

How Hong Kong's SMBs embrace digitalization to thrive

2021

HONG KONG SMB SURVEY REPORT



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EXECUTIVE SUMMARY

SMBs harnessing the power of digital for growth

The COVID-19 pandemic has changed the world of business for good. Where once brick-and-mortar stores reigned supreme, the pandemic has pushed shoppers online, prompting small-and medium-sized businesses (SMBs) in Hong Kong to move quickly to establish a digital shop front.

What has emerged from the pandemic is a group of resilient SMBs harnessing the power of digital to not only reach for growth domestically, but to transcend borders and break into entirely new international markets, which offer a new pool of customers and an additional source of potential revenue

From this survey, we can see that eCommerce, owned online channels and

social media have facilitated a digital shift in line with consumer behavior - one that can streamline operations, increase efficiency, reach new markets and, most importantly, boost sales and overall growth for Hong Kong's SMBs. The bonus is that it is easier now than it ever has been to establish a digital shop front and this survey is proof that through going digital, other SMBs can also reap the rewards if they haven't already done so.

Business growth is not only for big companies. SMBs with the right kind of products, ideas and support can also move beyond their own markets and enjoy business growth. They just need to harness digital to help get them there.

How did the COVID-19 pandemic impact SMBs in Hong Kong?

There is no denying that the pandemic has challenged Hong Kong's SMBs. Of those that we surveyed, 50% said that they were negatively impacted. Among those respondents, 58% reported a decrease in demand, 46% struggled with a loss of offline customers, and 40% had supply chain issues.

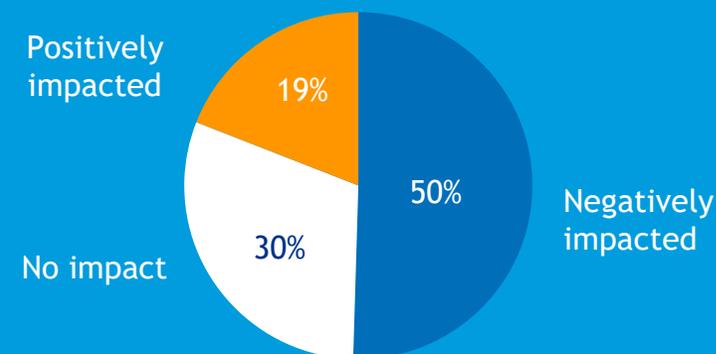
While this is not unexpected in such unprecedented times of a global pandemic, the other 50% of our respondents had a different story to tell, with 30% claiming not to have been impacted by the pandemic at all and almost one-fifth (19%) reporting a positive experience. Among the respondents with a positive experience, almost half (48%) witnessed an upswing in demand, while 43% attracted more online customers, and 33% saw an increase in overseas customers outside of Hong Kong.

This is a testament to the fact that if SMBs can adapt to the challenges they face, they can be successful in capitalizing on opportunities for their own benefit.



¹The actual figures are "Positively impacted, 19.05%"; "Not impacted, 30.48%" and "Negatively impacted, 50.48%".

Impact of COVID-19



Almost 50% of surveyed SMBs reported a positive impact or were not impacted during the pandemic¹

Positive Impacts



Amongst the surveyed SMBs who reported a positive experience, almost half (48%) saw an upswing in demand, while 43% and 33% saw an increase in online and overseas customers respectively

