



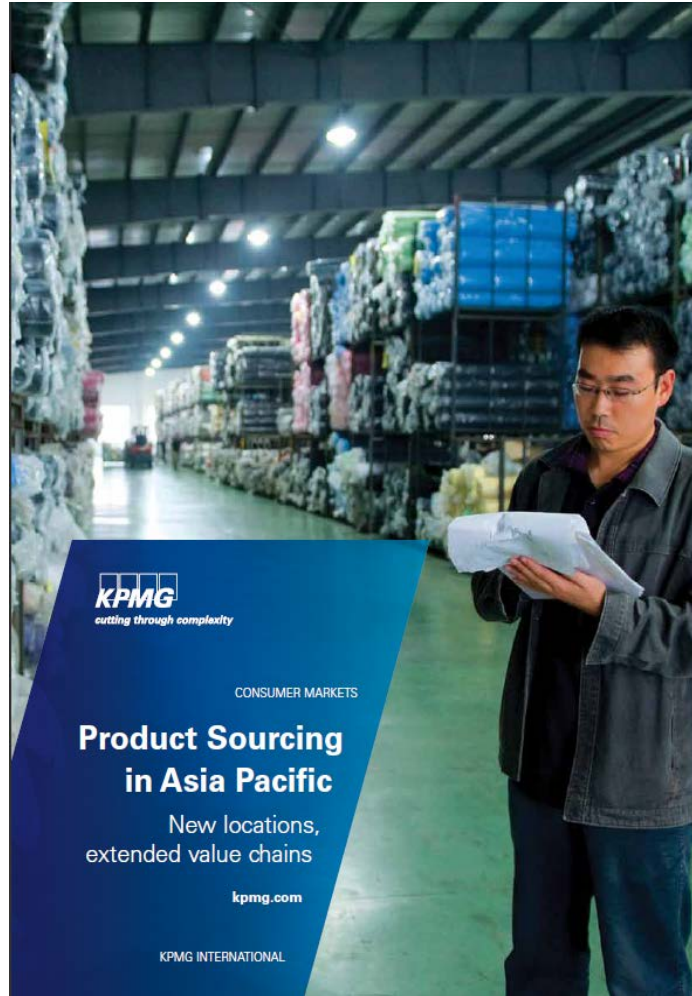
# Future of Sourcing: 2021 and beyond

**Anson Bailey**  
**Head of Consumer & Retail, ASPAC**  
**KPMG China**

Fashion Transformer – November 5, 2020  
(organised by Co-Laboration)



# KPMG Report: Product Sourcing in Asia Pacific (Sept 2011)



- Rising costs and a tightening labour market are leading global Consumer Markets executives to reassess their sourcing strategies and explore new locations across Asia
- The increasingly complex requirements of supporting supply chains mean that established sourcing locations, including those in China, will still have an advantage in certain product categories
- Some sourcing activities have moved closer to end markets with more near-sourcing strategies though volumes sourced from Asia unlikely to diminish
- Payments are changing and new trade settlement mechanisms are gaining momentum
- Sustainability is now a particularly high priority for Consumer Markets organisations
- Customs, regulatory issues and compliance risks need to be managed
- More technology being used to enable better procurement processes

# Future of sourcing: 2021 and beyond

## Key findings to think about:

- **Significant economic impact of COVID-19 has impacted the entire supply chain for some time to come.** Companies have suddenly realized that there is a need to digitize across those supply chains.
- **So where is the next Hong Kong?** Well simply stated we are never going to see another Hong Kong emerge in this new era of digitisation and we do need to prepare ourselves for this new digital era where we operate across a seamless global marketplace.
- **Organisations need to leverage new digital technologies** to ensure they can track those changing consumer behaviours, consumer journeys and consumer spending patterns with the need for more precise consumption patterns through data analytics.
- **The globalisation of supply chains will actually see Hong Kong survive and thrive** but we must be more agile as we serve those future digital supply chains with next generation data analytics, AI and automation.
- **Talent Development and upskilling our people is critical** for the future survival with both the international business mindset and more innovative thinking required to stay ahead of the curve.

Each of the trends identified in this sourcing study have accelerated with the beginning of COVID-19. This new study covers a number of established industry players along with the start-up +digital ecosystem across not only supply chains but the wider consumer +retail sectors as we see the impact of those changing consumer behaviours.



# Future of sourcing: 2021 and beyond

Hong Kong is transforming into the next steps as a **global digital supply chain services hub**. The city has taken on major roles in every link of the manufacturing chain, from product design and development to the delivery of goods to consumers. Our analysis focuses on several key points:

- A high concentration of **sourcing talent** can be found in Hong Kong
- Hong Kong's role as a **regional hub** in the rest of Asia and its long-established ties around the globe show it is an ideal place to manage supply chains
- **Strengths** in **financial, legal and commercial** structures make the city a preferred place to carry out business between Mainland China and the world, especially through the **Greater Bay Area**
- Impact of the **Clustering effect** of cities if you combine Hong Kong together with Shenzhen and Guangzhou
- Hong Kong is well placed with its **internationally minded sourcing +design workforce** to support diversification of manufacturing across ASEAN
- The **rise and rise of ESG Reporting** and sustainability
- **Changing consumer expectations** about the origin and manner of production
- The Hong Kong **government's continuing support** and drive of **innovation**
- **New technologies** are allowing businesses to operate more flexibly and seamlessly across the globe +regionally

