

## Market Insights

With over 20 years of experience servicing the APAC regional markets from Hong Kong, ConnectedGroup is well placed to combine this with its wide industry and functional exposure to provide market insights and intelligence. We have made a habit of supporting our clients with this form of information as well as connecting them with potential clients, partners and service providers that will support their development.

At the time of writing, Hong Kong remains a highly competitive Asian hub from which to develop a regional business platform. In the World Bank's annual 'Doing Business' report, Hong Kong has consistently appeared in the top 5 globally for 'Ease of Doing Business' since 2007. Hong Kong offers a low tax environment with a simple and transparent regulatory framework and an employment ordinance that is employer friendly.

One of the key success factors is Hong Kong's proximity to, and beneficial trade agreements with, mainland China due to its position as a Special Administrative Region. This enables organisations with ambitions to grow in China a lower risk and easier access starting point.

One major initiative is the drive towards greater commercial integration across the 'Greater Bay Area' comprised of; Hong Kong, Macau and the Southern Chinese regions in the Pearl River Delta. In particular, the combination of the financial and strategic strengths of Hong Kong with the technical and manufacturing know-how in Shenzhen are proving to be a powerful draw for businesses in the high-tech product space. In a fast growth market such as robotics for example, whilst the US has a dominant depth of talent in software development, the need to effectively integrate hardware and software at scale has already put Hong Kong on the map.

### How do we add value?

One of our key advantages is that we offer a high degree of accountability via senior members of our team who are also deeply involved in their respective markets. Our expertise and track record in each field enables a fast-turnaround and unparalleled commitment and transparency.

Beyond the transactional execution of a search we are able to bring value through:

- ▼ An understanding of cross-cultural needs and corporate cultural fit
- ▼ Advisory support and expectation management on compensation issues
- ▼ Advice on travel and taxation considerations
- ▼ 'Soft referencing' – understanding reputational standards of talent before moving into a formal referencing process

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## Case Study

### Hong Kong as a Sourcing Office Hub

As an example of how deep we run within an industry, what follows is a profile of one of our sectors and our work within it. Having operated in the sourcing and supply chain sector in Hong Kong and across the APAC region since 2005, ConnectedGroup is well positioned to provide insight into the key commercial drivers, barriers and talent landscape. Based on hundreds of talent searches and many more professional conversations, we have produced a guide to the advantages of a direct sourcing model.

As an overview of our recent track record in this field we have worked for:

- ▼ 3 of the top 5 German retailers
- ▼ 4 of the 5 top UK retailers
- ▼ 3 major Scandinavian retailers
- ▼ One of the top 3 French retailers
- ▼ 2 of the largest global trading firms (covering US and European clients)
- ▼ A major US discount retailer
- ▼ Multiple fashion/footwear brands (European & US markets)

The first question would be what are the driving factors to establish a direct sourcing strategy from Hong Kong. There are many elements to this decision but 3 of the most important ones that our clients and contacts discuss are as follows:

#### Margin Gains

- ▼ The primary reason for direct sourcing is to lower the cost of goods sold (COGS). Intake margins will be higher and retail prices can be more competitive as a result.

- ▼ From feedback from our network we identify that the initial move from a third party agent to direct sourcing will produce conservative gross savings of 8-10% for apparel and general merchandise and up to 20% for food and consumables.
- ▼ A correlation we have identified is that the smaller the organisation, the higher the % saved. This is mainly due to the headcount and resources required in the sourcing operation but a major retailer for example will of course save more financial terms through volume / scale.

#### Production & Quality Control

- ▼ A third-party agent will always want to maximise its profits – particularly when dealing directly with brand owners. This can come at the expensive of production deadlines, quality and the transparency through the sourcing process.