The evolution of consumer habits

COVID-19 has initiated changes in consumer behaviors

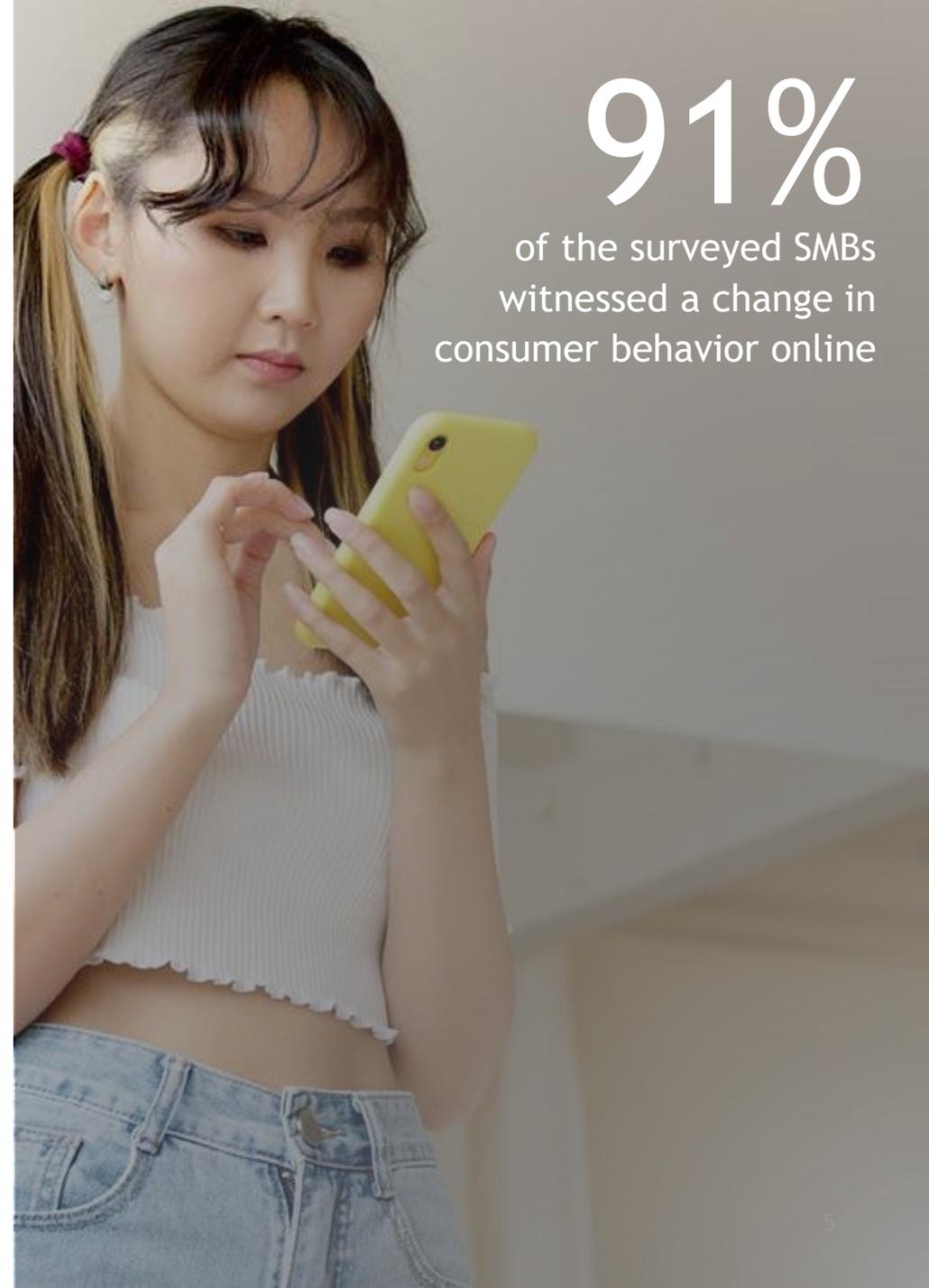
The COVID-19 pandemic has further shaped and accelerated a change in consumer habits. The global increase of new online shoppers has brought with it new behaviors that are influencing the way people shop. Shoppers are far more willing to try new brands, new payment methods and new ways of shopping via digital channels like eCommerce and social media.

Of the Hong Kong SMBs that we surveyed, 91% of them have witnessed a shift in online sales over the past 18 months. This change offers a vital opportunity for SMBs to adapt with the times by bringing business operations online to not only survive, but thrive.

