

Curated Fashion and social E-commerce platform

FEASIBILITY STUDY



April, 2017

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INTRODUCTION

This document represents Market Research about launching a Social-Fashion-E-Commerce Portal in Hong Kong. The objective of this document is to analyze the feasibility and the market potential for starting with this business. Since the name of the portal is not yet known, it will be presented as XYZ.com.

The portal, XYZ.com will be a Social-Fashion-E-Commerce start-up headquartered in Hong Kong. The company's initial focus will be to make online shopping for women more and interactive. The company intends to launch a women-only managed marketplace with a zero-inventory model. It will showcase a large number of big and small global fashion brands and retailers from South East Asia with thousands of users and suggested trend boards, using the suppliers' inventory along with user generated fashion trends/looks.

This report's aim is to offer a comprehensive overview of the Fashion Industry in China, Hong Kong, India and ASEAN and the potential for success for XYZ.com. Following this direction, we made an in-depth research of all required objectives.

The general description of the idea (product) is followed by technology considerations where we review the minimum technical requirements needed for successful running of the website and mobile app. The Market Analysis chapter offers a comprehensive overview of all countries separately like China, Honk Kong, ASEAN and India of the Fashion industry and analysis of customer's behaviors and buying habits. We have also screened the competition and made an overview of direct and indirect competitors. Following on that analysis we made a range of prices of our competitors across mid and high-end category. Next we have an overview of the general marketing strategy and plans for penetrating the online fashion market in Hong Kong and China. At the end, this research provides some key findings and recommendations about market, industry and technology analysis, and about marketing strategy. All information can help XYZ.com to make a right decision and achieve its mission faster, with greater result.

Based on the information presented in this research, we have concluded that the success of XYZ.com is feasible and there is a huge market potential for further growth of the company, but not without taking in considerations the findings and recommendations presented in the last chapter.

DESCRIPTION OF PRODUCTS AND SERVICES

XYZ.com is a social fashion e-commerce web portal exclusively for women's fashion apparels and accessories. In addition to providing trendy female fashion apparel and accessories, the portal will be a one-stop platform where fashion savvy women will get to know what's trending and buy it, create their own trends and buy it, communicate with fellow fashionistas and buy sets and trends created by others. With our target customers in mind, besides the web-portal, the users will have access to a "Curated personal shopping app" which will provide them with a very personalized shopping experience, thus saving them a lot of time and energy. The app will use intelligent learning curve by tracking online behavior of the users and then utilizing that knowledge to provide them with personalized outfit suggestions.

The company plans to partner with quality suppliers from China, Korea, Vietnam and a lot of mid end global fashion brands from all around the world like Italy, France, Europe, USA, Spain, China, India, Europe, Vietnam to name a few, and bring it all together under one roof.

The products sold through the portal will include:

1. Garments

- Dresses
- Tops/Tunics
- Jackets/Coats
- Skirts
- Pants/leggings
- Jeans
- Shorts
- Beach Cover ups

2. Accessories

- Scarves/stoles
- Handbags and Clutches
- Jewelry
- Belts
- Shoes

The next chapter will go in detail about the technological considerations and analysis that XYZ.com needs to take into account before launching the website and mobile app.

TECHNOLOGY CONSIDERATIONS

In order for XYZ.com to move toward offering an online marketplace which customers will use as a one-stop platform for all things fashion, advanced technological capability will be required. The key factors that need to be taken care of first are the safety of transactions, large and high-speed web server and making sure that the app will be user-friendly and bug-free.

SAFETY OF TRANSACTIONS

While Western customers don't seem very concerned with the security of online purchasing, mainly due to the fact that most of the online market-places are safe, customers from China and India list safety of transactions as one of their top concerns when shopping online. XYZ.com must implement strong security software and update it on regular basis in order to protect its customers. Although in theory the security software can be developed in-house, it's much better and safer option to use one of the well-known existing software solutions. In-house security software can take very long to develop, and will need even more time to be tested before it can be used. And even then, it's not a match to tried-and-tested software solutions offered by companies dedicated to developing them. AES, or the Advanced Encryption Standard is the most secure encryption available today and although no software is 100% safe, AES is as close to unbreakable as a software can be.

SCALABLE WEB-SERVER AND HIGH SPEED INTERNET CONNECTION

To experience smooth and glitch-free growth, XYZ.com needs to focus on investing in a web-server with enough capacity and a high-speed internet connection. Even though they are not necessary at the beginning stages, they need to be implemented as soon as the customer base starts showing growth. If it's possible, the best approach would be to meet these technical requirements from the start. Scalable servers are necessary if one wants to avoid crashing of the server every time a larger number of visitors access the portal or the app. In addition, web-sites based on visuals need larger space than textual websites, as pictures tend to take up a lot more space than text.

SOFTWARE DEVELOPMENT TEAM

A simple e-commerce website can be developed by a single software developer within a month's time. The complexity of the curated mobile app however, requires a team of dedicated developers that will compose a user-friendly, smart app that will satisfy the growing demand for curation by customers.

TESTING THE APP

In addition to developing the app, it's extremely important to test the app before introducing it to the end users. There are three types of testing that need to be done before launching the app:

- Design testing to make sure that it's polished and consistent throughout the whole app;
- Usability testing to confirm that navigation is easy and everything works as it should and the format of the content is mobile-friendly and easy to read on mobile;
- Security testing to verify that your users have a certain amount of privacy by making them sign up if they want to use the app. The signing up should be easy and almost effortless so that users are not put off from the start.

MARKET ANALYSIS

This section will give an overview of the fashion industry, market size, growth potential, as well as consumer preferences and competition analysis in Hong Kong, China, India and ASEAN.

INDUSTRY OVERVIEW

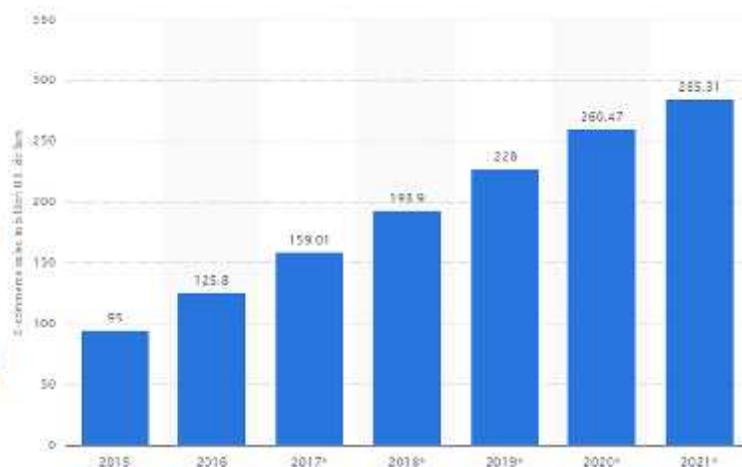
Industry overview will be done separately for China, Hong Kong, ASEAN and India.

CHINA

China, with a population of over 1.381 billion, is the most populous country in the world. Up until 2015, it was the [fastest growing major economy](#) with a growth rate of around 10% yearly and as a result, China's nominal GDP was \$9.2 trillion, landing on second place in the world in nominal GDP. As a comparison, 35 years in the past, China was on the 9th place with a nominal GDP of \$214 billion. Even during the global economic crisis, China remained stable and went through the crisis better than most of the other countries.

