



Retail Industry – The Impact of Covid-19 on the business

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Executive Summary

Introduction and objectives of the study

The Italian Chamber of Commerce in Hong Kong and Macao, in collaboration with the French Chamber of Commerce in Hong Kong, has conducted a survey to understand the Covid-19's impact on the Retail business.

The main objectives of the study are:

- Understand the economic and financial impact of the Covid-19 on the Retail Industry;
- Provide the Italian and French Chambers with a detailed understanding of the needs of their members to better support them in this difficult time;
- Provide the Hong Kong Government and Local Institutions with some useful guidelines to think and implement additional measures to help local enterprises.

Survey methodology

The survey was carried out between 8 and 22 March and it was shared with members and non members of the Italian and French Chambers of Commerce. The questions aimed at assessing the consequences of the outbreak from a financial and operational point of view, by comparing the main company's results in February 2020 with February 2019.

Overall, 74 responses were collected and analysed.

Highlights and main findings

- **Store/shops closure**
 - Over 60% of the companies operating within the Retail Industry have already closed or planned to close their stores or shops (80 venues already confirmed as closed, potentially up to 250).
- **Trend of sales**
 - 70% of the companies have registered a decrease of revenue higher than 60% compared to last year, with the sharpest decline (90% - 100%) in Fashion/Textiles and Accessories;
 - Small companies operating only in the B2C with limited number of stores are suffering more than companies with both B2C and B2B channels, which will probably be experiencing a delay in the deterioration of KPIs (being in the upstream stages of the supply chain).
- **Profit**
 - Almost 80% of the respondents disclosed that their profits have already become losses and another 6% disclosed that they are close to the break-even;
 - Considering that the situation has not improved from 22 March until now, it seems reasonable to state that for at least 86% of the companies the profit is turning into loss.
- **Employment**
 - More than 40% of the respondents are already implementing compulsory paid leave for their employees, while another fraction of them (27%) is also adopting unpaid leave.

- Around 20% of the companies have already reduced the salary of their employees and another 5% plan to do so.
- Around 36% of the companies have already reduced the number of employees, and an additional 16% will do so in the near future in order to survive.
- 82% of the companies has 90% or more of their staff hired with local contracts.
- **Relocation of HQs**
 - More than 50% has already moved some regional functions or are considering to do so if the situation does not improve after May 2020. Major destinations are Mainland China and Singapore.

Proposed areas of intervention

- **Launch of Employment Credit schemes** aiming at reducing the impact of the cost of personnel to avoid further reduction of employees.
- **Rental relief package for Hong Kong tenants of shops and stores** to reduce the weight of rental costs on total fixed costs of Retail companies.

The results of the survey

The Retail Industry in numbers

The breakdown of the respondents is as follows:

- Fashion / Textiles - 38%
- Food / Beverages - 23%
- Accessories - 16%
- Cosmetics / Beauty - 11%
- Jewellery / Watches - 4%
- Others - 8%

Almost 90% of the respondents work for companies with less than 250 employees, whose annual revenue is less than 250 million HKD¹.

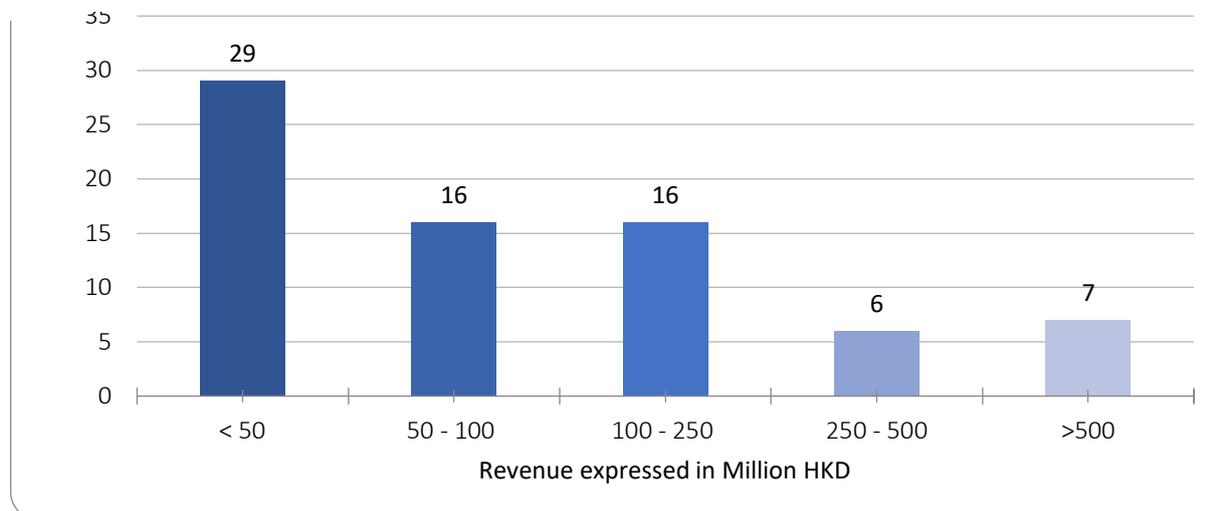


Figure 1: Revenue distribution of the respondents to the survey

To analyse different trends, the respondents were divided according to the main sales channels:

- Retail only – serving final customers only;
- Retail and B2B – serving final customers and shops;
- B2B only – serving shops only.

Almost half of the interviewees work with retail channels only, another 45% deal both with the retail and B2B channels, and just less than 10% work only in business-to-business activities.

¹ When referring to revenue, the benchmark asked was either the whole 2019 or each company's fiscal year for 2019. Based on the survey conducted, around 85% of the responses came from companies below that threshold. In particular, almost half of these reported revenues of less than 50 million HKD.

Retail only

Number of shops/stores

Thirtyfive (35) responses were collected from companies dealing directly with final customers, 80% of which are typically operating a small numbers of shops (majority between 1 and 19 locations).

