

UOB Business Outlook Study 2023 (SME & Large Enterprises)



 Hong Kong Report



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Background and Methodology

UOB conducted a Business Outlook Study in **Hong Kong** covering **557 business owners and key executives** from **SMEs and Large Enterprises**.

This study provides a comprehensive understanding of the current business sentiments, inflation impact and outlook among businesses across various sectors in Hong Kong. The study also captures insights around key themes such as Sustainability, Digitalisation, Supply Chain Management and Overseas Expansion.

> What



15-minute online surveys



Total of 557 interviews



Data collection:
28 December 2022 - 20 January 2023

> Who



Businesses with revenue of HKD 100 million and above



Covers SMEs and Large Enterprises across key industry verticals



Owners/chief executive level/management level who are involved with business decision making

> Coverage

Industries	Sample
Consumer Goods	63
Professional Services	62
Tech, Media & Telecom	61
Manufacturing & Engineering	60
Business Services	60
Construction & Infrastructure	57
Real Estate/Hospitality	57
Wholesale Trade	56
Community & Personal	53
Industrials, Oil & Gas	28
Total	557

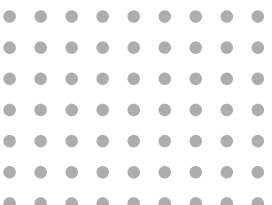
Business classification:

Medium Enterprises: Annual turnover HKD 100 million-<HKD 4 billion

Large Enterprises: Annual turnover HKD 4 billion and more



2. | Business Sentiments



> Business environment in 2022

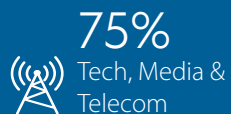


Business environment in Hong Kong was less positive than Mainland China.

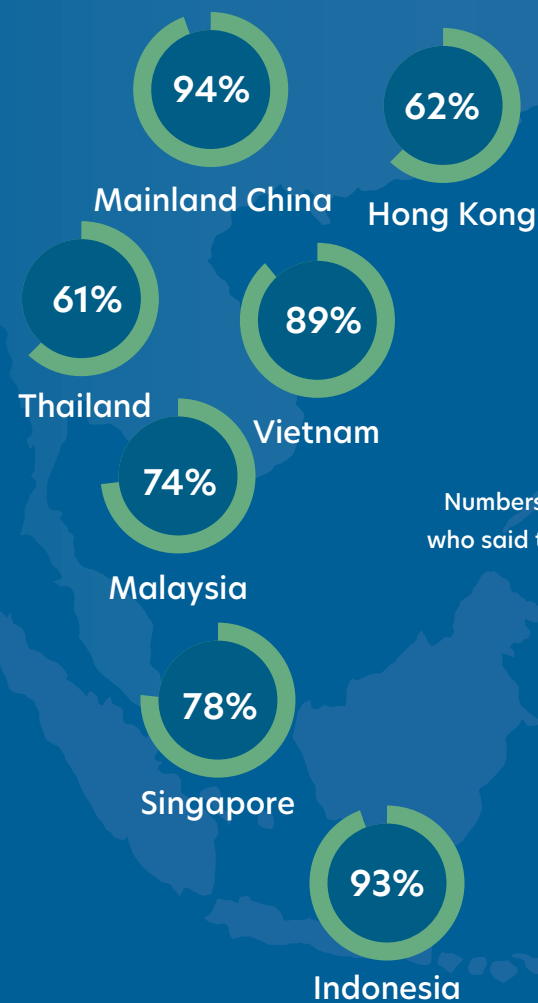


Over **6 in 10** businesses in Hong Kong said the business environment was positive in 2022.

Most positive sentiments (sectors)



Most positive sentiments (enterprises)



Numbers represent percentage of businesses who said the current environment is somewhat or very positive in 2022

Increased revenue in 2022 has contributed to the positive sentiment among businesses