A shift in demographics

In-person shopping has always been a source of entertainment and a way to socialize for local people in Hong Kong, but the pandemic has forced them to go online more often.

As a result, embracing digitalization has become business critical for SMBs, particularly for those with a traditional, physical presence who must pivot quickly to establish a digital shop front.



91%

of the surveyed SMBs
witnessed a change in
consumer behavior online

Overall, there are three major shifts that the surveyed SMBs had observed from their online sales patterns, which are the number of local customers (58%), customer spending (51%) and customer age group (35%).

An interesting observation is the significant move towards younger consumers shopping online. Among the respondents who witnessed a shift in customer age group, 73% claimed to have attracted a younger demographic of online shoppers throughout the pandemic.

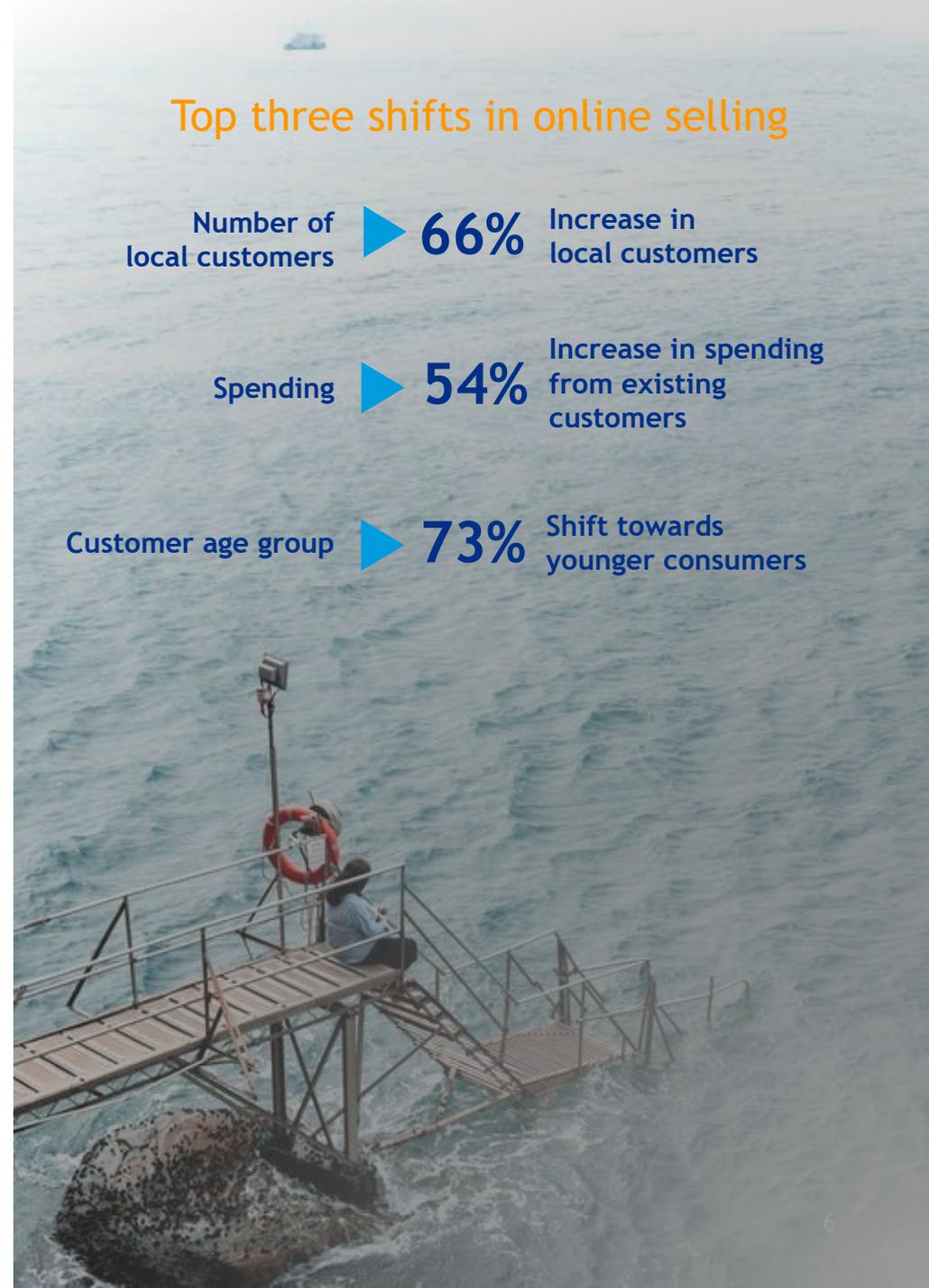
Of the respondents who have witnessed a change in their local customer base, 66% reported an increase in local customers. Meanwhile, over half (54%) of the surveyed SMBs who saw a shift in customer expenditure reported an upswing in spending from their existing customer base. This suggests that many SMBs are benefitting from local online shopping even when the city was locked down during the pandemic.

