

# **Hong Kong Retail Management Association Submission on 2019 Policy Address**

**5 September 2019**

## **I. Introduction**

1. Amid the prolonged social unrest since June, the Hong Kong Retail Management Association (HKRMA) has written to the Chief Executive, and Mr. Paul Chan, the Financial Secretary on 16 July and 20 August respectively about our deep concerns on the devastating impact on the retail industry, and presented recommendations on some immediate relief measures to address the critical situation of retailers. (Appendix 1 & 2 refers)
2. The Association would like to take this opportunity to reiterate that the pivotal and immediate task of the Government is to swiftly restore law and order to the society, and stop any further damage to the city's stability and its international status by addressing the root cause of the protests with immediate and practical actions.
3. In regard to the Chief Executive's 2019 Policy Address, we would like to put forward recommendations for the coming year, as well as some mid to longer term measures to the Government in a bid to assist the retail industry to sail through current ordeals, and combat challenges arising from technology advancement and talent development.

## **II. Deteriorating Retail Market Prospect**

4. The survival of many retailers in Hong Kong is at stake right now. Starting from June, majority of our member companies indicated that their sales plummeted from a single to a double digit, while for August so far, a drop of more than 50% is not uncommon.
5. With heightened US-China trade conflicts, economic challenges in China, the threat of continual drop in visitor numbers, and dampened local consumer confidence, the Association forecasts a double-digit drop in total sales value for whole year of 2019, and a high chance of recession for 2020.

6. Against this backdrop, some of our members, in particular those micro-enterprises and SMEs, indicated that if the current crisis continues, they will have no choice but to implement drastic cost cutting in shops, including staff layoffs, or even go out of business.
7. Above all, high rental cost is still the major concern of most retailers in Hong Kong, which makes retailers hard to survive in unexpected turmoils like the current social unrest. It also hinders retailers to a great extent from investing in other important areas such as retail technology and people development.

### **Immediate Measures**

#### **III. Sustain Retail Business**

8. We appreciate the Financial Secretary's measures announced on 15 August, to support enterprises and to safeguard jobs and relieve people's financial burden.
9. As reflected in our letter dated 20 August, we would like to call for the Government to implement focused and timely measures to address the immediate hardships faced by the retailers, including:
  - (a) set up a one-off relief fund which is simple with low threshold;
  - (b) take lead to seek landlords' assistance to grant rental relief to their tenants;
  - (c) waive the rates and request the landlords to rebate it to their tenants;
  - (d) simplify application process of the Government's SME Guarantee Scheme and shorten its approval time; and
  - (e) orchestrate a city-wide campaign on consumption coupon to stimulate domestic spending.
10. We would like to reiterate that rental reduction would be the most effective and direct way to help retailers sail through in these difficult times.
11. Due to the unprecedented nature of the current crisis, we suggest the Government maintains its flexibility and alertness to implement additional relief measures to help different sectors of the economy when situation warrants.

## **Mid to Long Term Measures**

### **IV. Enhance Governance with Sincere Communication Strategy**

12. Before going into retail specific needs, we would like to highlight that the Government should revamp its communication strategy to demonstrate clear leadership and effective governance. It should set up a fair and open platform soonest to effectively listen and respond to the needs and concerns of the community.
13. At the same time, its vision and key messages should be conveyed to the business sector and the public at all levels with transparency and sincerity.
14. In this engagement process, the Government should step up its digital strategies, including but not limited to the deployment of social media in connecting with the public, and its technology adoption should be kept up-to-date, such as using data analytics to evaluate the situation in real time and respond to social issues flexibly and agilely.
15. To remedy the image of Hong Kong and regain confidence, the Government should conduct a worldwide media campaign on a continual basis to update international media and trade partners about the latest situation of the city in a balanced and objective manner so as to counteract many inaccurate and biased reports.