> Revenue improvement in 2022 vs 2021

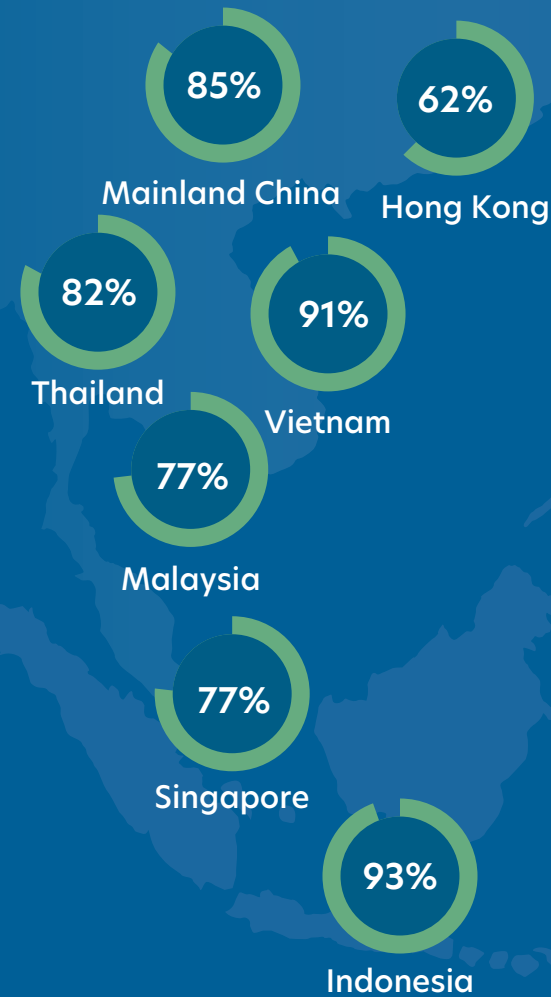
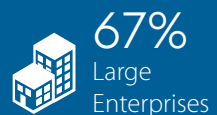


Fewer businesses in Hong Kong have seen a revenue growth in 2022 than in Mainland China.

Most revenue growth (sectors)



Most revenue growth (enterprises)

