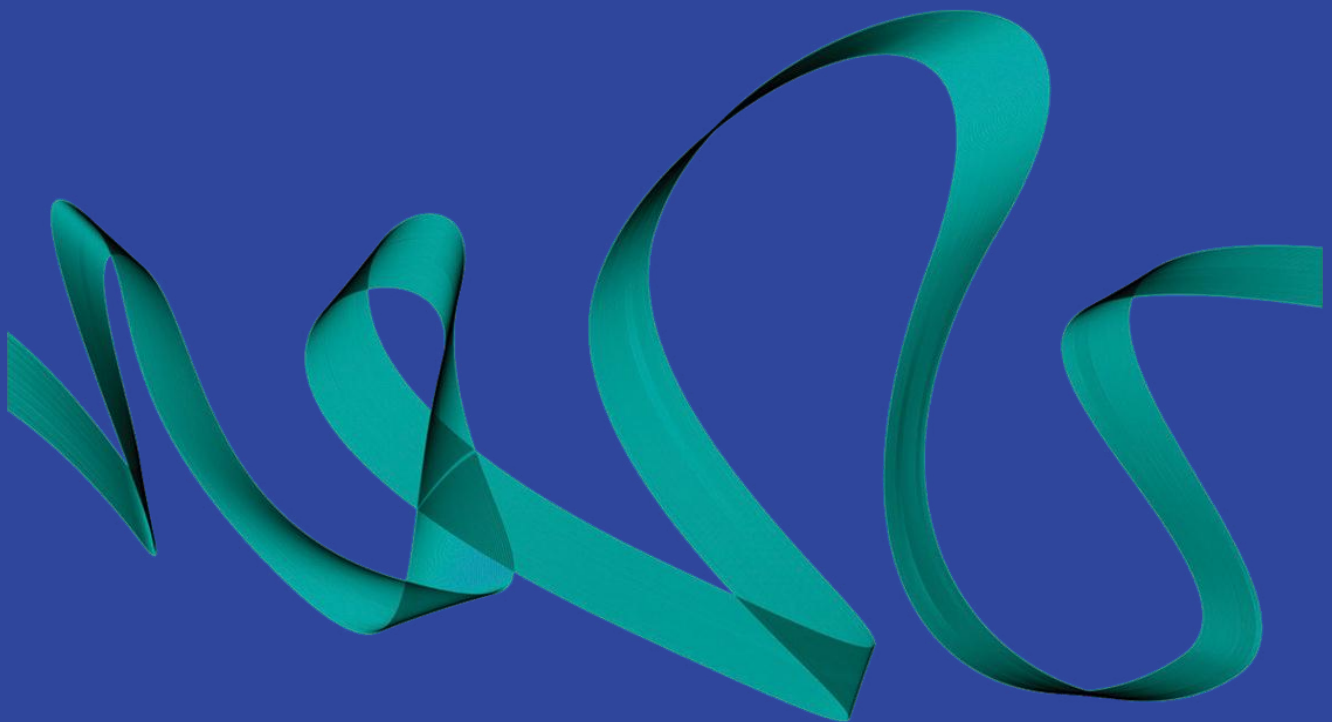




Connected Hong Kong SMEs

How Hong Kong small businesses are growing in the digital economy

February 2014



Ipsos Business Consulting
Build • Compete • Grow

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CONTACT US • • • • •

- Jody Cheng
Manager, Business Consulting Hong Kong
Email: jody.cheng@ipsos.com
- Carina Frianeza
Business Analyst, Business Consulting Hong Kong
Email: carina.frianeza@ipsos.com

Highlights

The online world presents massive business opportunities for small and medium-sized enterprises (SMEs) in Hong Kong and holds the potential for a broader economy-wide transformation.

The report provides an insight into the role of digital strategies in Hong Kong's small and medium-sized enterprises (SMEs), which accounted for over 98% of the total business units and around 47% of private sector employment in Hong Kong in 2013. They contributed approximately HK\$ 1,021 billion to the economy, or over 50% of Hong Kong's GDP, in 2012. A survey of 311 Hong Kong SMEs, undertaken by Ipsos Hong Kong Limited, measured their digital engagement level, i.e. how they use the internet, such as business emails, simple informative websites, business webpages on social networks, or digital marketing to attract customers.

High digitally engaged SMEs, i.e. those making full use of the internet, are more likely to enjoy better business outcomes, have better growth prospects, create more job opportunities and have more diversified sources of revenue.

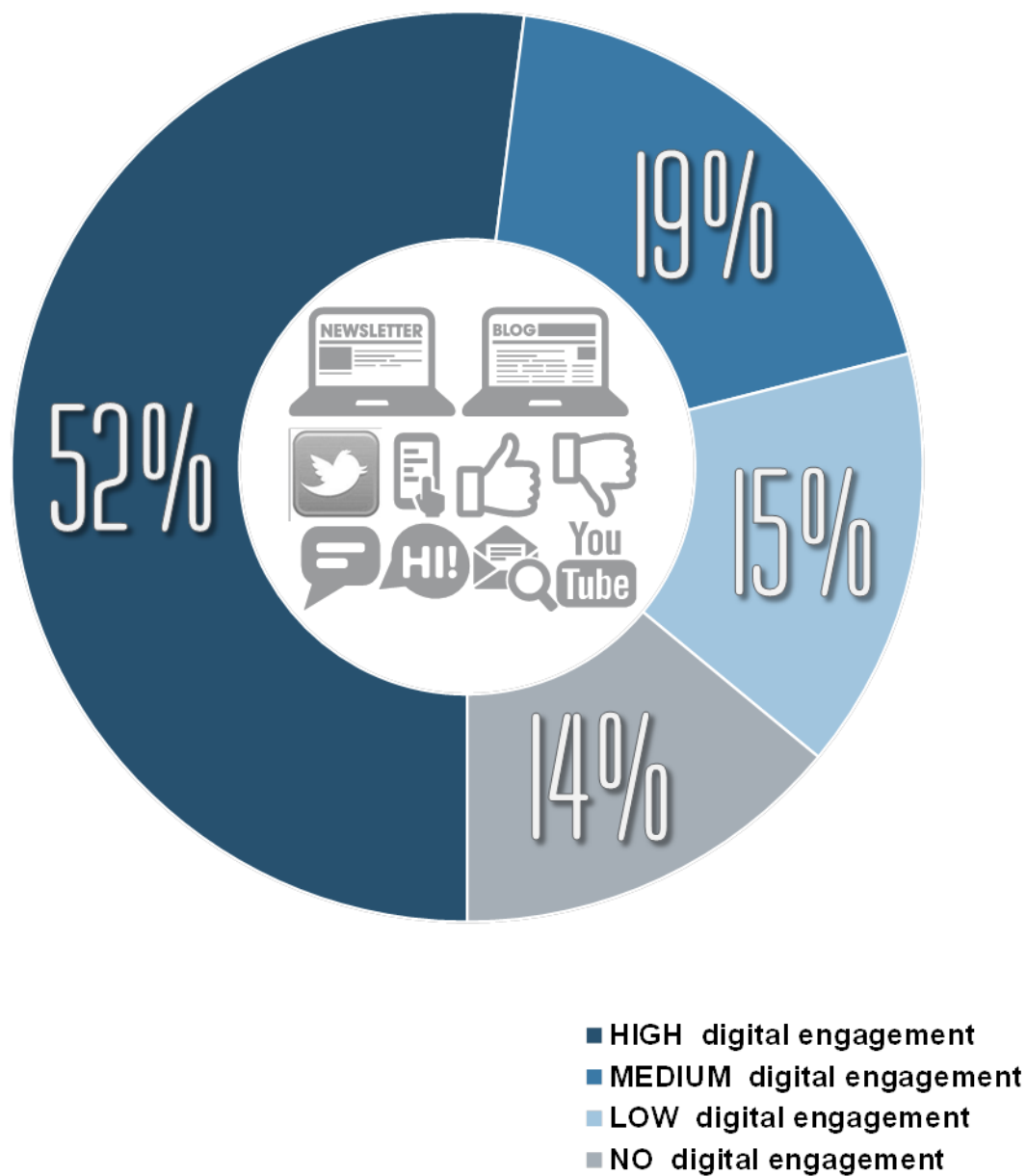
High digitally engaged SMEs are:

- About 2.9 times more likely to have business growth;
 - Likely to gain around 15% more in revenue growth;
 - Likely to gain around 24% more in revenue per employee;
 - About 3.3 times more likely to have hired more staff;
 - More likely to hire around 50% more new staff;
 - About 3.2 times more likely to diversify income from new international markets; and
 - About 1.4 times more likely to diversify income from new products or services,
- compared with not digitally engaged SMEs.

