



2020

PayPal Hong Kong Merchant Survey

From New Normal To New Growth

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Executive Summary

Executive Summary

COVID-19 has created unprecedented challenges for many businesses. Although consumers seemed to be more open to shopping online, Hong Kong's eCommerce businesses have faced various challenges during the pandemic, with major impacts on their logistics and supply chain, and sales.

The dual pressure on businesses is further compounded by increasing operational costs as a result of logistics and supply chain issues. Customers relationships were also impacted as businesses received more complaints and started to lose regular customers. In a bid to survive, these businesses have taken significant measures to adapt to the new normal.

Despite the mounting pressure and challenges Hong Kong's eCommerce businesses are facing, there is plenty of room for optimism. This report finds that eCommerce businesses are set to capitalize on a window of opportunity, with most surveyed businesses anticipating a recovery by the end of the year. As the sector emerges from the clutches of the pandemic, a number of businesses are now switching gears from survival to growth mode, recognizing the importance and urgency of improving the online shopping and payment experience in order to enhance customer experience and boost sales conversion.

This report aims to shed light on how eCommerce businesses in Hong Kong have been impacted by the pandemic and provide insight into the areas they are investing in to recapture growth.





Impacts on eCommerce Businesses

Impacts of COVID-19 on eCommerce businesses in Hong Kong

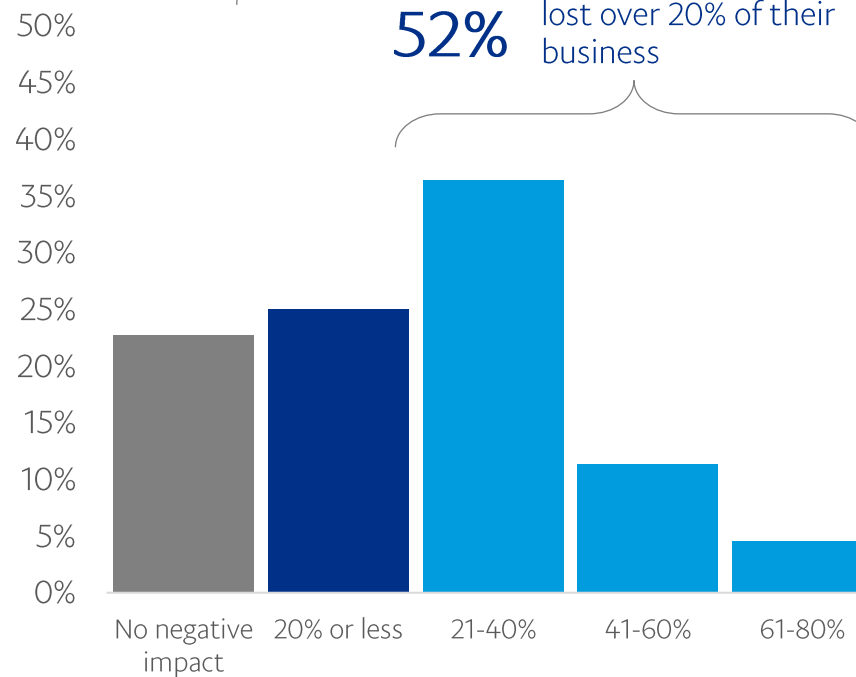
COVID-19 has hit eCommerce businesses hard, negatively impacting the bottom line and causing concerns over the sustainability of businesses.

eCommerce businesses in Hong Kong still reported tough challenges, with 64% being moderately or highly concerned about the sustainability of their business.

