

**Hong Kong Retail Management Association
Submission on
2020-21 Budget Consultation**

8 January 2020

I. Introduction

1. Since the outbreak of the social unrest in June 2019, the Hong Kong Retail Management Association has swiftly met with the Government on several occasions to reflect the industry's ordeal and has presented our recommendations in writing on the urgency of granting immediate relief measures to retailers, especially the SMEs to assist them to sail through the current mega storm.
2. The Association would take this opportunity to provide an update on the retail market devastation and its dismal prospect, and a summary of suggestions to the Government for its 2020-2021 Budget.

II. Retail Devastation

Plunge of Retail Sales

3. Hong Kong's total retail sales value has been on a downward trend for 9 consecutive months since February 2019, and it registered the biggest slump on record with a 24.3% drop in October.
4. Alongside dwindling local consumption, the Hong Kong Tourism Board registered sharp drops of total visitor arrivals, with a decline of 43.7% in October, and 56% in November. We do not envisage a pick-up in visitor arrivals in the coming months and expect that the downward trend will continue to prevail.
5. For the whole year of 2019, the Association forecasts a double-digit drop for the total retail sales value and anticipates the retail recession being further deepened in 2020.

Business Impact of Social Unrest on Retailers – Highlights of HKRMA Survey Findings

6. This dismal outlook is well reflected by the survey findings on the business impact of the social unrest collected by the Association in November. The survey registered a total of 176 responding retailers, who are operating 4,310 outlets and



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employing 89,700 persons, which is about 33% of total retail employment in Hong Kong.

7. The key findings are deliberated in the following points (please refers to **Appendix A** for a gist of survey findings):
 - a) **Business Losses:** 97% of respondents suffered business losses; with 90% described losses as above average, and 57% as very severe.
 - b) **Impact on SMEs vs Chain stores:** Both SMEs and chain stores were almost equally hard hit; with 53% of the chain stores and 61% SMEs registered severe losses.
 - c) **Coping measures:** about 20% have been adopting measures including no-pay leave, staff layoffs, and downsizing sales network; while the percentage increased to 30% when asking for strategies in coming 6 months.
 - d) **Layoffs:** about 31% would cut their staff size at an average of 10% in the coming 6 months.
 - e) **Business sustainability:** given the current cashflow situation, about 43% of total respondents cannot sustain their business for more than 6 months; while among them, 21% for less than 3 months, and 22% for 3 to 6 months.
 - f) **Business closures:** 11% would close their business in the coming 6 months if receiving no immediate relief measures.
 - g) **Reducing shop numbers:** 16% of the SME respondents would reduce their shop number by 50% in the coming 6 months; while 49% of the chain stores would reduce their shops by 10% to 20%.
8. In addition, the unemployment rate of retail, accommodation and food service sectors has already reached a high level of 5%. We expect there will be waves of layoffs and business closures among retailers in the coming months.

III. Near-term Measures

9. We appreciate the Financial Secretary's four rounds of relief measures to address the economic austerity so far. However, in view of our industry's severity of devastation, we urgently require further focused assistance as deliberated in the following paragraphs.



Rent Reduction & Relief Measures

10. Rent reduction would be the most effective and direct way to secure retailers' survival. However, it is regretful that the concessions given by the major landlords so far are not enough, and even very minimal in many cases.
11. The following are key deliberations of the Association's survey findings on rent reduction and relief measures granted by the landlords:
 - a) 38% of respondents were only allowed by the landlords to deduct the rent, promotion & management fee, and air conditioning charge for the mall closure days.
 - b) About one-third have deferred rental payments, among whom 84% have deferred payment without the landlords' consent due to financial problems.
 - c) 82% expressed that the rental relief they received was not enough for survival.
 - d) About 40% indicated that the rent reduction should be 50%; while about another 30% mentioned that it should be at least 30%.
12. With rent reduction as the lifeline to retailers, we suggest the Government take further forceful initiatives to influence the major landlords to grant rent reduction or concessions relative to individual retailers' business decline.
13. We suggest the Government continue its exemplary initiative to reduce rents by 50% for 6 months for its commercial units at Housing Authority about Housing Society till the current ordeal is eased.

One-off Relief Fund

14. We urge the Government to launch a one-off relief funding (alike the crunch time instant relief initiative offered to SME retailers by the Li Ka Shing Foundation) within December and January; whereby it should extend beyond just the SMEs but encompass a wider coverage of retailers who are at the verge of business closures.

SME Financing Guarantee Scheme

15. We welcome the raising of the guarantee ceiling from 80% to 90%; however, we urge that the Scheme should also be extended to small scale listed companies,



and/or their subsidiaries which are facing acute cashflow problems, and to ease the stringent requirements on directors as guarantors.

Alleviate Retailers' Operating Cost

16. The Government has announced a few relief measures in the immediate past few months such as waiving of 75% of water and sewage charges for non-domestic households, and rate concessions, among others. We urge that these measures should be in effect soonest and be continued and even strengthened when economic situation gets worse.
17. The two electricity companies recently announced that they will raise the tariff next year, and this move will offset the effectiveness of the electricity subsidy provided by the Government earlier. We propose that the effective date of the tariff adjustment should be deferred until the economy picks up.