Better economy leads to more buying power, as customers become sophisticated and demand for better quality, as fast as possible. Especially in the fashion industry - young trendsetters are demanding international brands with shortened delivery time, and other youngsters follow. According to China's [National Bureau of Statistics](#), online retail sales in China reached 752 billion in 2016, displaying a growth of 26.2% from 2015, which is more than double the growth rate of overall retail sales. More specifically, clothing sales showcased a growth of 18.1% from 2015. The report shows that consumers made 15.5% of their total retail purchases online and it guarantees that China will further extend its lead over the US as the world's largest online retail market. Chinese consumers are fulfilling the demand for international premium goods and brands by buying imported goods online. The number of consumers who purchased overseas products on Tmall Global for example, has doubled in 2016 and is expected to continue with progressive growth for years to come. Amazon.com Inc reported that Chinese consumers had placed more than 10 million orders through the Amazon.cn website, which was launched in 2014.

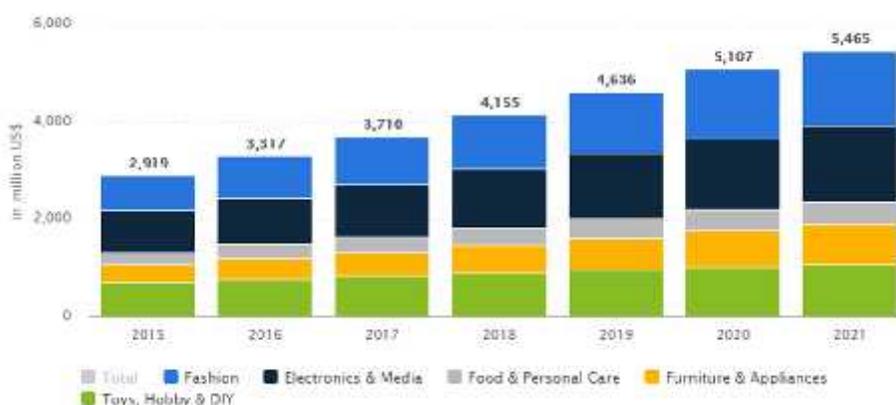
According to [Statista.com](#), fashion e-commerce in China grew from \$95 billion in 2015 to \$125.8 billion in 2016 and is expected to grow exponentially and reach \$285.31 by 2021.



Hong Kong has a population of over 7.3 million and is a mix of various nationalities and cultures. As a city with strategic position in China and in Asia in general, Hong Kong enjoys the status of being the financial capital of the Far East. With strong influences from its time as a British colony, Hong Kong is densely populated, vibrant and urban city that blends very well with the multicultural expatriate community.

Hong Kong is highly modern city, but compared to their counterparts across the border, shoppers in Hong Kong have been less inclined to do online shopping. Given the city's large number of outlets and malls and its fast, reliable transit, it doesn't come as a surprise that going to brick-and-mortar shops instead of online shopping is seen as a convenient option. However, according to KPMG's report "[Outlook for e-commerce in Hong Kong](#)" done at the end of 2016, the technology savvy Hong Kong consumers will be tempted by their strong affection for mobile and other technology and increase their online spending. Almost half of them have said that they plan to buy online more than they have previously. And even now, online shopping is becoming more popular in Hong Kong including mainland China and clothing is among the most purchased items online. In the last couple of years there have been a significant fall in demand from brick-and-mortar retailers. Over two-fifths of Hong Kong retailers have reported a decline in business in 2016, especially sectors such as fashion, which reported a particularly hard hit. Consumers are giving-in to online shopping and the fashion industry is the leader.

According to [statista.com](#), revenue in the Hong Kong e-commerce market amounts to \$3.7 billion in 2017 and is expected to show an annual growth rate of 10.2 %.



With market volume of \$990.5 million in 2017, Fashion is the second largest e-commerce segment, right after Electronics and Media which accounts for a market volume of over \$1 billion. The Fashion segment however is growing faster than the Electronics and Media and the two segments are expected to share the first place for market size by the end of 2021.

LEGISLATIVE OVERVIEW

Hong Kong and mainland China don't have any considerable governmental e-commerce restrictions. In fact, the Chinese government is making online retailing easier, with cross-border e-commerce pilot zones in 10 cities where customs service provides quick processing of small orders sent to Chinese consumers. Foreign companies can ship orders from abroad or store goods in pilot zones without them clearing customs. In the first two years after their introduction in late 2013, the special zones processed 100 million parcels that generated \$2.36 billion in sales for foreign web merchants.

The market is free for new players and they can design their business models per their desires, without the interference of the government. Although the government offers a lot of funding programs for institutes as well as private companies, their funding is aimed at encouraging Research and Development (R&D) and technology innovations. Unfortunately, they do not offer funding for SMEs, but according to smefund.tid.gov.hk, they do provide loan guarantees to SMEs to help them secure loans from [participating lending institutions \(PLI\)](#) for acquiring business installations and equipment or meeting working capital needs of general business uses. Enterprises which meet the following criteria are eligible to apply for guarantee under SGS:

- Registered under the Business Registration Ordinance (Chapter 310) and with substantive business operation in Hong Kong;
- An SME under the definition of the Government of Hong Kong Special Administrative Region;
- Not an associate of the lender.

The amount of guarantee for an enterprise is 50% of the loan amount. It can be used to secure loans up to a maximum amount of \$6 million, with a guarantee period up to a maximum of five years, counting from the first drawdown date of the loan. If the business has fully repaid the loan backed up by the guarantee, it may use the respective guarantee amount one more time for

acquiring a new loan with a maximum guarantee amount of \$6 million. The application procedure is as follows:

1. Firstly, an enterprise should apply for a Business Installations and Equipment Loan or a Working Capital Loan from a PLI.
2. At the time of the loan application, the enterprise is required to submit relevant financial information for PLI's assessment. A limited company is required to provide the PLI with its latest audited accounts whereas an unlimited company its latest financial statements. This requirement does not apply to enterprises that are established for less than 18 months as at the date on which the loan application is received by the PLI, though the enterprises will still be required by the PLI to submit their current credit and financial information for the PLI's assessment.
3. The PLI assesses the loan application and determines whether the applicant enterprise requires the guarantee of the SGS.
4. An enterprise requiring the guarantee of the SGS should complete the loan guarantee application form and submit it to the PLI for endorsement. The PLI then submits the endorsed application form to the TID for consideration.
5. Once the application is approved, the TID would issue guarantee in favor of the PLI for the loan concerned.
6. Applications for guarantee under the SGS are free of charge.

ASEAN

E-commerce in ASEAN is increasingly gaining momentum as consumers incorporate online shopping more and more into their everyday lives. As recent as few years ago, e-commerce in ASEAN was very underdeveloped in comparison to China, Europe and US, but [according to](#) Frost & Sullivan - a business consulting firm involved in market research and analysis, growth strategy consulting, and corporate training across multiple industries, Southeast Asia stands to become one of the world's fastest growing regions for e-commerce revenue and exceed \$25 billion by 2020. Despite significant challenges, they remain positive about the growth potential of e-commerce in Southeast Asia. Despite several acquisitions, market exists and many online retailers failing to achieve profitability, the market earned \$11 billion in 2015. Frost & Sullivan examine the market

trends and opportunities in 6 key Southeast Asian countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. There are key findings will be presented below:

CONTINUOUS RAPID GROWTH AS E-COMMERCE EVOLVES

Total revenues from B2C e-commerce will increase at a compound annual growth rate of 17.7%. Malaysia and Thailand generated revenues of \$2.3 billion and \$2.1 billion respectively, which made them the largest e-commerce markets in Southeast Asia in 2015. But to their expectations, by 2020 these markets will be surpassed by other emerging economies in Southeast Asia including Vietnam and Indonesia. Thanks to the consumers' eagerness to adopt to mobile and digital technologies, the e-commerce market in Southeast Asia is developing very rapidly. However, companies that pursue B2C mass market are struggling to achieve profitability and this resulted in several mergers and acquisitions, as well as market exits in 2015. But although the mass marketing approach hasn't worked particularly well in Southeast Asia, many new and exciting opportunities exist in specialized e-commerce retailers, such as Apparel and Fashion, Travel, Sporting Goods, etc.