Launch date: 11 November 2020

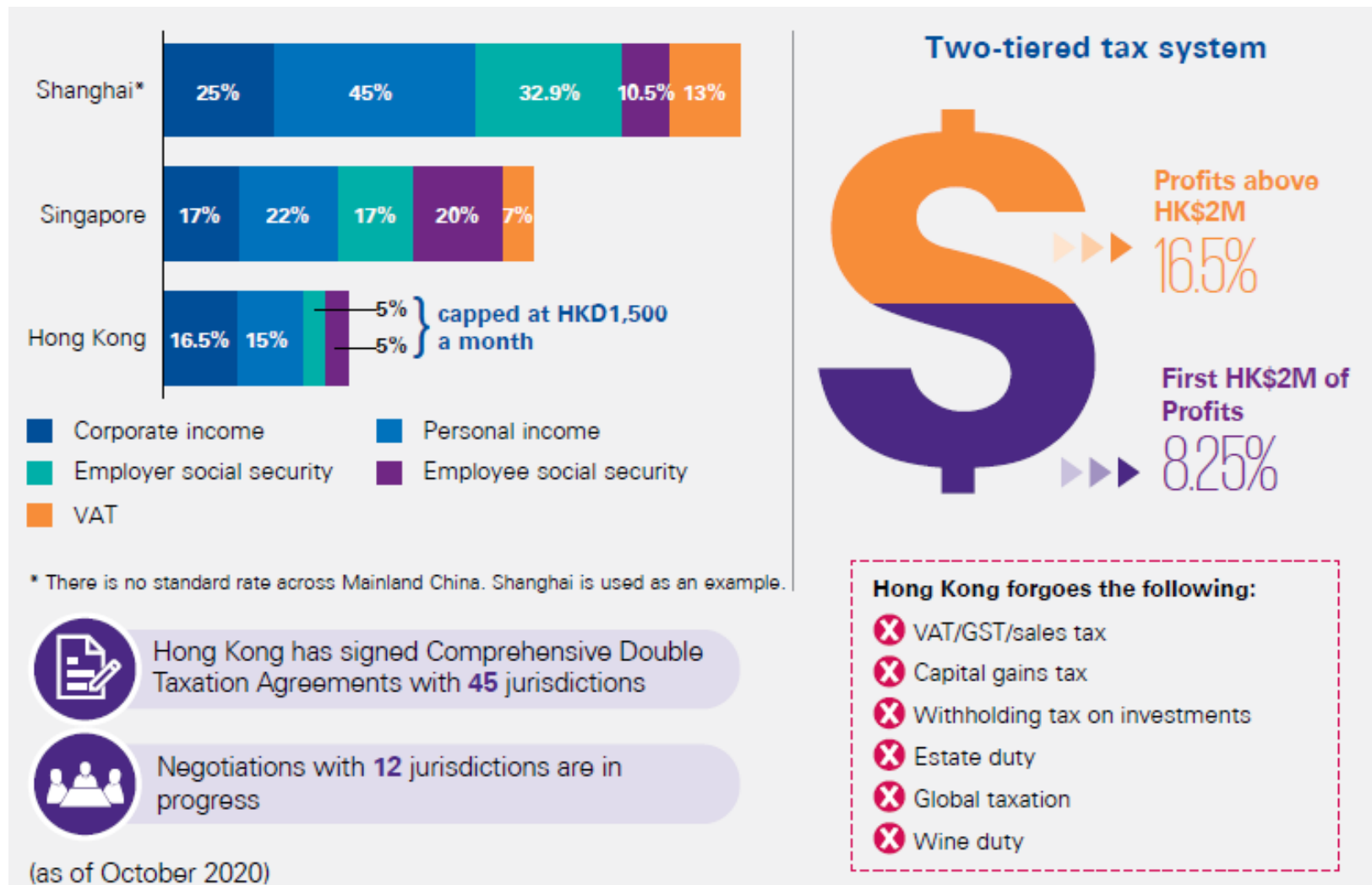




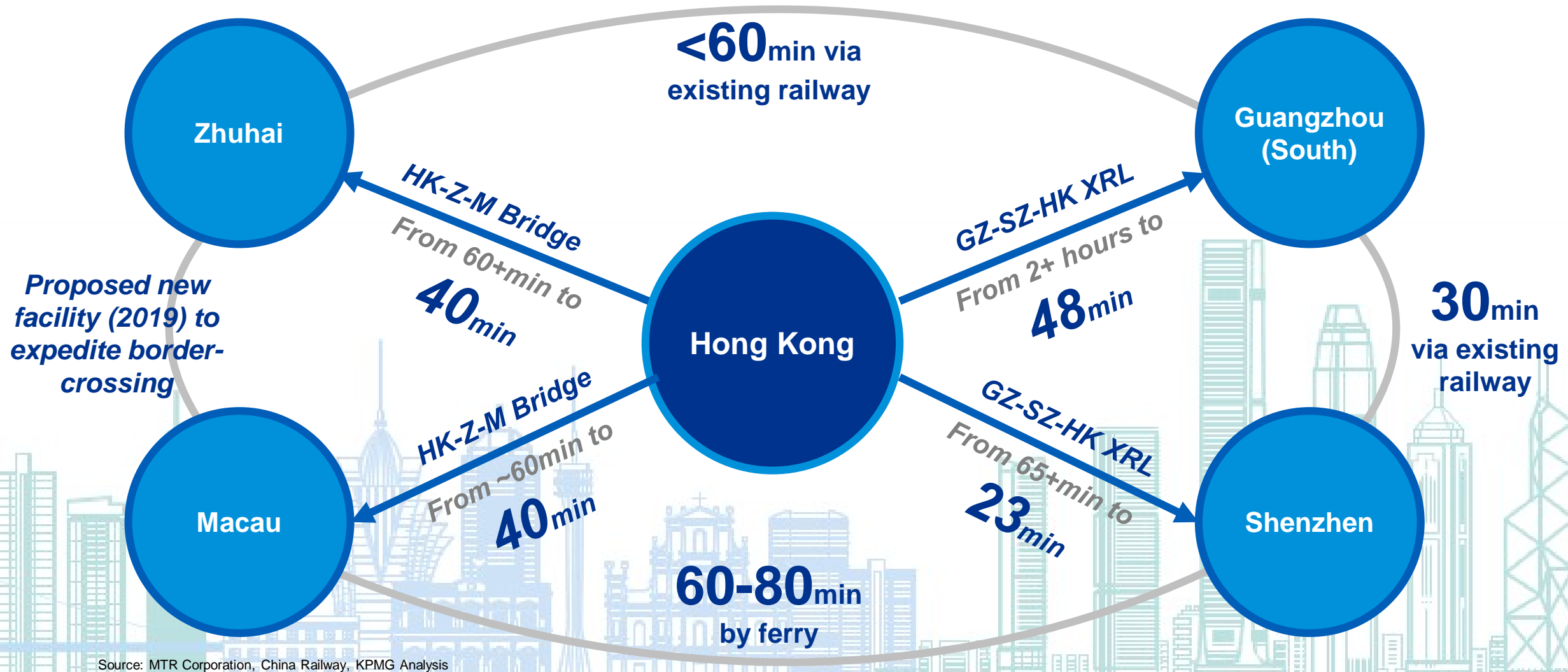
# Hong Kong is a very RESILIENT place



# Hong Kong's tax system in brief



# Hong Kong acts as a super connector to the GBA



Source: MTR Corporation, China Railway, KPMG Analysis



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# Free Trade Agreement between Hong Kong and the Association of Southeast Asian Nations

The dates of entry into force of the FTA for the following Parties are as follows:



<https://www.tid.gov.hk/english/ita/fta/hkasean/index.html>



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Broadly speaking, for goods originating from Hong Kong, individual AMS has made the following commitments:

- **Singapore** commits to binding all its customs duties at zero, with effect from the date on which the FTA enters into force for Singapore;
- **Brunei Darussalam, Malaysia, the Philippines and Thailand** will eliminate customs duties of about 85% of their tariff lines within 10 years and reduce customs duties of about another 10% of their tariff lines within 14 years;
- **Indonesia and Viet Nam** will eliminate customs duties of about 75% of their tariff lines within 10 years and reduce customs duties of about another 10% of their tariff lines within 14 years; and
- **Cambodia, Laos and Myanmar** will eliminate customs duties of about 65% of their tariff lines within 15 years and reduce customs duties of about another 20% of their tariff lines within 20 years.



# Hong Kong acts as a gateway to ASEAN for both Chinese & MNCs

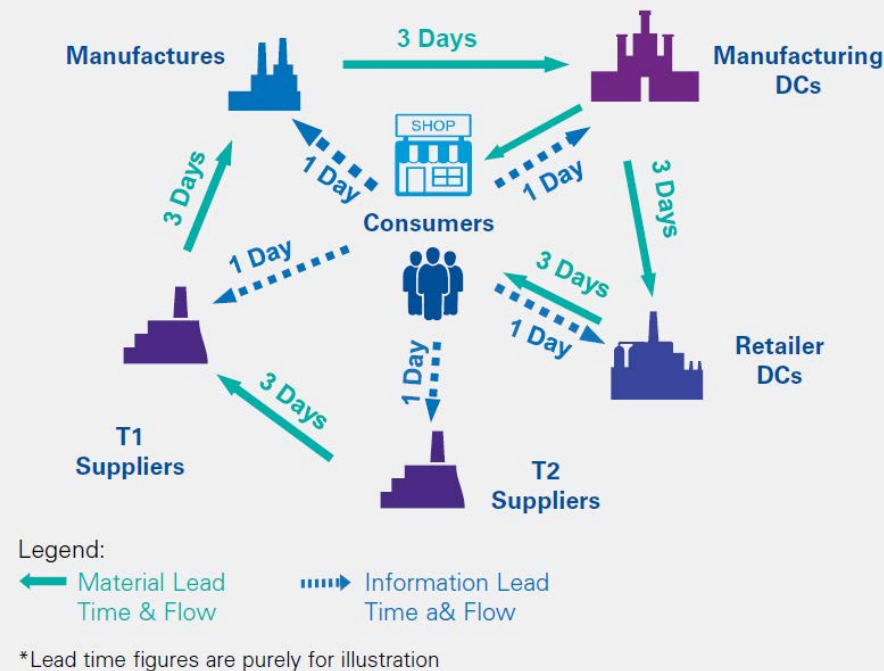


Source: KPMG analysis

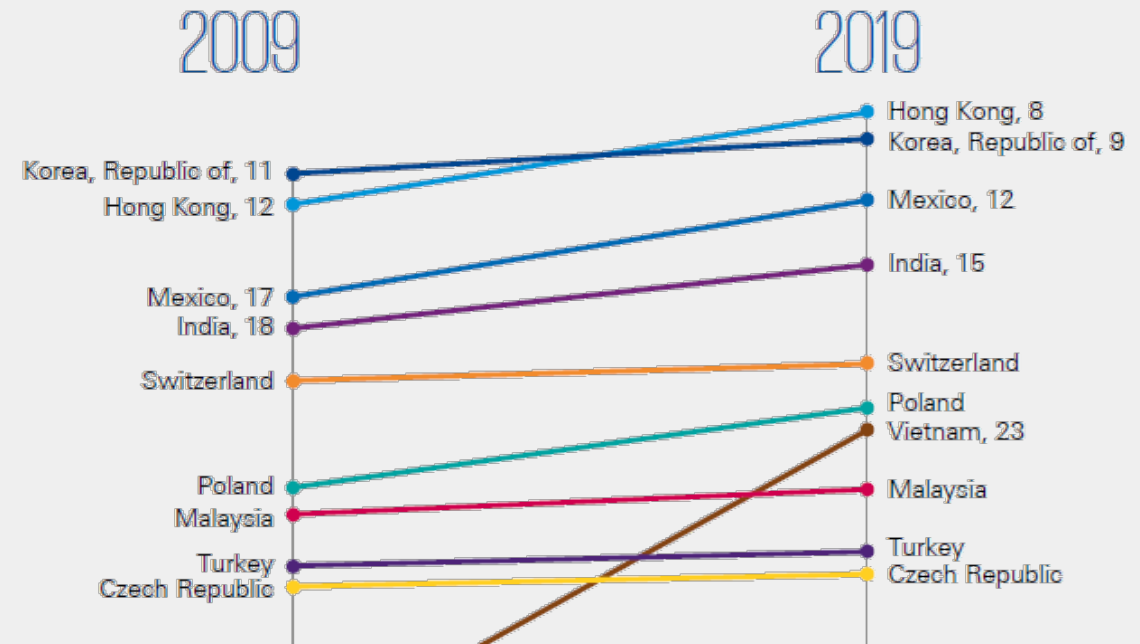


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# Hong Kong is at the heart of end-to-end supply chains

