

RETAIL

## What next for Hong Kong luxury?

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*This is Hong Kong: The Peninsula hotel's impressive array of chauffeur-driven Rolls-Royce motor cars for guest use. Image credit: The Peninsula Hong Kong*

By MICKEY ALAM KHAN

So Hong Kong's district elections have proved that the pro-democracy protestors are not done with their reservations with diktats from Mainland China.

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Even though the university protests are over and the street melees subsided, the damage has been done: Hong Kong has taken a serious hit as an attraction for Mainland Chinese and overseas tourists looking for luxury goods and services.

Politics aside, the turmoil over six months has taken a toll to the bottom line of small luxury brands and large conglomerates such as LVMH, Richemont, Kering and Swatch.

Even hospitality groups and airlines have suffered from the widespread unrest, along with players in watches and jewelry, leather goods and accessories, fragrance and beauty care, automotive and fashion apparel.

To understand whether Hong Kong is lost to luxury, or if Mainland China visitors will shop more at home and other, non-Chinese tourists choose Singapore, Tokyo or Europe, we turned to three China experts to give their take on the immediate future of Hong Kong as a luxury entrept.

Participants in the virtual Hong Kong roundtable were Iris Chan, New York-based partner and international client development director at [Digital Luxury Group](#) (DLG); Xiaofeng Wang, Singapore-based senior analyst at [Forrester Research](#); and Amrita Banta, Singapore-based managing director of [Agility Research & Strategy](#). Here is what they had to say:

Is Hong Kong a loss for luxury brands and retailers this year? And next year?

Iris Chan, DLG: It's been challenging in Hong Kong for brands this year. It has also been challenging in Hong Kong for brands in the not-so-distant past, with previous protests and epidemics in the region. What's challenging is for brands is to see Hong Kong differently, and so much more realistically. It has remained a uniquely successful market that consists more of travel retail and destination marketing than domestic spending and the status quo is changing.

Next year, I think everyone will be in a better place to understand the changing realities of the Hong Kong market, and the regional ripple effect. This will allow brands to better allocate their resources and investments more strategically as well.

Xiaofeng Wang, Forrester: It affected many industries, luxury retail included. Protestors' behaviors are unpredictable. It doesn't seem positive next year either.

Which luxury sectors were most badly affected with the Hong Kong protests?

Iris Chan, DLG: Hospitality is affected, driven by decreased number of travellers to Hong Kong globally.

Visitor arrivals are said to be down 39 percent, with the number of Mainland Chinese tourists to Hong Kong falling by a reported 42.3 percent.

Planning a trip there now comes with some hesitation and rethinking for most tourists. It is much less of a challenge to book a stay, compared to before the demonstrations.

Travel retail has been affected, namely for luxury goods, that is driven by the Chinese outbound consumer. This is not to say that they consumers are simply not consuming, they are just taking their overseas consumption elsewhere, like to Singapore or Japan.

Data released by analysts last month (*Ed: Not DLG proprietary data*) showed that retail sales had fallen 23 percent in August compared to last year, making it the biggest decline on record. The value of sales for jewelry, watches and other valuable items decreased by 47.4 percent as well.

At what point do luxury brands and retailers look at Hong Kong and say they can't justify rent, salary, marketing and damage to brand from protestors? Have they reached that point? What's the worst-case scenario?

Iris Chan, DLG: It has always been a challenge for brands to justify rent in a market like Hong Kong, as the leasing costs have always been exorbitant given the limited space available. In the last few years, we have seen large flagships closing down, and an increasing consolidation of retail footprints.

That said, most luxury brands and retailers have invested more into establishing their digital footprints, so while malls may experience lower foot traffic, brands can still serve customers at their convenience. This not only includes Western platforms like Facebook and Instagram, but also Mainland Chinese platforms Weibo, WeChat, and Little Red Book.

Xiaofeng Wang, Forrester: Different retailers and brands would have their own timeline and make these important business decisions.

The worst scenario could pause or cease their business operation from Hong Kong.

How long should luxury marketers wait it out?

Iris Chan, DLG: It is hard to say, really. But Hong Kong is still an important market within the region. Its central location, proximity and the fact that it is an easy island to navigate makes it ideal for travelers within the region. But as we have seen, the region's different markets have each had a turn at seeing the impact of changing macro geopolitical forces including Japan, South Korea and South East Asia.

Xiaofeng Wang, Forrester: Mainland China is the world's largest luxury market.

According to Forrester's forecast, luxury goods consumer spend would reach \$104.44 billion in 2019 in mainland China, compared to \$2.47 billion in Hong Kong.

Mainland Chinese shoppers have many other channels to buy luxury goods including online. Online share of luxury spend has been increasingly year-by-year.

Offline retail stores in Hong Kong is just one of many channels. Luxury brands should focus on the most important market and leverage most effective channels to reach customers.