MARKET CHALLENGES TO REMAIN

Even though there is no denying that the opportunities for growth are immense, the e-commerce market in Southeast Asia still faces several challenges that may not be resolved as quickly as one would hope. Low credit card ownership is one of the key factors that's hindering growth. With exception for Singapore and Malaysia, card ownerships stands at less than 7% and in some countries, more than 50% of the population don't even have bank accounts, let alone credit cards. As a result, making payment is the biggest obstacle for e-commerce companies in the region. Logistics is another challenge that e-commerce companies are facing, especially in areas with complex geographies such as Indonesia and the Philippines. However, recent investments by regional logistics players such as aCommerce and SingPost to improve the e-commerce logistics infrastructure in these markets could significantly accelerate the growth of online retail in the region.

Despite these challenges, the expansion of e-commerce is expected, as Southeast Asia is set to follow in the footsteps of China, whose e-commerce revenue was 12.1% of all retail sales in 2015,

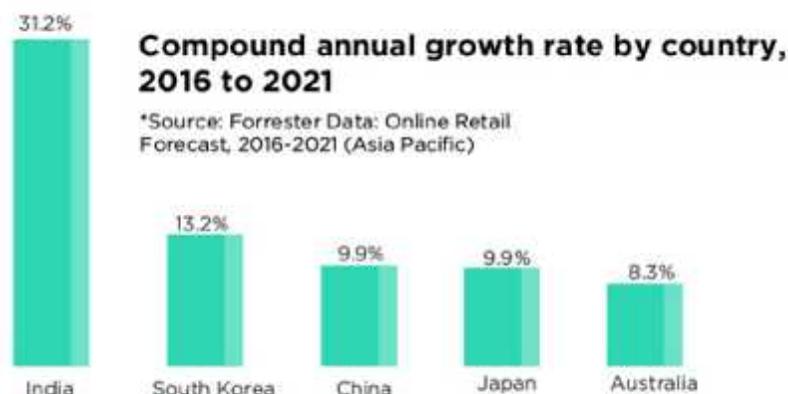
and surpassing the US, Europe and Japan. In the present, however, e-commerce in these 6 ASEAN countries represents less than 2.5% of all retail sales.

LEGISLATIVE OVERVIEW

Similar to China and Hong Kong, ASEAN do not have restrictions on e-commerce and online shopping and companies can freely enter the market. Up until recently, there were lack of regulations regarding the safety of transactions, but all 6 governments are making an effort to incorporate laws designed for the protection of buyers.

INDIA

According to [Forester](#), even though China is the largest market for e-commerce globally, India is the fastest growing e-commerce market, with a compound annual growth rate of 31.2%.



But despite its enormous growth rate, e-commerce still faces challenges in India, such as underdeveloped logistics, challenging last-mile connectivity and their cash-based culture.

On the other hand, Japan and South Korea are already mature e-commerce markets, with their high internet and broadband connection and high number of online shoppers.

According to [digitalera.com](#), e-commerce in India stands at \$7 billion and online fashion retail contributes \$2.4 billion to it, which is more than 30% of the entire e-commerce revenue. This puts online fashion purchasing amongst the top 3 category purchases, the other 2 being Consumer electronics and Books and Media.

India's online retail revenue is expected to reach \$60 billion by 2012, with online Fashion retail market reaching \$20 billion. The distinct trends in the macroeconomic scenario, retail specific policies, positive demographic dividend and consumer buying behavior have caused a transformation in the online fashion market – modernization and corporatization of retail business. As consumers are becoming more knowledgeable and sophisticated in their buying, online retailers have turned to customization of product portfolios to address the specific needs of various customer segments. Furthermore, the limited penetration of branded brick-and-mortar stores among the non-urban consumers is increasing the demand for online retailing.

Some major trends in the e-commerce fashion marketplace in India are:

- Expansion of niche online fashion retailers such as Red Polka, Korra and Koovs amongst many others;
- Online fashion retailers are pushed toward embracing a multichannel campaign as their strategy;
- Major Offline apparel groups such as Tata, Arvind Mills, Reliance, Raymond and Aditya Birla Group are going online to meet the demand of urban consumers and cater to non-urban consumers as well, which up until now, were out of their reach.

LEGISLATIVE OVERVIEW

The online fashion industry in India is not without challenges. From a legal standpoint, a recent regulatory cap of 25% for sales originating from a single seller will push e-commerce companies to diversify their seller base, making specialty e-commerce more difficult to achieve. According to [Quartz India](#), the new regulations have left big investors such as Amazon and Flipkart speechless. India has allowed 100% FDI (Foreign Direct Investments) in online retail consumer businesses that operate as marketplaces, but FDI will not be allowed in inventory-based models, where the company owns the goods that are being sold through its platform. The marketplaces are not without restrictions, as the 25% cap applies on all vendors, even if that vendor is the company itself.

Quartz received an email statement from Nasscom, a trade group representing the Indian IT sector, expressing concerns about the new regulatory rule. Nasscom fear that the 25% cap “may prove to be restrictive, more so if the vendor sells high-value items” and that the industry “might face

difficulties in case of sale of electronic items, where a vendor may be offering exclusive access to certain items or discounts”.

Quartz are concerned about another potential barrier to the healthy growth of e-commerce in India – the government said that e-commerce marketplaces will not be allowed to influence the selling price for goods and services listed on their platforms. According to them, online retail in India has so far thrived on deep discounting, with companies often using their own pockets to subsidize consumers. So this new rule may lead to added pressure on players.

Next section is an in-depth overview of the target customers’ characteristic and preferences.

CUSTOMER CHARACTERISTICS AND PREFERENCES

This chapter is an overview of the customers’ characteristics and their preferences, needs and uncertainties. The research includes preferences of customers from China, Hong Kong, ASEAN and India.

CHINA

In today’s internet era, magazines are no longer the trendsetters, instead, young enthusiasts with fashion blogs and thousands of followers are becoming the fashion icons young people aspire to. This younger and more refined generation of shoppers with notably different tastes, aspirations and consumption habits is reshaping the landscape of fashion in China. The educated, tech-savvy and well-traveled people are emerging as the new target market.

According to the [New York Times](#), 39 % of wealthy Chinese consumers no longer put the logo or the brand as the priority. Instead, many are turning towards niche high-end brands as well as bespoke products. Chinese are no longer satisfied with counterfeit brands they can easily find both online and offline and now they prefer quality over quantity. And this is not snobbish, on the contrary, young fashionistas are becoming more daring and confident to mix and match a \$30 top with say, \$200 skirt. It’s not about showing wealth, it’s all about fashion and trend setting. This is where online fashion retailers of international brands as well as national high-end fashion gain momentum. The demand for international brands is constantly rising and this is the reason why so many e-commerce fashion portals are not worried about their profits despite the slower growth rate of China’s economy in recent years.

