

Plenary Session 2

Delivering New World Order for Online Shopping

Moderator: Fox Chu – Partner, Mckinsey & Company
Panel Speakers

Cissy Chan – Executive Director, Commercial, Airport Authority Hong Kong

James Gagne – President, SEKO Logistics

Katsuhiko Umetsu – Director and Chairman, Yamato Global Logistics Japan Co. Ltd

James Chang – Group Chief Crossborder Officer, Lazada Group

Online shopping is booming, with Asia in the vanguard. What does this mean for conventional retail businesses with their bricks-and-mortar stores, and for the logistics industry which must adapt to new patterns of consumption?

The plenary session on online shopping at the Supply-chain Management & Logistics Forum sought to address these issues and more with a distinguished panel of speakers.

Cissy Chan, Executive Director, Commercial, at the Airport Authority Hong Kong, cited the airport's recent launch of an on-line shop as an example of bricks-and-mortar stores starting to employ O2O (online to offline) strategies. Passengers can choose products from the airport's retailers, pay online before arriving at the airport, and then collect their purchases at a single collection counter instead of trailing from one shop to another. If purchases reach a certain threshold, delivery is free.

Chan also noted the impact of e-commerce on the airport's wider operations. The world's biggest cargo airport for seven years in a row, in the first 10 months of 2017 Hong Kong International Airport (HKIA) has recorded a 9.9 per cent increase in airfreight by volume.

Half the world's population is within five hours' flying time of Hong Kong, making the HKIA an ideal location for a delivery base. The airport is developing a modern logistics centre close to the air cargo terminals, and the Airport Authority is working with Hongkong Post on a plan to expand the airport's airmail centre. Chan noted that due to the boom in online shopping, airmail volume at the HKIA has been growing consistently and is up almost 30 per cent this year.

Consumers, meanwhile, are consuming more but conforming less. James Gagne, President of SEKO Logistics, suggested using the term "demand chain" rather than supply chain, where the consumer makes the choice in an increasingly digital and smart world. "Today and tomorrow's consumer selectively digests content and advertisements from myriad sources, whether the internet or social media, television, mobile, or even going to a billboard and flashing their cellphone and using beacon technology to get a pop-up which they take straight to the check-out aisle," he said. "They are buying that product without even going into the store".

Katsuhiko Umetsu, Director and Chairman of Yamato Global Logistics, spoke of the role of e-commerce in future food supply and security. Of four billion parcel transactions in Japan last year, Yamato handled 1.8 billion. Eleven per cent of those were ambient, chilled and frozen foods.

Umetsu predicted that the next e-commerce wave will be the cross-border delivery of perishable items. “By 2030 there will be 8.5 billion people on earth, but global food supplies will not catch up with the population growth. The global community must align to supply food,” he said, appealing to the logistics, technology and finance sectors to devise a common platform for ecommerce and logistics to meet the forthcoming supply challenge while maintaining and improving food safety and quality.

The Japanese government is working on a ‘geographical identity’ model, whereby as long as the Japanese agricultural goods’ producers’ inherent intellectual property is protected, actual production may be transferred to other countries. “Japanese rice could be harvested in Malaysia in five years’ time,” Umetsu thinks.

James Chang, Group Chief Crossborder Officer of the Lazada Group, also made an appeal for collaboration. Given the complexity and immaturity of e-commerce patterns, he said it is not possible for one company to have a full set of solutions to meet ever-changing consumer demand: “We need to collaborate, but collaboration is easier said than done.”

Lazada, the largest e-commerce logistics provider in Southeast Asia, is part of the Alibaba group. The diversity of the region makes it tremendously complex. “70-80 per cent of the consumer goods in an average household in Southeast Asia are manufactured overseas,” he said, noting that up to eight different handlers may be involved in a supply chain. Chang would like to build a platform to connect the different nodes of the supply chain, so that participants can create a common solution.

In response to concerns about maintaining customer service levels in the context of e-commerce where there may be no “touch point” between vendor and consumer, Gagne pointed to the increased use of customer satisfaction surveys carried out in the US at the point of delivery. He suggested the need for more effective ways of getting an “Uber-style rating of the delivery experience on the final mile – the most critical of the customer experience”. One possible option is for the act of delivery to trigger a pop-up on the customer’s mobile phone.

Policy matters loomed large in the panel’s answers to questions from the audience. Umetsu said the Japanese government is concerned about the financial and environmental cost of e-commerce-related deliveries. Around 22 per cent of Yamato’s deliveries are redeliveries: if a customer is not at home, the company will redeliver free of charge daily for 14 days. Ministries have suggested that a locker system may be preferable, although Umetsu prefers working more closely with the retailer – and perhaps the consumer – to reduce redelivery rates.

Finally a reminder that government actions can have a direct effect on the viability or otherwise of e-commerce transactions. Gagne noted the recent decision by the US to quadruple from US\$200 to US\$800 the *de minimis* amount — the value of goods an individual may bring in as a consumer import without having to pay import duty. This has had a significant impact on cross-border activity, but the positive effect could easily be offset by the introduction of an Internet or sales tax on cross-border transactions.