O2O: A New Business Model for Hong Kong

After the Chinese e-commerce behemoth Alibaba was listed on the New York Stock Exchange, the race to getting a share in the online market has gotten all the tougher, especially for merchants in Hong Kong who are trying to break into the huge domestic market. But a new O2O (online-to-offline and offline-to-online) platform conceived by two professors at CUHK Business School promises to create a unique competitive niche for Hong Kong’s retail businesses.

Why should Hong Kong develop its own O2O platform? Let’s take a look at the facts. Most retail business in the city still takes place in brick-and-mortar shops. Due to the stiff competition in Mainland China, posed mainly by Alibaba’s Taobao and T-Mall sites as well as other online platforms, different companies in Hong Kong have been developing strategies in getting their brands known and products sold via the Internet. Promotional costs are high for individual companies seeking to establish e-commerce in the vast mainland market on their own.

In light of this, Prof. Kin-nam Lau of the Department of Marketing and Director of the Center for Marketing Engineering, together with Prof. Howard Lam, Associate Director of the Executive MBA Program at CUHK Business School, have come up with the concept of an online O2O platform known as “Hong Kong Brand Platform.”

Since Hong Kong does not manufacture most of its products, they reasoned, instead of promoting the concept of “Made in Hong Kong,” it would make more sense to promote products and services that are “Sold in Hong Kong.” This idea makes use of the fact that many tourists, particularly mainland tourists, come to Hong Kong to shop because of the perceived higher quality of the products and services in Hong Kong. The products eventually sold on this O2O platform will not necessarily be local brands; they can be sourced from all over the world. The services can also be provided by global institutions with offices established in Hong Kong.

Products that are particularly attractive to overseas—particularly mainland—tourists include consumer products such as electronics, cosmetics, food and luxury brand products. Services that are particularly attractive to them are financial and insurance products; educational products such as foreign higher education testing services and exhibitions; medical services and emigration services.

A New Business Model

“Trust” is a key differentiator of this O2O platform from other platforms, according to Prof. Lau and Prof. Lam. Only those merchants that have physical storefronts and are accredited can join the platform. One example is the Hong Kong Quality Tourism Services (QTS) accreditation, which provides reassurance for product and service quality and authenticity.
O2O can go both ways. First, from offline to online: After tourists have visited Hong Kong and developed liking and trust in some brands, they can purchase them online after they have gone back home. Hence, for merchants in Hong Kong, they can scale up their business without incurring a higher cost for renting more space or adding front-line staff at the outlets. “The O2O platform will provide a seamless way to expand the shopping activities of tourists,” says Prof. Lau, adding that the Hong Kong government can count the online purchases through this O2O platform to reflect its full impact on the tourism industry in Hong Kong.

Of course, a mechanism has to be built in to ensure that only those who have physically visited Hong Kong and purchased from a brick-and-mortar shop can set up an account on the O2O platform. “There also needs to be a restriction on the amount of products these mainland ‘online tourists’ can purchase, and the issue of taxation differentiation between Hong Kong and the mainland has to be sorted out,” says Prof. Lam.

Second, from online to offline: If someone has seen a product online and would like to experience and own it, he or she may be motivated to come to Hong Kong to purchase it. This would attract first-time tourists to Hong Kong, boosting local tourism in a new way.

“What is unique about the merchants listed on this platform is that they must have professional licenses so that consumers are protected from the risks of frauds,” stresses Prof. Lau. “This is what makes the Hong Kong brand unique.”

Some business people have already identified the importance of O2O. For example, Dalian Wanda, China’s largest shopping-mall developer, plans to invest RMB5 billion in building an O2O platform in collaboration with Internet giants Tencent and Baidu.

The key difference of the proposed “Hong Kong Brand Platform” is that consumers are protected by Hong Kong’s regulations, and they can have access to products and services from all over the world via Hong Kong. “In effect, it reinforces Hong Kong’s unique position as a bridge between Mainland China and the world,” remarks Prof. Lam. “Regardless of whether the products are made inside or outside of Mainland China, consumers can purchase them online via the platform. The purchase experience will truly be O2O—customers will be able to shop with confidence and ease.”

**Expanded Economic Opportunities**

The advantages of this platform for Hong Kong retailers are manifold. According to the two professors, through extending their sales from offline to online, Hong Kong retailers will be able to significantly increase their sales volume. Logistics companies in Hong Kong can also get a share of an expanded market as the flow of goods between Hong Kong companies and mainland consumers is expected to increase.

If the platform successfully takes off, the expansion in the tourism, retail and logistics sectors will open up new job opportunities in areas such as customer support for online sales, customer relationship management, big data analytics and more. “These jobs will benefit different segments of the population, from young people to university graduates, to experienced professionals and new immigrants,” says Prof. Lau.
How to Make it Work

“To realize this O2O vision, we need leadership from the business sector and support from the Hong Kong Government,” stresses Prof. Lam. “Government support is crucial because it represents public trust. We suggest setting up a management board to oversee and coordinate resources so that the platform gets the best support. Board members can be appointed by government bodies such as the Trade Development Council and Hong Kong Tourism Board. These bodies can help promote the platform to tourists.”

Once the platform is launched, it is expected that there will be an increased amount of consumer queries or complaints related to online shopping. The Consumer Council can play a role in handling the cases. “We suggest the Hong Kong Brand Council, Hong Kong Productivity Council and InvestHK—all funded by the government to promote Hong Kong brands and industry, to be included in the board as well, so that they can leverage some of their current resources to drive the new business model for Hong Kong,” says Prof. Lam.

While the vision is to have government backing for the platform, the government doesn’t need to fund or run it, according to the professors. Local, mainland and overseas investors are all welcome to invest and operate it. Of course, the operator has to be a reputable and well-established company so the platform can build on existing infrastructure and take off with ease.

“We hope the government will act quickly and allow the private sector to take charge in order to materialize this concept,” says Prof. Lau. “Alibaba has been developing so fast that different brands from around the world are being invited to list their products on Taobao and T-Mall. Time is running out before the window of opportunities closes. We hope the government will do a feasibility study, and that within a short time frame, there will be people interested in bidding for the operation of the platform.”

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