According to Deloitte's 2016 research report "[China e-retail market report 2016](#)", the mobile Internet age has completely changed consumer's perception and consumption patterns resulting in new forms of demands, such as socialized online shopping, quality-oriented purchase and experience-based consumption, personalized consumption and mobile payment.

SOCIALIZED ONLINE SHOPPING

Information screening in the early stages of the buying process has become much easier with the prevalence of Internet and electronic devices. Over 60% of Chinese consumers consider the Internet as the main tool to help them learn more about products, prices and brands and 90% of the buying process time consists of browsing products before purchasing.

In addition, the development of virtual technology has stimulated the demand for more socialized online shopping. Virtual technology has made the describing of products much more vivid, thus creating experience scenarios for users and getting them closer to feeling like they are buying in a traditional, brick-and-mortar setting. Travel and hospitality industries are the perfect example – hotels adapt virtual technology to display rooms for customers, and scenic touristic spots can be viewed in a more intuitive way.

As online shopping continues to expand on mobile terminals, socializing when shopping online will further be reinforced. Shopping with mobile phones is noticing an exceptional growth, particularly in China. While Western companies firstly deliver their web portals and then go mobile, Chinese companies don't have that luxury – Chinese consumers are expecting mobile applications at the same time as web portals.

New generations are spending long time on social media platforms, which makes them more susceptible to so-called "opinion leaders" on social networks and ultimately make a purchasing decision influenced by them. Furthermore, people joining in the same social groups for similar hobbies and identities tend to have a deep sense of community and identify with the group not just in values, but in aesthetics and consumption habits as well.

[Mckinsey.com](#) say that even though China is a mobile-first market, research shows that users who use multiple devices (computers, tablets, mobile phones), spend 17% more than mobile-only users.

Multi-screen users also shop online in 29% more categories and interact 14% more with businesses through social networks.

QUALITY-ORIENTED PURCHASE AND EXPERIENCE-BASED CONSUMPTION

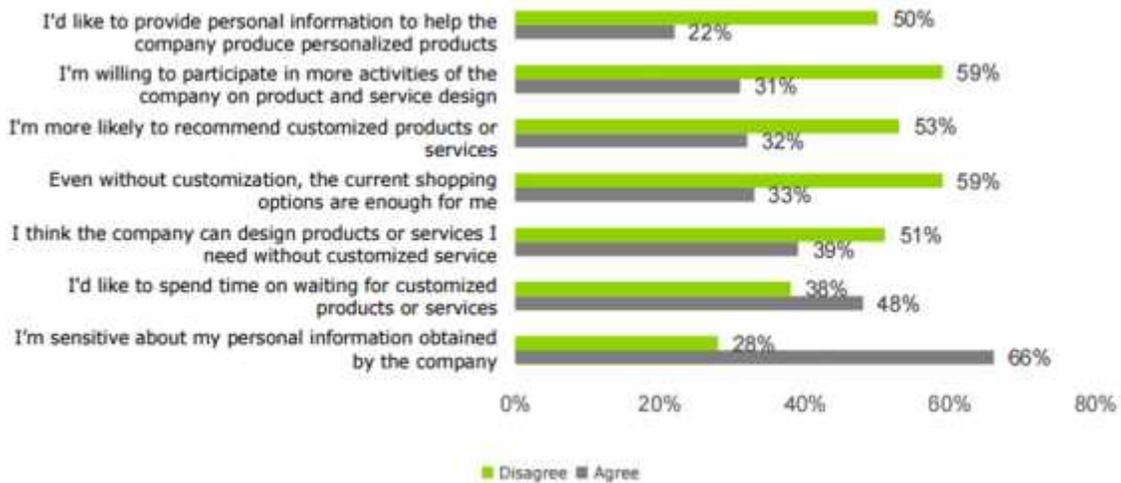
As mentioned before, Chinese consumers are becoming increasingly sophisticated and opt for quality instead of quantity. With the free access to a multitude of styles, trends and fashion tips they are becoming much more mindful about what they are going to purchase. Another factor for this change is the improved purchasing power. The increased income allows consumers to pay more attention to the quality of goods and the consumption experience, not just the price and cost. Besides, the new generation of customers grew up in a better economic environment, so they know how to enjoy life and value quality better than any of their ancestors could. This is why the concept for consumption is gradually shifting from price-driven to quality-oriented and experience-based. The chart below clearly shows this shift – only 12% of respondents from [Deloitte](#)'s research said that they value price more, while 37% value quality more. The rest of the respondents, or 51% said that they compromise between quality and price.



Consumption experience has constantly been given new definitions and standards. Rational experience such as price and cost performance, product features and functions no longer have as big impact on purchase behaviors as emotional experience. Consumers are giving more emphasis on whether the product is cool, convenient, thoughtful, beautiful and comfortable. All of these factors gained in importance in the last few years and now may be the defining factor about whether the customer will make a repeat purchase.

PERSONALIZED CONSUMPTION AND MOBILE PAYMENT

Personalized consumption has become the driving force of online shopping. Young, trendy women like to be different from the others and are always looking for that one piece that will make them stand out from all the others. For them, fashion is a way of expressing their individuality. That's why they are moving away from mass produced apparel and prefer to buy personalized and niche goods, want recognition from sub-cultural communities and street fashion enthusiasts and share their shopping experience on social media. This newfound need to express oneself through fashion has driven many young women to compromise on price to some extent. According to the [survey](#) by Deloitte, one out of five consumers are willing to pay 20% of premium for a personalized product, 42% of respondents who are interested in customized products pay attention to brand reputation and tend to make choices from a series of options and 22% are willing to share some personal information in order to obtain more customized products. One third of customers who are interested in customization said that customization has not yet met their expectation and more than 50% believe that enterprises can't produce goods they want to buy without customized process.



HONG KONG

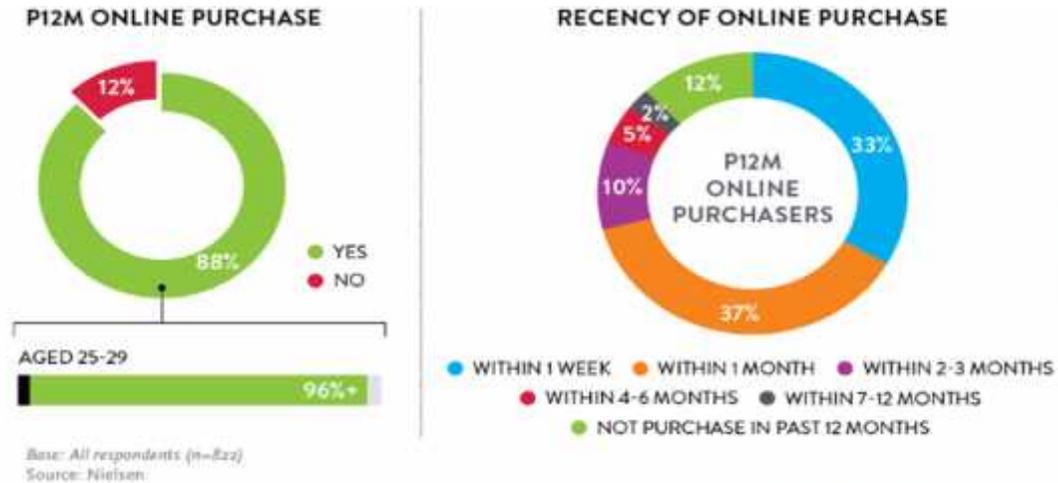
Although Hong Kong residents are a bit more careful when shopping online, thanks to the lack of government restrictions regarding e-commerce they are catching up with the rest of China and are more willing to shop online.