Top three shifts in online selling

Number of local customers **▶ 66%** Increase in local customers

Spending **▶ 54%** Increase in spending from existing customers

Customer age group **▶ 73%** Shift towards younger consumers



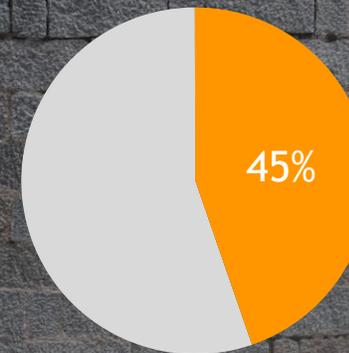
Consumers are more acceptive of using digital payment

With 53% of respondents reporting an increase in online shopping, it is not surprising that 45% of the SMBs that we surveyed experienced a core shift in consumer behavior in the form of greater consumer receptiveness to digital payment options. Of this, 31% cited a greater consumer reliance on online payment, while 26% claimed that shoppers were more willing to make larger monetary transactions online.

The more that Hong Kong locals shop online, the more familiar they have become with trusted payment providers when making their purchases. Indeed, this is not a trend exclusive to local customers. The pandemic has generally created a shift towards digital payments among consumers globally. Therefore, it is critical for business owners when making the move to digitalize their business to consider every part of their customer's journey, with special attention given to online payment. Offering payment through a trusted, recognized and secure provider can significantly increase customer experience and satisfaction.

SMBs with an online presence already established pre-pandemic have been at a significant advantage. They already have the infrastructure in place to make sales throughout the pandemic. For many, this online presence will have helped keep them afloat, and in some cases, it will have sparked growth.

Attitude and behavior towards digital payments



45% of surveyed SMBs reflected that customers have become more positive towards online