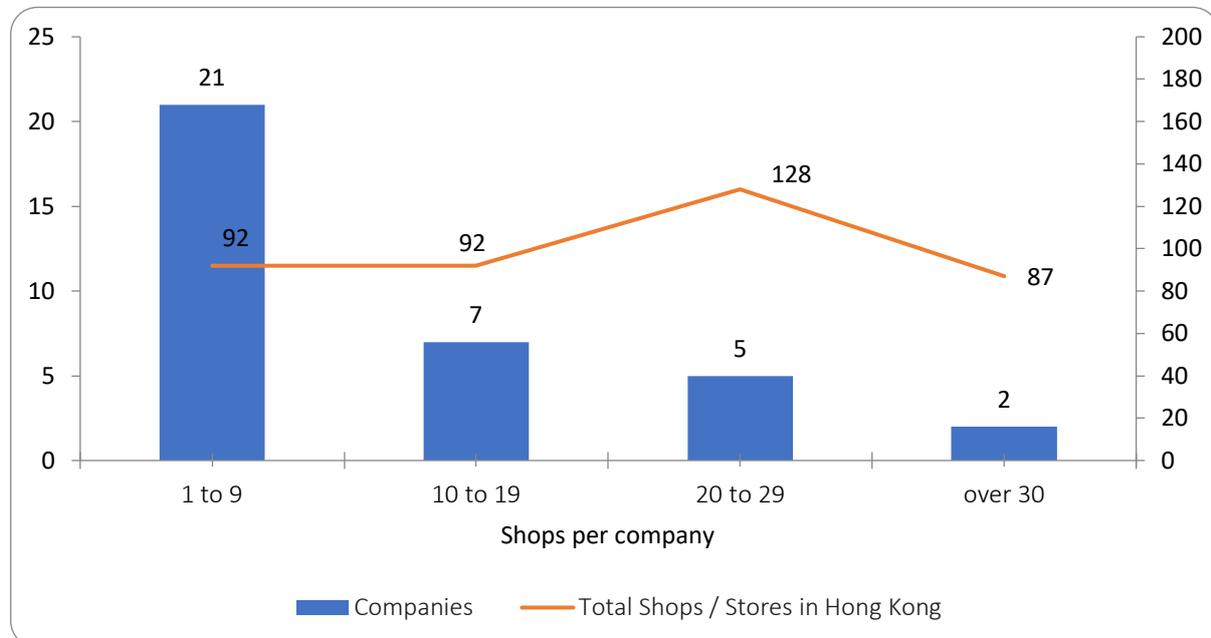


Figure 2: Average number of stores or shops directly operated in Hong Kong and total number of shops or stores represented.

As per shown in the above chart:

- In the first group 21 companies do represent 92 locations;
- In the second group, where just 7 brands are included, 92 shops are represented;
- In the third one the number of shops for each company starts increasing, having only 5 companies (i.e. the 14% of respondents), operating almost 130 venues;
- In the last cluster, only 2 companies control 87 shops in Hong Kong.

These data suggest that the Hong Kong environment is fragmented and populated mostly by companies that have few shops or stores, hence exposing them to great threats and uncertainties posed by the outbreak. As a matter of fact, in the upcoming months these companies will have to heavily rely on just few locations to turn their losses into profit or at least break-even and if this will not be the case, many of them might be forced to shut down permanently².

The closure of shops/stores

² The main reasoning behind this, strictly connected to the recent 'Anti-epidemic Fund', is that while those bigger-scale companies with many locations can afford to shut down some of them and temporarily reduce the personnel and still continue the operations in the main venue, brands that have a limited presence may be forced to completely halt their activities and earn no money apart from the government incentives. Put into perspective, this would surely be a big advantage for stronger companies while leaving smaller ones almost helpless.

With regard to the closure of the points of sales, the majority of respondents confirmed that either some have already been closed or will be closed in the near future.

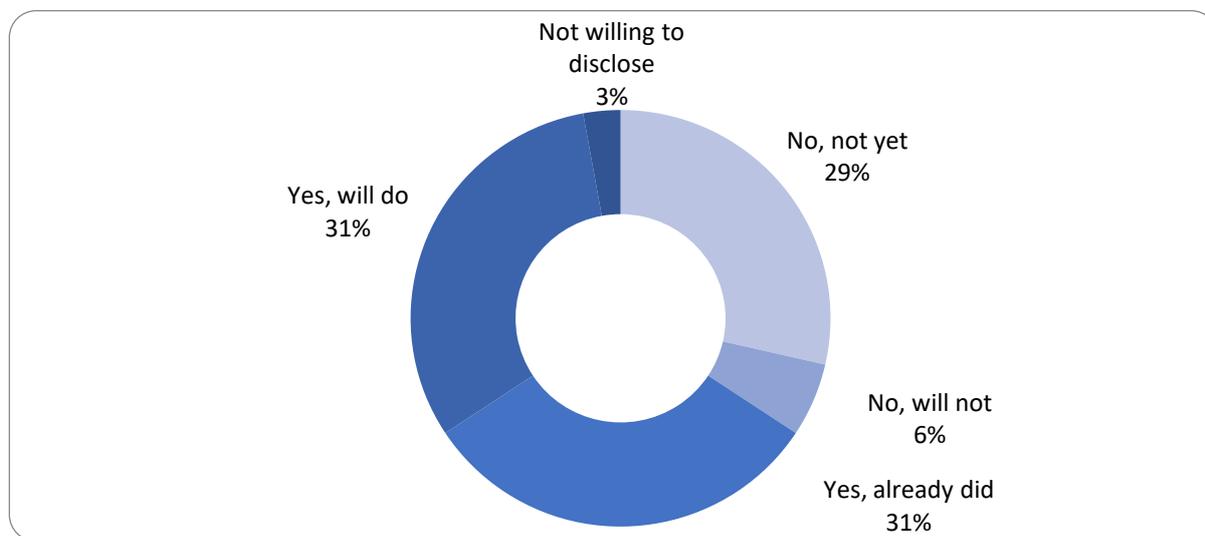


Figure 3: Percentage of companies which have already closed shops or will close the shops in the next three months

More than 60% indicated one of these two alternatives, potentially representing a total number of over 250 stores.

In the survey, around 20 companies disclosed that they closed one or more venues; on this basis, we estimate that already **more than 40 locations** have been shut down overall between Hong Kong and Macao.

Retail and B2B

Number of shops/stores

A similar analysis has been conducted for those companies operating both directly with the final-end consumers and also with distributors.

Provided that these companies split their focus on two sales channels (consumer and business), we expect the Covid-19's impact to be milder and less disruptive in the short period in terms of shops' closures. Probably the revenue stream from the B2B provided a buffer to delay the negative impact on the operations and financial results.