[Go Globe](#) has made an in-depth review on e-commerce statistics and trends in Hong Kong, and these are their findings:

- Users spend an average of \$535 annually shopping online;
- 4 out of 5 consumers use the internet to research non-consumable products, or transact online;
- 58% of the respondents read online reviews prior to purchasing a product;
- 49% spend considerable time researching products online prior buying;
- 49% of online users are prepared to spend more online in the next 2 years;
- 24% of consumers prefer shopping in brick-and-mortar stores;
- 89% of smartphone users have researched a product or service on their smartphone;
- 43% of smartphone users have purchased a product or service online;
- 70% of smartphone users prefer to shop online due to convenience;
- Women are keener to spend online and they purchase more items online than men;
- Hong Kong online shoppers make an average order value of \$321, compared to US online shoppers who make an average order value of \$183;
- Hong Kong consumers spend **4 times more on apparel** than their US counterparts.

[Nielsen](#) made a survey on Hong Kong' consumers habits and had some interesting findings. Following the success of e-commerce boom in China, Hong Kong retailers are eager to take advantage of the “online shopping fever”, with some e-tailers starting to organize similar Online Shopping Festivals in Hong Kong.

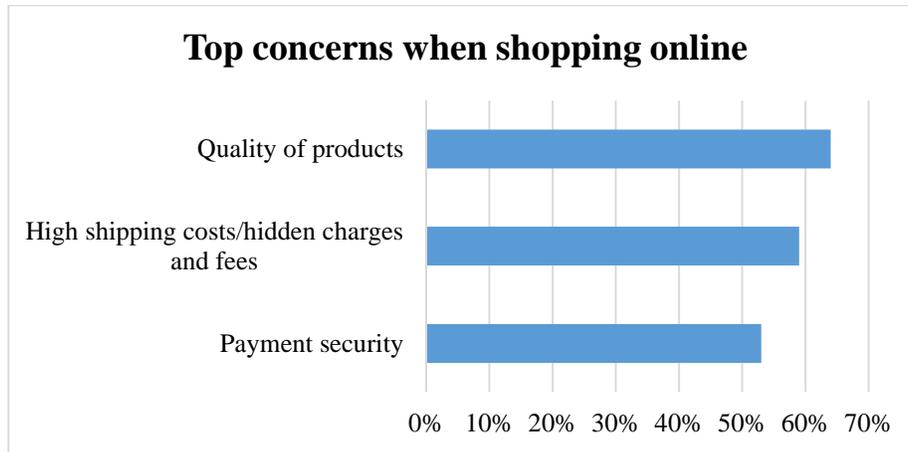
Generally speaking, 88% of Hong Kong consumers shopped online in the past 12 months. Consumers below 30 years of age are the most active e-shoppers, and one-third of the e-shoppers in Hong Kong purchased online within one week.



Over 80% of consumers shop online through computers, while 3 out of 5 online shoppers choose their smartphone to shop online. The top three most popular categories are clothing, travel packages/ air tickets/hotels, and restaurant coupons.



A 2015 survey from [Visa](http://www.visa.com) has revealed that the biggest concern Hong Kong shoppers have when buying online is the quality of the products or 64% of customers. High shipping costs or hidden charges/fees was cited as a concern by 59% of respondents, and 53% are concerned about payment security.



ASEAN

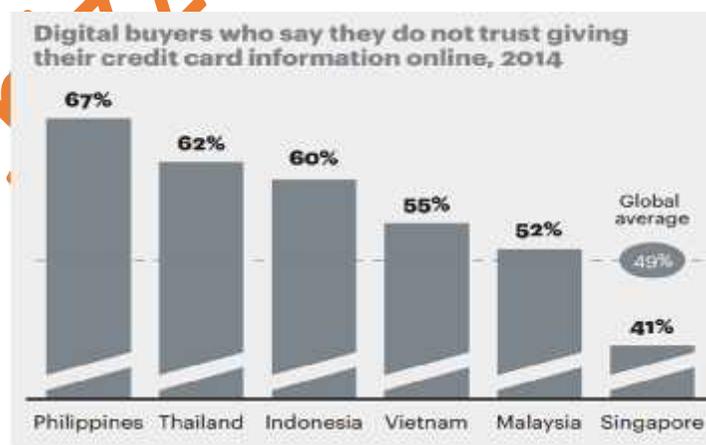
Unlike China and Hong Kong, ASEAN countries are still very much behind when it comes to online shopping. Although there is no denying that ASEAN countries are eagerly trying to catch up, as explained before in the market analysis, there are still some market challenges and barriers that will make adopting this e-culture a bit more difficult for them.

The CIMB ASEAN Research Institute (CARI) has published a comprehensive research report called "[Lifting the barriers to e-commerce in ASEAN](#)". The share of internet users varies greatly by country. For example, only 16% of the population in Indonesia uses the Internet, and Thailand, the Philippines and Vietnam still have rates below 50%. On the other hand, 73% of the total population in Singapore and 67% of the population in Malaysia use the Internet, numbers that are much closer to those of developed economies. While only 12% of the online population in Indonesia does online shopping, in Thailand, the Philippines, Vietnam, Singapore and Malaysia the rate of users who shop online ranges from 60 % to 80% which is right up with levels found in Japan (78%) and the US (73%). The people who go online in ASEAN are young – 70% of them are below 35 years old, spend between 2 and 4 hours a day on the internet and 29% of their time is spent on social media, a percentage higher than the rest of the world’s average of 20%.

Online users	Online shoppers
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	Number of online users (million)	% total population	% below 35 years old	Time online (hours per week)	Time spent on social media	Number of online shoppers (million)	% online population	% using mobile to buy
ASEAN 6	158	29%	70%	19.4	29%	87	55%	57%
Indonesia	39	16%	70%	13.5	25%	5	12%	61%
Malaysia	20	67%	63%	16	32%	16	80%	47%
Philippines	36	37%	71%	16.4	42%	25	70%	62%
Singapore	4	73%	51%	16.6	16%	3	80%	48%
Thailand	19	29%	74%	27.2	31%	14	75%	58%
Vietnam	40	44%	74%	26.2	22%	24	60%	58%

While the potential is huge, there is still less than 1 in 6 people who shops online. Safety and payment security is their number one concern and is the main reason why many Internet users shy away from buying online. Internet users from the Philippines are the most concerned, with 67% of respondents saying that they do not trust giving their credit card information online. The percentage is somewhat lower in the other 5 ASEAN countries, however it's still high when compared with the global average – 62% in Thailand, 60% in Indonesia, 55% in Vietnam and 52% in Malaysia. Singapore is the only ASEAN country with 41%, a percentage lower than the global average of 49%.