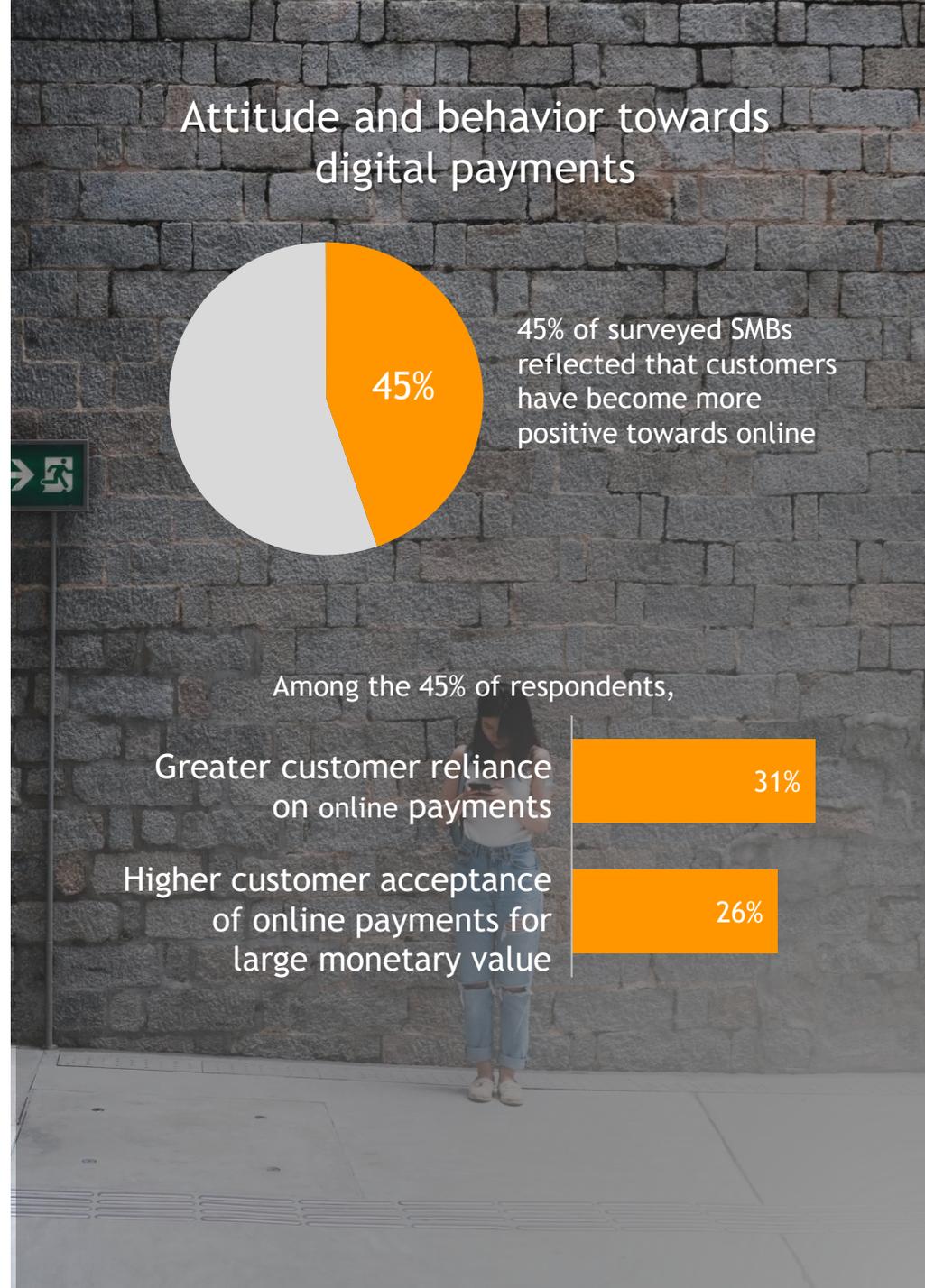
Among the 45% of respondents,

Greater customer reliance on online payments

31%

Higher customer acceptance of online payments for large monetary value

26%



The leap to digitalization

98%

of respondents planned to make further investment into their business

Objectives for making investments



SMBs eager to invest in digital for growth

With the COVID-19 pandemic grinding the world to a halt, many of Hong Kong's SMBs have gone into survival mode, with a staggering 97% of the surveyed SMBs trying to grow their business during the pandemic. This is a sure reflection of the hardy and resilient business culture in Hong Kong.

With consumers increasingly embracing digitalization as part of their everyday lives, it is unsurprising that businesses are focusing on ways to enrich their customer experience as part of their digital journey. Investment into digitalization puts SMBs on the front foot to capitalize on new opportunities created by changing consumer behaviors both in Hong Kong and beyond.

90% of the respondents expressed plans to invest in digital marketing, while others planned to focus on customer data management (88%) and online business negotiations and sales (81%) as part of their digital journey. In a world where more consumers are shopping online, such investments can help SMBs get ahead.