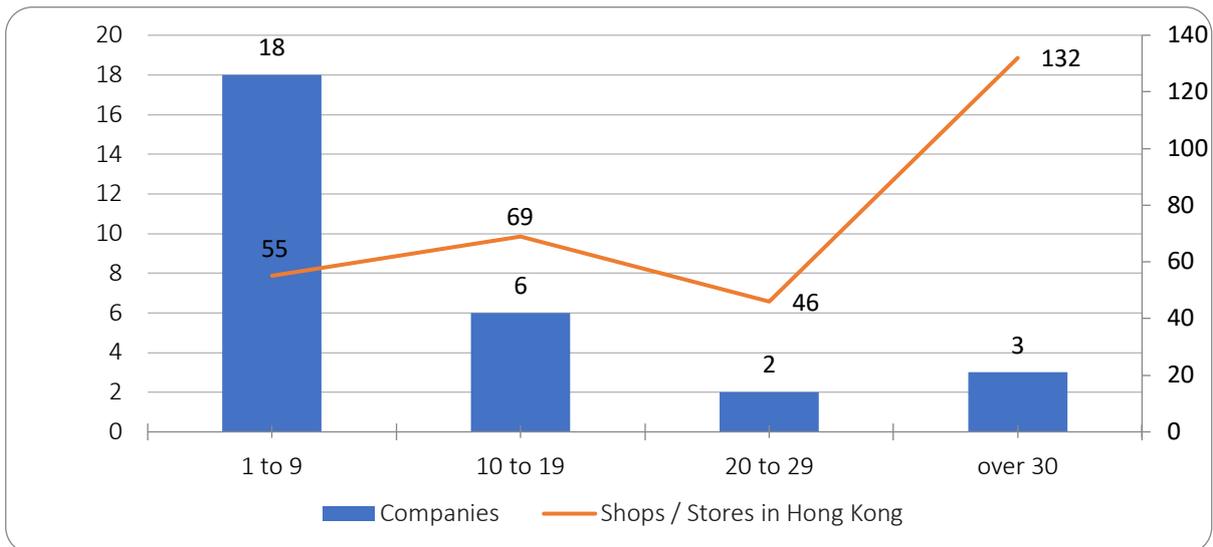


Figure 4: Average number of stores or shops directly operated in Hong Kong and the total number of shops or stores represented by each group of companies operating in both Retail and B2B channels.

Also in this group of companies most of the respondents can be classified as SMEs, given the following:

- 18 companies operate 55 shops in total, with an average of around 3 shops per company;
- 6 companies operate 69 shops in total, with an average of 11/12 shops each;
- 2 medium/big size companies which operate 46 shops in total, with an average of 23 shops each;
- 3 big companies which operate 132 shops in total, with an average of 44 shops per company.

In this group, few companies operate a great number of locations: just three of them account for 44% of the stores under analysis in Hong Kong, on a total number of over 300 venues (Figure 4).

Closure of shops/stores

The impact of the Covid-19 on this segment is entirely reflected by the **almost 50%** of respondents declaring they have already **proceeded to close some shops** or they will do so in the near future.

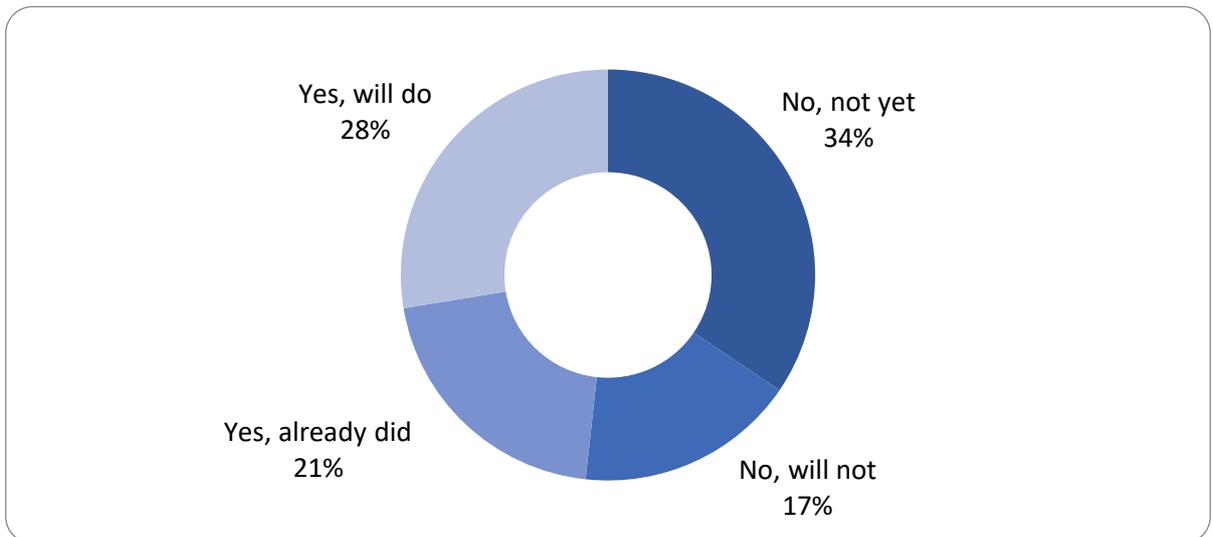


Figure 5: Percentage of companies which have already closed shops or will close the shops in the next three months

In terms of shop closure, the impact of the Covid-19 for the companies with B2B and retail channels is lower if compared with companies with retail channels only (49% vs 62%).

This is probably due to the fact that selling to B2B channels instead of consumers channel is delaying a bit the effect of the crisis, providing a cash flow buffer which could have been reinvested in the consumer channels.

Considering that Hong Kong is experiencing the second wave of Covid-19, the situation is not getting better, so most probably the number of shops closed has increased in the last few weeks also for the companies with both B2B and retail channels.

B2B only

The third group includes only 8 companies which serve stores/shops, similar point-of-sales or other businesses. Most of them are working in the Food / Beverages industry and they operate in the upstream stages of the supply chain, if compared with the first two categories.

Given their positioning and target clients, the respondents did not report a strong decrease of sales and profits, but it is fair to assume that this will likely happen in the near future (1-2 months) as it is better analysed and explained in the following paragraphs.

Impact of the Covid-19 on the main KPIs of the Industry

The impact on sales and profitability

Over 70% of the companies registered a decrease of more than 60% on February sales compared to same month of last year (Figure 7).

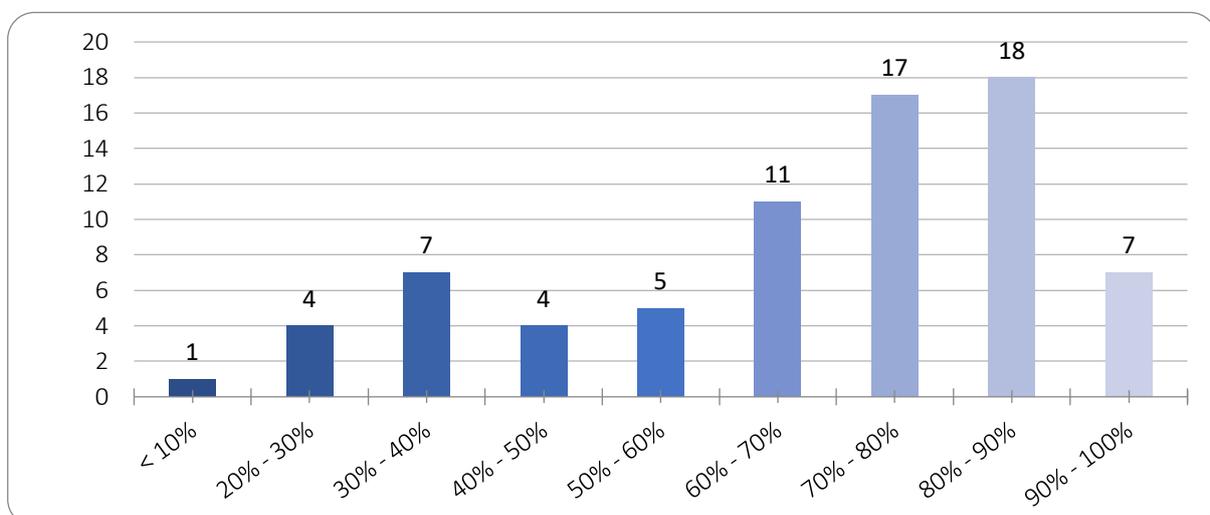


Figure 7: Decrease in SALES for February 2020 compared to Feb 2019 and number of companies affected.