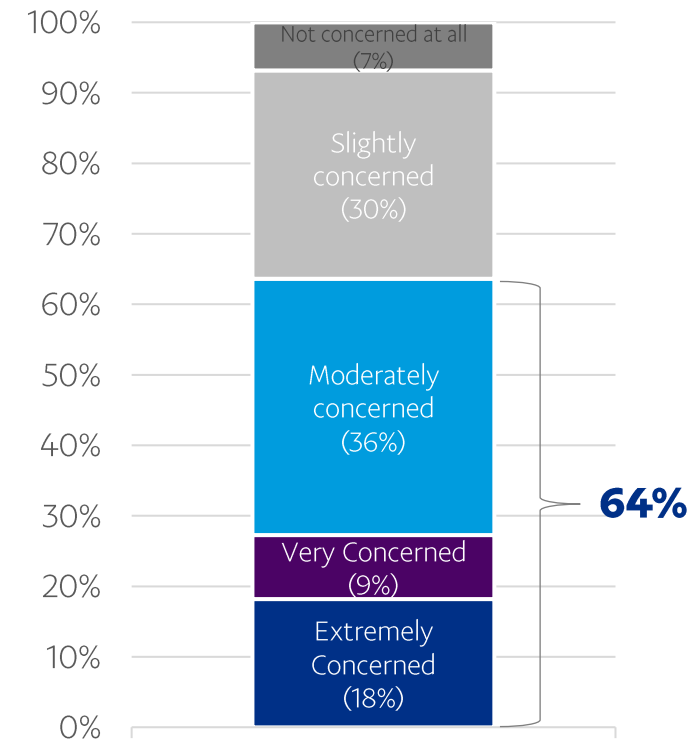
This has in part stemmed from the negative impact on revenue resulting from the pandemic, with more than three-fourth (77%) of businesses reporting revenue loss in the past 6 months.