What if the protestors turn their attention to luxury brands and start attacking their stores?

Xiaofeng Wang, Forrester: Protestors' behaviors are unpredictable. Any business should take their employees' safety as the priority.

For short-term, most luxury brands should be well covered by insurance for these damages.

Mainland Chinese shoppers and tourists from other countries propped up luxury retail and hospitality in Hong Kong. Have they gone for good? And if not, what to do to attract them back?

Iris Chan, DLG: I don't think they're gone for good. I do think they are considering other destinations that might be a bit further or harder to get to, and weighing that against the prospect of heading over to Hong Kong. Many of the brands in Hong Kong are also present in Mainland China.

For those that are not yet present in Mainland China, they should start thinking about how to better leverage their WeChat brand channels for social CRM activities to better target and market to Mainland Chinese consumers at the right time, right place and with the right messages.

Xiaofeng Wang, Forrester: According to Forrester's forecast, only 21 percent of luxury goods supply in Hong Kong are bought by domestic luxury buyers.

That is to say, Hong Kong's luxury retail business heavily relies on tourists from Mainland China and other countries. As Hong Kong's tourism arrivals plunge significantly, it obviously would affect luxury retail.

Your advice to marketers with a vested interest in Hong Kong?

Iris Chan, DLG: Be prepared and be agile. Some brands are weathering the storm with a close eye on what is happening and working together with their teams to manage the ongoing changes, calling day-by-day store closures and re-openings by location, pulling back on activations and tactfully knowing when to resurface, and delivering on the consumer experience, while maintaining respect and safety for everyone.

How optimistic are you about Hong Kong's ability to bounce-back?

Amrita Banta, Agility: Hong Kong, or fragrant harbor as the meaning of the name, was recently covered in many parts with an unpleasant smell of tear gas.

[It was ] a city under siege black-clad protesters, petrol bombs and police in riot gear. One would think parts of Hong Kong are a war zone from the looks of once-well-lined roads now scattered with rocks, debris and barricades.

Masses of protestors have replaced images of tourists sporting Louis Vuitton and Fendi shopping bags on the front page of major international media.

A city which was known for luxury, sophistication, orderly civic life and efficient system is now almost unrecognizable within a space of six months.

Tourism, food and beverage, and retail, all industries relying heavily on tourists, especially wealthy Chinese from the mainland, are experiencing sharp declines in business turnover.

A client of Agility, one of the most prominent skincare brands, confirmed that their retail sales are 40 percent lower versus last year, while an iconic local hotel group client confirmed that bookings in their Hong Kong properties are down 50 percent. Many ask if it time to leave the city or it is worth to ride out the current unrest.

Hong Kong is a fascinating city with a unique history, a true bridge within East and West.

Steeped in Chinese culture and values, it has welcomed citizens from all over the world, always open to incorporate valuable ideas and values regardless of provenance.

With one of the lowest incidence rates of crime and violence in the world, it was considered a very safe city. In many ways this has not changed.

Despite what is shown on TV and media, disruptions have been very targeted and life has been carrying on as usual, with people going to office or working from home, shops opening intermittently as soon as disruptions subsided and people going about their daily life and chores as best as they can.

Many brands are now wondering if the glory days of Hong Kong are over. We at Agility are hopeful that the city will recover soon.

The city and its people are resilient and the city is well organized with strong infrastructure and a strong civic sense that the current unrest has not completely destroyed.

It has sustained major disrupting events before, like SARS in 2003 and it has always bounced back.

More importantly, the entrepreneurial spirit of Hong Kong is still very strong.

This is a city which was built on hard work and the freedom and security of enjoying the fruits of success. Its entrepreneurial and professional class appreciate the finer things in life and there is enough trust in the system for people to stay and reinvest their hard-earned money here once the situation goes back to normal.

More importantly, Hong Kong has shown an ability to adapt and prosper even when many decried the end of the city.

Like many other international cities, it was able to make the transition from low-cost manufacturing based on manual labor to a high-value economy based on ideas.

The city has invested heavily in art and culture in the past 10 years, in the hope to become one of the most important cultural hubs in Asia.

Once again, openness to new ideas, cross-cultural influences and the Hong Kong entrepreneurial spirit are central to this.

Flexibility is at the core of Hong Kong economic life and the city is used to change course when new opportunities demands it.

The opening of the new shopping mall, Musea K11, and Rosewood Hotel clearly shows that local entrepreneurs are willing to take risks and innovate to keep the city competitive.

This spirit is still at the core of the city. The silver lining of the current climate is if the situation is hopefully resolved soon and peacefully, it may signal the start of a period of self-reflection, which will bring citizens together to rethink the future of Hong Kong.

There has been a spark of creativity related to the current situation, which hopefully will find new more positive outlets once the situation will normalize.

In our daily interactions with brands and CEOs, all have expressed their worry about the current situation, but none has really put any plans together to move out of the city.