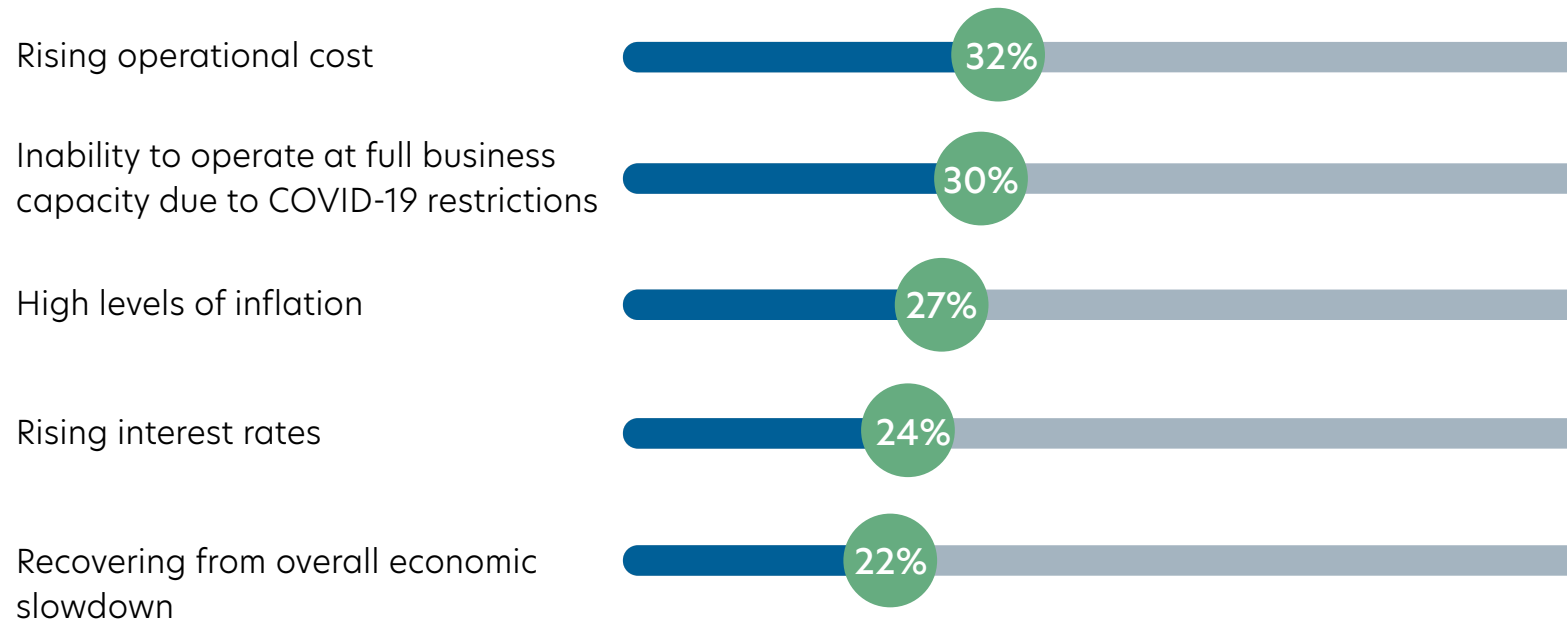


Q) How has your company's revenue changed in 2022 as compared with 2021? Base: Total (557)

The positive business sentiment is in spite of macro factors like rising operational costs and inability to operate at full business capacity due to COVID-19 restrictions



> Macro factors impacting businesses



Q) Which of the factors below had the biggest impact on your business in 2022? Select up to 5. Base: Total (557)

These macro factors have led to rising operating expenses and cost cutting

Nearly **1 in 3** businesses in Hong Kong say their operating expenses have increased.

> Factors impacting business operations

Increase in operating expenses

28%

Needed to cut costs

28%

Drop in customer demand/revenues

26%

Decline in staff morale

22%

Insufficient cash flow

21%

> Most impacted sectors/enterprises

Increase in operating expenses

43%
Wholesale Trade

40%
Professional Services

Drop in customer demand/revenues

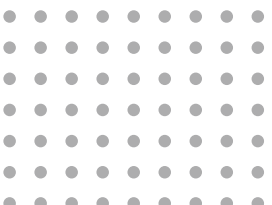
29%
Medium Enterprises

Q) How have the above factors affected your business in 2022? Base: Total (557)



Business Sentiments

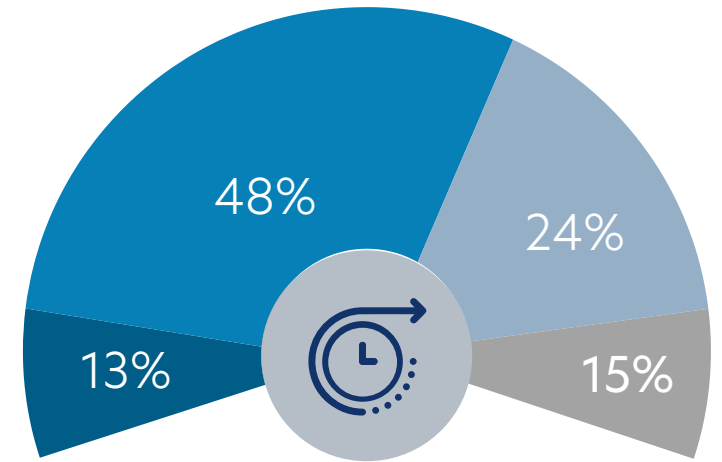
Business Outlook 2023 and Beyond



Over **3 in 5** businesses in Hong Kong have a positive business outlook in 2023

> Outlook for 2023

- Very positive
- Somewhat positive
- Neutral/Unsure
- Somewhat/Very negative



Most positive outlook (sectors)

72%
Tech, Media & Telecom

65%
Real Estate/ Hospitality

65%
Professional Services

Most positive outlook (enterprises)

65%
Large Enterprises

Q) How would you describe the outlook for your business in 2023? Base: Total (557)

Sourcing for new customer base, reducing costs and digitalising the business are key priorities for businesses in Hong Kong in the next 3 years

> Priorities in the next 1-3 years



Source for new customer base
35%



Reduce costs
33%



Digitalise the business to raise efficiency
29%



Diversify supply chains
26%



Re-skill/upskill existing talent
26%



Expand overseas
23%

> Priorities by sectors/enterprises

Source for new customer base

50%
Manufacturing & Engineering

40%
Medium Enterprises

Reduce Costs

46%
Wholesale Trade



Digitalisation is a key business priority as it improves customer service and helps businesses extend their range of products/services to new customers.