Negative Impact on Revenue

77% suffered revenue loss in the past 6 months

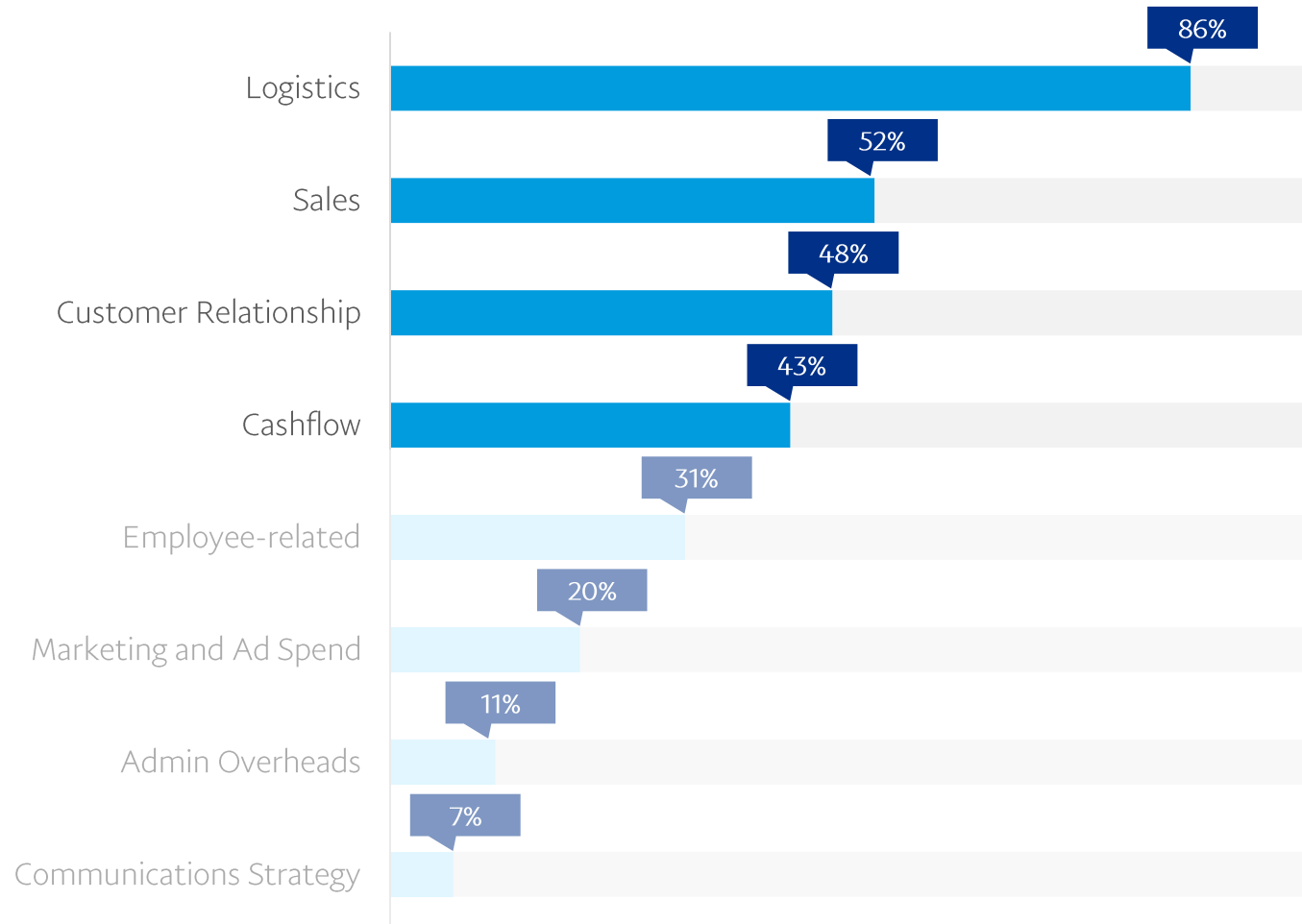


Concerns with Sustainability of Business



The impact of the pandemic has been felt both at the front-end and back-end of eCommerce businesses.

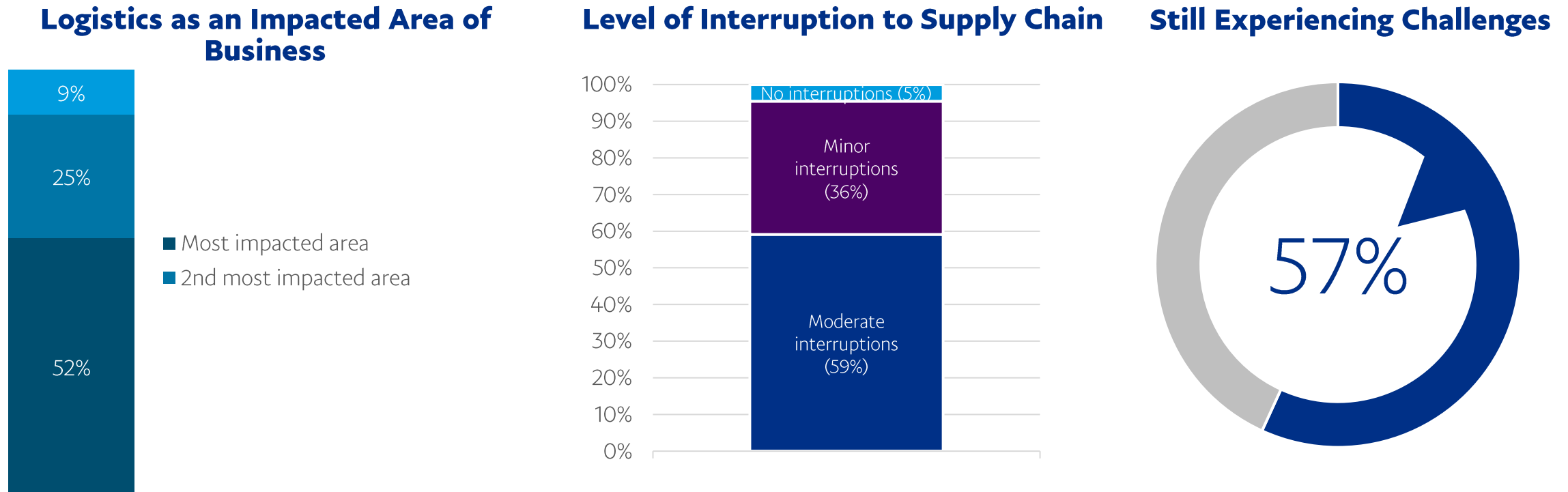
Most Impacted Areas of Business



The lockdowns and border closures have had a severe impact on logistics. 86% of the businesses said it was their most impacted area of business.