### **V. Improve Retail Business Operating Environment**

16. The skyrocketing rent is the number one challenge that Hong Kong retailers are facing. In view of a deep power imbalance between landlords and retailers, we urge the Government to provide legislative support by setting up some form of control mechanism on commercial rental and related fees for the retail industry so as to instate a right balance that is conducive for sustainable business. This is especially important for the survival of SMEs and other small business. And the practice of regulatory measures in retail rental matters is not uncommon in other parts of the world.
17. Despite the high rent, the actual size of shop is usually not accurately or clearly stated in the leasing contract, and very often retailers have to make their own

estimation and bargain with landlords. We urge the Government to consider aligning the commercial renting rules to that of the regulations governing sales of residential premises i.e. by requiring landlords to apply net lettable area concept and state it clearly in leasing contract.

18. Alongside high rental, retailers have to pay to landlords other escalating fees, namely the management fee, promotion fee, and air-conditioning fee, which are reviewed on a yearly basis and very often without a clear charging mechanism.
19. On the other hand, retailers, especially those SMEs, are facing increasing burden on the compliance cost as a number of policies and regulations are either implemented or in the pipeline, for example, HR and accounting costs to comply with various labour-related policies, and various environmental policies, including the municipal solid waste charge, which will be launched later this year.
20. As the economy shows signs of recession, the Government should be very cautious not to create any further unnecessary regulations and to help retailers cutting the compliance cost of doing business.

## **VI. Speed Up Retail Technology Adoption**

21. We support the Government's vision to transform Hong Kong into a smart city with retail as one of the key pillars. However, we view that the Government should exhibit a much greater commitment with forceful, practical and speedy measures to bring Hong Kong to a next level in digital transformation and technology adoption across different industries.
22. In this respect, we should learn from Singapore whereby their Government has commissioned an international consultant to conduct a comprehensive survey on digital readiness and competence of their companies across industries including retail in a bid to devise strategic direction in a holistic approach.
23. We view that our Government should do likewise and mobilize resources to do a lot more work in order to understand the various gaps, and to formulate strategies that will develop Hong Kong's overall competitiveness in the new digital and technology era. This will be an endeavor beyond capabilities of any trade association and thus we call for the Government's focused attention and action

without delay.

24. We maintain that only with the Government's policy support in a holistic manner, the retail industry in Hong Kong can speed up its transformation and catch up with its international counterparts, especially in developing a new retail ecosystem, smart technology adoption, O2O integration, and nurturing of new talent.
25. Hong Kong does not lack statutory bodies to drive technology adoption among retailers and others. For example, we have Cyberport, Hong Kong Applied Science and Technology Research Institute, Hong Kong Productivity Council and Hong Kong Science Park, and even research institutes among universities. However, we urge the Government to take up the key role in coordinating these statutory bodies to work together according to its master plan on technology promotion among different industries including retail.
26. We urge the Government to integrate retail elements into its overarching plan of technology development, especially in the setup of necessary infrastructure, such as Wi-Fi connection, common QR code for digital payment, electronic identity (eID) and other relevant technologies. Concurrently, the Government should ensure that the protection of personal data and privacy go hand in with the technology development.
27. We also call for the urgent need to streamline the large number of funding schemes for SMEs to enhance their IT. The SMEs do not have the time and resources to go through the cumbersome application procedure and to monitor the implementation. We suggest introducing a one-stop funding solution for SME retailers with streamlined application process to be swiftly approved by officials with IT background.

## **VII. Support Retail Talent Development in Hong Kong**

28. In light of the shrinking manpower supply in Hong Kong, the Government must formulate a forward-looking master plan on the future demand of human capital development with practical measures provided by the Human Resources Planning Commission, highlighting retail as a priority industry.
29. Retailers expect continued diminishing interest of young talent joining the

industry in the long run, which will inevitably damage our customer service, business prospect, as well as staff morale and productivity. The lack of young talent could also impede the industry's ability to transform technologically, further impacting its competitiveness regionally and globally.