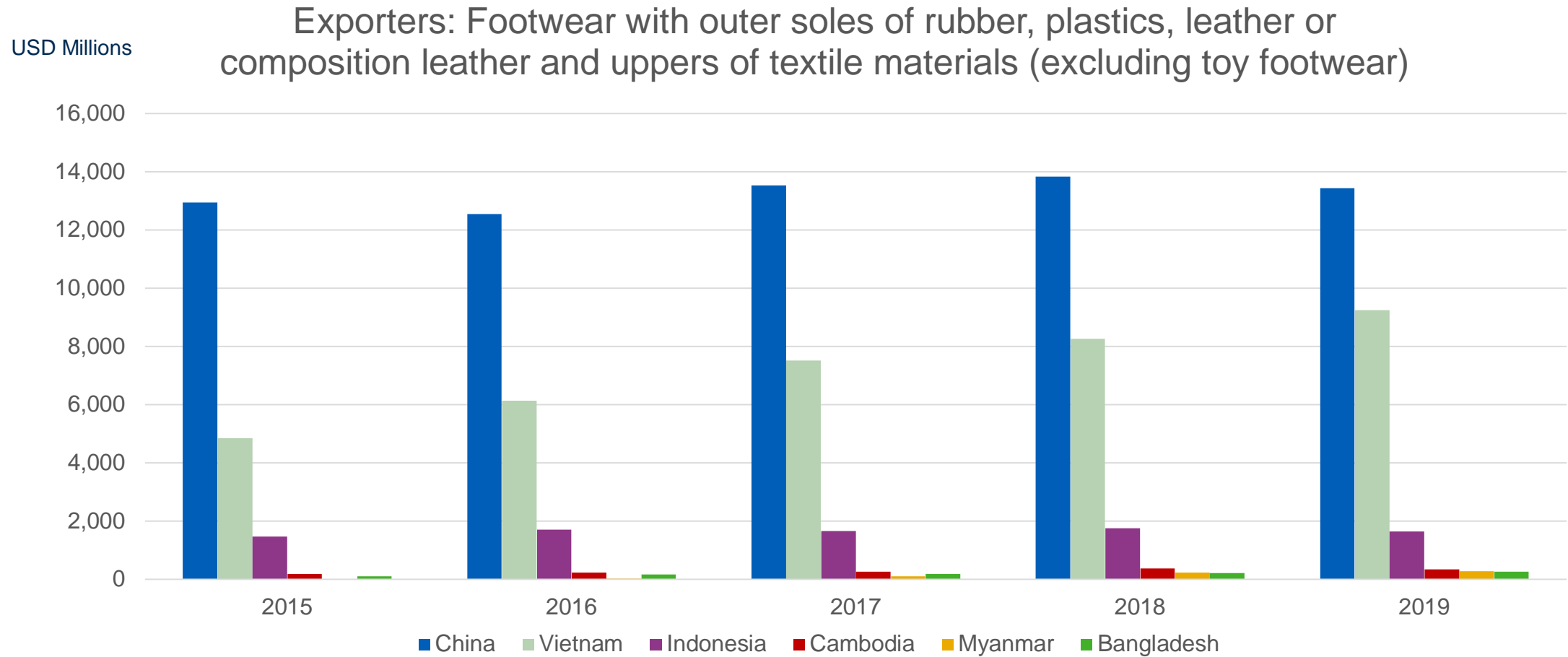


Source: KPMG Analysis



Source: World Trade Statistical Review 2020, World Trade Organisation

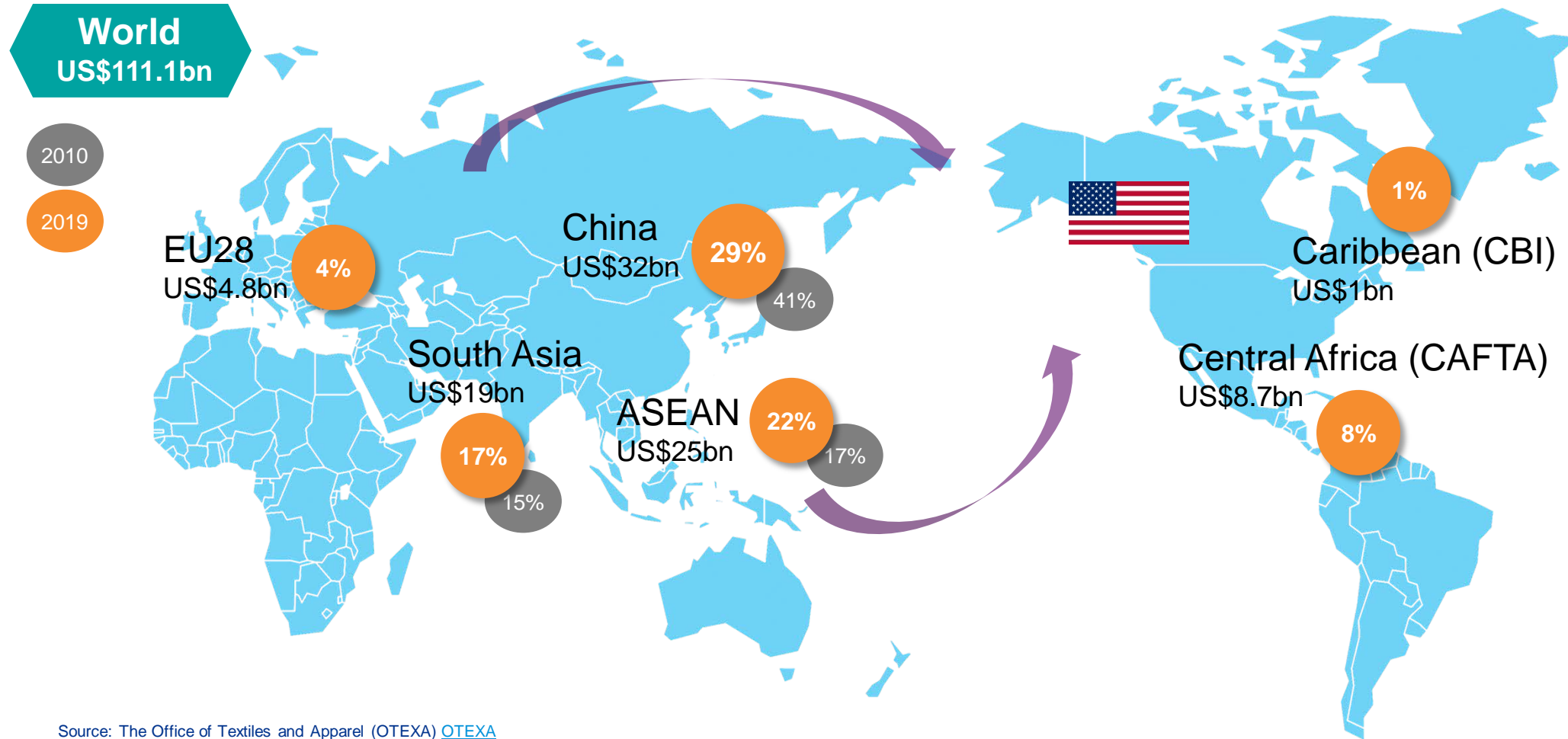
# The shift from China?



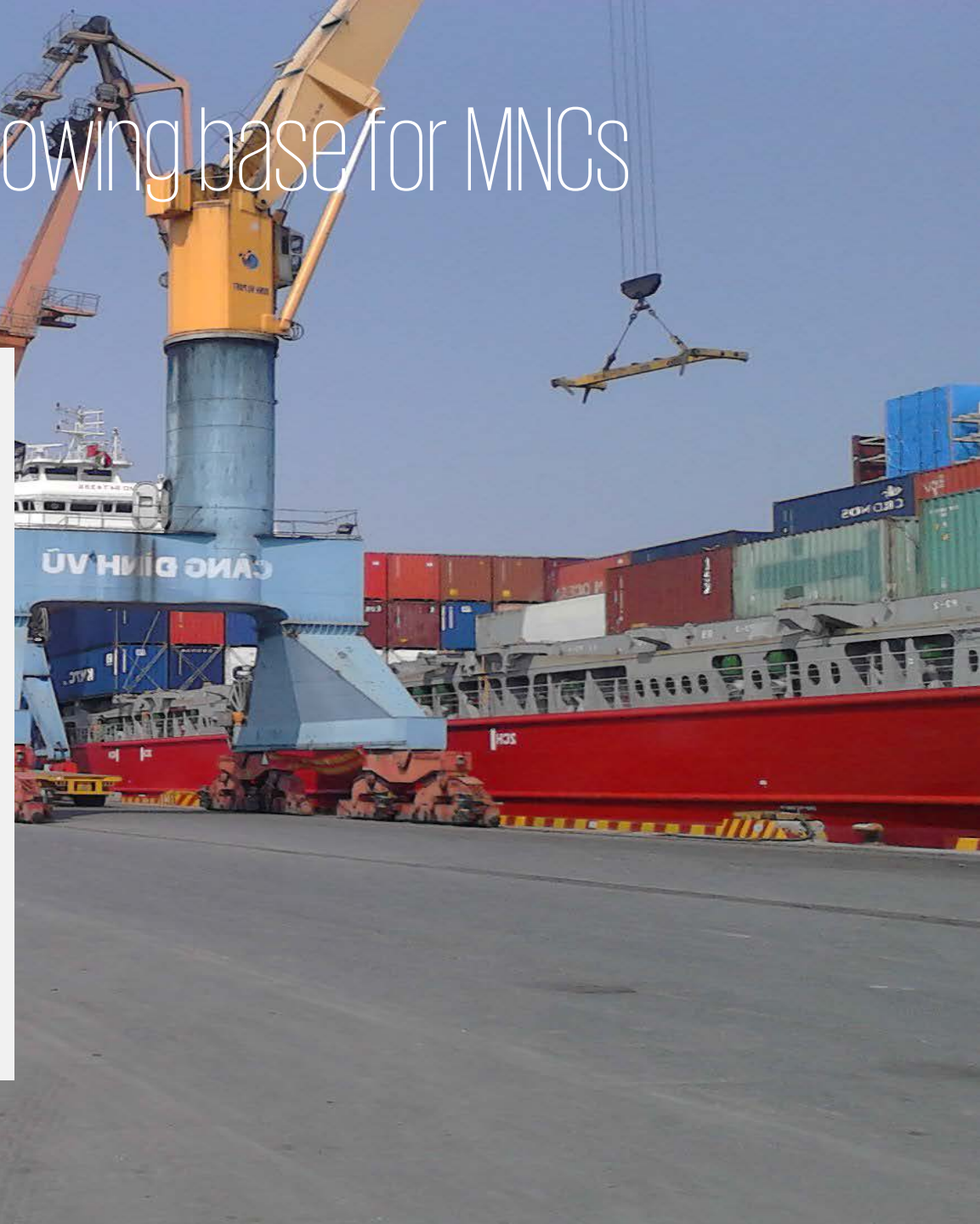
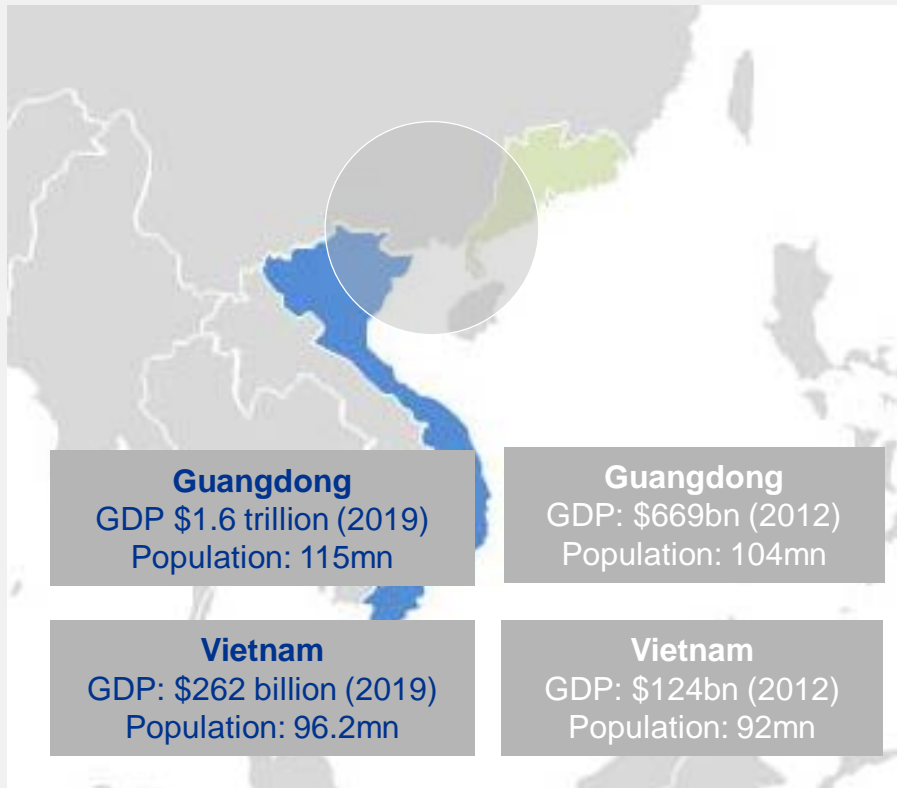
Source: [ITC calculations based on UN COMTRADE and ITC statistics.](#)