Other impacted areas include falling sales, deteriorating customer relationships and cashflow issues.

The impact on logistics was the most significant, with over half of the businesses still facing supply chain challenges.



Over half of the businesses ranked logistics as their most impacted area due to COVID-19. 59% of the businesses faced noticeable interruptions to their supply chain in the past and 57% continue to experience these challenges at the time of the survey (August).

Disruptions to logistics and supply chains are having a knock-on impact across the business, both at the front and back-end.

Impact Caused by Logistics Disruption

48%



increasing **customer complaints**

27%



sales dropping by 20% or more

27%



damage to **company reputation**

34%



difficulties shipping resources products from specific countries



Impact on the **production line** of specific products



shortage of products / resources

Impact Caused by Supply Chain Disruption

45%

36%

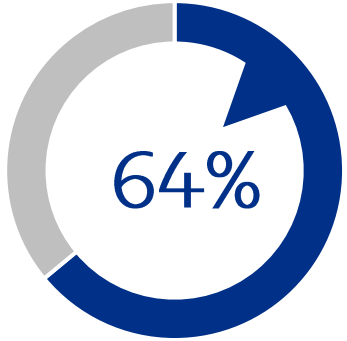
33%

33%

Disruptions to logistics and supply chains have been the root cause of many issues faced by eCommerce businesses during the pandemic.

At the front-end, the top three areas of impact include **rising customer complaints**, **falling sales** and **damage to the company reputation**.

Meanwhile, the top three challenges at the back-end include difficulties in shipping and a shortage of products.



Businesses claim that logistics interruptions have resulted in issues **with company reputation and customer relationships**, including:

48%



of eCommerce businesses received complaints from customers

27%



of eCommerce businesses faced damaged company reputation

14%



of eCommerce businesses lost regular customers

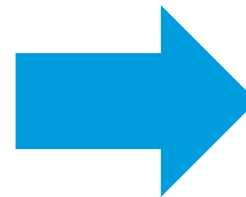
Logistics disruptions have had a major impact on customer relationships, resulting in a short-term increase in the number of complaints, and a longer-term impact of damaged company reputation and loss of regular customers.

Drilling down specifically into the impact on customer relationship indicates a sharp increase in customer complaints.

48% of respondents consider the impact to customer relationships to be one of their top 3 areas of impact. Moreover, almost all businesses have seen an increase in customer complaints over the past 6 months mainly owing to logistical issues.


48%
Claim the
impact to customer
relationships as
one of their top three
areas of impact


98%
of eCommerce
businesses saw
increased complaints
in past 6 months



Top Reasons for Customer Complaints

95%  Late Delivery

37%  Product Availability

35%  Products not matching expectations

The pressure from decreased sales, which hasn't been resolved yet, is further compounded by rising operational costs, creating cashflow issues.

Sales

With a fall in consumer spending and increasing competition, over half of the respondents (52%) mention Sales as one of the top 3 most impacted areas of business. This is augmented by the fact that almost one in six (57%) feel that Sales still continues to be a major challenge.

52%



Regarded as one of the top 3 most impacted areas

57%



Seen as a major challenge during the time of survey

Cashflow

The sales woes compounded by potentially higher procurement costs have led to Cashflow challenges in the past and with one-fourth of the businesses still considering it a major challenge.

43%

29% Paid more for the same products

23% Faced increased labor costs

25%

Top Measures Taken to **Protect Financial Security**



In a bid to survive, businesses have taken several measures to protect their financial stability.

Although finding a favorable solution to payments with vendors is the preferred measure, major cashflow challenges are forcing businesses to take more drastic measures, including cost cutting and selling unused equipment at discounted prices, to preserve financial security.