The Indian customer base is diverse. While there are still some improvements that need to be done in order for India to achieve a maturity level of e-commerce as China and Hong Kong, Indian shoppers are comfortable paying online as they have been buying online for 5-6 years. As Hong Kong and Chinese customers, Indian customers also want great customer experience, including speedy delivery and customized items. But India has a lot of so called bargain hunters, looking through the web for cheaper products and they often don't care about fast delivery as long as they find the product for cheap. They rarely display loyalty and always go where they can get the best price and the highest discounts. Companies looking to do e-commerce in India, therefore, will have to cater to multiple factors.

The chapter that follows will give an overview of the main competitors and their strengths and weakness.

COMPETITIVE LANDSCAPE

Hong Kong's offline retail sales are declining, and the reason for that is the emergence of new online retailers who recognized the shift in consumer behavior and rushed to catch the online shopping craze. As a result, new online-based retailers are emerging on the market, and already established brick-and-mortar brands have also moved online, in addition to their offline stores.

First we'll overview direct competition and their main strengths and weaknesses.

DIRECT COMPETITION

Direct competition is the online stores that have the same or very similar value propositions as XYZ.com and serve the same target market. In the case of XYZ.com, these would be online-only stores focused solely on fashion, with brands ranging from mid-level to high-end fashion. Through careful research, several key players were identified:

[Zalora](#) – online fashion store based in Singapore, Zalora ships to most Asian countries. It offers a selection with their own name, as well as mid-range fashion items to high-end fashion: TopShop, Mango, Dorothy Perkins, Aldo, Hollister, Calvin Klein, Levis, Topman, Espirit, Puma and Nike. Zalora have a great business model and progressive marketing, which makes them distinctive and unique. Although the actual shopping process occurs online, they are known for opening “popup” stores around Singapore and Hong Kong to allow their customers to touch and feel their

merchandise before buying it, but they cannot actually buy the clothes from the store. These stores are usually temporary in nature and serve only to convince reluctant customers of the quality of their apparel. Although very new and non-traditional, this marketing model has proved very successful for them. In addition to that, they also have a mobile app that gives 15% off to everyone who downloads it. Zalora's main disadvantage is that they only have free delivery for orders above \$200.

YesStyle – A division of the online entertainment shop YesAsia, founded in 1998. YesAsia anticipated the shift toward fashion in China and Hong Kong and in 2006, it launched YesStyle as an answer to the growing demand of high-quality, customized, fashion-only web shop. It is actually the first online retailer to globally distribute a wide range of fashion, beauty and lifestyle products from Asia. YesStyle sells apparel, jewelry, accessories, bags, beauty and other fashion women and it targets both men and women between the ages of 18 and 35. They also have a children and babies section. Their merchandise is mainly from Asia, more specifically Hong Kong and Korea. In addition to their shop, they also have a fashion blog called “The YesStylist” where customers can read features and articles from YesStyle's in-house fashion gurus. Their periodic Q&A feature “Ask Nikki” provides a place for YesStyle's customers to get answers to their personal style questions. Customers seeking more interaction can follow YesStyle's many social media channels, including Facebook, Twitter, Pinterest and Instagram.

YesStyle's main disadvantage is that they do not offer international brands. This may also be a good thing for some, because it creates a sense of community across Asia, but it fails to fill a huge audience in Asia – customers who like global fashion and international brands.

ShopBop – Shopbop was launched in 2000 and offers a comprehensive collection of designer apparel and accessories to suit every style and occasion. According to freewebsitereport.org, ShopBop has over 770,000 page views on a daily basis. ShopBop is great for mid-range and everyday apparel (lots of denim and loungewear from brands like Mother and James Perse), with high-end accessories-only offerings like Gucci and Prada. What sets the site apart though, is its thoughtful editorial and styling content that, in addition to being aesthetically pleasing, makes navigating through the huge selection a lot easier.

[Asos](#) - In late 2013, one of the UK's favorite fashion sites launched a hugely successful China version at asos.cn, bringing its reputation for fun, funky fashion to the country. Asos made its name in Britain for trendy but affordable lines with a first-class customer service policy that makes it extra easy to buy, change or return. Nonetheless, after more 2 years of operating Asos closed their China office and website, admitting it would be too expensive to grow their brand in China. However, customers can still buy clothes from their general website, but now Asos will send the clothes from Europe. The site is good for both Asos' own lines plus a range of other brands, including Adidas, Mango, French Connection, Ted Baker and Cath Kidston. While most of these are available elsewhere in Shanghai, the way Asos brings them together and suggests matching items is like having a personal shopper. The main disadvantage of Asos is the lack of Chinese website and slower delivery times – since they closed their China office, delivery times have become longer as the clothes are sent from Europe.

[Shangpin](#) - Shangpin is a tailored online fashion website, a little along the lines of Net-a-Porter but offering an array of international brands which are mostly unavailable elsewhere in China. According to Shangpin, they have more than five million customers, with the majority made up of young fashion consumers aged in their 20s and 30s, who spend an average of 2,000RMB each time. The website, which launched in October 2010, was initially a bonus service for VIP credit card holders at Chinese banks, before re-launching in 2012 with 70 brand partners including the likes of Milly by Michelle Smith, Sergio Rossi, Halston Heritage and RED Valentino. This exclusivity has given it a strong credibility so customers can feel safe about their biggest concern when shopping online – the quality of the merchandize. Best for women's and men's fashion, accessories, and shoes, Shangpin also offers products from a number of beauty brands including L'Occitane, Olay, Dior and Clarins, plus a small range of home wares.

The site is not the most attractive and is mainly in Chinese, but it's easy to navigate, and the curated approach draws up a list of top fashion picks. Customers can search based on size, price range, or delivery options, plus there's a live chat customer service option. In China shoppers can pay cash on delivery, with a flat shipping fee of 20RMB and a free seven-day return policy. Customers have to register to buy stuff, but once they are a member, they get a birthday discount. Shangpin's main disadvantage is that it's a full-price retailer, meaning that they do not offer discounts.

INDIRECT COMPETITION

Here we'll take a look at companies that have different value proposition and different target market. In this case, XYZ.com indirect competition are all the other online stores that sell clothes, from luxury stores like FarFetch and niche, designer boutiques like Xinlelu, to huge one-stop marketplaces like Taobao. Because the competition pool is huge, here we'll take a look at the most popular.

Taobao - With around 760 million product listings as of March 2013, Taobao Marketplace is one of the world's top 10 most visited websites according to [Alexa](#). The Economist calls it "the country's biggest online marketplace". Sellers are able to post goods for sale either through a fixed price or auction. Auctions make up a small percentage of transactions. The majority of the products are new merchandise sold at fixed prices. Buyers can assess seller backgrounds by information available on the site, including ratings, comments and complaints. But ultimately, Taobao is not a high-fashion site. It's similar to eBay and Amazon and sells everything, not just apparel which will make browsing for clothes much more time-consuming. Fashion curation on Taobao is non-existent and quality is often put into question by consumers. Taobao's target customers are price-conscious people who will compromise quality in order to get a good price and this is one of their main disadvantages compared to XYZ.com, which will be aimed toward fashionable women who would rarely compromise quality.

FarFetch – Online Fashion Curator that provides customers with the means to connect and purchase collections held by their favorite boutiques around the world. FarFetch handles the transactions with Alipay in China, and then individual stores handle the delivery. Based in London, with multiple offices around the world, they opened offices in Shanghai and Hong Kong in 2016 and are already making over \$60 million off of Chinese shoppers. They've also published a fashion curation app and claim to be the first Chinese app of the kind. FarFetch main advantage is that unlike Alibaba and eBay, they can offer a high level of fashion curation to their customers. Their delivery time is maximum 7 days, of which 1-2 days are for order processing and 1-5 days for delivery. Customer support is also great, with free returns and maximum response time for queries of 1 business day. Main disadvantage is that the customers need to pay import fees and shipping is not always free.

