which remains fragile.

The World Bank revised downward its 2014 global economic growth forecast — from 3.2 percent to 2.8 percent — taking into account ongoing geopolitical conflicts and the gradual tightening of monetary policies in several countries. Other investment banks and international economic organizations have slashed their forecasts for Hong Kong's economic growth in 2014. (See Page 1 table)

Morgan Stanley echoed the view that Hong Kong economic growth has become clouded by restrained-asset prices in the city, by slowing mainland economic growth and by the recent government move to cap the number of mainland tourists, with resultant downward pressure on retail sales. The investment house cut its expectation of the SAR's economic growth in 2014 from 2.7 percent to 2.5 percent.

Credit Sussie trimmed its prediction for Hong Kong's economic growth from 3.4 percent to 3 percent, citing slowing mainland economic growth, contraction of private consumption and a reduction in exports.

Hong Kong's economic growth has remained on a continuous downward cycle since 2011. Economic growth in 2012 was 2.9 percent, against 1.5 percent the following year. Economic growth rates over the past five years have been much lower than the 10-year average of 4.5 percent. (See Diagram 1)

The situation did not improve during the first quarter of 2014, when the city's economy grew by only 2.5 percent — below the 2013 fourth-quarter increase of 2.9 percent. The decreased performance was attributed to slow recovery of developed economies and the decline of exports.

In the face of macroeconomic headwinds, Financial Secretary John Tsang Chun-wah cautioned that when the mid-year economic forecast is presented in August, the government may be forced to revise downward this year's economic growth expectations given local and global macroeconomic conditions that have proved less than what had been anticipated by earlier forecasts.

"The goods export value declined in April, with retail sales in the same month registering the largest drop since February 2009. If these trends continue, they will dampen economic performance in the days ahead," Tsang warned.

The government's previous first-quarter economic growth forecast, released in May, predicted that economic growth for the whole of this year would be between a range of 3 and 4 percent. That was already lower than the average 4.5-percent growth rate over the last 10 years. Some economists have been more optimistic, saying the local economy is still capable of registering robust economic growth this year.

"The US and European economies are gradually recovering and, coupled with the still-resilient mainland economy, Hong Kong's economic growth this year can be maintained at 3 percent," Chong Tai-leung of The Chinese University of Hong Kong's (CUHK) Economics Department told China Daily.

Chong said he is not worried that a drastic fall in local home prices will curtail economic prospects. He added he was not concerned either that limitations of mainland tourist arrivals in Hong Kong would impede economic growth this year.

"The global outlook should be more stable in 2014. In addition to stronger reform-led mainland economic growth and moderate improvement of the US economy, the Eurozone finally seems to have exited its long recession. We expect Hong Kong's GDP growth to remain firm at 3.7 percent," HSBC economist John Zhu said in its Asian Economist report in the first quarter.

Simon Lee, a senior lecturer at CUHK's Business School, attributed the city's recent sluggish economic growth to more fundamental factors underpinning the local economy.

"A more fundamental perspective to analyze the city's faltering economic growth is that the city lacks new engines for economic growth. The Hong Kong economy, really, is at the crossroads and, with the manufacturing sector declining and service and financial sector development dependent on central government policies, the innovation and technology industries will take years to nurture. There is no clear catalyst to propel economic growth here," Lee added.

Contact the writer at oswald@chinadailyhk.com