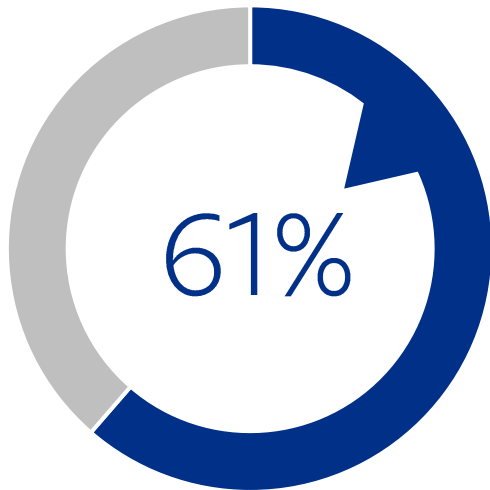


Business Changes to Move from New Normal to New Growth

Hong Kong eCommerce businesses are making changes to overcome the challenges posed by COVID-19

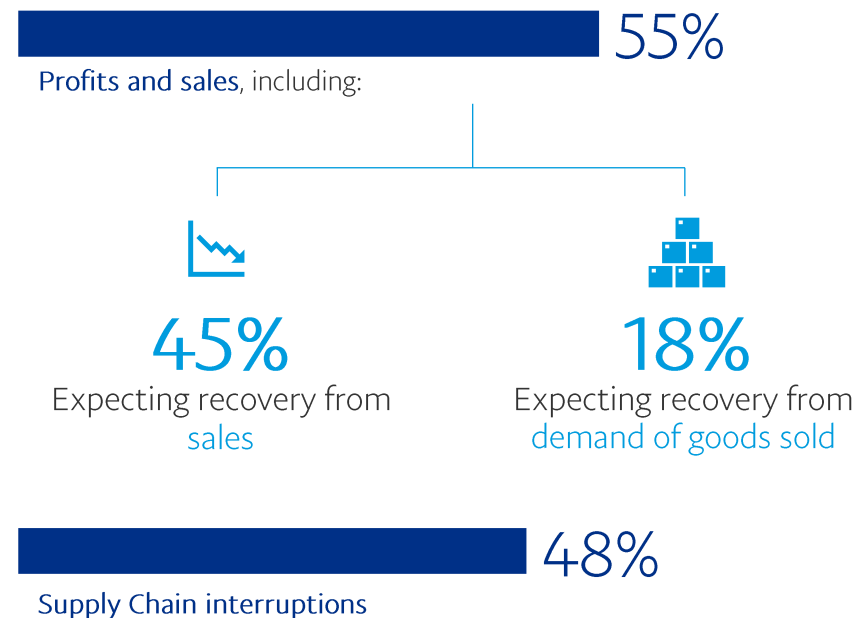
Despite mounting pressure, there is a window of opportunity as businesses anticipate a recovery by the end of the year.

Expected Time for Recovery



expect recovery to how it was pre COVID-19 by end of 2020

Easier Recoveries Expected in:



Despite mounting pressure and challenges eCommerce businesses are facing, there is a window of opportunity.

The majority of businesses surveyed (**61%**) expect their business to return to pre-COVID-19 levels.

Profits and sales as well as **supply chain** are the two areas where respondents showed the highest level of optimism. **55%** and **48%** expected easier recoveries in these areas respectively.

The Race to Recapture Growth and Recovery



With measures taken to address the immediate financial pressure businesses are now re-focusing their efforts to recapture growth and get ahead of the anticipated recovery.

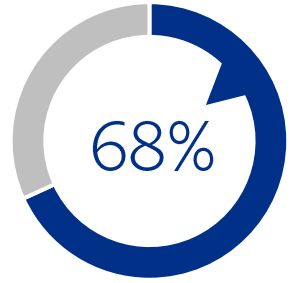
Finding more customers (64%), particularly in new geographies (45%), is considered integral to recapturing growth in the future. And businesses expect to do this by focusing on both the supply – finding stable supply chain partners (52%) and demand – looking for alternative ways to sell their products (48%).