In particular, among those companies which recorded a sales decrease between 60% and 100%:

- **Fashion / Textiles are certainly the most impacted**, constituting more than half of this group;
- Accessories and Cosmetics / Beauty are the second most affected category;
- The **sharpest decline** (90% - 100%) is reported once again by the **Fashion / Textiles** industry and **Accessories** ones, reinforcing the evidence of how the Covid-19 did hit particularly hard the latter ones.

On the other hand, the first two least impacted clusters of respondents (< 10% and 20% - 30%) are mostly populated by companies working exclusively in the B2B sector³, confirming that the performance for this segment will probably be affected in the the next few months.

The decline in sales is a parameter that, for the Retail Industry, is closely connected and directly related to the foot traffic, which evidently experienced a sharp drop in these past months as well.

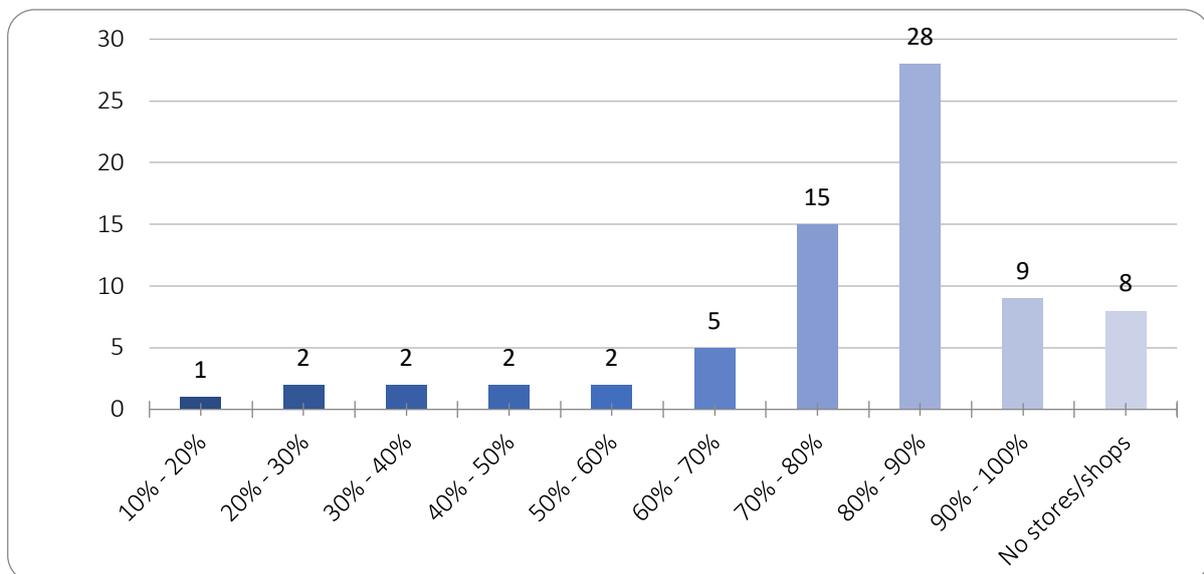


Figure 8: Decrease in FOOT TRAFFIC in February 2020 compared to Feb 2019 and number of companies affected.

In details:

- 9 companies only (12%) did report a drop in foot traffic below 60%;
- The remaining 57 (77%) experienced a decrease higher than 60%, with **50% of them** experiencing a fall between **80 to 100 percent**.

³ With this respect and as mentioned previously, there should be several other considerations and conclusion that could be drawn. Starting for example from the nature of the B2B industry itself, it can be assumed that such impact caused by the Covid-19 should not be reflected in the short or medium-short term but mostly in the longer one, implying significantly different parameters and measures that should be analyse this specific group of companies.

Foot traffic and sales decrease combined can only lead to profits drop: almost 80% of the respondents disclosed that their profits have already become losses.

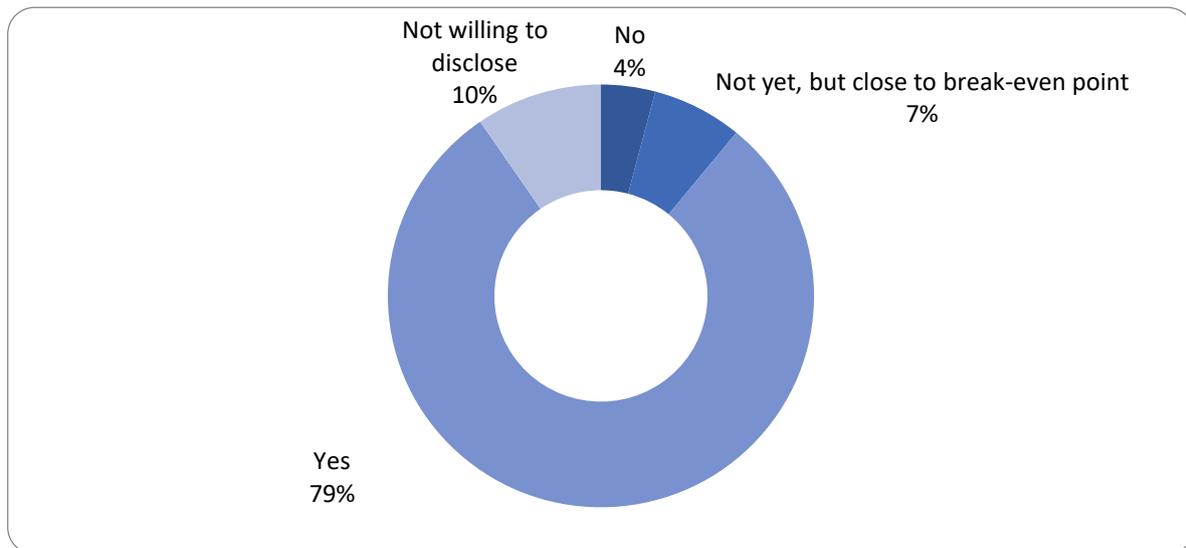


Figure 9: Percentage of companies which turned profit into loss

Moreover, if those close to break-even are taken into account and considering the trends in the last few weeks it seems reasonable to state that **at least 86% of the companies are losing money.**

Fixed costs and investments

From the point of view of the fixed costs and investments, most of the companies have already suspended or put on-hold the investment plan for 2020 (69%) or intend to do so in the near future (15%)⁴.