Digital marketing, particularly over social media, can help businesses reach new customers and transcend geographical boundaries.

Meanwhile, investment into platforms such as Customer Relationship Management (CRM) systems can help support broader efforts to drive loyalty and overall growth with existing customers.

Moving forward, core business priorities for Hong Kong's SMBs include mobile optimization of customer-facing sales channels, integrating social media into customer engagement channels, and improving customer feedback systems.

Investing in the digital journey

With the pandemic forcing digitalization upon many of Hong Kong's SMBs, it's good to see that 98% of those that we surveyed are keen to invest in their business for continued success. The benefits of this investment are clear - over half (57%) recognized investment as a core opportunity to discover new customers, while 39% see it as a chance to achieve financial growth.

SMBs survive and thrive by going online

Building an owned eCommerce presence

As more business owners are selling their products online, third-party eCommerce platforms and online marketplaces can be popular and easier options for SMBs to launch their digital presence, as they present ready-made platforms to reach and sell to new online customers.

Of the SMBs that we surveyed, 87% already use their own digital channels such as social media, owned eCommerce websites and company-owned platforms, to promote or sell. Of this, 48% have further planned to expand their online presence on these platforms. Among the 13% of surveyed SMBs who do not have their own digital platforms, 8% have plans to adopt, showing that SMBs in Hong Kong are keen to invest in expanding their digital presence to achieve business growth.

Throughout the pandemic, some SMBs were not fazed by the idea of setting up their own digital channels. This is probably because owned channels give SMBs more control over their customer experience and present a unique opportunity to engage directly with customers — a fantastic way to build trust and loyalty. In addition, setting up an owned channel is easier now than ever before thanks to advances in technology and the increased support available.

87%

of the surveyed SMBs are already using their own digital channels

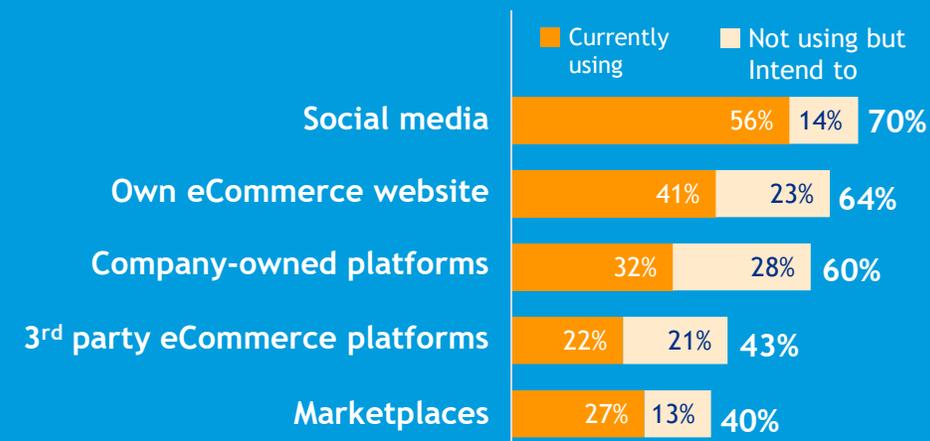
Social media rises to become the top selling channel

Among all online selling channels, social media is most adopted by Hong Kong's SMBs as we see 70% of respondents currently using or planning to utilize it for selling and promotion. This is followed by owned eCommerce websites (64%), company owned platforms (60%) and 3rd party eCommerce platforms (43%) which all proved popular throughout the pandemic.

What's more, 41% of surveyed SMBs claimed that social media has been their top channel for stimulating business growth throughout the pandemic. Of this, over half (53%) had utilized it as a selling tool to generate revenue for their businesses. Although creating and maintaining a social media channel does require time and effort, it is critical for product discovery and can serve as a low cost, low maintenance sales channel that can deliver a direct return on investment. No longer is social media a mere online listing for a business, it is a complementary sales channel and one which can be harnessed to reach overseas customers.