Facing an increasing trend in online spending and fierce business competitions, digital engagement is a low-hanging fruit for SMEs to grasp the market opportunities and to enhance competitiveness. SMEs that are not digitally engaged should be aware of the importance and value of the internet, while low and medium digitally engaged SMEs should place efforts in moving up their digital engagement level. For high digitally engaged SMEs, they are encouraged to develop more sophisticated digital marketing strategies.

The report concludes that digital engagement is undoubtedly bringing substantial benefits to businesses. In a fast-changing digital environment, businesses need to develop an active digital strategy to maintain an edge over their competitors. This could be done by setting out an appropriate roadmap based on current organisational readiness, with the end goal of adopting the most sophisticated online marketing practices.

Digital Engagement of Hong Kong SMEs



Source: Ipsos HK survey results

Digital engagement measures how businesses use the internet, such as having a business email, simple informative website, business webpage on social networks, or digital marketing to attract customers.

Introduction

Understanding how small and medium-sized businesses can effectively use digital technologies to facilitate their growth will have positive implications for the Hong Kong economy.

Objective and Project Scope

Google commissioned Ipsos Business Consulting to provide an analysis of the relationship between business growth and digital engagement for Hong Kong small and medium enterprises (SMEs). The Hong Kong SAR Government defines SMEs as manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees. Hong Kong SMEs are significant contributors to the Hong Kong economy. They accounted for over 98% of the total business units and provided job opportunities to over 1.2 million people (around 47% of private sector employment) as at September 2013 (HKSAR Government, 2013).

Furthermore, Hong Kong SMEs contributed over 50% of Hong Kong's GDP (Hong Kong Commercial Daily, 2014), accounting for approximately HK\$ 1,021 billion in 2012 (Censtatd, Hong Kong Monthly Digest of Statistics, 2013).

Data for this report is gathered from a survey undertaken by Ipsos Hong Kong Limited. A sample of 311 Hong Kong SMEs was surveyed on their use of the internet. The survey was conducted through computer-assisted telephone interviewing (CATI) technique with target respondents that are working in a company with less than 50 employees and are the main decision makers or key influencers of marketing related issues. Furthermore, 5 in-depth interviews were conducted with high digitally engaged SMEs to obtain their views on digital engagement.

The survey was focused on SMEs mainly from the import/export trade & wholesale (about 48%), retail (about 20%), restaurants (about 11%), professional & business services (about 9%), and social & personal services (about 4%) industries.

Digital Engagement

The digital engagement level of a business is in general defined as the use of digital tools and channels, such as websites and social networks, for marketing and connecting with customers. The report has classified digital engagement into 4 levels: no, low, medium and high.

Not digitally engaged SMEs are those with none or very limited use of the internet, or having a business email address only. **Low digitally engaged SMEs** have basic internet presence, for example, online

listing or social networking page, but they do not have their own website. They use very limited digital tools, such as email newsletters, to promote their businesses.

Medium digitally engaged SMEs are engaged in using digital tools. They have their own websites, engage in online marketing campaigns and use the internet as one of their sales channels. **High digitally engaged SMEs** have e-commerce capability to capture leads online, and actively uses online marketing tools, such as search engine marketing (SEM) and search engine optimisation (SEO).

The following table summarizes the four levels of digital engagement:

Digital Engagement Level	Digital Activities
No	<ul style="list-style-type: none">• None• Business email address
Low	<ul style="list-style-type: none">• Online listings or social networking pages• Email newsletters or electronic direct marketing (eDM)• E-coupons
Medium	<ul style="list-style-type: none">• Own website• Online marketing campaign through videos, online display advertisements or mobile advertisements on smartphones• Online market page for sales purposes
High	<ul style="list-style-type: none">• Own website• Online marketing campaign through videos, online display advertisements or mobile advertisements on smartphones• Online market page for sales purposes• Search engine marketing (SEM)• Search engine optimisation (SEO)

Table 1: Summary of digital engagement levels

Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

Business Growth and Revenue

SMEs with higher digital engagement have better business outcomes. High digitally engaged SMEs are about 2.9 times more likely to grow, gain around 15% more in revenue growth and 24% more in revenue per employee compared to not digitally engaged SMEs.

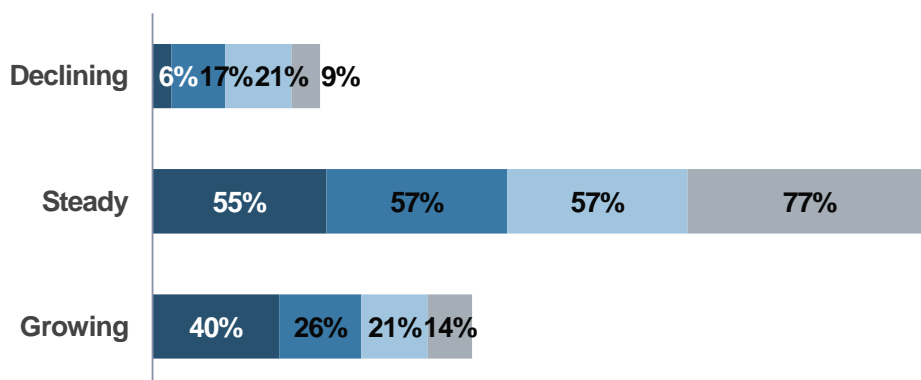
SMEs accounted for about 98% of total business units in Hong Kong. Their growth significantly contributes to Hong Kong's economic growth. The following section examines the effect of digital engagement on the business growth, revenue growth and revenue growth expectation of SMEs.

Business Growth

Business growth can be achieved by increasing revenue (i.e. increasing the top line of the business) or increasing profit by minimising costs (i.e. increasing the bottom line of the business), and it indicates an overall improvement of the business. Higher digitally engaged SMEs are more likely to achieve business growth. High digitally engaged SMEs are about 2.9 times, 1.9 times and 1.5 times more likely to be growing compared with not, low and medium digitally engaged SMEs. Only about 14% of not digitally engaged SMEs reported they are growing, versus about 40% of high digitally engaged SMEs.

Business Growth - proportion of digital engagement

■ HIGH ■ MEDIUM ■ LOW ■ NO



Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

Revenue Growth

Revenue growth is one of the factors affecting business growth. Around 69% of high digitally engaged SMEs reported their revenue in 2013 had increased from previous years¹, 25% for not digitally engaged SMEs. Furthermore, among the SMEs that reported an increase in revenue, high digitally engaged SMEs have gained around 15% more in revenue growth than not digitally engaged SMEs.

The Internet plays an important role in reducing costs and increasing productivity for small businesses. The Internet allows traditional companies to keep costs down, tap into a broader range of suppliers, optimise processes and become generally more productive. It has rejuvenated traditional sectors, impacted the entire value chain, and enabled a new wave of business models.

Research has shown that “web-savvy” SMEs brought in 2 times as much revenue through exports as a percent of total sales than other companies and created more than 2 times as many jobs (McKinsey Global Institute, 2011). There is a significant and measurable performance advantage for those organizations that have a highly developed or mature approach to digital transformation. These high-performing companies -- the ‘Digirati’ -- outperform their industry competitors on multiple financial metrics. They generate, on average, 9 percent more revenues through their existing assets; outperform their peers by 26 percent in terms of profitability; and achieve significantly higher (12 percent) market valuations (Capgemini Consulting, 2012). In our survey, it is revealed that a high digitally engaged SME with 25 employees would gain about HK\$ 5 million more in revenue as compared with a not digitally engaged SME with the same number of employees.

Revenue Growth Expectation

High digitally engaged SMEs in general have a better prospect on revenue growth. Survey results illustrate that SMEs with high digital engagement is 3.1 times, 1.3 times and 1.6 times more likely to expect an increase in revenue compare to not, low and medium digitally engaged SMEs respectively. Among the SMEs that reported an expected increase in revenue, high digitally engaged SMEs expect an approximate of 18% more in revenue growth than not digitally engaged SMEs. It is likely that high digitally engaged SMEs have already experienced a positive impact on revenue growth from engaging in digital activities. Therefore, they may expect a higher revenue growth in the coming year if they continue to engage in digital activities.