30. The retail industry offers many positions across various job functions that involve more than sales. The industry requires talent in the field of IT, marketing, human resources management, data analysis, and finance and accounting. Young people, no matter enjoy engaging with people or more tech-savvy, can enjoy tremendous opportunities once they started their retail career.
31. As such, we urge the Government to adopt retail in the current education curriculum by setting up a retail management degree at university level. The proposed university degree should be offered by major universities, which are recognized by students and parents.
32. The Government should consider special arrangement on mobilizing retail talent across the Greater Bay Area (GBA) region, as they can now commute daily to between Hong Kong and other GBA cities. That would help build Hong Kong as a retail management education hub and address some talent development issues.
33. As a regional education hub, the Government should relax the requirements on overseas and Mainland students to work while studying in Hong Kong. We should capitalize on the existing pool of Mainland students studying at the VTC, who are vocationally oriented with high employability. By doing so, we can retain a new pool of young talent in Hong Kong.

### **VIII. Render Support to Retail Industry Re-branding**

34. The retail industry has been transforming rapidly into a sophisticated and advanced industry. Despite current hardship, there is an urgent need for the Government to help uplift and rejuvenate the industry's image in a way to attract talent for sustainable development and to contribute to its transformation.
35. We urge the Government to conduct a timely review of its funding of \$130 million granted to the manpower development for retail industry in 2014. We also suggest the Government to enhance the overall policy support on retail rebranding strategy; so that more resources could be re-allocated to build up the

public image of the industry.

36. In fact, retailing is an industry that can offer a professional career for our youngsters. To alter the perceptions that make it difficult for the industry to recruit talent, additional resources and coordination from the Government is needed to change the mindset of parents, teachers, career masters and students to let them understand that the opportunities in joining the retail industry.

## **IX. Conclusion**

37. The outbreak of weeks of mass demonstrations serves as an alarm to the Government and all people in Hong Kong. The Government must restore and maintain a healthy environment for businesses, which is built on the solid foundation of the rule of law, effective governance, and free exchange of information.
38. In order to bring Hong Kong back to normalcy, the Government should respond swiftly with concrete measures to the long-standing societal conflicts particularly those arising from major policies on housing, medical and health services, and education, which are the basics for a stable and prosperous society.
39. The Association urges the Government to work closer together with the retailers to tackle the industry's heightened challenges and to ensure Hong Kong can continue to prosper. To this end, the Association looks forward to maintaining our close communication with the Government.

--End--



**HKRMA**

**Appendix 1**

16 July, 2019

The Hon Mrs. Carrie Lam Cheng Yuet Ngor, GBM, GBS  
Chief Executive  
Hong Kong Special Administrative Region  
Chief Executive's Office  
Tamar, Hong Kong

(By mail)

Dear Mrs. Lam,

**Concerns over the protests related to the fugitive law amendment exercise**

On behalf of the Hong Kong Retail Management Association, I am writing to express our deep concerns over the impact of the recent demonstrations and rallies triggered by the proposed amendment of the Fugitive Offenders Ordinance. Starting from this June, we are very much saddened to witness that the incident has turned into Hong Kong's biggest political crisis since the handover in 1997.

Being at the forefront of the economy, we retailers feel the immediate pinch as the incident has triggered heightened negative consumer sentiment and setbacks in spending. In particular, the large-scale public processions over the two Sundays in June and on 1 July, as well as on the following consecutive weekends have caused a devastating effect to the business of our members in the affected areas.

Negative impact on retail performance

According to most of our member companies of different categories, their sales value has dropped by a single to double digit during June and the first week of July, compared with the same period in 2018.

Should the protests continue and further spread to other parts of Hong Kong, our members forecast a drop by double digit in the next months, as July and August are the usual peak business





# HKRMA

months for most categories of our industry and the economic consequence is non-recoverable from the rest of the year.

In fact, the retail industry has reverted to downward trend since February this year due to external uncertainties and dampened consumer sentiment. For the first five months of 2019, the total retail sales value has decreased by 1.8% compared with the same period in 2018. It is anticipated that the prevailing unstable societal condition would further exacerbate the deteriorating retail business.

Amid these uncertainties, the Association has adjusted its original forecast on Hong Kong's total retail sales value from single-digit growth to double-digit drop for the whole of 2019. This forecasted scenario is noteworthy as a drop of 10% in total retail sales value would mean a shrinkage of an approximate HK\$48.5 billion receipts to the industry, based on the 2018 whole year retail sales value at HK\$485.2 billion.