# 2019 total textile and apparel imports to the US

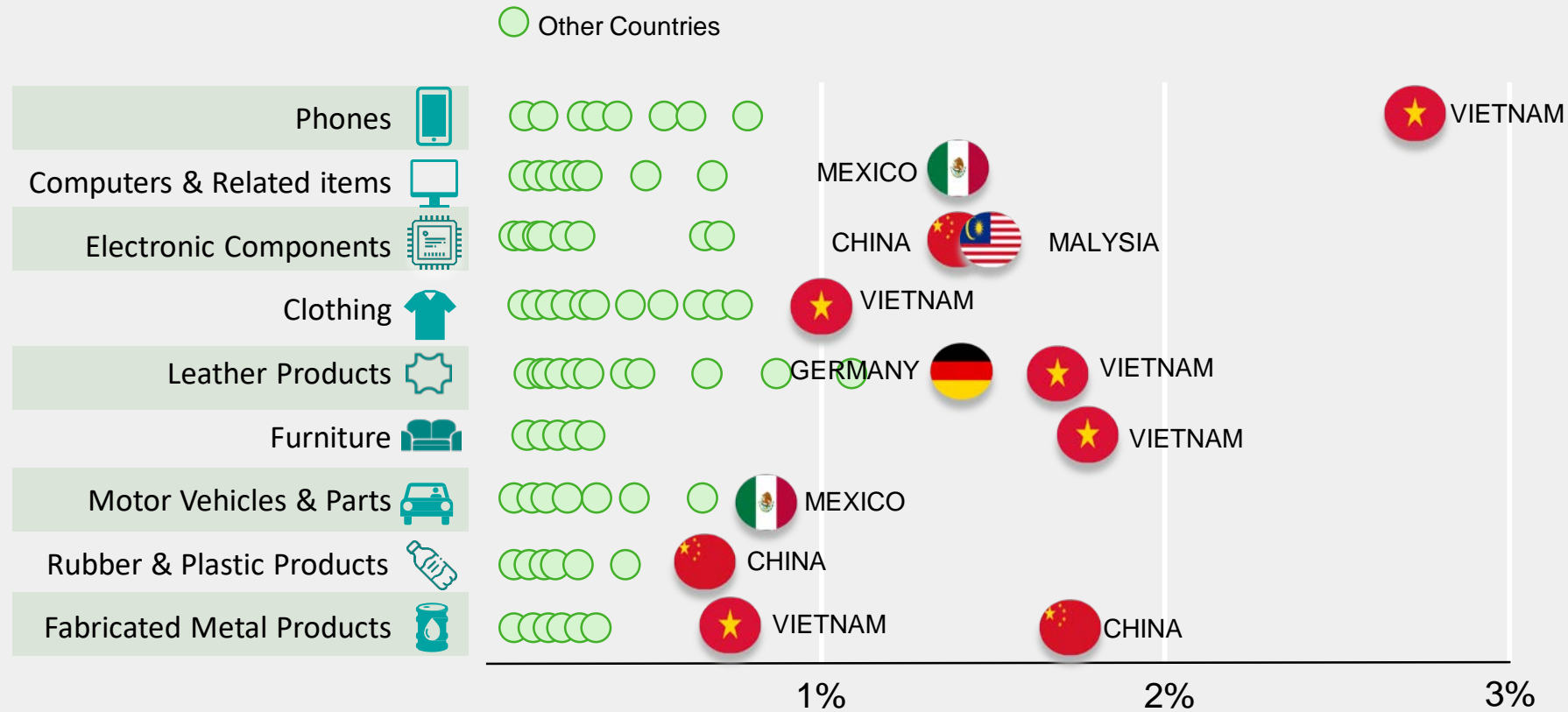


# Vietnam: not the 'next China' but a growing base for MNCs



# Change in Global Export Market Share (2017-19)

Percentage Point Change



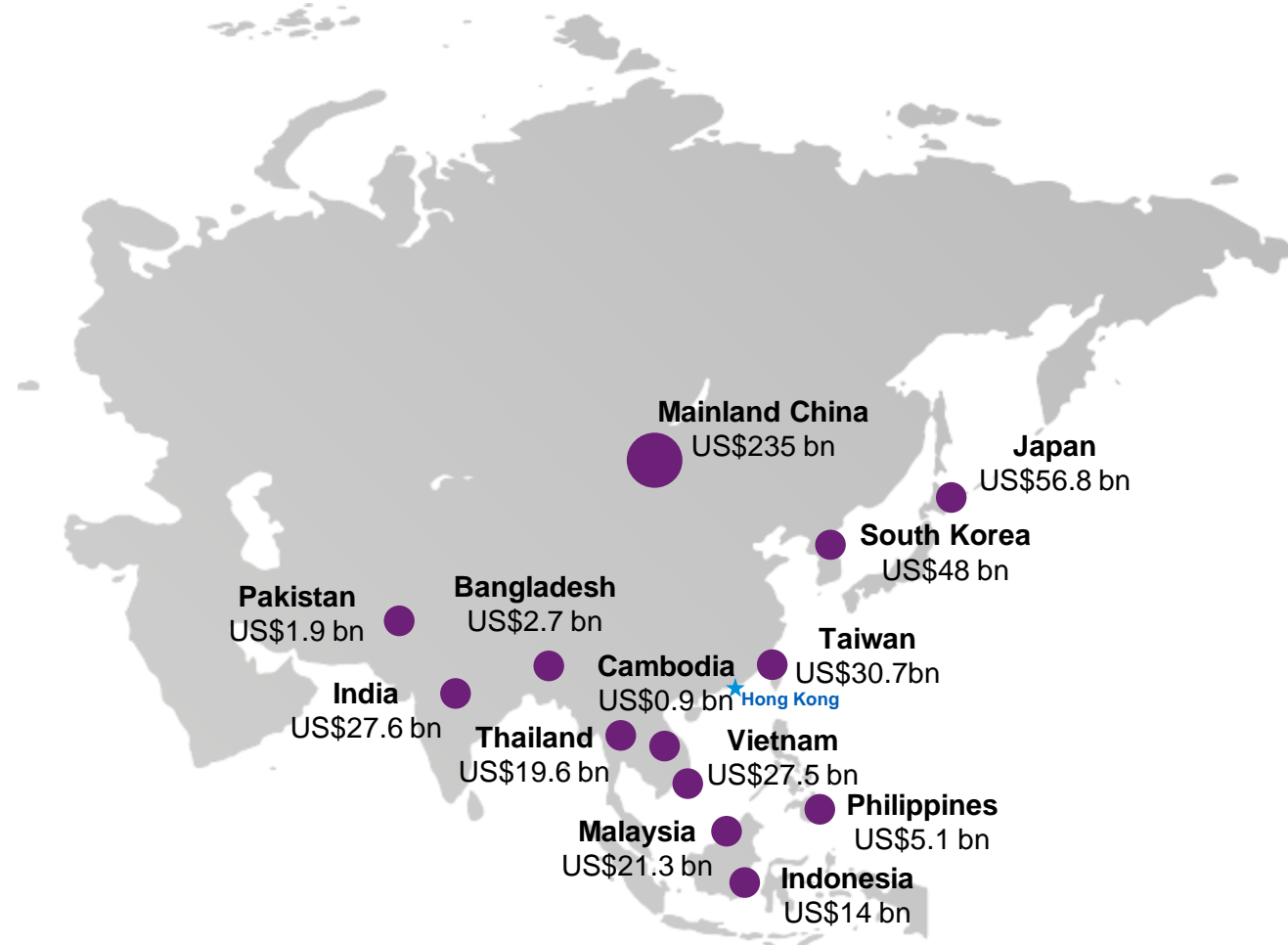
Source: Silk Road Associates



# Asia starting to scale up

## Exports, \$ billion

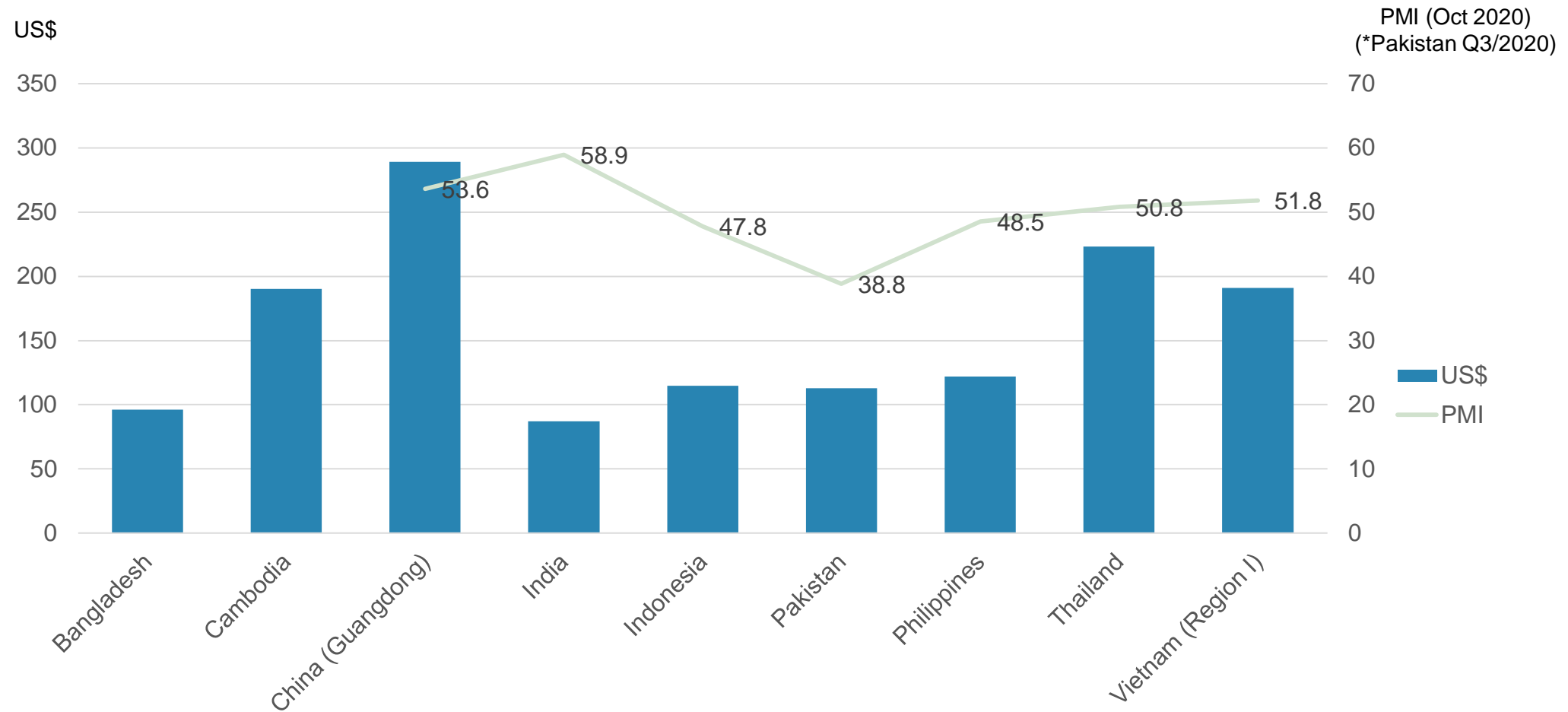
	USD bn	Date of data
Mainland China	239.8	Sep-20
Bangladesh	2.7	Jul-20
Cambodia	0.9	Apr-20
India	27.6	Sep-20
Indonesia	14	Sep-20
Japan	56.8	Sep-20
South Korea	48	Sep-20
Malaysia	21.3	Sep-20
Pakistan	1.9	Sep-20
Taiwan	30.7	Sep-20
The Philippines	5.1	Aug-20
Thailand	19.6	Sep-20
Vietnam	27.5	Sep-20
<b>Total</b>	<b>256.1</b>	



Source: <https://tradingeconomics.com/country-list/exports>

# Minimum Wages as of early 2020

as of 31 January 2020



Source: Picodi  
Trading Economics

Source: Pakistan (Q3/2020) data - theglobaleconomy.com



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# Look at the emerging sourcing markets in Asia





## Expanding digital reliance post-pandemic

**Christophe Roussel**  
Executive Vice President  
Global Sourcing, Gap Inc.



## Firm footing for manufacturing in Asia

**Anne-Laure Descours**  
Chief Sourcing Officer  
PUMA



## Focusing on holistic strategy in sourcing

**Gareth Brooks**  
Managing Director  
VF Asia Ltd



## Certifying quality in a dynamic world

**Christy Chan**  
Director, Consumer & Retail SGS  
Hong Kong



## Excelling as a global gateway

**Mark Slade**  
Managing Director for Hong Kong and Macau  
DHL Global Forwarding



## Adapting to a new world of possibilities

**Roger Lee**  
CEO  
TAL Group



## Tapping into a deep knowledge base

**Lynne M. Sprugel**  
Founder and CEO  
abuzz global, LLC



## Delving into data for enriching research

**Edwin Keh**  
CEO  
Hong Kong Research Institute of  
Textiles and Apparel



## Weaving in digital acceleration

**Walden Lam**  
Co-founder  
Unspun



## Making a beeline to sourcing knowhow

**Minesh Pore**  
CEO & Co-Founder  
BuyHive Ltd



## Digitalising the supply chain with barcodes

**Anna Lin**  
Chief Executive  
GS1 Hong Kong



## Thriving on complexity to lead an industry

**Thierry Le Breton**  
Managing Director  
Dixons Sourcing Limited



# Future of Sourcing: sound bites



Anne-Laure Descours  
Chief Sourcing Officer,  
PUMA



Roger Lee  
CEO, TAL Group



Christophe Roussel  
EVP, Global Sourcing,  
Gap Inc.



Gareth Brooks  
Managing Director, VF  
Asia



When it comes to overseeing those supply chains, Hong Kong is the best option with the flexibility and adaptability of HK people being the key to the city's efficiency with entrepreneurial talent, overall ease of doing business and its central location make it an ideal hub.