⁴ 60% of the companies which have already suspended or deferred the investment plan are in the Fashion / Textile and Accessories industry, 15% in the Food / Beverage one.

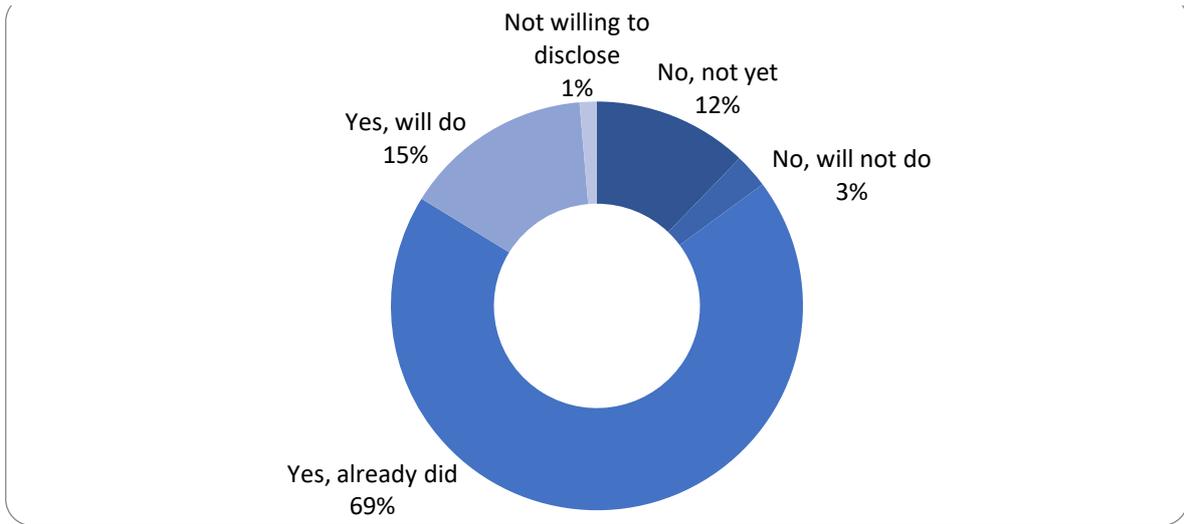


Figure 10: Companies which temporarily halt/hold off/defer investments

Most of the respondents also decided to temporarily halt the business travels for the whole staff or for part of it. This policy has been implemented both to guarantee the safety of the employees but also to save fixed costs as much as possible.

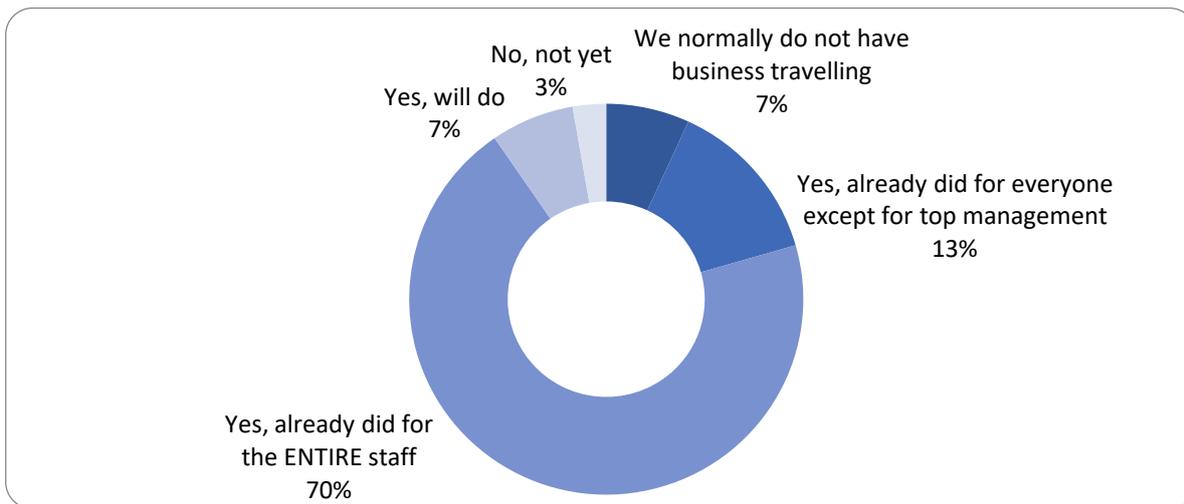


Figure 11: Companies which temporarily halt/hold off/defer business travels

As it can be ascribed from the chart above:

- 70% of the companies halt the business travel for the entire staff;
- 13% of the companies halt the business travel for everyone except the top management;
- 7% are planning to stop the travels for the near future.

Provided the current situation and further travel restrictions implemented in the last few weeks, it is plausible to state that all business trips have been now completely halted.

On the marketing and advertising side, the budget has generally already been reduced, if compared to February 2019, but the companies are implementing different policies in this respect.

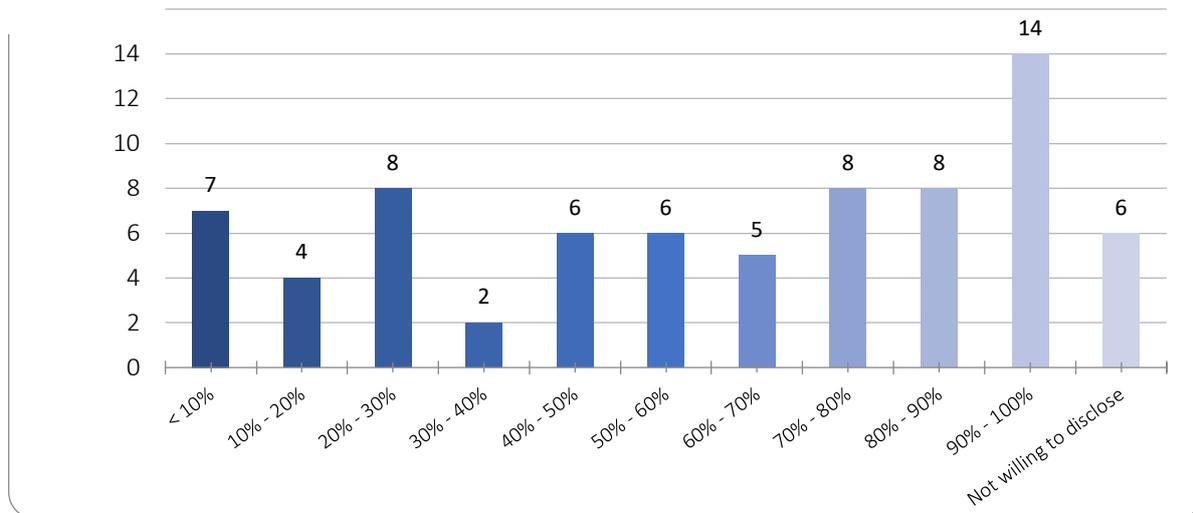


Figure 12: Average cut in Marketing and Advertising budget

Based on the chart above, **almost half of the companies** (41%) have decided to implement drastic measures, by **reducing the marketing and advertising budget** of a percentage which varies between **70% and 100%**.