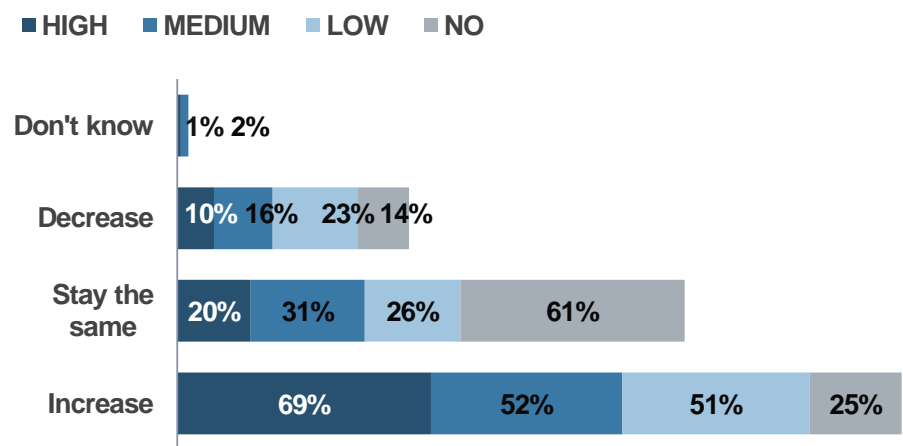
According to the CPA Australia Asia-Pacific Small Business Survey 2013, about 36% of Hong Kong SME respondents reported they expect to have business expansion or growth in 2014 (CPA Australia, 2013). In this study, high digitally engaged SMEs have a more positive outlook on business performance in the next 12 months, with about 62% of respondents reporting that they expect an increase in revenue.

It can be concluded that digital engagement has positive impacts on business growth, revenue growth and revenue growth expectation. Moreover, there is likely to be a two-way relationship between digital engagement and revenue: digital engagement helps businesses to generate revenue while businesses with more revenue have funds to invest in new digital strategies. This will create a virtuous cycle for SMEs that invest in new digital strategies.

Hong Kong is in transition to an innovation and knowledge-based economy. Growth in industries outside the dominant finance and real estate sectors is becoming more important for overall growth of the Hong Kong economy. The relationship between high digital engagement and growth is not limited to certain industries or business sizes, indicating that digital engagement is linked to growth across the spectrum of business size and industry.

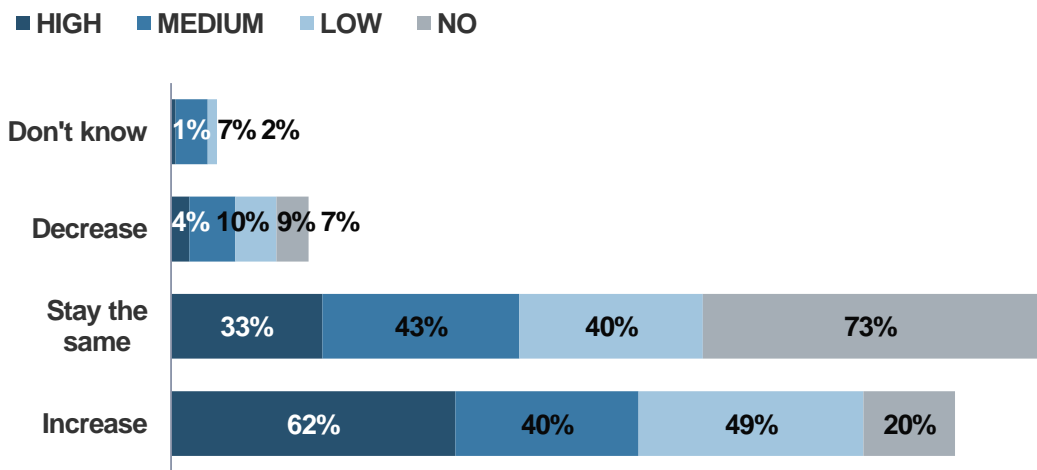
¹ Survey questionnaire asked businesses established for 3 years or above to compare revenue with 3 years ago, businesses established for more than 1 year but less than 3 years to compare revenue with 12 months ago, and businesses established for less than 1 year to compare revenue since the business started.

Growth in Revenue compared to previous - proportion of digital engagement level



Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

Expected Change in Revenue - proportion of digital engagement level



Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

Jobs

SMEs with higher digital engagement create more jobs. High digitally engaged SMEs are about 3.3 times more likely to create more job opportunities than not digitally engaged SMEs.

Hong Kong SMEs in total employed over 1.2 million people, equivalent to about 47% of private sector employment in Hong Kong. In particular, the import/export, wholesale and retail trades industry accounted for more than 25% (about HK\$ 513 billion) of Hong Kong GDP in 2012 (Censtatd, Hong Kong Monthly Digest of Statistics, 2013) and Hong Kong SMEs employed over 70% of total employment in the import/export, wholesale and retail trades industry (TID, 2013). Therefore, they play an important role in driving the Hong Kong employment market.

SMEs with higher digital engagement level were more likely to report that they have more staff now than in previous years². High digitally engaged SMEs were about 3.3 times, 2.4 times and 1.7 times more likely to have increased the number of staff as compared with not, low and medium digitally engaged SMEs respectively.

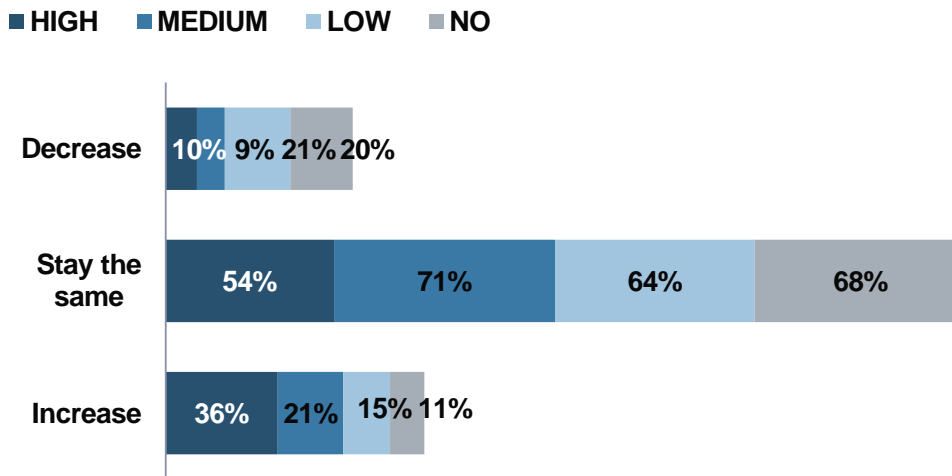
Among the SMEs that reported a growth in employment, high digitally engaged SMEs reported that they have hired about 50% more new staff compared with not digitally engaged SMEs. This implies that higher digitally engaged SMEs enjoy higher business growth and are more likely to have hired more staff for business expansion.

The labour market condition in Hong Kong was relatively decent in 2013 as the latest unemployment rate was about 3.3% for the period from July to September 2013 (Censtatd, Latest Statistics for Labour, 2013). Although the majority of SMEs reported that maintaining the current company size is one of their business objectives for the coming year, it is observed that high digitally engaged SMEs are significantly more confident in business outlook and are more likely to expand their businesses by hiring more staff. A plausible reason is that they hire more staff as they have gained extra revenue and have the ability to expand. Around 22% of high digitally engaged SMEs reported that they expect to hire more staff in the coming 12 months, compared with around 11% for not digitally engaged SMEs.

Furthermore, among the SMEs that reported an expected growth in employment, high digitally engaged SMEs reported they would hire 3.8 times more new staff compared with not digitally engaged SMEs, which further confirms that high digitally engaged SMEs are more confident in the business outlook in the coming year.

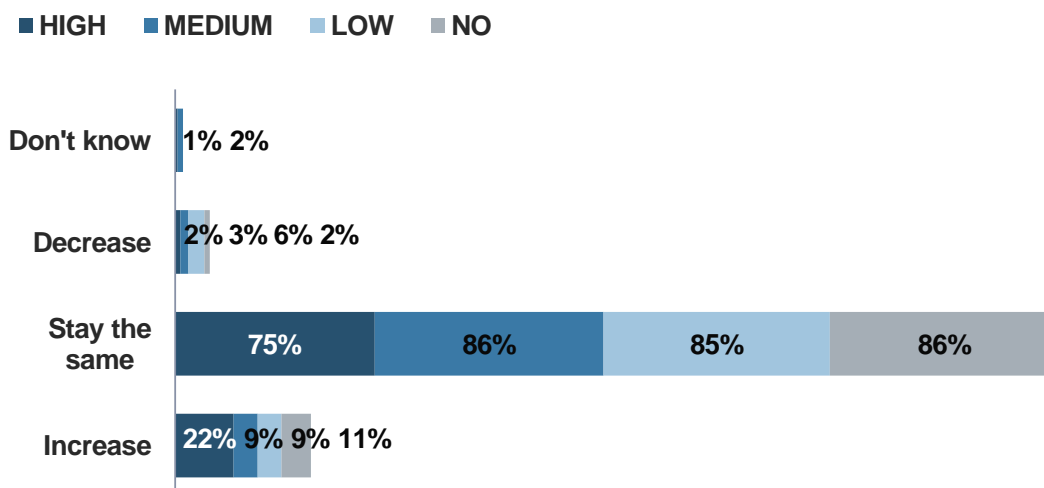
² Survey questionnaire asked businesses established for 3 years or above to compare employment with 3 years ago, businesses established for more than 1 year but less than 3 years to compare employment with 12 months ago, and businesses established for less than 1 year to compare employment since the business started.