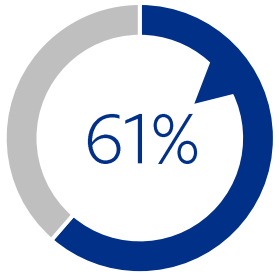
Opportunities for eCommerce Businesses

Priorities for eCommerce businesses to stay competitive

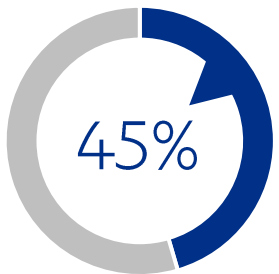
eCommerce businesses are making moves to improve communications and address impacted customer relationships.



have been posting advisory information or information updates on their website



have been managing customer expectations through more proactive communications on a more regular basis, where



plan to offer discounts to customers experiencing long waiting periods

Communication is seen as key for addressing customer relationship challenges. eCommerce businesses have been engaging customers more proactively and frequently.

Also, nearly half of the eCommerce businesses plan to offer discounts to customers experiencing long waiting periods as an incentive to encourage purchases.

39% Reach out weekly

23% Reach out monthly

Businesses must also focus on improving their online shopping experience amid rising competition

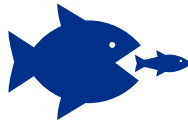
Despite positive future trends for online shopping, businesses anticipate the need to survive in highly competitive environment (61%) with majority of them (86%) planning to focus on improving the online shopping experience.

Expected changes in eCommerce



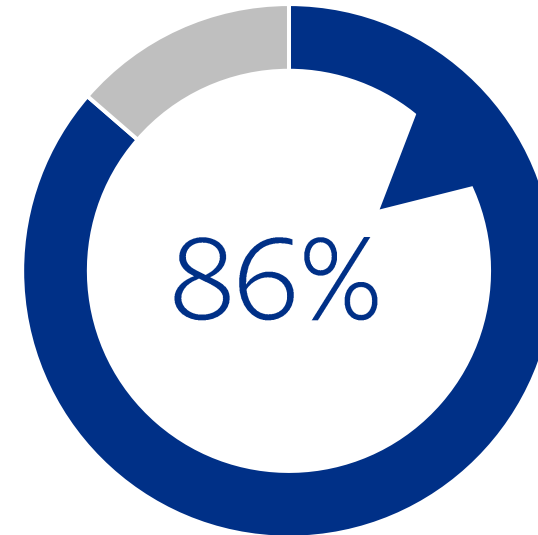
61%

expect **increased online shopping** to be here to stay



61%

expect **competition** in eCommerce to **intensify**



Will focus on **improving online shopping experience¹**

1. Improving online shopping experience includes providing more digital options payments, improving security of payments / digital transactions, improving customer trust in our payment gateways, improving the overall UI/UX experience, revamping the website, and introducing / revamping mobile apps.

The payment experience will be an integral part of improving the shopping experience.

Among those focusing on improving online shopping experience,



find improving payment experience² important in enhancing the overall online shopping experience



are investing in improving payment experience within the next 6 months



indicate the need of assistance in optimizing / introducing additional payment options

2. Improving payment shopping includes providing more digital payments options, improving security of payments/ digital transactions, and improving customer trust in payment gateways.