However, some of the respondents are trying to maintain a stable and suitable marketing and advertising budget, reducing it by less than 30%. In this case, the survey revealed that, this strategy is being adopted mainly by enterprises of over 50 or 100 million HKD in revenue.

The cost of rent

The cost of **rent weighs between 30 to 60 percent of the total fixed costs** of each company. To be precise, it has been calculated that the money spent on rental of office, shops or stores and warehouse are **on average the 46%** of the total fixed expenditure of each company.

If considered that for many companies it can be even higher, it is self-explanatory why the moment that the revenue significantly slowed down, most of the businesses saw a sharp fall in profits. In this sense, there is very little that can be done and most of the actions are entirely up to the landlords and their willingness to offer some relieves.

According to the respondents willing to share the data, 60% of them did receive some rent reduction and the great majority of them is between 15% to 50% (referred to both shops and office).

However, **more than 30%** of the companies **did not receive any discount on the rent** so far or **not even started the renegotiation** discussions, signaling a dramatic trend that should be changed to avoid the permanent closure of many businesses.

The cost of personnel and the impact on employees

Who is suffering the most the consequences of the crisis is certainly the employees, who see their job and their salary at risk every day.

The reason to say so is that, among the respondents, **the cost of personnel** is estimated to take an average slice of **30% of the total fixed costs** per enterprise, hence forcing the companies to take some measure to reduce this cost as much as they can.

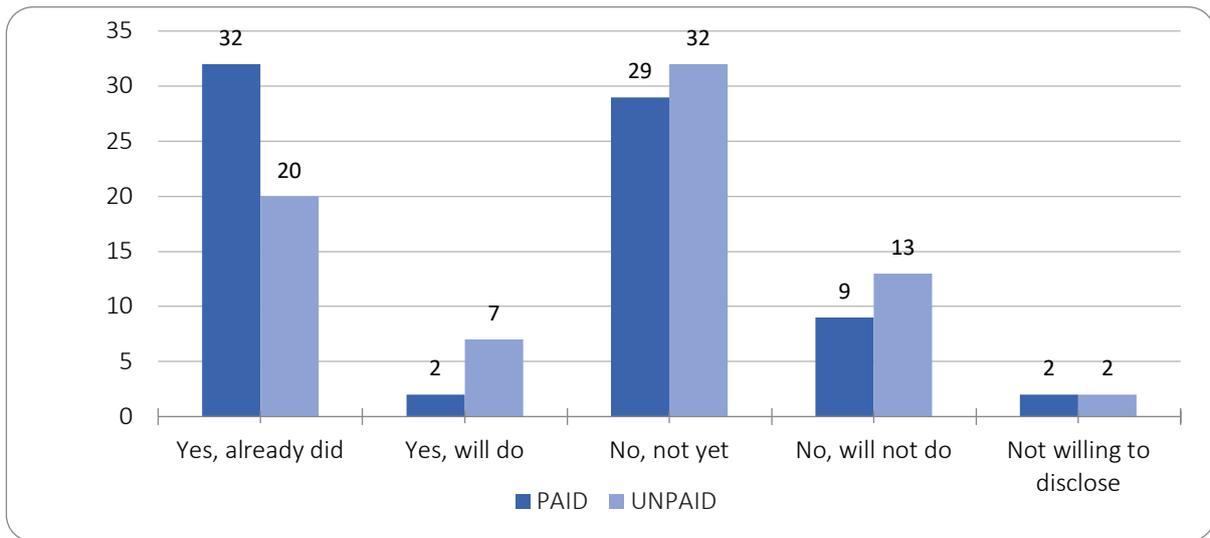


Figure 13: Companies which are implementing PAID/UNPAID leave for their employees

Figure 13 helps to have a clear and well-representative picture of the situation in the different companies, where more than 40% of the respondents in the industry are already implementing compulsory paid leave for their employees, while another fraction of them (27%) are also adopting **unpaid leave**. Given these figures and according to the general feeling, it seems reasonable to assume that if the situation will not see any improvement in the short term, also the remaining half will be forced to do so.

The survey highlighted that some companies also started reducing the level of salary of their employees.

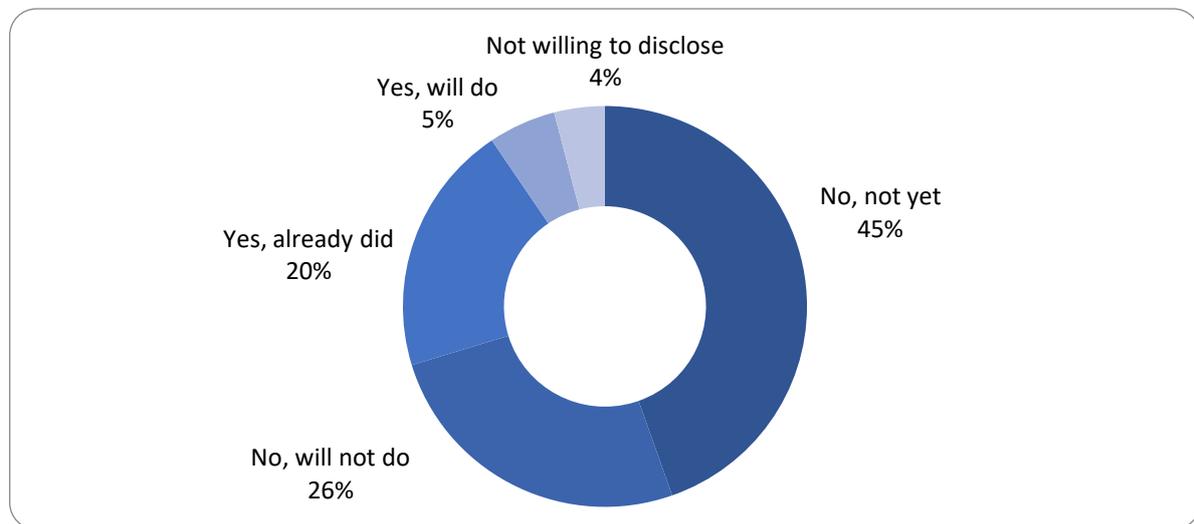


Figure 14: Companies which are reducing the salary of employees or will do in the near future

Around **20% have already reduced the salary** of their employees and another **5% is planning to do so**.