Growth in Employment compared to previous - proportion of digital engagement level



Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

Expected Growth in Employment - proportion of digital engagement level



Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

Revenue Diversification and Business Improvement

High digitally engaged SMEs have more diversified sources of revenue to enhance business growth and sustainability.

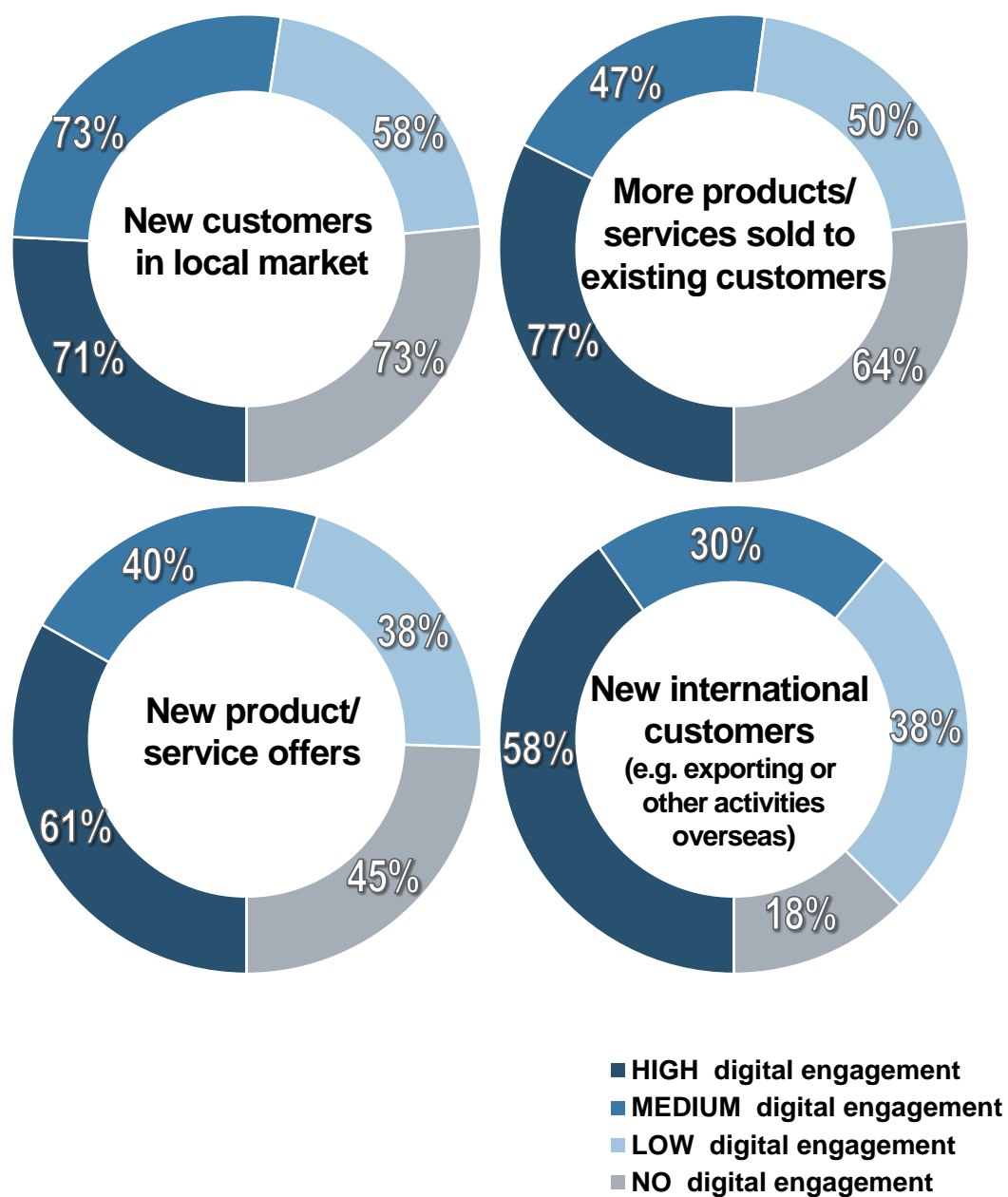
Revenue Diversification

One of the long term impacts to the business development of high digitally engaged SMEs is revenue diversification, i.e. diversify the sources of revenue. Revenue diversification is important to SMEs in two respects. Firstly, it enhances business growth through selling more existing products or services to customers, enlarging their customer base and selling newly developed products or services. Secondly, it mitigates business risks as businesses that operate in multiple markets or sell multiple products are more likely to be sustained compared with those that operate in only one market or sell one single product when facing changes in business environment. Moreover, diversification in different markets and customer base helps build domain expertise across different sectors, which is important for business growth and risk mitigation.

High digitally engaged SMEs are found to be more diversified in their sources of revenue growth as compared to other levels of digitally engaged SMEs. One important difference is that high digitally engaged SMEs are more likely to gain revenue from new international markets. Over half (around 58%) of high digitally engaged SMEs reported that their revenue growth was from new international customers (e.g. from exporting or other overseas activities), versus approximately 18%, 38% and 30% for not, low and medium digitally engaged SMEs respectively. As the internet has no geographical boundaries, it significantly helps SMEs to tap into the new local or international markets for revenue diversification.

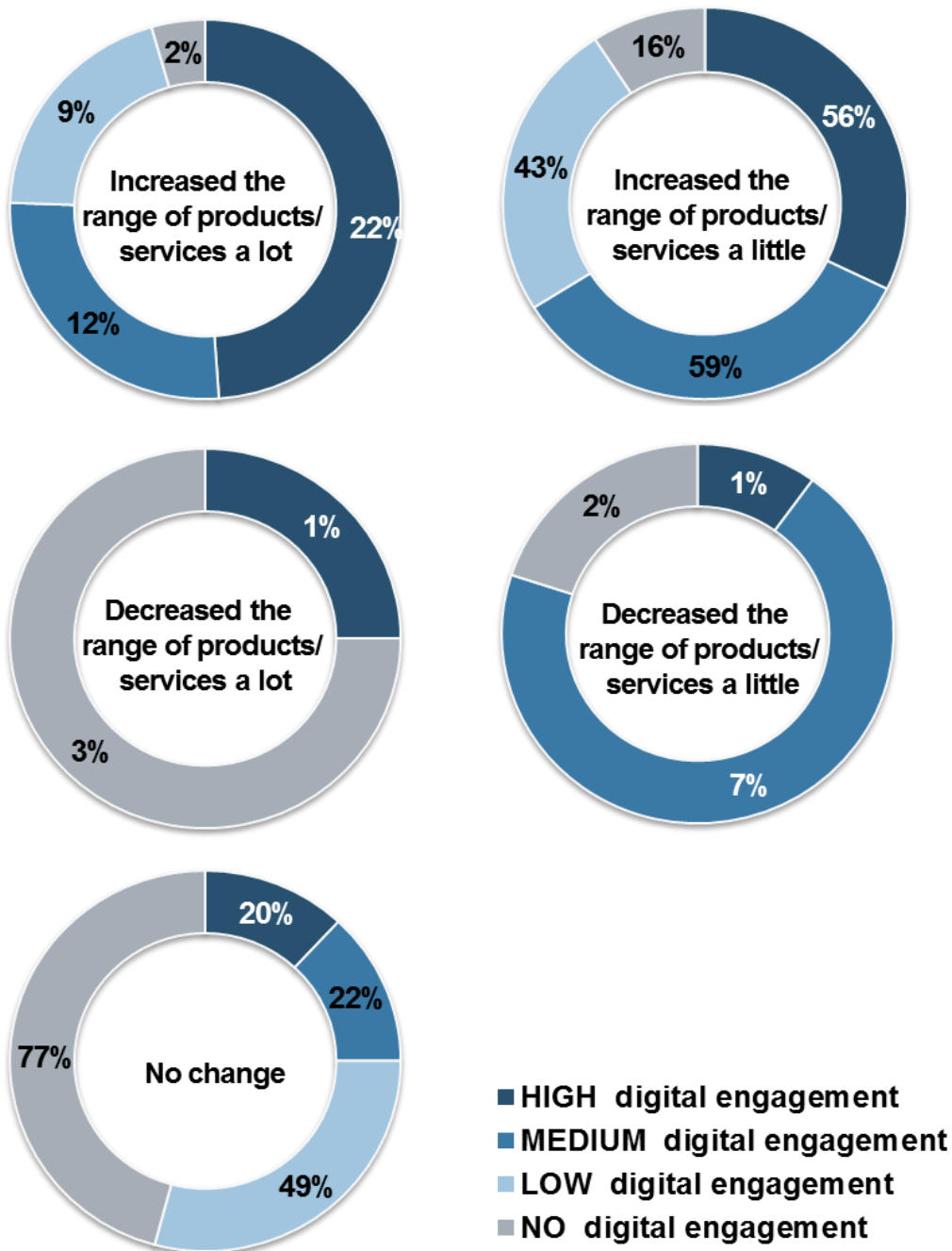
Another difference is that high digitally engaged SMEs are more likely to have more products or services sold to existing customers. Around 77% of high digitally engaged SMEs reported that their revenue growth was from selling more products or services to existing customers, relatively higher than the other levels of digitally engaged SMEs. This may imply that high digitally engaged SMEs have more sales channels to boost sales and more efficient sales transactions methods to facilitate sales.