[Net-a-porter](#) – As it is expected from one of the pioneers in editorialized fashion sites, Net-a-Porter offers a sleek service. There isn't a distribution base in Shanghai but there is in Hong Kong, meaning shoppers can still expect fairly speedy delivery. Customers can shop by brand, color or designer, or let Net-a-Porter pick for them – the brand cleverly links together the ability to shop the site for the items mentioned in the latest edition of its glossy house magazine, Porter. Net-a-Porter is the place for hundreds of beautifully presented, high-end designs from the likes of fashion doyennes Stella McCartney, Vivienne Westwood, and Vera Wang, as well as more affordable luxury options including Michael Kors, Miu Miu, Rag & Bone, and Marc Jacobs. However, Net-a-Porter won't take payment in RMB, and only accept international cards like Visa, or payment via PayPal. Shipping is \$15 to Shanghai, but returns can be arranged via free collection.

[Yoox](#) - The home of global luxury, Yoox is Italy's answer to high-end online retailing. Three years ago, Yoox opened a Shanghai office to launch its Chinese site and target shoppers looking for a taste of European luxury. Here customers can find big names like Calvin Klein, Paul Smith, Moschino and Armani, but also a few more niche brands, such as New York-based Opening Ceremony, or tailored jackets from Italian retailer Cantarelli. Yoox's strength lies in its mobile and social retailing. Last year they set up a concept store account on WeChat, which meant that customers could shop directly on the messaging app and even pick up some products designed exclusively for WeChat. Their WeChat account (yooxyooxyoox, solely in Chinese) highlights fashion articles and events, promotes sales and outlines discounts. They have also launched a mobile shopping app aimed at the Chinese market, which shows best-selling items in the customer's locale (and in Paris, London, Tokyo and other fashion-focused cities). Yoox's biggest disadvantage is that the website is almost entirely in Chinese characters with apparently no distinction made between country base and language, making it difficult for non-Chinese customers based in China to shop. Even if they try to shop in English on yoox.com and then change the delivery country to China at the end they get kicked off and sent back to the Chinese site yoox.cn, and their shopping bag is emptied.

[Xinlelu](#) - Shanghai-based Xinlelu.com is both an online and offline boutique, championing independent fashion designers and celebrating the world of China's fashion. The brand is named after the street in Xuhui district, and its online presence is boosted by [a stylish boutique on Shaanxi Bei Lu](#). The biggest ranges can be found online however. Co-founder Yilei Wu is passionate about

hunting out new designers, learning their stories, and helping to promote the growing independent fashion scene in Shanghai. The newly re-launched site is one of the classier online shopping websites, including a fashion blog, photo galleries, interviews and profiles of designers, as well as a select list of the best fashion boutiques in different cities. There are options for every taste and price range. Xinlelu offers hundreds of styles, sizes and colors, and seeks out independent designers around the globe who (in their own words), 'make our hearts flutter'. Select a clothing item and the site draws up suggested accessories from across the store. This is a community site as much as a retail one and Xinlelu organizes style-based events and parties, curates information about the fashion scene, and sends out a series of newsletters to keep fashionistas up to date. All prices are in RMB, the site is available in Chinese and English, and all shipping and returns are free in China.

Zara – This Spanish fashion giant has launched their China online store in 2012. Zara is the main brand of the Inditex group,[3] the world's largest apparel retailer. They have a strong offline presence in most of Europe as well as China, Hong Kong and ASEAN. The prices and product range on the online store are the same as in their brick-and-mortar stores. Reportedly, Zara needs just one week to develop a new product and get it to stores, compared to the six-month industry average, and launches around 12,000 new designs each year. Zara has a policy of zero advertising - the company preferred to invest a percentage of revenues in opening new stores instead. Most of the products Zara sells are manufactured in proximity countries like Spain, Portugal, Turkey and Morocco. While some competitors outsource all production to Asia, Zara manufactures its most fashionable items at a dozen company-owned factories in Spain, Portugal and Turkey. Clothes with a longer shelf life, such as basic T-shirts, are outsourced to low-cost suppliers, mainly in Asia. The Chinese site accepts the standard payment methods: Alipay, domestic bank cards, Visa, Mastercard and JCB. Delivery is free, but only if customers make an order of 299RMB or more. Delivery time is between 2 and 5 days, but in most cases, the clothing is delivered within 48 hours.

Mango – Another Spanish fast fashion giant, Mango opened its first online store in 2000. Today it has outlets and country-based online stores throughout the world, including China. Mango has Woman's, Man's and Kids' collection. Based in its city of origin, Barcelona, the company has an extensive store network of 2,200 stores (over 800,000 m²) in 109 countries. Mango is characterized by offering fashion for the young, modern and urban woman. It has its own design

which adopts the latest fashion tendencies and is presented in three differentiated lines: casual, suit-evening and sport and jeans. All the lines in the MANGO collection can be combined with different accessories: shoes, bags, belts, costume jewelry. Mango has created a diverse collection so that every woman will find garments, from the pure basics to the most fashionable, which match her style and her personality. Their garments and accessories are of high-to-medium quality and always seek to maintain the same manufacturing standard (a constant level of quality, the same characteristics, etc.), which means that a single model is only ever produced by one manufacturer or one production workshop, except in very specific cases where the legislation limits production due to the source and quotas. Mango's Chinese online store is an exact replica of Mango's other online stores, offering all the products and accessories that can be found in-store as well. Delivery is free, but only for orders of 199RMB or more.

H&M – (H & M Hennes & Mauritz AB) is a Swedish multinational clothing-retail company, known for its fast-fashion clothing for men, women, teenagers and children. Besides clothing, they offer accessories, beauty and skin-care products, as well as shoes. H&M opened their 3,000th store in September 2013 in Chengdu, China. They have more than 300 stores in China. Their Chinese online store offers both a Chinese and an English version – having in mind the millions of Chinese residents that do not speak Chinese. Shipping is free, but only for orders of 299RMB or more.

RANGE OF PRICES OF DIRECT AND INDIRECT COMPETITORS

The following tables summarize the range of prices of XYZ.com direct and indirect competition, from lowest to highest price for each of the product categories described in the “Product Description” chapter. The first table is for categories of clothing, while the second covers accessories, bags and shoes.