The industry's brains are still in Hong Kong. For Hong Kong to burnish its competitive appeal, it needs a new mindset, including being able to react faster to the impact of new technologies



Hong Kong is a safe place to be. It is tax efficient, it has got great talent and – COVID-19 aside – it is easy to travel from here to everywhere else in the region. That makes it a strong location for managing functions that can be spread across several countries.



Hong Kong's status as an important financial hub reassures companies like VF. Equally significant is the city's unique blend of a strong supply of leadership staff and a history of transformation. More data scientists needed +HK educational institutions need to deepen partnerships with industry.

# Future of Sourcing: sound bites



Mark Slade  
Managing Director, DHL  
Global Forwarding



At the core of an integrated supply chain stands finance. There's a very strong compliance culture in Hong Kong. I'm absolutely optimistic that companies will continue to source and ship goods through Hong Kong. As a global air gateway, Hong Kong will continue to be the leader for the foreseeable future.



Walden Lam  
Co-founder, Unspun



Hong Kong has a surprisingly deep network of 3D design technicians, supply chain intermediaries and 3D savvy manufacturers. Hong Kong's manufacturing know-how represents a major advantage when it comes to automating production and changes that inevitably arise in light of changing economic circumstances +innovation.



Christy Chan  
Director, SGS Hong Kong



Hong Kong's sourcing ecosystem is rich in inherited experience. Even before COVID-19, being agile and resilient was part of our DNA. We see Hong Kong as leading the way in integrity. It is still very much a trusted hub, a place where companies and consumers can do business with complete confidence.



Thierry Le Breton  
Managing Director,  
Dixons Sourcing



Mainland China made itself the dominant force in the consumer electronics and components space and will remain that way for the foreseeable future but Hong Kong is the control centre!

# Future of Sourcing: sound bites



Ayesha Lau  
Managing Partner,  
Hong Kong  
KPMG China



Christoph Zinke  
Partner, Head of Global  
Strategy Group, China and  
ASPAC  
KPMG China



Pat Woo  
Head of Sustainable  
Finance Hong Kong,  
KPMG China



Irene Chu  
Head of New Economy,  
Hong Kong,  
KPMG China



Daniel Hui  
Partner, Greater Bay Area  
Tax Practice  
KPMG China



Shirley Fu  
Partner  
SF Lawyers In Association  
with KPMG Law



Hong Kong has continued to demonstrate its resilience and we can expect stronger economic growth through greater integration of the Greater Bay Area along with new best practices relating to environmental, social and governance factors.