Sources of Revenue Growth - proportion of digital engagement level



Source: Ipsos Business Consulting analysis based on Ipsos HK survey result

Impact of Internet to range of product/service - proportion of digital engagement level



Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

Increase Range of Products or Services

High digitally engaged SMEs tend to be more innovative as they are more likely to have new product or service offering for revenue diversification. Approximately 61% of high digitally engaged SMEs reported that one of their revenue sources is from new products or services, versus approximately 45%, 38% and 40% for not, low and medium digitally engaged SMEs respectively. Furthermore, the internet helps SMEs to increase their range of products or services. Over 70% of high and medium digitally engaged SMEs reported that the internet increased their range of products or services, compared to around 18% and 52% for not and low digitally engaged SMEs.

SMEs equipped with interactive functions on their websites or social networking pages, such as discussion forums, are likely to be more innovative and creative (Wirtz, 2010). This is because through direct interaction with end-users, SMEs are able to gain first-hand information from customers and

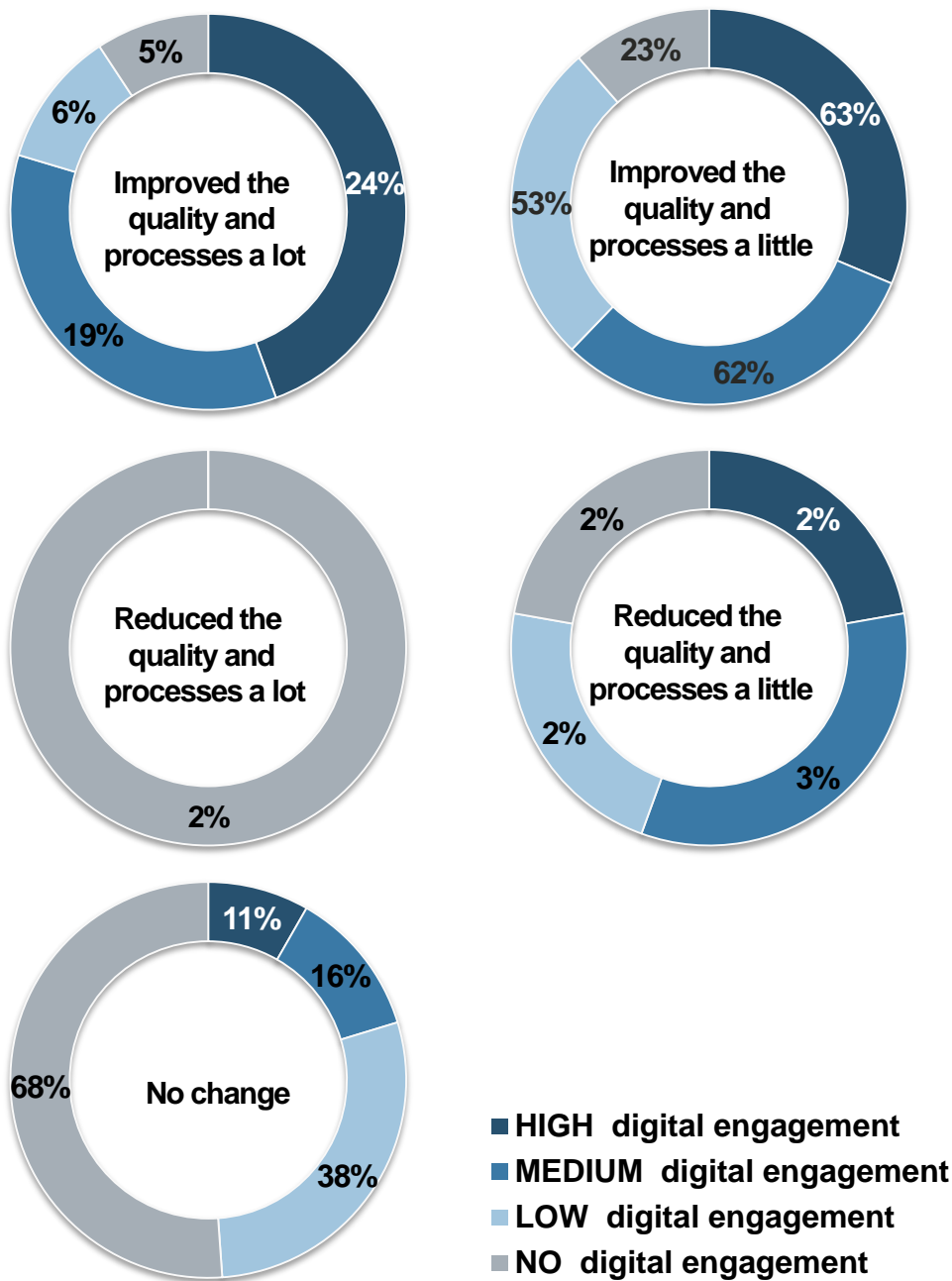
develop more suitable products or services according to customers' requirements. New ideas on products or services can also be obtained through these platforms.

Improve Quality or Processes

The internet can improve the quality or processes of SMEs. Over 80% of medium and high digitally engaged SMEs agreed that the internet improves their quality or processes, versus less than 30% for not digitally engaged SMEs. When not digitally engaged SMEs move up one level to low digital engagement, the chance of improving quality or processes is doubled. Hence, a small improvement in digital engagement (as simple as setting up a social webpage) can lead to a significant improvement.

Previous sections have explained and provided evidence of the benefits of digital engagement to SMEs. The following sections will explore the external factors as to why SMEs should implement digital strategies and how they should scale up their digital engagement levels.

Improvement of quality/processes by Internet -
proportion of digital engagement level



Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

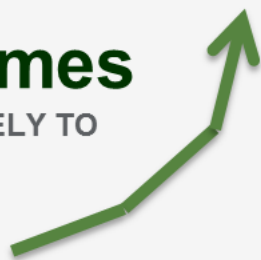
Benefits of Digital Engagement for SME



Business Growth

2.9 times

MORE LIKELY TO INCREASE



Employment Growth

3.3 times

MORE LIKELY TO HIRE MORE STAFF



50%

MORE NEW STAFF



Revenue Growth

15%

MORE IN REVENUE GROWTH



24%

MORE IN REVENUE PER EMPLOYEE



Revenue

Diversification

3.2 times

MORE LIKELY TO DIVERSE REVENUE FROM NEW INTERNATIONAL MARKET



1.4 times

MORE LIKELY TO DIVERSE REVENUE FROM NEW PRODUCTS/SERVICES



Note: The above figures are based on a comparison between high and not digitally engaged SMEs.

Scaling Up the Digital Engagement Level

For small businesses with no digital engagement there is significant low hanging fruit which can increase competitiveness and business growth.

Around 14% of surveyed SMEs are not digitally engaged and undoubtedly they need to be convinced of the importance of the internet. On the other hand, work has to be done to encourage low and medium digitally engaged SMEs to increase their digital engagement in order to enjoy more benefits.

The previous sections reveal that the increase in business growth, revenue growth (actual and expected), and employment growth (actual and expected) of low and medium digitally engaged SMEs are not significantly different. Table 2 shows a comparison of the figures.

This suggests that moving up from the low to medium digital engagement level may not lead to significant extra benefits of being digitally engaged. Therefore, for low digitally engaged SMEs, they should aim to reach the high digital engagement level.

For medium digitally engaged SMEs, continuous effort and resources must be placed to close the gap with high digitally engaged SMEs.