- ▼ By establishing a direct strategy, the sourcing team becomes a part of the overall business and therefore integrated into the corporate goals, values, processes, budgets, ways of working, social / ethical responsibilities, quality standards and so on. These will have a direct impact on consumer brand confidence and affinity.
- ▼ Reducing defect and return rates clearly creates financial efficiencies as well as greater brand equity so having ownership of the QA /QC process drives peace of mind. Quality horror stories can haunt brands many years after they are resolved.

#### CSR Issues

- ▼ In the last 10 years, but specifically post the Rana Plaza building collapse in 2013 in Bangladesh, social and environmental responsibility has become a much stronger focus for all product owners.
- ▼ Owning your own social / ethical expertise who are aligned with your values and working directly with third parties to ensure the best outcome for the brand is a significant risk management win. In today's world of more socially driven consumers, the cost of ending up in the press for the wrong reasons can be catastrophic.

To support our clients, and through thousands of candidate interviews, drawing on their experiences and reflections we have been able to identify a number of best practices and lessons learned that we can share:

- ▼ Establish the fundamentals first and lower COGS as a priority and then move into building efficiencies into the rest of the 'factory to shelf' process. Trying to achieve the ideal state from the beginning can lead to over-spend on resources and burn-out of the core team.
- ▼ If you are automating from a manual process, ensure that the manual process is operating efficiently and effectively first. Automating an inefficient process in the hope of streamlining the business usually just creates bigger problems for the future.
- ▼ From day 1, establish a culture of inclusion. It is imperative that the sourcing office is seen as an extension of the HQ business as opposed to an outsourced operation. Building a strong and positive relationship between the 2 operations from day 1 is a critical success factor and can be enabled through the following:
  - ▼ Appointing leadership with a deep understanding of the home market as well as Asia sourcing exposure



- Including a trip to HQ or key market operation for all staff as part of their induction program
  - Ensuring that the sourcing office is exposed to the corporate values in its early development through the above and also by visits from key HQ staff
- Be aware of potential disconnect between product affinity and sourcing and product development strategy. The key people in your sourcing office may not understand how your product/brand is positioned in its target markets. As examples:
  - We worked with a premium pet products supply company. In Hong Kong the retail pet market is made up of a large number of small/independent stores and so the sourcing team didn't deeply understand the product mix and portfolio structure that comes with a 'pet megastore' set-up. Sending those staff to visit the retail outlets was game-changing.
  - A fashion client was having major challenges with colour matching through its China operation. When they sent a colour specialist to work with the local team they identified a huge cultural and language disconnect that they were able to resolve and improve future results.
  - In most cases, the most effective strategy has been a blended approach, encompassing a direct sourcing operation and the best of key third party agents with clear standards and control mechanisms in place.

### Specific Project Examples

We supported a large UK retail group in establishing their direct sourcing operation from scratch between 2017 and 2018. Our remit

was to support the overseas leadership make the transition to Hong Kong and help execute the 1<sup>st</sup> layer of hiring to begin their build-out which they would then grow directly and organically. Our inputs included:

- Hiring 10 staff, mainly in merchandising and category management (plus some technical) across both hard and softlines
- Bringing a relatively unknown brand (in Hong Kong) to the market, evangelising the values and culture and establishing a foundation for the ongoing employment brand to build from
- Advising on employment ordinance issues and supporting the transition of the company's UK HR framework to Hong Kong
- At the client's request, sourcing a professional fitting mannequin that became a regular fixture in our office as it was wheeled in and out of video interview sessions as part of their assessment process

As an example of an ongoing account, we continue with a major European retailer who have been consistently growing their sourcing operations over a number of years. Our role has covered:

- Completing over 100 searches over the last 3 years for talent from merchandiser to senior leadership level across a range of functions including; sourcing, quality, CSR/sustainability, logistics, HR, finance, technology and professional support
- Deeply understanding their culture and demands to ensure targeted and efficient searches supported by an ongoing market mapping approach in their key product areas
- Providing regular updates and insights to the senior team on the talent and competitor landscape

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