More than ever, the leverage of technology from digital to data science is a must. Hong Kong offers a premier location for global sourcing and provides the necessary capabilities to continue to be one of the leading sourcing and supply-chain hubs globally.



With the emergence of digital supply chains, we are going to see far greater transparency and traceability which is pivotal to ESG.



We expect to see Opportunities for AI and Blockchain solutions startups to help accelerate digital transformation in the sourcing and supply chain sectors from the capture of raw materials, through the value-added stages of production, to final customer delivery in near real time.



As a result of both these tariffs and China's rising labour and other costs, many manufacturing companies either have or are considering relocating their factories out of China to other locations in Asia.

Just moving some assembly operations to say Vietnam may not be enough. It has to amount to substantial transformation of inputs .



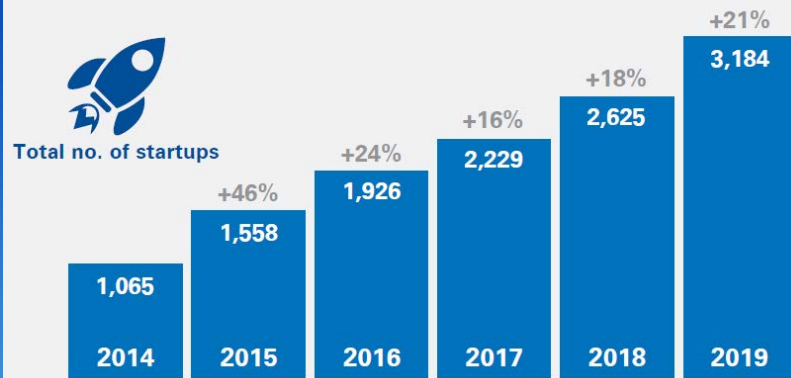
Hong Kong has a well-established legal system and a world-class IP regime for protecting all forms of IP which is generally considered to be one of the most thorough in Asia.



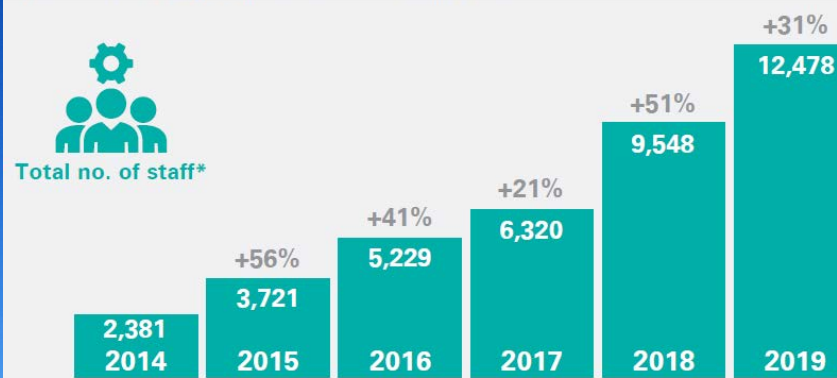
# About Hong Kong - Diverse ecosystem in 2020

## Hong Kong's dynamic start-up ecosystem

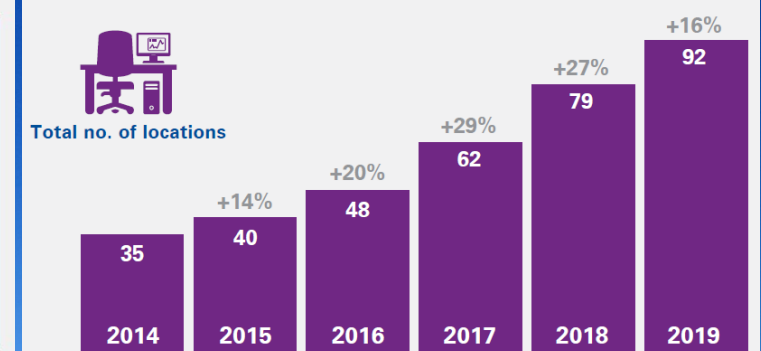
**3,184 startups, +199% in 6 years**



**1,478 employees, +424% in 6 years**



**92 locations of co-work space / incubators / accelerators  
+163% in 6 years**

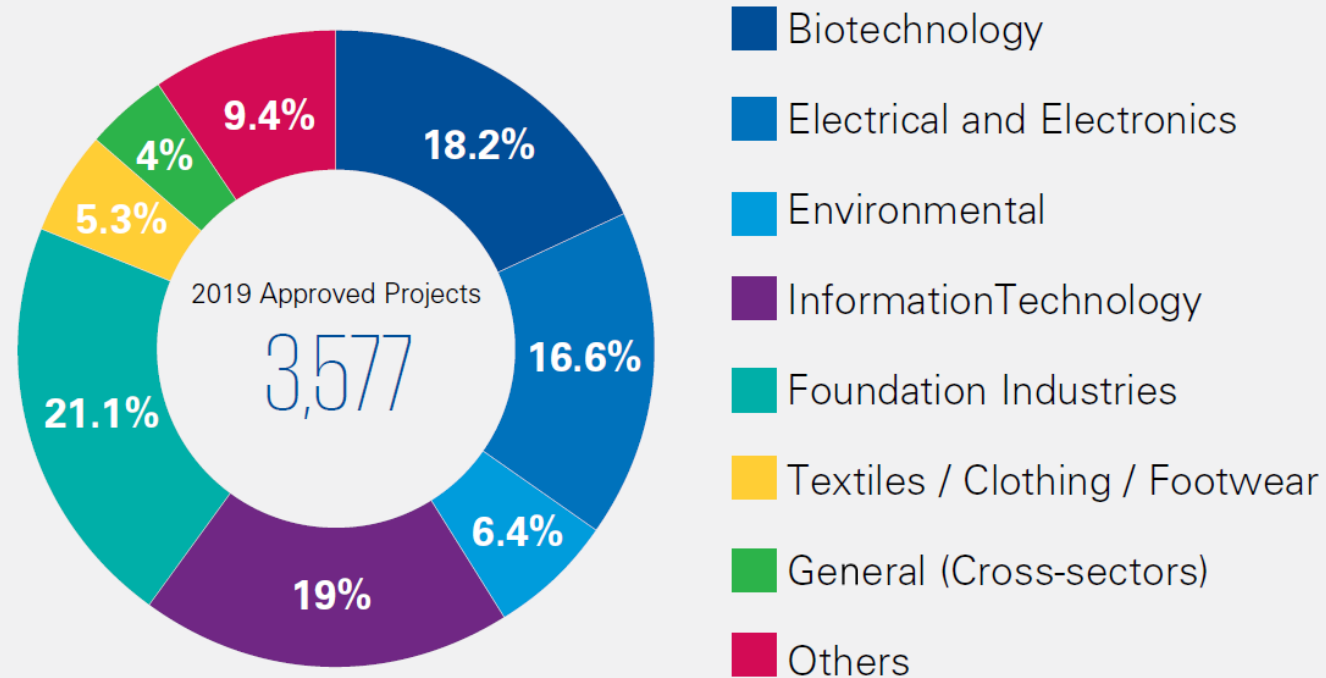


source: InvestHK

source: InvestHK

# Growing Hub for Tech and Innovation

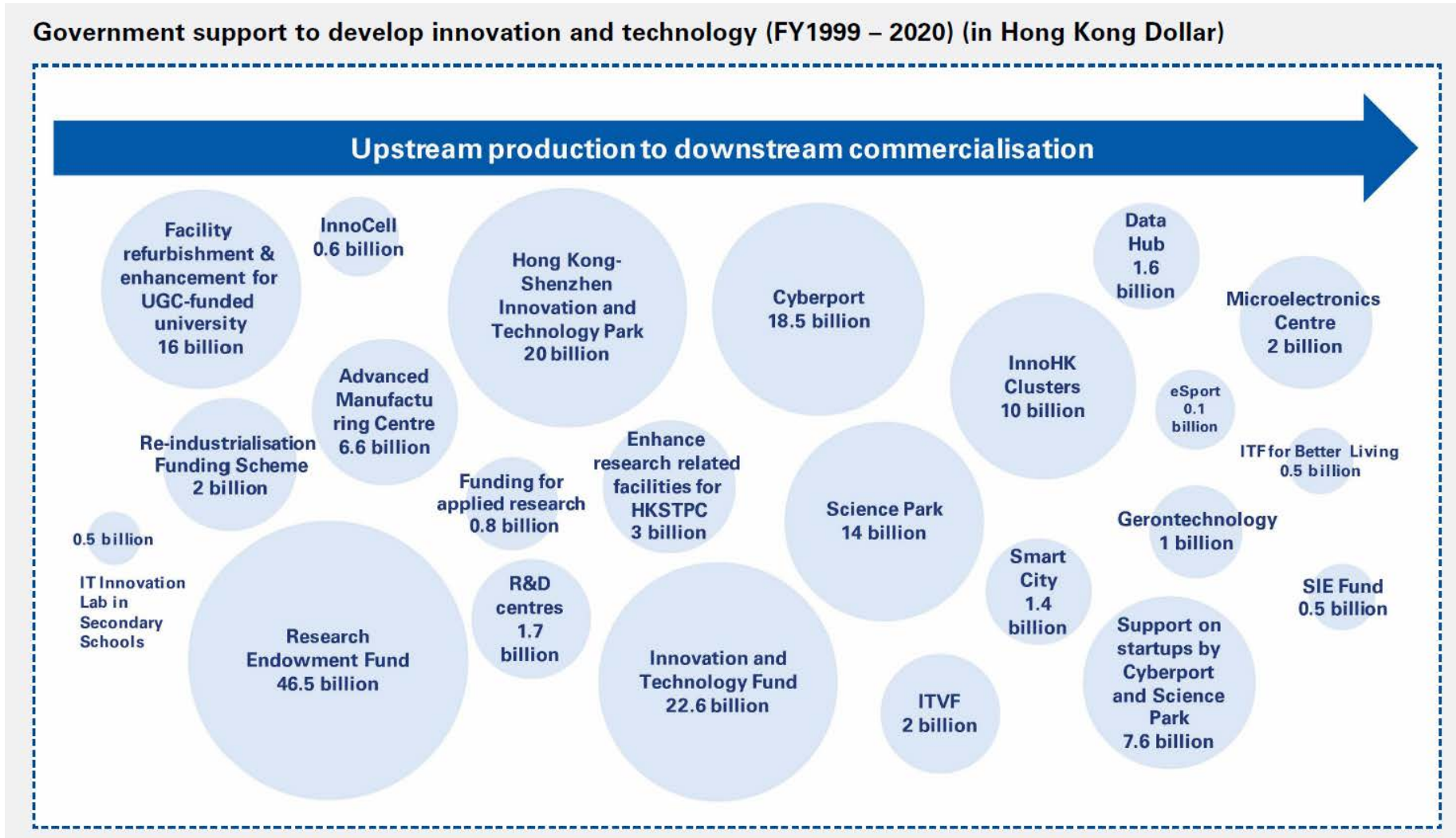
## Approved government programmes supporting R&D by industry