Online platforms are the most common channels for marketing, advertising and communications with customers for high digitally engaged SMEs (around 80%). Among them, they on average spend around 68% of their total marketing, advertising and promotion spends and about 70% of their time on online channels. High digitally engaged SMEs place significant resources on digital marketing and hence increasing spending on advertising is necessary for SMEs to scale up their digital engagement level.

Digital engagement includes a wide range of digital activities. These digital activities are clustered and classified into 3 categories to help SMEs to easily identify their gaps in digital engagement.

The 3 categories are:

- Digital presence;
- Use of the internet; and
- Use of digital marketing.

Indicators	Not	Low	Medium	High
Increase in business growth	14%	21%	26%	40%
Increase in revenue growth	25%	51%	52%	69%
Increase in expected revenue growth	20%	49%	40%	62%
Increase in employment growth	11%	15%	21%	36%
Increase in expected employment growth	11%	9%	9%	22%

Table 2: Comparison of indicators

Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

The level of digital engagement

		No	Low	Medium	High
Digital presence	A business email address	●	●	●	●
	A website			●	●
	A presence on social networks		●	●	●
Use of the internet	To communicate internally	●	●	●	●
	To market or advertise the business	●	●	●	●
	To reach new customers in existing markets	●	●	●	●
	To reach new customers in local market	●	●	●	●
Use of digital marketing	Search engine marketing (paid search ads)			●	●
	Search engine optimisation			●	●
	Display advertising online			●	●

Key:

- – Less than 1/3 of SMEs
- – More than 1/3 and less than 2/3 of SMEs
- – More than 2/3 of SMEs

Table 3: The level of digital engagement

Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

Table 3 shows the classified digital activities and the number of SMEs engaged in the digital activities, which help SMEs identify their gaps with higher digitally engaged SMEs. Hong Kong SMEs in general utilise the internet for different business purposes (with at least more than 1/3 of SMEs at each digital engagement level using the internet). For not and low digitally engaged SMEs, making an initial step to increase the digital presence of their business is important. Setting up a website or social media presence is enough to significantly increase

their business prospects. For medium digitally engaged SMEs, they can increase the level of digital engagement by enhancing the use of digital marketing, such as SEM and SEO.

In addition, findings suggest that more than 2/3 of surveyed SMEs with high digital engagement implement all digital activities as mentioned. For them, there are areas for further development, such as utilising social network, display advertising, SEM and SEO.

Box 1: What are Search Engine Marketing (SEM) and Search Engine Optimisation (SEO)?

Search engine marketing (SEM) and search engine optimisation (SEO) are the two most widely used digital marketing strategies by small businesses.

SEM is paid advertising that actively promotes a website on a search engine result page, generally known as 'pay per click' advertising. SEO is the process of improving a website's ranking on a search engine results page. This is achieved by understanding how search engines work and what people are searching for, and adjusting or changing the content of a website to improve a website's ranking

By actively promoting or ranking a website, higher SEM and SEO encourage a greater number of visitors to a website. When used in conjunction with data analytics, they offer businesses the potential to greatly increase their understanding of the market.

It is likely that SEM and SEO will be increasingly important for small businesses to maintain competitiveness and to ensure their long-term survival.

Why Digital Engagement is Important to SMEs

Facing an uncertain economic outlook, digital engagement is important for SMEs to enhance their competitiveness and sustain their businesses.

Digital Engagement Will Increase in Importance

Digital engagement is expected to increase in importance for SMEs. The majority of medium and high digitally engaged SMEs (around 63% and 71% respectively) perceived an increase in the importance of digital engagement in the next 12 months. Possible reasons are that medium and high digitally engaged SMEs may have experienced the positive impact of digital engagement on their business growth and they are aware that digital engagement is a growing trend. In contrast, the majority of not and low digitally engaged SMEs (around 77% and 60% respectively) thought that the importance of digital engagement will remain unchanged in the next 12 months.

Hong Kong SMEs are relatively advanced in terms of digital engagement as more than half of them (around 52%) are high digitally engaged. Although some SMEs do not establish digital strategies because they do not value the importance of the internet; or they may feel their business nature do not need digital as a medium of marketing and promotion, SMEs should be aware that digital engagement is a growing trend and understand why SMEs should engage in digital strategies.

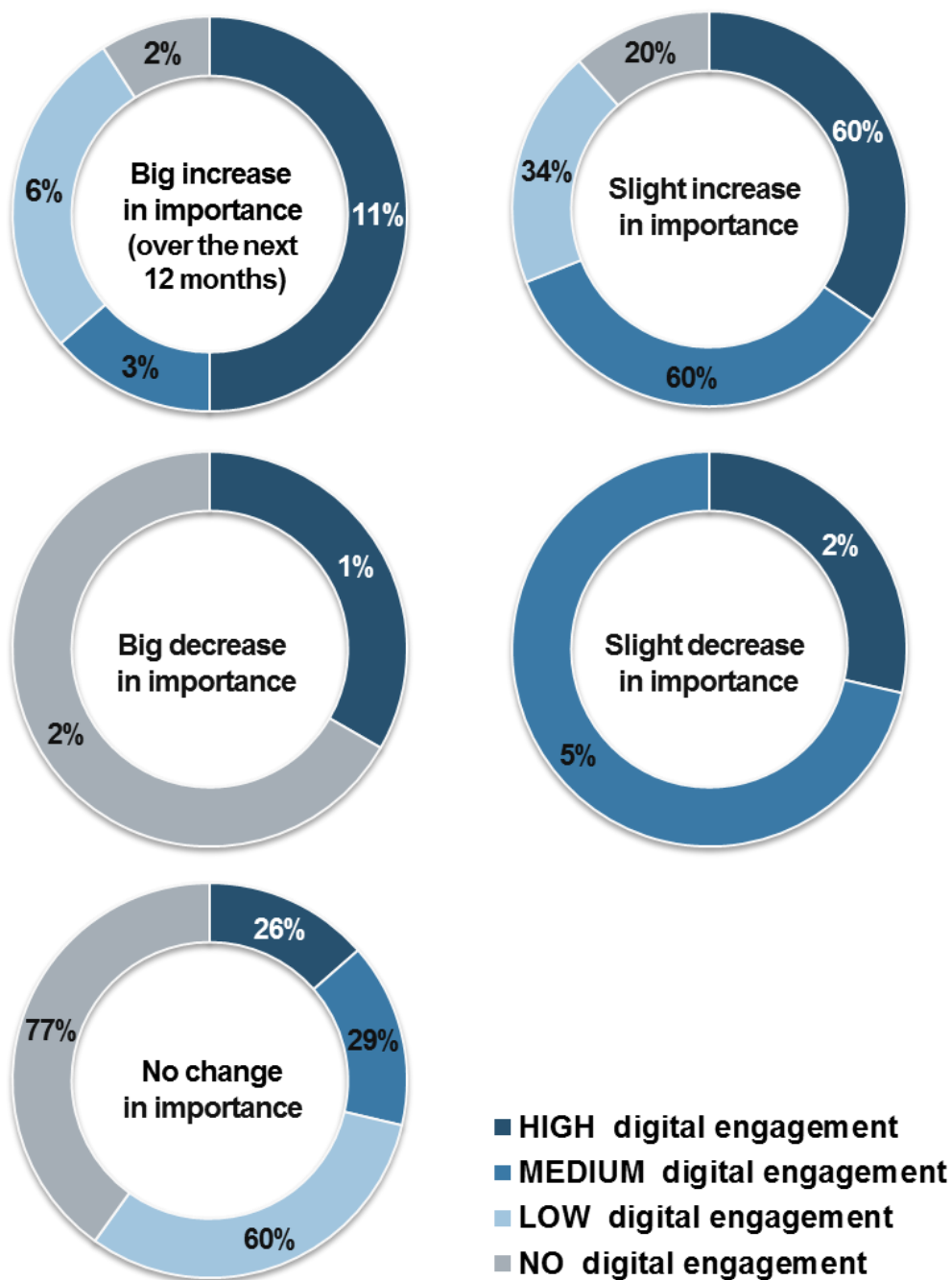
Dominance of the Service Sector in the Hong Kong Economy

The services-related economic activities³ in Hong Kong generated around 93% of Hong Kong's GDP in 2011 (Censtatd, Hong Kong Monthly Digest of Statistics, 2013). As a service economy, the majority of businesses require direct contact with and quick response to customers and clients when delivering goods and services. Therefore, businesses should place emphases on providing excellent customer services and creating unique customer experiences. The internet can help businesses connect instantly with current and potential customers through interactive digital activities such as discussions on social networking pages; and break the geographical barrier to reach overseas customers.