Improving customer service and adopting digital solutions to automate processes are top actions taken by businesses in Hong Kong to drive growth

> Top actions for growth



24%
Focus on improving customer service/experience



24%
Adopt digital solutions to automate processes



23%
Upgrade equipment/facility to improve productivity



23%
Extend our range of products and services



22%
Invest in employee training



21%
Diversify sales channels to selling online via e-commerce platforms

> Most prioritised in

Upgrade equipment/facility to improve productivity



37%
Manufacturing & Engineering

Extend our range of products and services

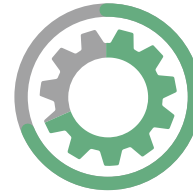


42%
Manufacturing & Engineering

User-friendly channels for customer interaction and automation will play a key role in helping businesses improve customer service

Over **6 in 10** businesses are looking for automation to ease customer service.

> Capabilities for better customer experience



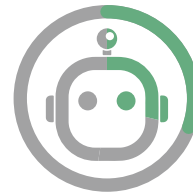
64%

Automation to ease customer service



35%

User-friendly channels for customer interaction



32%

Use of AI, chatbots etc. for real-time interaction




23%


Hyper personalised service/offer for customers

> Most prioritised in

Automation to ease customer service

77%
 Tech, Media & Telecom

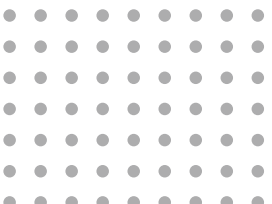
User-friendly channels for customer interaction

50%
 Manufacturing & Engineering

Q) What are the key channels/capabilities that your business needs to improve upon to handle this change in customer engagement expectations? Base: Total (557)



3. | Inflation Impact on Businesses



> Extent of inflation affecting businesses in 2022



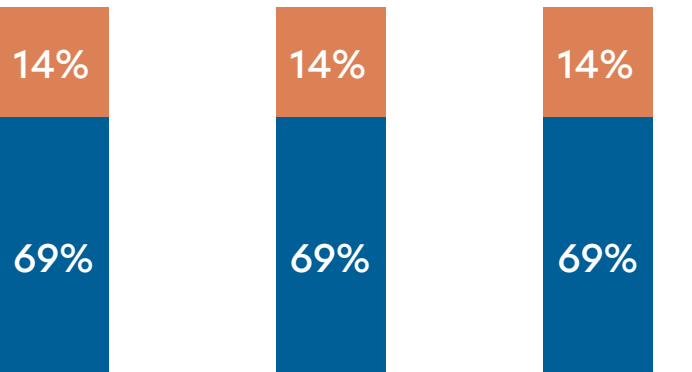
Over **8 in 10** businesses in Hong Kong have felt the impact of high inflation.

83%

83%

83%

Net affected



■ Highly affected
■ Somewhat affected

Total Medium Enterprises Large Enterprises

Both Medium and Large Enterprises in Hong Kong have been affected to the same extent by high inflation.

> Extent of inflation by sectors

Most affected sectors

93%
Tech, Media & Telecom

86%
Construction & Infrastructure

86%
Wholesale Trade

Many businesses have seen an increase in cost of operations and reduction in profit levels

> Impact of inflation on business operations



Increase in cost of operations
62%



Reduction in profit levels
40%



Increase in cost of raw materials
39%



Increase in staff salaries
37%



Difficulty in retaining talent
32%



Increase in rental costs for offices/commercial spaces
25%



Over **3 in 5** businesses in Hong Kong say that high inflation has led to an increase in cost of operations.

2 in 5 businesses have seen a reduction in profit levels.

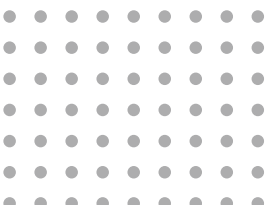


Inflation is also impacting the cost of raw materials in Hong Kong. Businesses in Manufacturing & Engineering and Construction & Infrastructure have seen a greater impact in their cost of raw materials.