Range of product prices in HKD from low to high, sorted by product category

Categories	Dresses	Tops/Tunics	Outwear	Skirts	Pants/	Jeans	Shorts	Beachwear
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						Leggings			
Direct competitors	Zalora	HKD 59 to HKD 2569	HKD 46 to HKD 2020	HKD 70 to HKD 4000	HKD 59 to HKD 1750	HKD 50 to HKD 1550	HKD 69 to HKD 1990	HKD 55 to HKD 1690	HKD 65 to HKD 1550
	YesStyle	HKD 43 to HKD 17,574	HKD 22 to HKD 1840	HKD 42 to HKD 4500	HKD 42 to HKD 2200	HKD 42 to HKD 2900	HKD 80 to HKD 2900	HKD 36 to HKD 840	HKD 30 to HKD 1360
	ShopBop	HKD 170 to HKD 70,058	HKD 77 to HKD 27,260	HKD 330 to HKD 21,808	HKD 186 to HKD 23,330	HKD 205 to HKD 14,097	HKD 350 to HKD 6620	HKD 295 to HKD 19,400	HKD 90 to HKD 9310
	Asos	HKD 121 to HKD 5365	HKD 60 to HKD 3110	HKD 195 to HKD 4817	HKD 97 to HKD 3540	HKD 97 to HKD 2621	HKD 158 to HKD 3300	HKD 73 to HKD 2380	HKD 75 to HKD 3650
	Shangpin	HKD 1130 to HKD 152,207	HKD 77 to HKD 28,217	HKD 110 to HKD 163,260	HKD 110 to HKD 20,880	HKD 100 to HKD 19,750	HKD 100 to HKD 31,400	HKD 77 to HKD 3980	HKD 100 to HKD 850
Indirect competitors	FarFetch	HKD 645 to HKD 228,962	N/A	HKD 832 to HKD 358,723	HKD 412 to HKD 116,671	HKD 264 to HKD 41,826	N/A	HKD 373 to HKD 30,465	HKD 474 to HKD 13,790
	Net-a-Porter	HKD 465 to HKD 215,000	HKD 170 to HKD 35,000	HKD 995 to HKD 62,500	HKD 665 to HKD 61,100	HKD 415 to HKD 24,875	HKD 955 to HKD 59,000	HKD 460 to HKD 13,250	HKD 335 to HKD 19,115
	Yoox	HKD 233 to HKD 130,743	HKD 140 to HKD 36,570	HKD 233 to HKD 90,173	HKD 210 to HKD 49,798	HKD 186 to HKD 25,288	HKD 210 to HKD 13,616	HKD 186 to HKD 13,616	HKD 210 to HKD 8769
	Xinlelu	HKD 1117 to HKD 5509	HKD 643 to HKD 3364	HKD 1702 to HKD 7677	HKD 976 to HKD 3025	HKD 790 to HKD 2687	N/A	HKD 1016 to HKD 2258	N/A
	Zara	HKD 100 to HKD 1200	HKD 100 to HKD 600	HKD 200 to HKD 1200	HKD 100 to HKD 1400	HKD 200 to HKD 700	HKD 200 to HKD 700	HKD 100 to HKD 600	HKD 90 to HKD 450
	Mango	HKD 140 to HKD 2000	HKD 60 to HKD 400	HKD 300 to HKD 2300	HKD 140 to HKD 2000	HKD 100 to HKD 2000	HKD 200 to HKD 659	HKD 140 to HKD 1200	N/A
	H&M	HKD 80 to HKD 1490	HKD 40 to HKD 800	HKD 200 to HKD 1000	HKD 70 to HKD 1000	HKD 80 to HKD 800	HKD 100 to HKD 500	HKD 80 to HKD 500	HKD 50 to HKD 400

Range of product prices in HKD from low to high, sorted by product category

Categories		Scarves/ Stoles	Handbags and Clutches	Jewelry	Belts	Shoes
Direct competitors	Zalora	HKD 40 to HKD 2370	HKD 50 to HKD 4300	HKD 40 to HKD 6380	HKD 50 to HKD 600	HKD 50 to HKD 1790
	YesStyle	HKD 45 to HKD 628	HKD 38 to HKD 1703	HKD 15 to HKD 30,808	HKD 20 to HKD 740	HKD 15 to HKD 8870
	ShopBop	HKD 140 to HKD 3013	HKD 55 to HKD 52,501	HKD 62 to HKD 76,899	HKD 320 to HKD 3820	HKD 155 to HKD 14,770
	Asos	HKD 60 to HKD 855	HKD 60 to HKD 3000	HKD 36 to HKD 4000	HKD 73 to HKD 1470	HKD 36 to HKD 3540
	Shangpin	HKD 110 to HKD 2020	HKD 110 to HKD 54,700	HKD 1100 to HKD 10,655	HKD 135 to HKD 6715	HKD 66 to HKD 28,782

Indirect competitors	FarFetch	HKD 520 to HKD 34,473	HKD 249 to HKD 251,000	HKD 280 to HKD 917,639	HKD 412 to HKD 40,270	HKD 250 to HKD 44,519
	Net-a-Porter	HKD 375 to HKD 16,100	HKD 500 to HKD 77,400	HKD 210 to HKD 580,000	HKD 550 to HKD 39,000	HKD 435 to HKD 33,250
	Yoox	HKD 233 to HKD 12,309	HKD 233 to HKD 45,907	HKD 155 to HKD 16,869	HKD 225 to HKD 8559	HKD 210 to HKD 26,649
	Xinlelu	N/A	HKD 1445 to HKD 2574	HKD 609 to HKD 5362	N/A	N/A
	Zara	HKD 90 to HKD 950	HKD 140 to HKD 1200	HKD 100 to HKD 170	N/A	HKD 100 to HKD 2300
	Mango	HKD 80 to HKD 260	HKD 140 to HKD 1700	HKD 80 to HKD 260	HKD 140 to HKD 260	HKD 200 to HKD 1200
	H&M	HKD 40 to HKD 80	HKD 40 to HKD 900	HKD 30 to HKD 180	HKD 40 to HKD 80	HKD 80 to HKD 100

Based on the range of prices, we can group the competitors in several groups:

1. Companies offering products with a wide range of product prices, offering more affordable options, as well as high-end items. These are our direct competition – Zalora, YesStyle, ShopBop, Asos and Shangpin.
2. Companies that mostly sell high end, luxury items, aimed at the wealthiest customers. These are: FarFetch, Net-a-Porter and Yoox.
3. Companies selling cheap, but highly fashionable products, otherwise known as fast-fashion companies. These Are Zara, Mango and H&M.
4. Niche companies which don't have a wide price range and tons of products to choose from, but they are unique, designer clothes from small but rising designers. Xinlelu falls in this group.

Price ranges for Taobao were not established, mainly because of the large amount of fake sellers selling dresses for as low as 0.01 HKD. These are clearly not genuine retailers, but they've managed to make the website very difficult to search through and navigate.

The chapter that follows is a general marketing strategy and plans for penetrating the online fashion market in Hong Kong and China.

MARKETING STRATEGY

Here the feasibility study provides a level of description of how the organization will market its product. Primary means of marketing will be online through analytic-driven approaches like SEO and paid search, in addition to capitalizing on social channels like Instagram, Facebook, Twitter, and Pinterest. User generated content and engagement will be key as product pages will include Instagram photos and promote consumer pride in our products.

Manufacturers, retailers, and service providers are compiling more and more customer data at all kinds of new touch points – from user accounts to social networks. Based on this data, sophisticated algorithms can calculate the time, type, and scope of the customer's next purchase with high precision and probability. This can yield diverse ways of personalizing advertising, new customer interactions, and product offerings. But prior to this comes the challenge of processing huge volumes of data in real time.

Apparel brands and retailers need to first identify which data is most relevant and then have the capabilities and organizational structure in place to use it, something that inevitably requires an understanding of the relevance of IT and big data at the corporate level. One leading textiles retailer in South Africa was able to boost its operating margin by 1.5 percentage points thanks to the help of big data. The key lever in doing so was more targeted pricing based on customer and competitor data.

FINDINGS AND RECOMMENDATIONS

Some parts of the research have been hidden due to confidentiality.