Moreover, an increasing number of consumers utilises the internet to research prices and reviews on products and services online before actual purchase. For example, around 96% of Hong Kong online shoppers browse the internet before making a purchase (MasterCard, 2012). Therefore, it is important for SMEs to provide detailed and accurate information on products and services online to attract consumers and maintain their competitiveness.

³ Services-related economic activities includes import/export, wholesale and retail trades; accommodation and food services; transportation, storage, postal and courier services; information and communications; financing and insurance; real estates, professional and business services; public administration, social and personal services; and ownership of premises (Censtatd, Hong Kong Monthly Digest of Statistics, 2013).

Digital will increase in importance - proportion of digital engagement level



Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

Advantages in IT Infrastructure and Internet Network Coverage

Hong Kong is one of the best cities in terms of telecommunication and internet service. The broadband penetration rate of household in Hong Kong reached around 84% in July 2013, one of the highest in the world (OFCA, 2013). About 2.25 million registered customers are using fixed broadband services as at June 2013, with speed up to 1,000 Mbps (Megabits per second). Hong Kong also has the highest average peak internet connection speed (at 63.6Mbps) in the world according to the State of the Internet, 1st Quarter, 2013 (Akamai, 2013).

High broadband penetration rate of household implies that there is a vast number of potential customers over the internet. Digital presence (such as having a website or social networking page) provides a platform to promote products and services to these potential customers. High broadband speed creates better web-browsing experience as more photos and videos can be viewed in a smooth and stable network.

In addition, Hong Kong is relatively advanced in IT infrastructure development. The HKSAR government is actively promoting the use of cloud computing in SMEs (Legislative Council, 2013). Cloud computing allows businesses to facilitate their workflow, such as replacing manual work with software systems, and reducing costs for SMEs to set up IT infrastructure as it usually requires large capital investment. As a result, more resources can be placed on developing other business areas and operational efficiency can be enhanced to boost their competitiveness.

Hong Kong SMEs can leverage the advantages of Hong Kong in IT infrastructure and internet network coverage to scale up their digital engagement level.

Increasing Trend in Online Spending

Online spending has become a growing trend due to the popularity of the internet, development of electronic payment systems and mature logistics and delivery support. Hong Kong internet users are increasingly spending more online. A MasterCard survey found that around 66.4% of Hong Kong respondents have spent online in 2012, increasing from 57.9% in 2011 (Innovation, 2013). In addition, the size of the online retail market in Hong Kong reached US\$ 1.9 billion in 2011 and is expected to reach US\$ 2.5 billion by 2015 (ADMA, 2012).

Besides the Hong Kong market, the National 12th Five-Year Plan emphasises domestic demand expansion in Mainland China and hence it provides massive business opportunities to Hong Kong SMEs which are eyeing the Mainland China market. In particular, the number of online shoppers and online transactions has been growing tremendously in Mainland China. As at December 2012, the number of internet users in Mainland China was approximately 564 million. Among them, around 42.9% (approximately 242 million) were internet shoppers (CNNIC, 2013). Moreover, Mainland Chinese online shoppers spent about RMB 1.3 trillion (equivalent to about US\$ 213 billion) in 2012 (Bloomberg Businessweek, 2013) and is growing about 5 times faster than the United States (Reuters, 2013).

Currently, among the survey respondents that own an online store or website with sales function, an average of about 22% and 38% of sales for medium and high digitally engaged SMEs respectively was generated from online platforms. Facing the increasing online spending demand from Hong Kong and the Mainland China market, it is expected that sales generated from online platforms will increase. In order to grasp these massive business opportunities, Hong Kong SMEs need to scale up their digital engagement level, especially in developing an online sales store or website.

Increasing Trend in Adopting Mobile Applications

Besides having high broadband penetration, Hong Kong has one of the highest mobile subscriber penetration rates in the world, reaching around 233.2% in July 2013. Among the mobile subscribers, over 67% are 2.5G and 3G/4G mobile subscribers, i.e. with internet usage on their mobile devices (OFCA, 2013).

There is a strong potential in developing mobile shopping market in Hong Kong as a high number of users can access the internet through mobile phones.

Currently, among the survey respondents, around 29% and 16% of medium and high digitally engaged SMEs respectively have online marketing campaigns through mobile advertisements on smartphones. A Symantec survey discovered that about 84% of Hong Kong enterprises are considering adopting mobile application to market and promote their businesses (Enterprise Innovation, 2012). Moreover, around 25% of high digitally engaged SMEs reported they have the intention to develop mobile advertisements on smartphones in the next 12 months. This further proves that the use of mobile is increasing in importance.

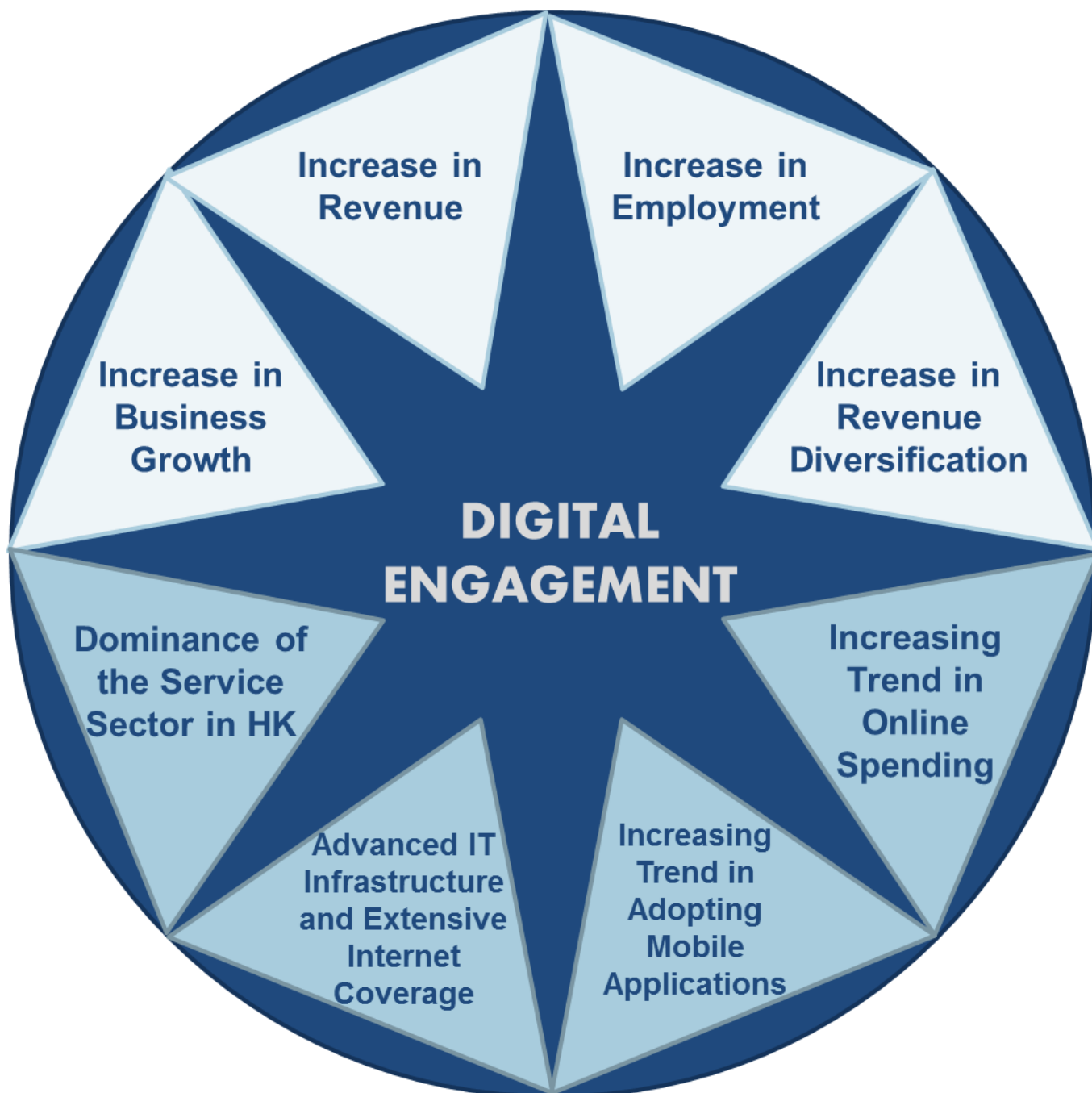
Digital Engagement is a Low-hanging Fruit for SMEs

The major reasons for not having strong digital presence for not or low digitally engaged SMEs are costs associated with development and maintenance (around 43% and 51% for not and low digitally engaged SMEs respectively) and failure to see any need or benefit for digital presence (around 59% and 30% for not and low digitally engaged SMEs respectively).