For SMBs eager to make the move online, time must be spent evaluating the merits and pitfalls of owned channels and third-party platforms. Doing this will help business owners make an informed decision on which platform will work best for their business.

Adoption of different online selling channels



Social media is the top online selling channel for Hong Kong's SMBs, with 70% of respondents already or planning to utilize it to sell and promote goods

Social media usage during COVID-19

Among the 41% of respondents,

41%

of surveyed SMBs claimed that social media has been their top channel for growing business

53%

had utilized social media as a selling tool to generate revenue

Cross-border trade helps SMBs scale

The sky's the limit for SMBs

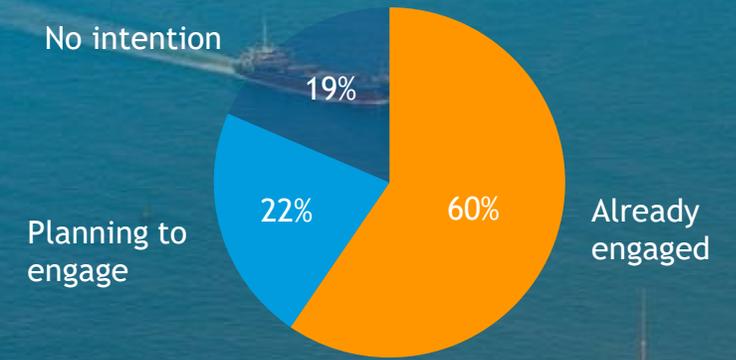
Cross-border trade is a hot topic for SMBs in Hong Kong, with many seeing it as a key area for business growth. 81% of surveyed SMBs have engaged or are planning to engage in cross-border trade to boost growth. While domestic business continue to be dominant for many SMBs in Hong Kong, cross-border custom is growing, accounting for 32% of sales among respondents already engaged in cross-border trade.

Moving a business from domestic to global can be daunting, which explains why 19% of the SMBs we surveyed perceive cross-border trade as being a major undertaking. Concerns stem from a lack of resource to the potential costs that going cross-border can incur.

However, this need not be the case. Thanks to advances in technology, it is easier than ever before for businesses to sell cross-border. Among those who have already engaged in cross-border trade, 39% have turned to social media and 26% have adopted new global payment systems to help facilitate selling beyond the local market. For many SMB's, cross-border selling presents a substantial area of business growth that's being helped along by readily available digital platforms.

Cross-border trade provides SMBs with further potential for growth by reaching global audiences in markets that businesses have not yet tapped in to - markets beyond the local one they are currently in.

Adoption of cross-border trade



Over 80% of surveyed SMBs have already engaged or are planning to engage in cross-border trade²

¹ The actual figures are "Already engaged, 59.52%"; "Planning to engage, 21.90%" and "No intention, 18.57%".

Top three reasons for SMBs to invest in digital payment

Building trust through payment platforms



Ensuring a seamless customer experience with online payment

For SMBs on a digital journey, online payment platforms make up a crucial piece of the digital puzzle. Using trusted, reliable, and secure payment options results in a more pleasant experience for customers.

Of the SMBs that we surveyed, 86% are eager to implement suitable digital payment options for a variety of different reasons: to attract new customers (67%), to improve customer experience (56%), and to increase online sales (54%).

Among these respondents, PayPal is the third most preferred option amongst other popular payment platforms and over half of them (51%) expressed an interest in adopting PayPal to enhance digital experience.

Boosting mobile payments

Smartphones are becoming the primary access point for global shopping, with an estimated 67% of all online purchases to be made on a mobile handset in 2021¹.