## Disruptions to economy and businesses

Retail industry is one of the key pillars underpinning Hong Kong's economy. Retail not only employs more than 270,000 persons currently, but it also supports about 1 million jobs covering import/export trade and wholesale sector as well as accommodation and food services. In total, the wholesale and retail sector accounts for about 4 percent of Hong Kong's GDP.

In this regard, the prolonged demonstrations together with the continued US-China trade war have not only worsened the retail sales performance, but also exerted tremendous pressure on a few related and supporting industries such as hospitality, logistics, advertising, and printing, etc. If the current undesirable situation continues to prevail, we are concerned that Hong Kong's economic momentum and its employment market would be greatly affected.

On enterprise level, during the past few weeks, our member companies have been highly pressurized in coping with unprecedented operation crisis, in particular they have to face the challenge in protecting the safety of employees and customers. In many cases, either they have no choice but close the stores in the occurrence of special situation, or were forced by certain landlords to suspend business on affected weekends without remedies as bound by lease terms.

2



# HKRMA

While chain retailers could still embrace the loss of closing of business in some of their stores, the disruption of business could be devastating to SME retailers, who are facing high operating and labour cost with an extremely slim profit margin. If the situation continued, it would be extremely difficult for retailers of any business scale to sail through.

On employee level, such unexpected store closures not only just led to their loss of sales, but also directly affected their take home income, especially part-time staffs and those paid on a commission basis.

Another worrisome observation from our members is that quitting is not uncommon amongst their young employees, especially those who work as part-timer, and this situation worsens the manpower shortage problem.

### Damage Hong Kong's international image

Hong Kong has been highly acclaimed for its safety and convenience as a global tourist destination and a shopping hub. However, the recent violent acts of a small number of extreme protesters have done great damage to the international image of Hong Kong. The societal tension has not only brought disruptions to retail business in the protest areas, but also there is a sign that these confrontational incidents will spread out to other parts of the city.

Our member companies observed that this situation has already pushed both Mainland and international tourists towards other destinations, and at the same time affected the decision of choosing Hong Kong as the destination for exhibitions and conferences. If the situation is not tackled promptly, we are concerned that there will be increasing number of cancelations of likewise events, and it would seriously impact our status as an international exhibition hub and tourist destination.

### Call for actions

In view of the current highly volatile situation of Hong Kong as the confrontations and anxieties in the society linger, the Association strongly pleads the Government to take action in the



# HKRMA

following aspects:

- a. To present a remedy plan to swiftly handle the prevailing negative societal tensions to comfort the public and solve the confrontations;
- b. To tackle the deep-rooted societal conflicts by formulating a visionary plan with immediate, medium and long-term measures to restore stability and confidence in Hong Kong;
- c. To rebuild Hong Kong's image on all international arenas to bring back confidence among global visitors, investors, and stakeholders.

We understand it is a critical and challenging moment for the Government to restore unity and harmony among Hong Kong people. We sincerely hope that our above-mentioned observations and suggestions would help the Government grasp the pulse of retailers, while at the same time it would serve as reference when formulating practical measures to cope with the current situation of Hong Kong.

Please be assured that our Association would render our greatest support to the Government on initiatives that would help Hong Kong move forward in one accord and stay resilient in combating uncertainties on all fronts.

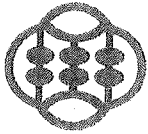
Meanwhile, if you need any further information regarding this letter, or should you wish to have a meeting with our Ex-Co members for more exchange of ideas, your office may contact Ms. Ruth Yu, Executive Director of our Association, at 2866 8311 for assistance.

Thank you very much for your attention.

Yours sincerely,

Annie Yau Tse  
Chairman

cc.: Mr. Edward Yau, Secretary for Commerce and Economic Development



**HKRMA**

20 August, 2019

Mr. Paul Chan, GBM, GBS, MH, JP  
Financial Secretary  
Financial Secretary' Office  
25/F, Central Government Offices  
2 Tim Mei Avenue, Tamar, Hong Kong

Dear Mr. Chan,

**Call for Government's focused measures to sustain retailers' survival**

We welcome your announcement on 15 August, 2019 about a series of relief measures that aim to provide impetus to the economy and help sustain the enterprises and people of Hong Kong amid current social and economic difficulties.

