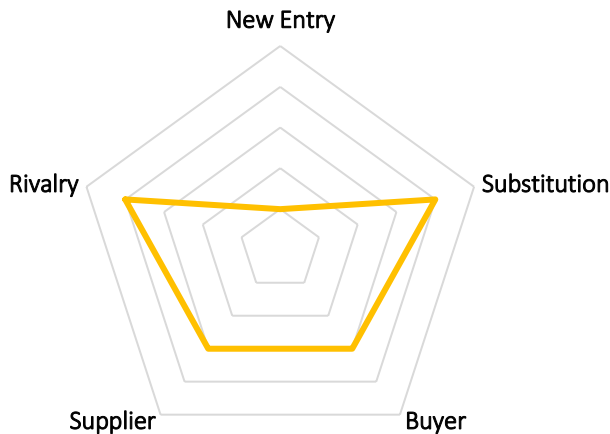


# HONG KONG



- Bargaining Power of Buyers: Moderate
- Bargaining Power of Suppliers: Moderate
- Threat of New Entry: Low
- Threat of Substitution: High
- Industry Rivalry: High

## PORTER'S FIVE FORCES

### Bargaining Power of Buyers

Overall, it is difficult for Hong Kong's buyers to bargain for the price or rewards of our client's products. Therefore, I give it a moderate score.

The total number of main retailers (have minimal 5 stores or minimal 3 mio € turnover) in Hong Kong is about 18, which is a relatively small number comparing to other countries. It seems that the bargain power of the buyers should be high. However, the top 1 company, Dairy Farm International Holdings, contains 8.2% of the market share, the top 5 contains 23.9% market share, and the top 10 contains 32.2% market share. In other words, the top 10 companies contain one third of the market, while other 8 main retailers and small retailers compete for the left two third of the market. Therefore, the difference in the power of the 18 main retailers is not large.

The sale of retailing is about 26.32% of the total consumer payment in 2017, with \$7383.64 sales per capita. And the sale is expected to be 29.74% of the total consumer payment in 2022, with \$8520.63 sales per capita, an increase of 15.40% comparing to that in 2017.

### Bargaining Power of Suppliers

Our team has determined that the suppliers for fintech companies compete on a global level rather than regional or national due to the nature of the industry, fully dependent on digital technology. Data base, tech and money support don't vary a lot in different suppliers. Product is not unique (Standardized products). Therefore, supplier power is fixed.

### Threat of New Entry

Overall, it is easy for new entrants to enter the market of Hong Kong. Therefore, I give it a low score.

The financial credit openness in Hong Kong is 1, and there is no specific legislation governing franchising operations, no foreign exchange controls, and no foreign equity participation or local management participation regulations. In other words, it is easy to set up a foreign franchise operation in Hong Kong and it is a free market with minimal government intervention.

The total consumer payment transaction is about HKD 1540.8 billion in 2018, and credit card transaction is about 630.3 billion (40.91%). People expect the total consumer payment transaction will increase to HKD 1752.2 billion, and credit card transaction is about 662.6 billion (37.82%). Although there is no store card. There exist co-branded cards. Among the top 35 retailing, hotel and airlines companies, 5 have co-branded cards. Among the 5, 2 are issued by the Industrial and Commercial Bank of China, one for retailing and one for airlines, which means there is opportunity for new Fintech companies.

Besides, Hong Kong is a gateway to seeking access to the mainland China, which makes it more popular in the foreign investment area.

In the world bank's starting a business ranking, Hong Kong is 5 among 190 countries.

### **Threat of Substitution**

Overall, the power of substitution is relatively low in Hong Kong. Therefore, I give it a high score.

In Hong Kong, the total consumer payment transaction is about HKD 1540.8 billion in 2018. Among the 1540.8 billion, 433.9 billion (28.16%) is electronic direct/ACH transactions, 314.7 billion (20.42%) is debit transaction, 82.3 billion (5.34%) is cash transactions. Therefore, the room left for the credit card and its similar product is large, which means the substitution threat is relatively low.

In the forecast, the total consumer payment transaction is about HKD 1752.2 billion in 2023. Among the 1752.2 billion, 671.8 billion (38.34%) is electronic direct/ACH transactions, 292.7 billion (16.70%) is debit transaction, 52.0 billion (2.97%) is cash transactions. Therefore, people in Hong Kong are much used to life without cash and cash related financial products, which means the potential market for credit related financial products is large.

### **Industry Rivalry**

Overall, the competition in fintech industry is moderate in Hong Kong and the room for develop is large. Therefore, I give it a high score.

In Hong Kong, the total number of fintech startup companies is about 130 in 2017, which seems smaller comparing to that of Germany. Additionally, the companies in Hong Kong's fintech ecosystem is over 550 companies, which is 4 times the amount fintech companies, suggesting the well development of financial infrastructure and fintech related or based companies. In addition, it has over 6 fintech accelerators, including the platform like sandbox, incubators, raised \$564 million VC investment in 2017, has unique status between the East and West in the area of Fintech and great government supporting among funds (HK\$500 million in next five years) and technology, which makes the speed and potential of the market quite large.

For potential market, there are no store cards now, but it does not mean the market is terrible. The similar product, co-branded cards are in the beginning stage, among the top 35 retailing, hotels and airlines companies, only 5 have co-branded cards. 2 cards are issued by Industrial and Commercial Bank of China, one for retailing and one for airlines. Therefore, the market has its potential size. Comparing with the credit cards, the top 5 can take up near 50% of the market, it is possible for companies to have monopoly power in the store card industry. In the world bank's easy of doing business ranking, Hong Kong is 4 among 190 countries.

## **IMPLICATIONS FOR SYNCHRONY**

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**Hong Kong** is another region that could be considering entering for Synchrony.

Firstly, people in Hong Kong are used to the card payments, and cash related payment only takes up less than 30% of the total consumer payment transactions. Therefore, the potential market is large, and it is easier for people to accept the financial product of Synchrony.

Secondly, fintech are in startup status with the amount of about 130 companies, great government funding and technology support, suggesting a large potential market. For the possible products, although there are no store cards, co-branded cards are at the beginning stages with few competitors. Among 35 top retailing, hotels and airlines companies, only 5 have co-branded cards, leave great room for Synchrony to develop and it is easier to doing business in Hong Kong (ranks 4 among 190 in the world bank report).

Last but not least, it is the gateway for foreign firms seeking access to the mainland China, due to the free flow of information and capital, world-class business infrastructure, no foreign equity participation or local management participation regulation and stable regulatory regime.

In summary, Hong Kong is a financial free region with high acceptance of new financial products and great potential market, which deserves to be invested.