On top of that, unfortunately, the survey confirmed that **around 36% of the companies have already been forced to reduce the number of employees in order to avoid bankruptcy**, while another **16% will do so in the near future in order to survive**.

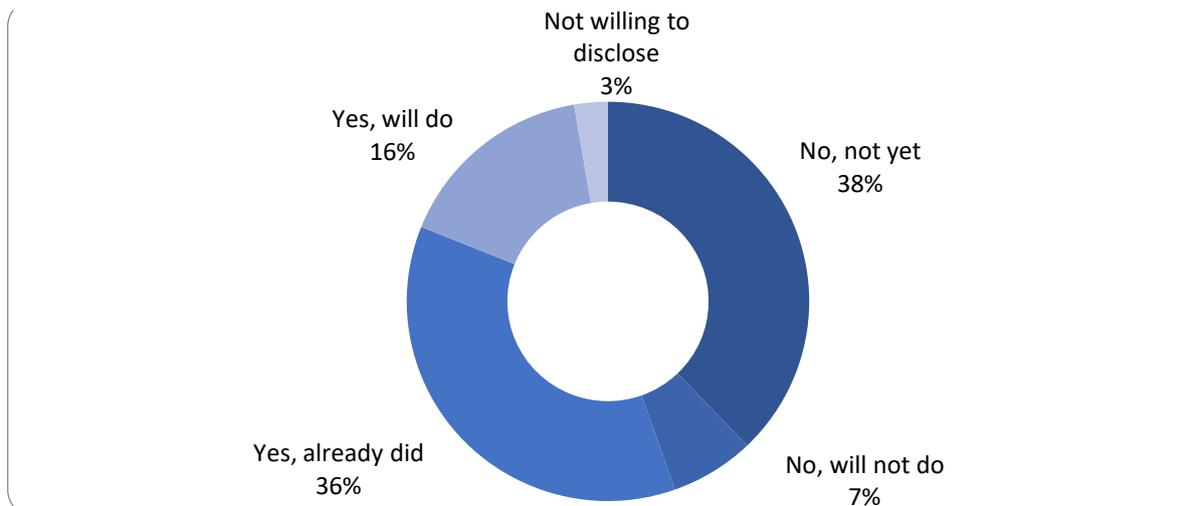


Figure 15: Companies which are reducing the number of employees or will do in the near future

The companies which have already reduced the number of employees are mainly small and medium enterprises with less than 250 employees mainly in the fashion and accessories Industry.

In terms of recruiting new employees, almost **80%** of the companies have already **frozen the hiring** of new talents and, when the survey was carried out, another 9% were about to implement the same measure.

Both the hiring freeze and the reduction of employees unfortunately will have a **strong impact on the employment rate of the city**, and the situation is not deemed to get better. As a matter of fact, most of the staff is hired with local contracts (**in 82% of the companies the staff hired with local contract is above 90% of total headcount**), meaning that the termination of the employment could be impactful on the total employment rate of Hong Kong.

Relocation of Headquarters

The crisis in general, namely in the form of arising costs that cannot be easily lowered like rent and personnel as previously described, is pushing some companies to explore other places where to relocate their headquarters.

As the chart below openly presents, **more than 50%** of the sample **has already moved some regional functions or are considering** moving their office to a different location if the situation does not get better before May 2020.

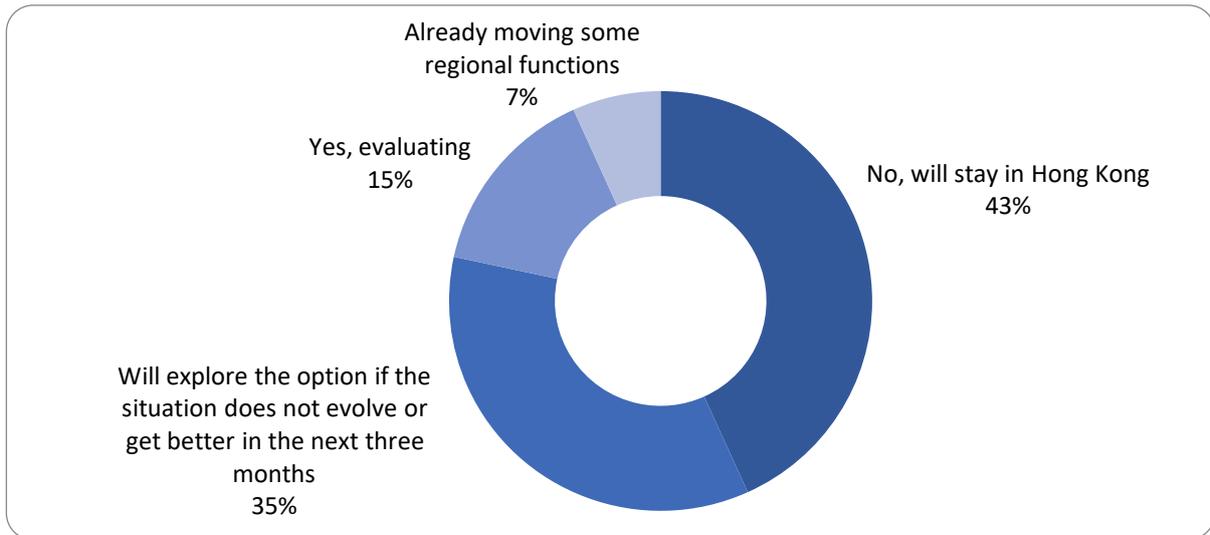


Figure 16: Companies which has already relocated or are willing to do so

These findings are particularly worrying and should alert the Hong Kong system not only because it would have a **huge impact on the total GDP and on the employment rate** but also on the overall economy of the city.

The main alternative options to Hong Kong, which are under consideration or have already been selected at the moment are:

- Mainland China - 43%
- Singapore - 38%
- Kuala Lumpur - 4%
- Tokyo - 4%
- Bangkok - 4%
- Australia – 4%
- EU – 4%
- USA – 2%

Where the Industry needs support

The final part of the survey focused on asking the companies what could be their main needs and necessities so as to face and reduce the impact of this difficult moment.