Stimulate Local Consumption

18. The Government should devise measures to restore and stimulate local consumption, such as salaries tax concessions, consumption coupons, and organizing city-wide shopping festivals, which may also attract overseas visitors.
19. In planning these measures, we maintain that it must be targeted, timely, and with anticipated measurable positive benefits that could bring to the hardest hit sectors including the declining categories of retail industry.

Rebuild Hong Kong's International Image

20. The Government should orchestrate a comprehensive image promotion plan involving its marketing arms such as the Hong Kong Tourism Board, Hong Kong Trade Development Council and alike to relaunch Hong Kong's international image on various aspects in the global arenas.
21. In particular, the Government should work with related industries including retail to formulate specific promotions to attract tourists when Hong Kong returns to its normalcy, as tourists contributed a very substantial portion to the total retail receipts.



IV. Mid-term Measures

Rectify the Distorted Retail Rental Market

22. In view of the tremendous imbalance of power between landlords and retailers, we urge the Government to set up some form of regulations on commercial rental and related fees for the retail industry to ensure its sustaining development.
23. The Government should also exercise some regulatory measures on retail related fees charged by landlords, such as the management fee, promotion fee, and air-conditioning charges via the proposed regulatory framework.
24. In fact, it is not uncommon in some developed economies whereby the governments impose regulatory measures. For example, the Government of Western Australia has a well-established Commercial Tenancy Act, which aims to regulate commercial tenancy agreements in relation to retail shop leases.
25. Another case is that in New York City in the United States, a bill is introduced in July 2019 requiring building owners to register any of their storefront vacancies on the public database; and that information including store size, occupancy status and monthly rents would be gathered by the Department of Finance if the property is being leased. For details, please refer to **Appendix B**.
26. Apart from the above suggested measures, we also urge the Government to align the commercial renting rules to that of the regulations governing sales of residential premises i.e. applying net lettable area concept in retail leasing contract.

V. Mid-to-long-term Measures - Transform Retail Industry into the New Era

Speed up Retail Technology Adoption

27. Hong Kong retailers are lagging behind significantly in regard to technology adoption, digitalization and ability to tap business opportunities arising from the changing lifestyle of the new generations; while at the same time, its long-standing strengths in physical retailing are fading out rapidly.
28. To overcome this development bottleneck and pave way for further growth, we urge the Government to render policy support to the industry in a holistic manner



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in order to speed up technology adoption, O2O integration, and build up a new ecosystem conducive to the sustainable development of the retail industry.

29. The Government should improve coordination among all IT-related statutory bodies so that they can work with greater synergy on technology promotion among different industries including retail.
30. Retailers in Hong Kong especially the SMEs lack the resources and knowledge to discern the suitability of various government IT funding schemes to their business. We suggest the Government to set up a one-stop, user-friendly funding setup for retailers to overcome the hurdles created by the prevailing cumbersome process.

Develop Young Retail Talent

31. In spite of the current retail austerity, the industry is facing a lack of young talent joining the industry. We urge the Government to formulate a forward-looking master plan on the future demand of human capital, with retail as a priority industry.
32. We urge the Government to render focused training support to equip old and new retail with knowledge and skillsets in the light of new retail and evolving customer behavior especially those from the mainland.
33. To attract young people and help them relate to the industry, the Government should allocate additional resources to promote retail as a discipline with promising career prospect in the mainstream education curriculum and set up a retail degree at major universities.
34. In view of the increasing integration between Hong Kong and the Greater Bay Area (GBA), the Government should consider special arrangement on mobilizing retail talent across the borders.

Support Retail Industry Re-branding

35. Due to the fast-changing industry landscape since the granting of the Government funding of \$130 million to the retail industry in 2014, we deem it is time to conduct a review, and to apportion a bigger amount of resources to uplift the image of the industry in the wake of the industry's rapid transformation.



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36. We need to have a forceful thrust in rebranding the industry from being labelled as a “traditional industry with in-store service focus” to that of a tech savvy, featured with enhanced productivity via digitalization and flexible working hours.
37. With additional resources from the Government, the industry can work on all fronts to project a brand new image to the public, and to change the mindset of the parents, teachers, career masters and students that retail is fun, innovative and promising with abundant opportunities.
38. We believe an overhaul of the industry image will enhance the competitiveness of retailers in Hong Kong and protect the job market as the industry currently provides employment to some 270,000 persons in Hong Kong, which is about 10% of the total workforce.

VI. Conclusion

39. The Association reiterates that the paramount task for the Government is to restore law and order and stability to the community soonest. Without a healthy and orderly operating environment for business, no industries can survive and prosper, and the retail industry is no exception.
40. For the forthcoming Budget of the Government, we expect it should be able to provide Hong Kong’s economy and its industries including retail with a lifeline to survive the current ordeal, as well as practical and sufficient amount of resources to prepare for a rebound, hopefully in the soon future.

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