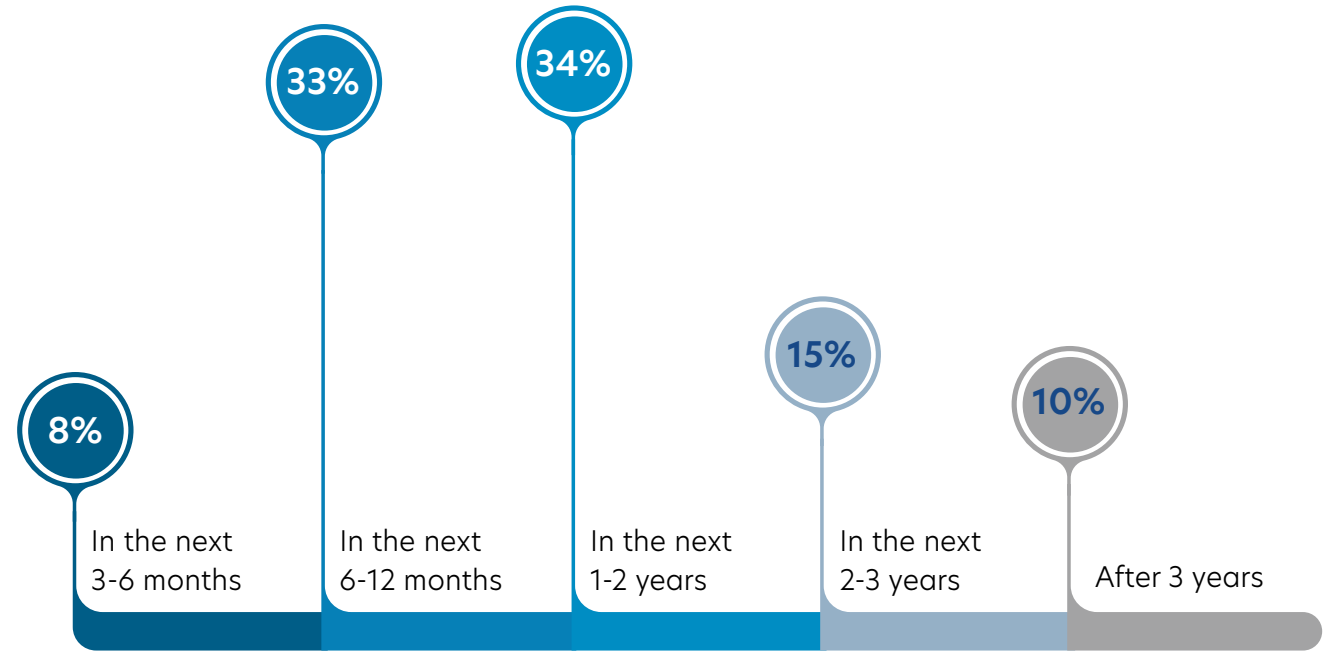
Inflation Impact on Businesses

Inflation Expectation in 2023



Most businesses expect inflation to reduce within the next 1 to 2 years

> Expectations of inflation



Most affected sectors

55%
Professional Services

54%
Tech, Media & Telecom

48%
Consumer Goods

Most affected enterprises

44%
Large Enterprises

Q) By when do you expect the high inflation to reduce? Base: Neutral to negative perception: (557)

While waiting for inflation to drop, businesses are focusing on productivity improvement and taking advantage of government grants/schemes to mitigate impact of inflation

> Ways to combat inflation

Improving productivity to save costs



Taking advantage of government grants/schemes



Digitalisation processes to drive cost savings



Increasing the selling price of our goods/services



Scaling back on new investments



Over **2 in 5** businesses are improving productivity to combat inflation.