However, we are regretful to see the overall relief package does not provide retailers with immediate and focused assistance to ease their difficulties, except the relief on government leases which can benefit a small number of retailers.

Our retail industry has some 64,000 retail establishments, with about 70% are SMEs, and altogether they employ more than 270,000 persons. According to our members, since June, most of their sales value plunged from single to double digits, and for August so far, a drop of close to or over 50% in sales was registered for most categories.

In face of the great uncertainty of prevailing austerity, drastic drop in tourist arrivals, dampened consumer confidence and consumption, our Association forecasts a double-digit drop in total sales value for whole year of 2019. And above all, we are most concerned the high operation cost and sudden disruption in income, have already threatened survival of a great number of retailers especially the SMEs as their cash flow problem continues to exacerbate.

In this regard, the Association would like to recommend the following relief measures which are meant to be more retailer-specific for the government's consideration.

Hong Kong Retail Management Association 香港零售管理協會

7/F., First Commercial Building, 33-35 Leighton Road, Causeway Bay, Hong Kong 香港銅鑼灣禮頓道 33-35 號第一商業大廈 7 樓

(852) 2866 8311



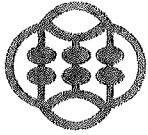
(852) 2866 8380



admin@hkrma.org



www.hkrma.org



# HKRMA

## 1. One-off Relief Fund

Hong Kong is facing a very critical economic crisis as a result of recent social unrest heightened by US-China trade war and slowing down of China economy. To aid SMEs of related trade sectors including retailers to survive this mega storm, we urge the government to set up a one-off relief fund which should provide a very low and simple threshold on applications. This arrangement would be particularly helpful to micro SME retailers who do not have knowledge, people, resource, time, and qualifications to apply for some over 40 government funding schemes.

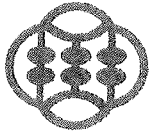
## 2. Rental Reduction

High rental is the top difficulty facing all retailers in Hong Kong at the moment. We welcome the pledge by the Chief Executive at a meeting with business leaders on 9 August, 2019 that the government will take lead to seek landlords' assistance to grant rental relief to their tenants.

We earnestly request the government to act on this facilitation with all landlords soonest before too many retailers going out of business. We are pleased to see the government's recent granting of temporary rental relief to the commercial units at Housing Authority (HA) as an exemplary initiative. To pursue likewise, the Association has written to all landlords in Hong Kong on 16 August, 2019, pleading their collaboration to offer rental relief.

## 3. Reduction in Government's Rates and Rents

We appreciate the government's recent measure to reduce rents by 50% for 6 months for most short-term tenancies of government land. However, many SME retailers reflected that they have to bear the high cost of government rates which are usually passed to them by landlords. We urge the government to waive the rates and request the landlords to rebate it to their tenants.



# HKRMA

#### 4. SME Financing Guarantee Scheme

We welcome the government to raise the ceiling of guarantee coverage from 80% to 90% as announced in its package of relief measures. However, despite raising the ceiling, we also urge the government to simplify the Scheme's application process and shorten its approval time as SMEs cannot afford a cumbersome application especially when facing acute liquidity problems.

#### 5. Consumption Coupon

To stimulate the deeply depressed local consumption, and to create multiplying effect on the economy, we suggest the government to organize a city-wide spending campaign by issuing consumption coupon to all Hong Kong residents. The campaign is at best to cover retail and catering sectors which are most hard hit by the recent incidents. The consumption coupon is better than giving one-off "subsidy" to all Hong Kong people as the money handed out may not be ultimately spent in Hong Kong.

At this most difficult time of Hong Kong, I earnestly hope you would consider our recommendations, and if required, our Ex-Co members are most pleased to have a meeting with you.

In the meantime, should you have further enquiry, your office may contact Ms. Ruth Yu, Executive Director of our Association, at 2866 8311 for assistance.

Yours sincerely,

Annie Yau Tse  
Chairman

c.c. Mr. Edward Yau, Secretary for Commerce and Economic Development Bureau