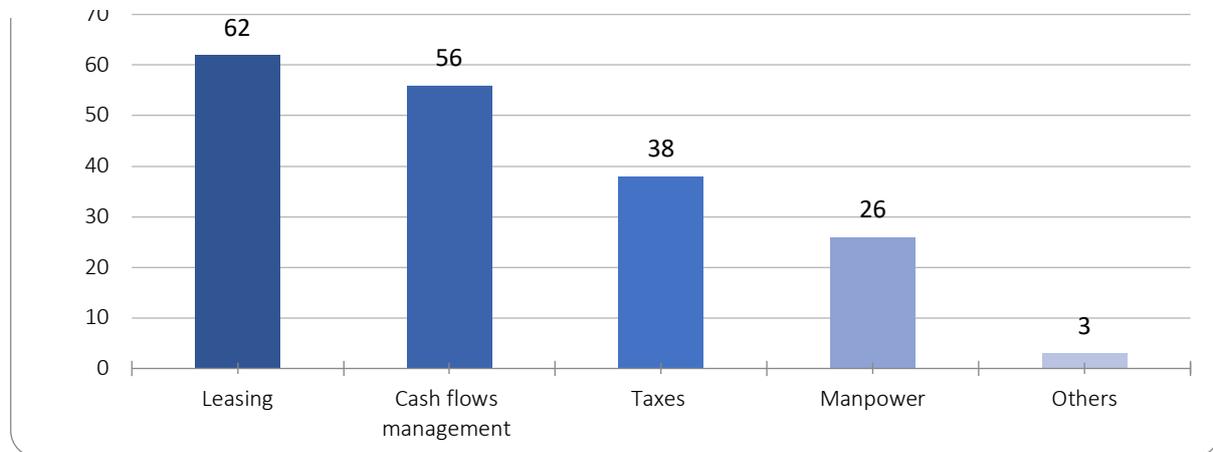


Figure 17: Areas in which the companies would prefer to receive help in order to sustain their business

As can be ascribed from the chart above:

- **62 companies (84%)** would appreciate receiving help on the **Leasing side** (Discounts, postponing lease payments, etc.);
- **56 companies (76%)** would find helpful receiving support in the **cash flows management** (cash injection, loan programs, guarantee funds, etc.);
- **38 companies (51%)** would like to have some help on the **taxation side** (Corporate tax rebate, tax reductions, etc.);
- **26 companies (35%)** would appreciate support in the **management of Manpower expenses** (employment credit scheme, etc.).

Of course, leasing is the first aspect mentioned because of the average weight of the rent on the total fixed cost for per company operating in the Retail Industry (as per data collected from the survey and confirmed at 46%).

Some discounts have already been given by some landlords (see section above on the cost of rent) but the deductions are certainly deemed not enough to let the companies survive during this difficult period.

Some help on the cash flows management would allow the enterprises to better manage their short-term fixed cost, and in particular avoiding closure of some shops and/or cut in the personnel costs.

Same considerations apply to the level of taxes that the companies will have to pay for the next months. Some tax relief measures could help a more efficient management of cash flows.

On the cost of personnel, considering that its average weight on total fixed costs is around 30% (data collected from the survey), some support from the Government on this matter would play an important role as well. This could partially decrease the reduction on the number of employees and/or the salary cut.

Next steps and proposed action plan

Initiatives which will be launched by the Chambers

The Italian and the French Chambers have already launched some initiatives and programs to support their members.

Italian Chamber of Commerce

- **Support for requesting the funds** that the Hong Kong Government has launched in the 2020-2021 budget: Hong Kong Government has announced an Anti-Epidemic fund in the budget 2020-2021, in which HKD 30 billion are dedicated to supporting the local enterprises throughout different industries.
The Italian Chamber is sending periodic eDMs to its members in order to keep them posted on these funds and, if needed, to support them in the application process.
So far two main schemes have been released, the Food License Holder Scheme and the Retail Subsidy Scheme. All the eligible companies which want to request this fund, have to fill the online application and can refer to the Italian Chamber for help.
- **Cash Coupons:** As Italian Chamber we are launching some new targeted initiatives to support the Retail industry in order to increase foot traffic in the shops and the sales in general.
We want to offer to the Chamber's Members a package of Vouchers (of different brands) to be redeemed in the shops, outlet, or online channels in order to boost the sales, increase foot traffic and the willingness to buy in this difficult moment.
- **Discounts on marketing services:** Considering the cut in the Marketing and Advertising expenses, the Italian Chamber is available to temporarily offer Social Media Marketing services for free (LinkedIn, Facebook, Instagram) and is more than happy to share with its network all the promotions that the companies are preparing and gathering to relaunch the business.

French Chamber of Commerce

- **Support for requesting the funds** that the Hong Kong Government has launched in the 2020-2021 budget: The French Chamber is sending periodic eDMs to its members in order to keep them posted on these funds and, when needed, to support them in the application process.
- **Support for showcasing retail and F&B members brands** and increasing sales through the French Chamber's members privileges programme – a member to member offer – and through the French Shopping & Dining guide, the only platform in French and Cantonese to promote French brands in Hong Kong. The French Chamber encourages its members to make the most of the member-to-member privileges and support the other members of this vibrant community.
- **Support for assisting SME members.**
As the small business sector continues to feel the impacts of the ongoing crisis, the French Chamber is putting a targeted series of seminars to assist its SME members.
On the agenda in coming weeks:
 - 16 April – HR crisis management experience sharing with Crédit Agricole CIB: staffing, labour laws, and more.

- 21 April – Bank of China on its SME support measures
- 22 April – HK Tourism Board’s (HKTB) Executive Director on their strategic framework for the recovery of the tourism industry
For members of the Luxury and Retail Committee or the Food and Beverage Club only
- 23 April – Overview and update on Government Funding Schemes by the Hong Kong Productivity Council

Italian and French Chamber of Commerce together

Hong Kong is currently facing unprecedented challenges as it deals with the disruptions caused by the COVID-19 outbreak. This is against the backdrop of a bleak global economic outlook and following an extended period of city-wide protests which had already impacted many sectors.

As we know that a number of our members are now facing unprecedented strains on their business, the Italian Chamber and the French Chamber would like to offer the most effective assistance to help their members weather the storm.

That is why we are working on organising a full day of one-to-one meetings with representatives from the dedicated service team named ‘SME ReachOut’ that has commenced operation to, among others, enhance promotion and explanation on Government Funding Schemes.

These sessions would allow our members to get personalised advices to benefit from the funds that the Hong Kong Government has launched in the past few weeks.

Initiatives which can be launched by other Institutions

- **Launch of Employment Credit schemes** aiming at reducing the impact of the cost of personnel on the total fixed cost of the company, to provide enterprises with a temporary buffer to avoid further reduction of employees.
 - Subsidise up to 80% of the HK residents and Permanent Resident employees’ wages until June 30th regardless of the industry (including but not limited to Aviation, Retail, HoReCa, Catering, Trading, Logistics).
- **Rental relief package for Hong Kong tenants of shops and stores**
 - Rental waiver until December 2020 for commercial and other non-residential tenants in government properties, including Government rates and Management fees;
 - 100% Property Tax Rebate for commercial properties, with the obligation for property owners to pass on to their tenants the full amount of property tax rebate received, while prohibiting property owners from imposing any conditions when passing on the property tax rebate;
 - Propose a new law to allow commercial tenants (which are unable to pay rent) to hold off such contractual obligations for at least six months and prevent landlords from terminating the lease of tenants, or repossess the premises if rental is not paid.