> Differences in combating approach

Improving productivity to save costs



Taking advantage of government grants/schemes

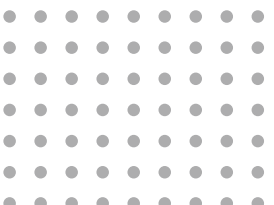


Digitalisation processes to drive cost savings



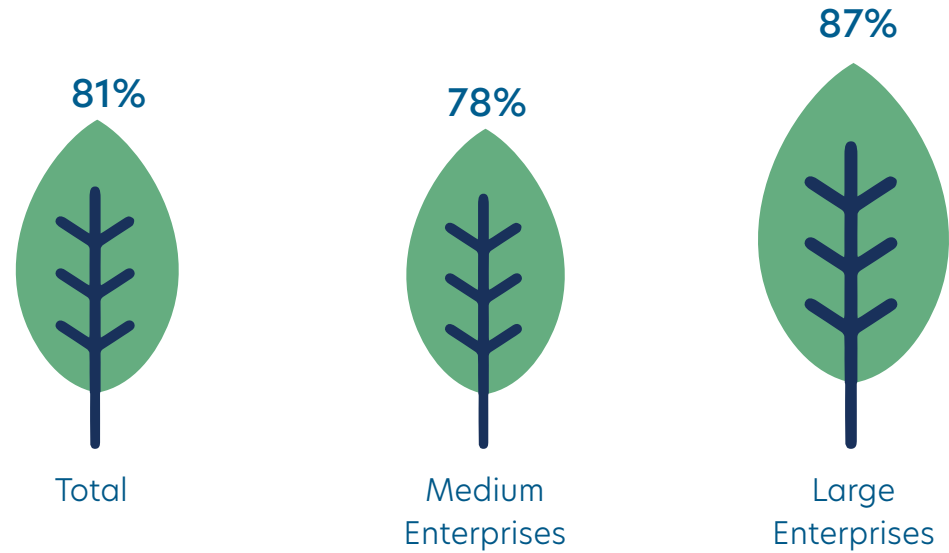


4. | State of Sustainability and Future Plans

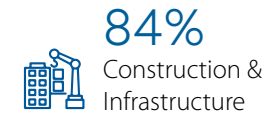


Sustainability is important to a vast majority of businesses in Hong Kong

> Importance of sustainability



Leading sectors



Q) How important is sustainability (Environmental, Social and Governance considerations) to your business?
Base: Total (557)

Sustainability helps businesses improve their reputation, work with MNCs and retain/attract talent

Nearly **2 in 5** businesses say that adopting sustainable practices make it easier to work with MNCs.

Nearly **3 in 5** businesses say that sustainability helps to improve their business reputation and branding.

> Drivers of sustainability



Improved reputation/
better branding of the
company



Easier to work with
MNCs who have their
sustainability goals



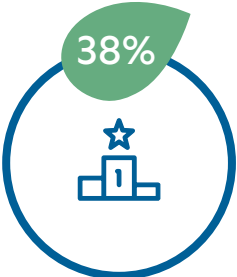
Enables talent
retention/attraction

> Stronger drivers

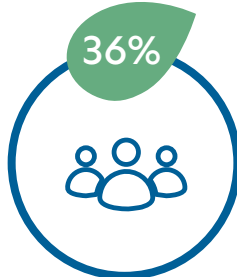
Improved reputation/better branding
of the company