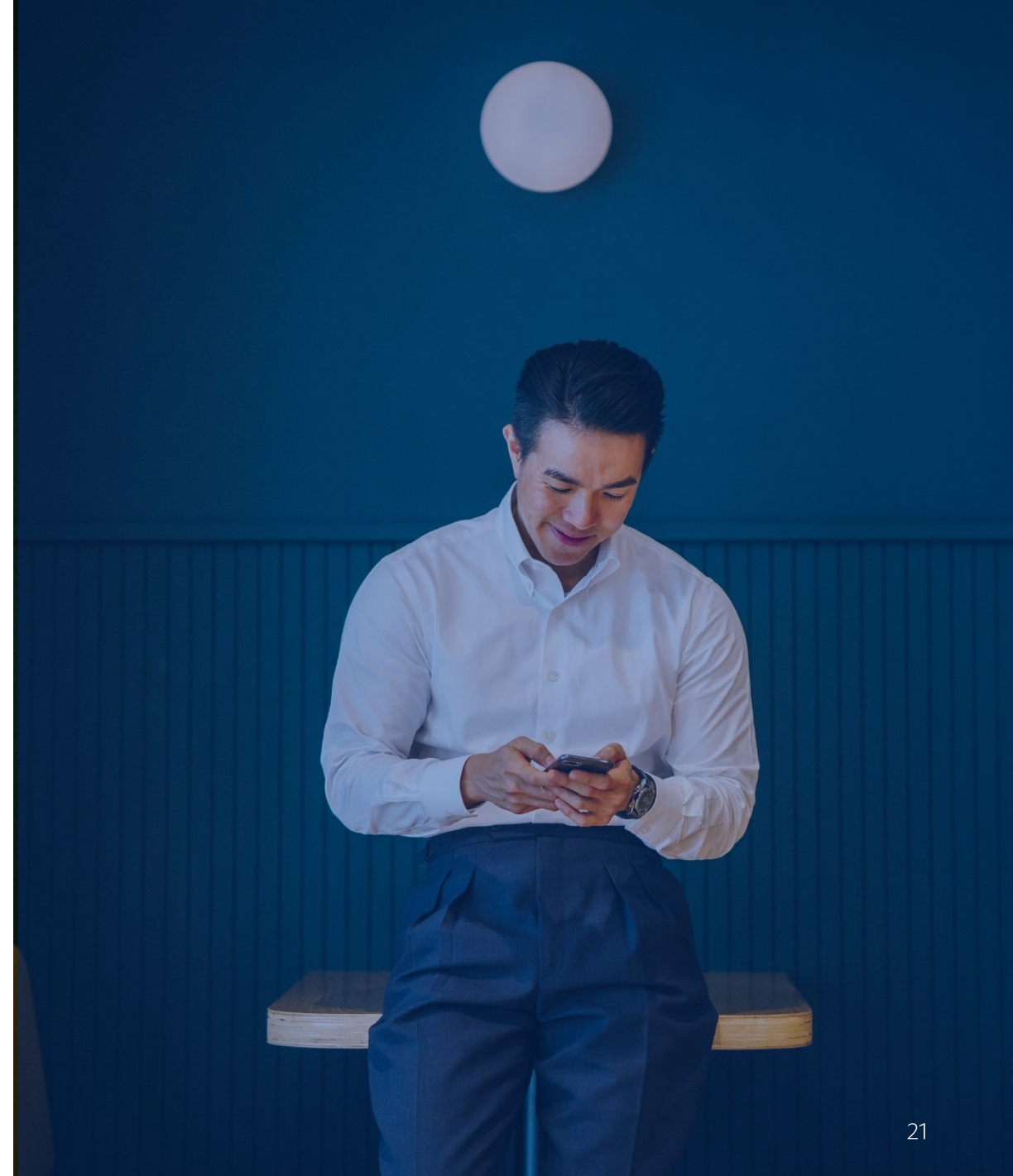
An important part to improve the end-to-end online shopping experience is optimizing the payments experience.

Our survey found that almost half of the businesses who want to improve online shopping experience recognize the importance of improving payment experience and seeking assistance in optimizing / introducing payment options.

About the Survey

The independent study, entitled “From New Normal to New Growth”, was conducted by Edelman Intelligence on behalf of PayPal Hong Kong to offer insights into how eCommerce businesses in Hong Kong had been impacted by the pandemic and where businesses plan to invest to recapture growth. The results are based on interviews with 44 senior executives of mid to large-cap eCommerce merchants in the physical goods space held online in August 2020.

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