Source: Innovation and Technology Fund, HKSAR Government



# Government funding to develop innovation and technology



Source: The Hong Kong Government budget, Finance committee paper, Our Hong Kong Foundation, KPMG analysis

# The CLUSTER effect: Global top 10 science and technology cluster rankings

Rank	Cluster name	Economy	PCT applications	Scientific publications	Share of total PCT filings, %	Share of total pubs, %	Total	Rank 2013-17	Rank change
1	Tokyo-Yokohama	JP	113,244	143,822	10.81	1.66	12.47	1	0
2	Shenzhen-Hong Kong-Guangzhou	CN/HK	72,259	118,600	6.90	1.37	8.27	2	0
3	Seoul	KR	40,817	140,806	3.90	1.63	5.52	3	0
4	Beijing	CN	25,080	241,637	2.40	2.79	5.18	4	0
5	San Jose-San Francisco, CA	US	39,748	89,974	3.8	1.04	4.83	5	0
6	Osaka-Kobe-Kyoto	JP	29,464	67,514	2.81	0.78	3.59	6	0
7	Boston-Cambridge, MA	US	15,458	128,964	1.48	1.49	2.96	7	0
8	New York City, NY	US	12,302	137,263	1.17	1.58	2.76	8	0
9	Shanghai	CN	13,347	122,367	1.27	1.41	2.69	11	2
10	Paris	FR	13,561	93,003	1.30	1.07	2.37	9	-1






















Source: Global Innovation Index 2020



# Advanced Manufacturing Centre (AMC)

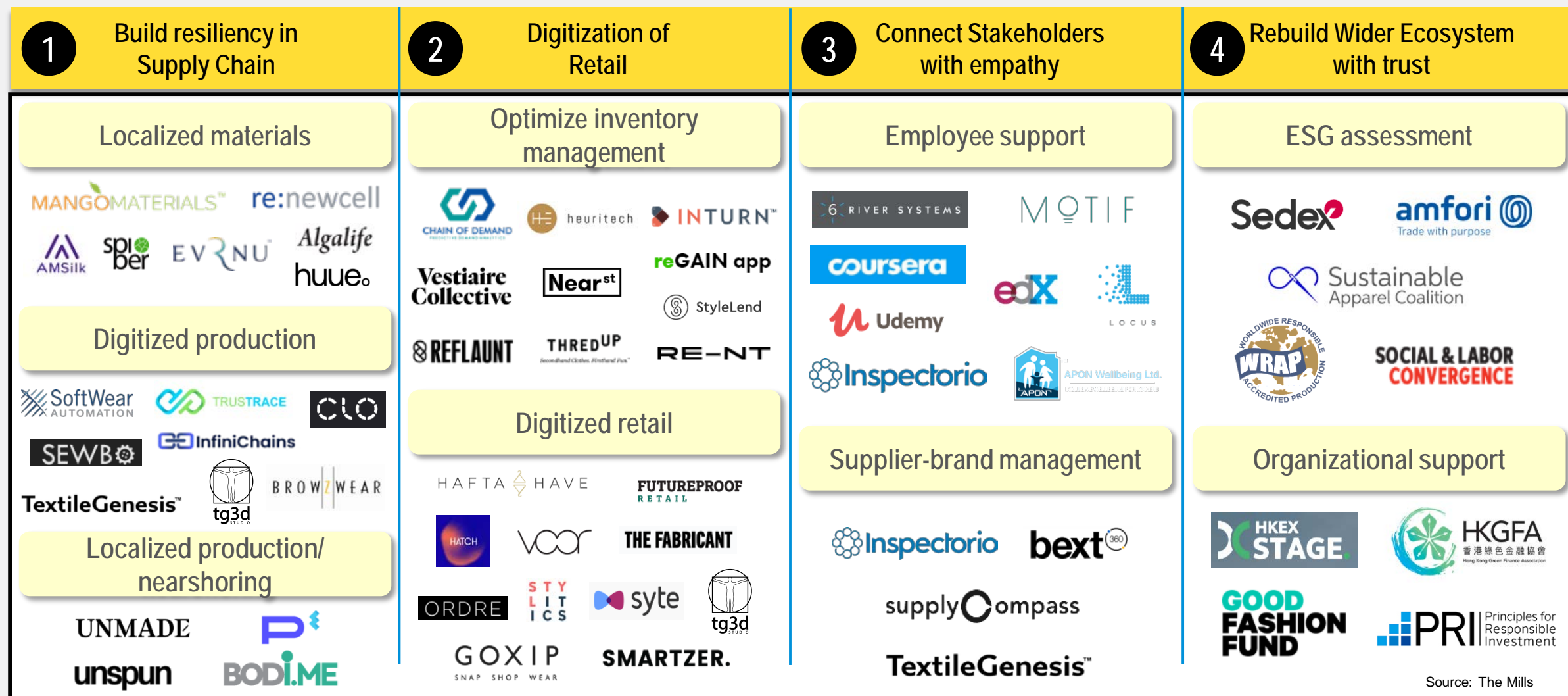


# The Mills: Building resiliency in supply chain

Key Trend	Description	Enablers + Examples of Startups		
Localized materials	Source new or alternative materials in local markets with the help of material technology for production purpose.	Bio-based/ Synbio		Recycling
		    	 	
Digitized production	Enhance productivity, efficiency and transparency of supply chain through digitization.	Automation/ Robotics	Blockchain	3D design
		 	  	  
Localized production/ nearshoring	Shift production back to domestic markets or neighbouring regions to reduce risks and react to customer demand faster.	On-demand production		3D printing
		 	 	 



# The Mills: Innovation opportunities exist across the value chain



Source: The Mills

# Importance of ESG

Hong Kong is becoming the centre for ESG reporting. Businesses need to consider:

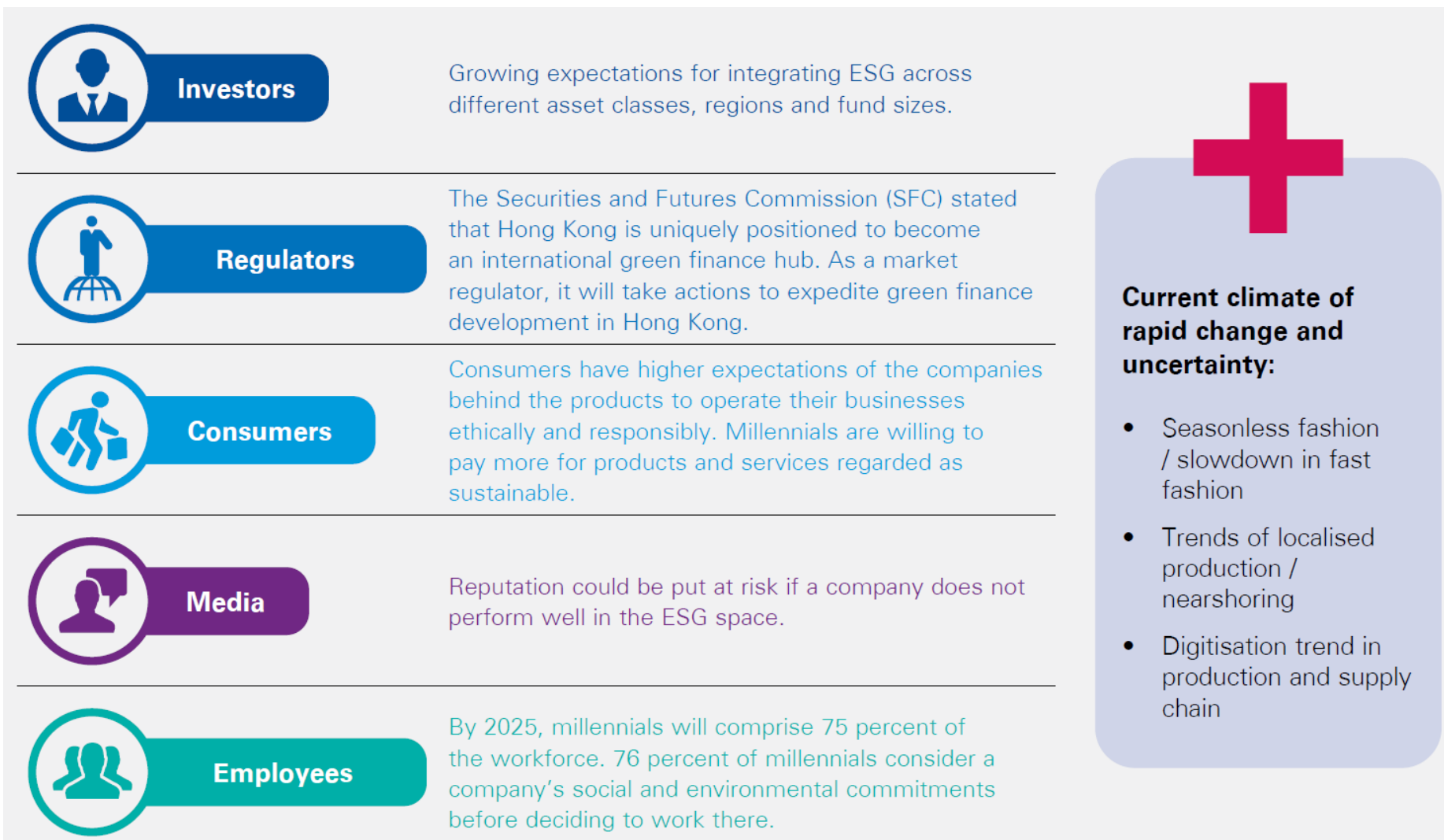
- Sustainable finance
- Investors looking at ESG
- Consumers looking at ESG