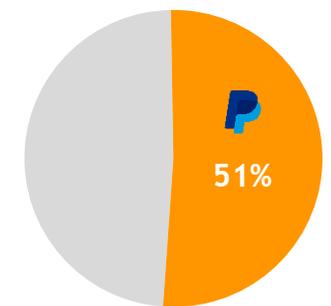
This growth trajectory is only set to continue as cities around the world continue to strengthen their mobile infrastructure and deploy 5G networks

It is therefore essential that SMBs include optimization for mobile commerce as a crucial part of any digital strategy. With digital payments playing a critical role in enabling online selling, 50% of the surveyed SMBs indicated that they want to optimize mobile payments.

Half of the respondents also wanted to adopt the use of digital wallets, while 44% were eager to consolidate payment types to improve efficiency. With modern eCommerce platforms, it has never been easier to optimize an existing website for mobile.

As digitalization continues to remain a crucial business imperative, it is positive to see that many of Hong Kong's SMBs are keen to review every part of their customer's journey to identify areas where enhancements can be made to enable a seamless shopping experience.

86%
of surveyed SMBs planned to implement new payment options



51% expressed interest in adopting PayPal



¹ Insider Intelligence/eMarketer, Retail mCommerce Sales Worldwide, by Region, 2021, Dec 2020, estimates based on analysis of data from other research firms and government agencies, historical trends, reported and estimated revenues from major online retailers, consumer online buying trends, and macro-level economic conditions

Harnessing the right digital tools could spell success for SMBs

By embracing digitalization, SMBs can enhance their business in many ways, from customer experience to operational efficiency and critically, for growth.

It is easier now than ever before for businesses to embrace readily accessible tools such as social media, eCommerce channels and payment platforms, and doing so can spell success for many small- and medium-sized businesses.

For SMBs hungry for growth, here's what they can do to prepare for their digital future:

- 1 GET ONLINE** - SMBs without any existing online presence should consider making the shift to digital to keep up with changes in consumer behavior.
- 2 CHOOSE YOUR DIGITAL CHANNELS** - From owned-channels to third-party eCommerce sites, there are many ways that SMBs can 'go digital', so take the time to consider which option works best for your business.
- 3 BE SOCIAL** - Social media is the number one channel for business growth, so it is critical that SMBs establish a presence on social media if they are serious about scaling up.
- 4 CONSIDER CROSS-BORDER** - This report is proof of the benefits of cross-border selling for growth, so SMBs should seriously consider making their products available internationally and harnessing digital to help them do so.
- 5 A SEAMLESS CUSTOMER EXPERIENCE** - Businesses that can offer a seamless customer experience will almost always perform better than those who don't. Think about every aspect of the customer journey when moving online, from online payment platforms to CRM platforms. It will pay dividends in the long run.

What's certain is that it has never been easier to establish a digital shop front to sell online and sell globally. This survey is proof to other Hong Kong SMBs that through digital, they too can survive, and if done properly, thrive.

About the survey

An independent study was conducted by Edelman Data and Intelligence on behalf of PayPal Hong Kong to study the impact of COVID-19 to small- and-medium sized businesses (SMBs)¹ in Hong Kong, their responses and post-COVID plans. The results are based on interviews with 210 business decision makers of Hong Kong SMBs which are currently engaged in online selling. The survey was conducted online during September to October 2021.

The contents of this report are provided for informational purposes only. The information in this report does not constitute legal, financial, IT, business or investment advice of any kind and is not a substitute for any professional advice. You should always obtain independent, professional accounting, financial, IT and legal advice before making any business decision.

For more information on how PayPal can help you grow your business around the world, visit us online today:

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¹ Definition of small- and medium-sized businesses according to HKSAR Government: (i) Manufacturing firms which employ fewer than 100 persons in Hong Kong; or (ii) Non-manufacturing firms [including firms engaged in construction; mining; quarrying; electricity and gas; import and export; wholesaling; retailing; catering; hotel; transport; warehouse; insurance; real estate; business service; community, social and personal service] which employ fewer than 50 persons in Hong Kong.