The previous sections have shown that digital engagement indeed facilitates business growth, revenue growth and diversification and employment growth. It also helps to increase the range of products and services offering and to improve the quality and processes. In a competitive and globalising business environment, pursuing a digital strategy is essential to maintaining competitiveness and to grasping the massive business opportunities in the online world. Digital engagement is a low-hanging fruit for SMEs. Investing in digital strategies is very likely to bring significant benefits over time as it sustains the business by tapping into growing markets and improving the business model in face of the change in business environment.

Why Scale Up Digital Engagement Level?

Potential Benefits



External Factors

Key Action Steps

Hong Kong SMEs need to integrate their digital strategies with their business model in order to set out their roadmap.

Business Goals of Different Levels of Digitally Engaged SMEs

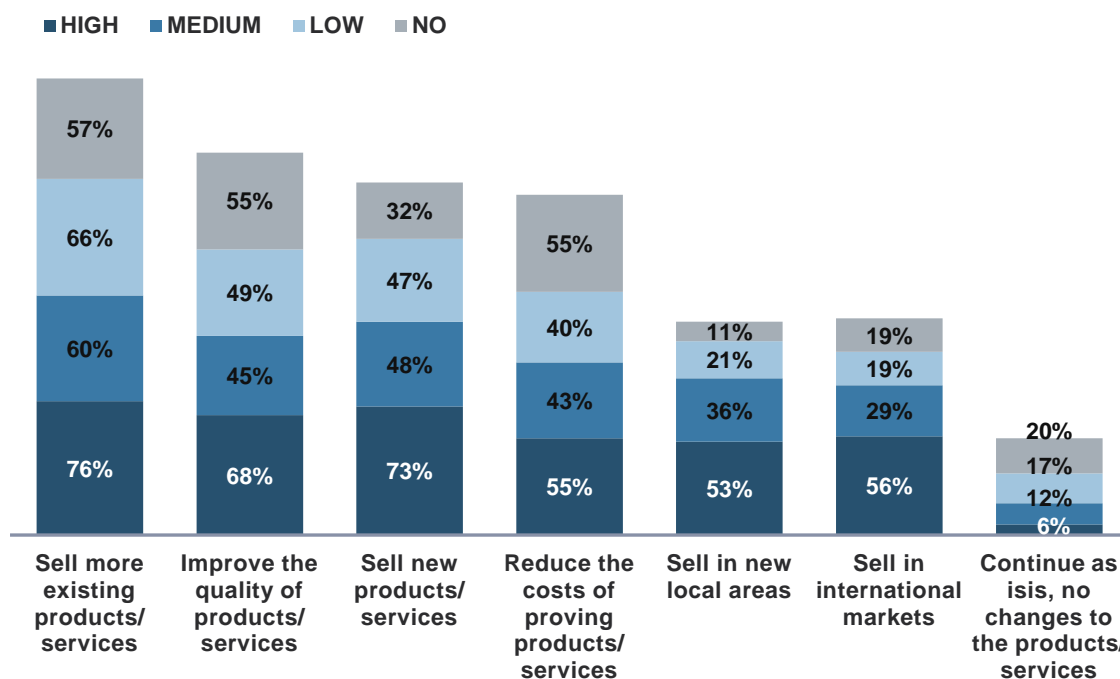
Business goals of SMEs at different digital engagement levels vary. High digitally engaged SMEs have more diversified business goals as compared with not to medium digitally engaged SMEs.

The following shows the significant differences in business goals of high digitally engaged SMEs compared with others:

- Sell in international markets (around 56% for high versus an average of about 22% for not to medium);
- Sell new products or services (around 73% for high versus an average of about 42% for not to medium); and
- Sell in new local areas (around 53% for high versus an average of about 22% for not to medium).

The above further confirms that SMEs with high digital engagement level have more ability to reach new markets and customers

Business goals in the next 12 months - proportion of digital engagement level



Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

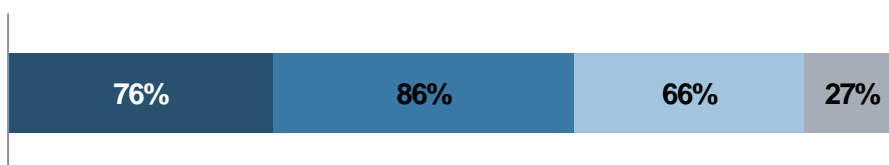
How to Start Moving Up the Digital Engagement Level?

A majority of SMEs reported that they have intention in digital set-up in the next 12 months.

In a rapidly changing digital environment, SMEs have to consider their priorities and business goals when planning their digital strategies. Setting out a roadmap integrated with business objectives is recommended for SMEs.

Digital set-up intention in the next 12 months

■ HIGH ■ MEDIUM ■ LOW ■ NO



Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

Among the respondents that showed interest in digital set-up, the following table shows the most common digital set-up chosen by SMEs at different digital engagement levels:

Digital Engagement Level	Common Digital Set-up Intention in the next 12 months
No	A business page on a social networking site or blog (such as Facebook, Twitter, LinkedIn) [around 9% of not digitally engaged SMEs]
Low	A website [around 30% of low digitally engaged SMEs]
Medium	An online marketing campaign to attract customers or generate sales leads by video [around 16% of medium digitally engaged SMEs]
High	Search Engine Optimisation (to help the website rank higher on natural search engine) [around 28% of high digitally engaged SMEs]

Table 4: Common digital set-up intention in the next 12 months
Source: Ipsos Business Consulting analysis based on Ipsos HK survey results

For not digitally engaged SMEs, the first step is to increase their awareness of the importance and benefits of adopting digital strategies. The following are some commonly accepted marketing methods to help not digitally engaged SMEs to understand digital engagement:

1. Introduction of online marketing products on related pages on the Internet;
2. Product brochures/ sharing of case studies; and
3. Offline one-on-one enquiry.

Secondly, start to increase digital presence by setting up a business page on social networking sites as this is one of the cost effective digital marketing strategies. Not digitally engaged SMEs may then consider setting up a business website after they are familiar with managing a business page.

For low digitally engaged SMEs, as they already have minimal digital presence, setting up a business website would strengthen their brand image as they can deliver their brand messages directly to customers through the design, layout and information of the website. Furthermore, setting up an online market page (such as eBay, Taobao, Alibaba and HKTDC) for generating sales is also recommended for low digitally engaged SMEs as the cost is relatively low.

For medium digitally engaged SMEs, they are experienced in implementing digital activities. Yet there is a further need to scale up their digital engagement level in order to obtain more benefits. One of the common digital set-ups chosen by medium digitally engaged SMEs is online

marketing campaigns through videos. Medium digitally engaged SMEs can leverage the advantages of high broadband speed and high mobile subscriber penetration rate in Hong Kong to promote their products and services with creative and memorable videos. In addition, they are encouraged to develop more sophisticated digital marketing strategies, such as SEM and SEO.

High digitally engaged SMEs are very experienced in setting out their digital strategies. As previous sections suggest, development areas for high digitally engaged SMEs include utilising social network, displaying advertising online and developing SEM and SEO.

In conclusion, digital engagement is undoubtedly bringing substantial benefits to businesses. In a fast-changing digital environment, businesses need to develop an active digital strategy to maintain an edge over their competitors. This could be done by setting out an appropriate roadmap based on current organisational readiness, with the end goal of adopting the most sophisticated online marketing practices.

Appendix

Background of Ipsos Business Consulting of Ipsos Hong Kong Limited

Founded in Paris, France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, Ipsos SA acquired Synovate Ltd. in Oct. 2011. After the combination, Ipsos becomes the third largest research company in the world which employs approximately 16,000 personnel worldwide across 85 countries. Ipsos conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence.

Ipsos Business Consulting (BC), a division of Ipsos Hong Kong Limited, is the strategic business unit that assists clients globally to enter, evolve and expand in emerging and developed markets through fact based market analysis. Areas of specialisation of BC include market opportunity assessment, competitive analysis, new product development, distribution channel and value chain analysis, market entry strategy, and

partner diligence. BC has been assisting more than 3,800 projects with their growth strategies from industries, including but not limited to automotive, banking, finance and insurance, food and agribusiness, government & non-profit, healthcare, industrial & machinery, infocommunications technology, media & entertainment, petrochemicals & chemicals, professional services, retail & consumer goods, travel & logistics, etc.

Key Contact

For further information relating to this report, please contact Jody Cheng of Ipsos Business Consulting (Hong Kong), at jody.cheng@ipsos.com, +852 2839 0676 or Carina Frianeza of Ipsos Business Consulting (Hong Kong), at carina.frianeza@ipsos.com, +852 2837 8234.

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