Source: KPMG Survey, *Future Hong Kong 2030*



# Drivers towards sustainability resilience





# Consumers and the new reality

**COVID-19 pulse survey**

**Wave 5 update**

September 2020

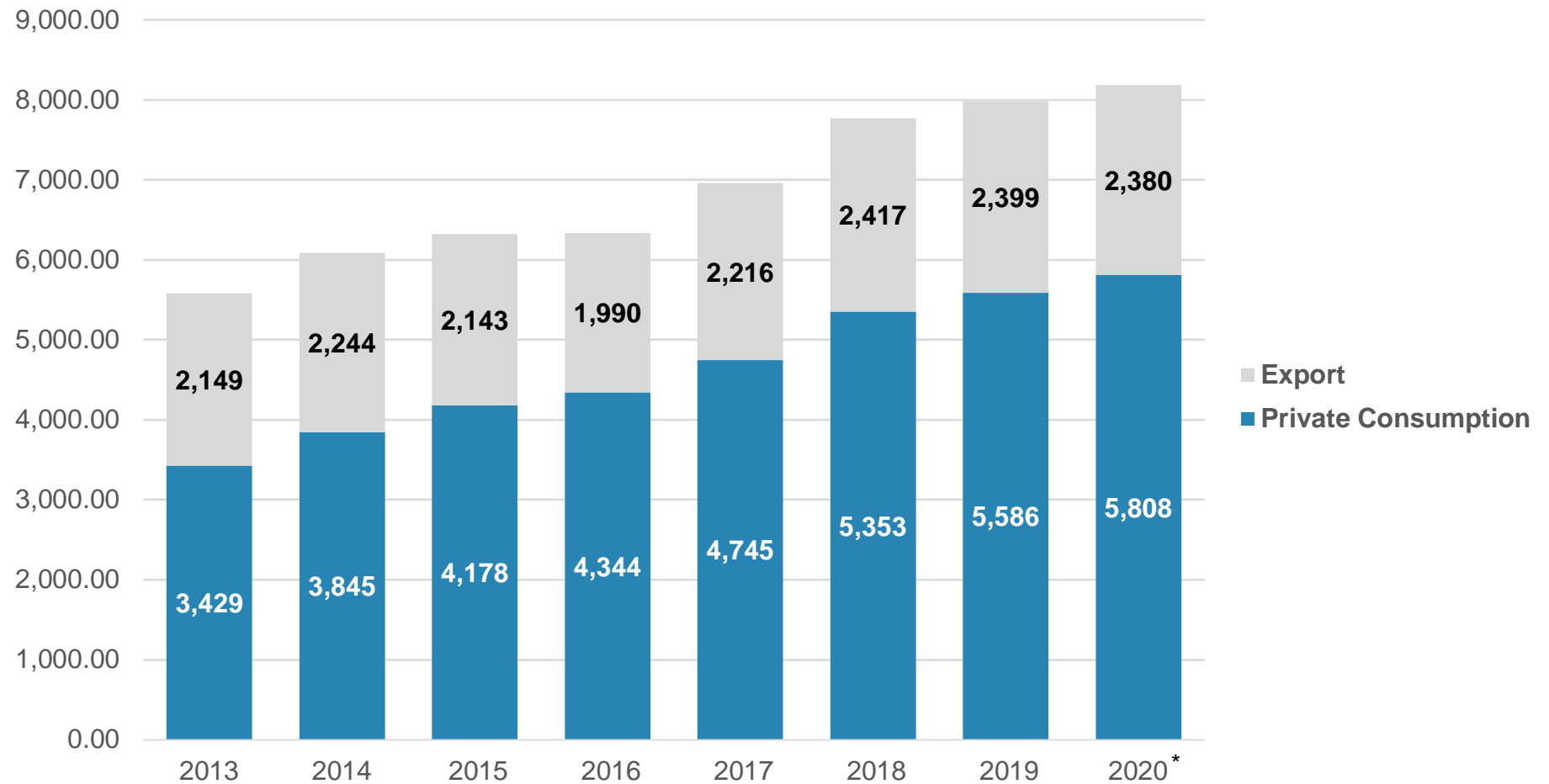


[kpmg.com/cn](https://kpmg.com/cn)



# Where is China heading?

China Private Consumption vs Exports (US\$bn)



\*Forecasts

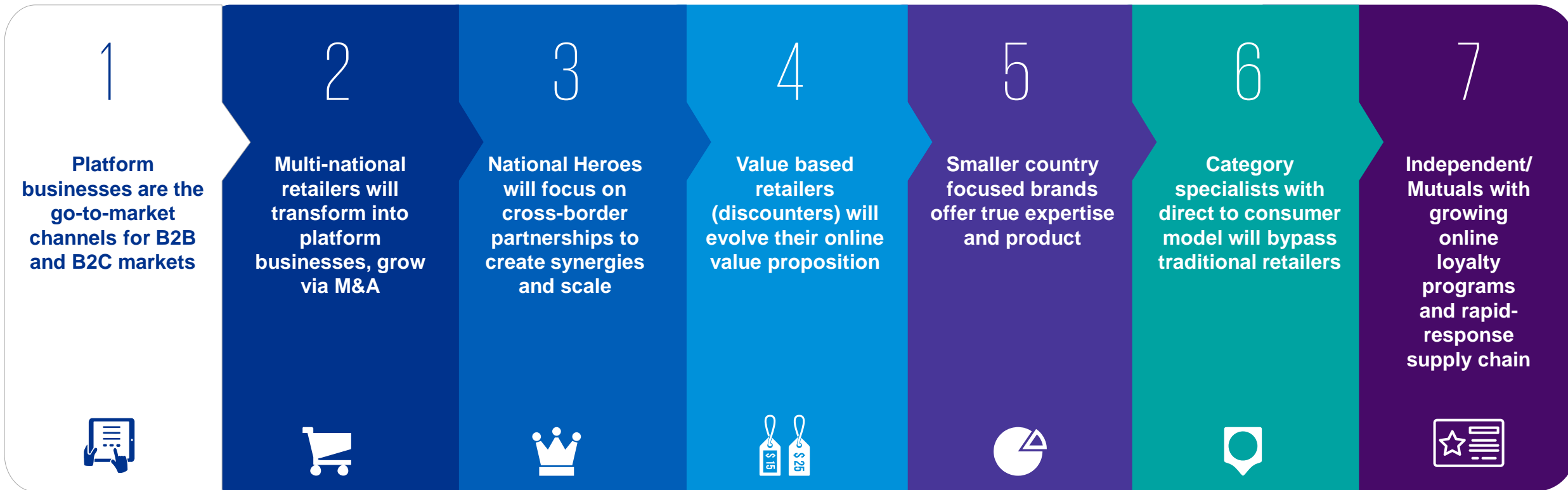
The Economist



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# ~~Retail~~ Welcome to Consumer Commerce

The word 'retail' is likely to become redundant and will be replaced by 'consumer commerce'; seven type of business models will emerge as winners going forward:





# In Conclusion

## Emerging Technologies

like AI  
+Blockchain +3D  
+virtual tech will  
**impact**  
global supply  
chains

Rise of  
**purpose** led  
businesses with a  
greater focus on  
**ESG+**  
**sustainability**  
with HK well placed  
to be the centre for  
professional  
services

Seeing a “shifting  
focus” to Chinese  
+ASEAN markets  
with the **speed**  
**of change** of  
more digitally  
minded consumers  
in this ‘new normal’

**Innovation** will  
be critical in the  
future and we must  
upskill with Digital  
+AI +Data at the  
core to create a  
**future ready**  
**workforce**

You must follow  
consumers on their  
journey! Get ready for  
increased transparency!  
We really need to study  
those **changing**  
**consumer**  
**behaviours**  
with Covid-19  
**accelerating Digital!**



# Thank you



**Anson Bailey**

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