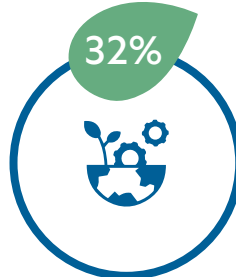
Enables talent retention/attraction



Gives competitive
edge



Customers prefer or
demand for it

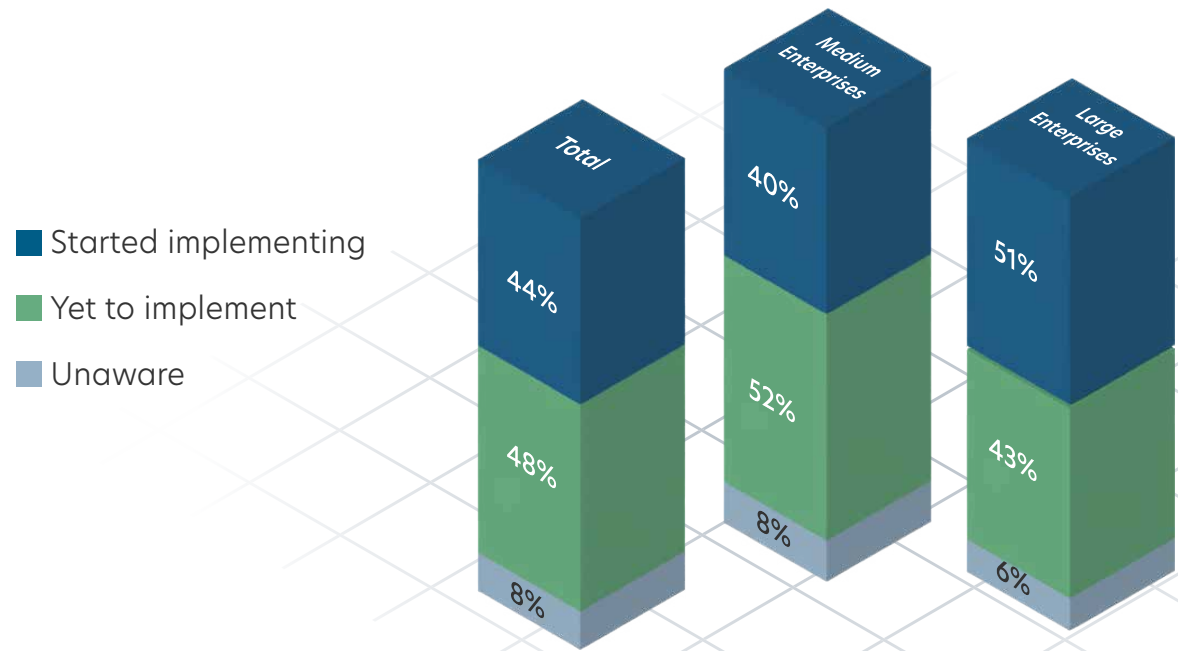


Helps my business fit
better into the
ecosystem

Q) Why is sustainability important to your business? Base: Those who regard sustainability as important (453)

Yet, less than half of all businesses have started implementing sustainable practices

> Current stage of sustainability adoption



Implementing sectors

56%
Professional Services

52%
Manufacturing & Engineering

48%
Business Services

Q) What stage is your company at today in the adoption of sustainability practices? Base: Total (557)

Concerns prevail about inadequate financial support from government/banks and increase in cost of products/services to end customers

> Key barriers to implementation



> Stronger barriers

May lead to increase in cost of our products/services to end customers



Lack of manpower/resources



Q) What are the major barriers to implementing sustainability practices in your company? Base: Total (557)

But businesses are convinced about implementing practices like use of efficient equipment and technologies, and employee welfare

> Practices planning to implement

Use energy efficient equipment and technologies

37%

Ensure employee welfare

35%

More efficient use of resources to minimise waste

33%

Implement clear operational policies and processes

29%

Establish clear corporate governance

27%

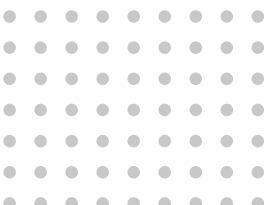
Give back to the community

26%

Q) What sustainable practices (based on the ESG considerations) do you plan to incorporate within your business in future?
Base: Those who have not implemented sustainability practices (311)



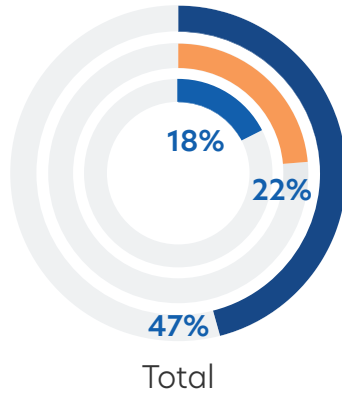
5. | State of Digitalisation



Nearly 9 in 10 businesses have adopted digitalisation in at least one department

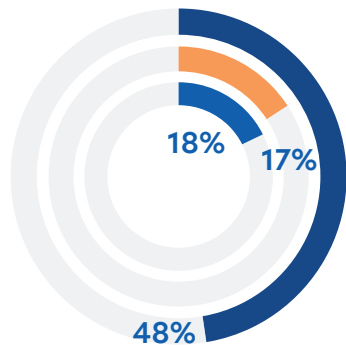
> Current state of digital adoption

Net adopted **87%**

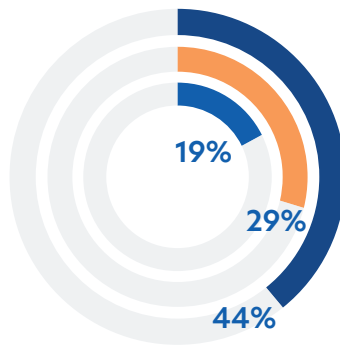


- Adopted in one department
- Adopted across entire business
- Adopted across multiple departments

Net adopted **83%**



Net adopted **92%**



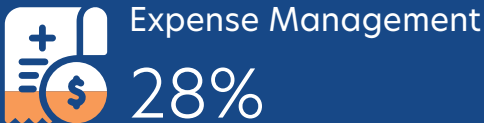
Sectors leading in digital adoption



Q) What is the current state of digital adoption in your company? Base: Total (557)

Sales, Payroll and Human resource management are a priority for digitalisation

> Top priorities for digitalisation



> Priority areas by sectors/enterprises

Sales



Customer Service



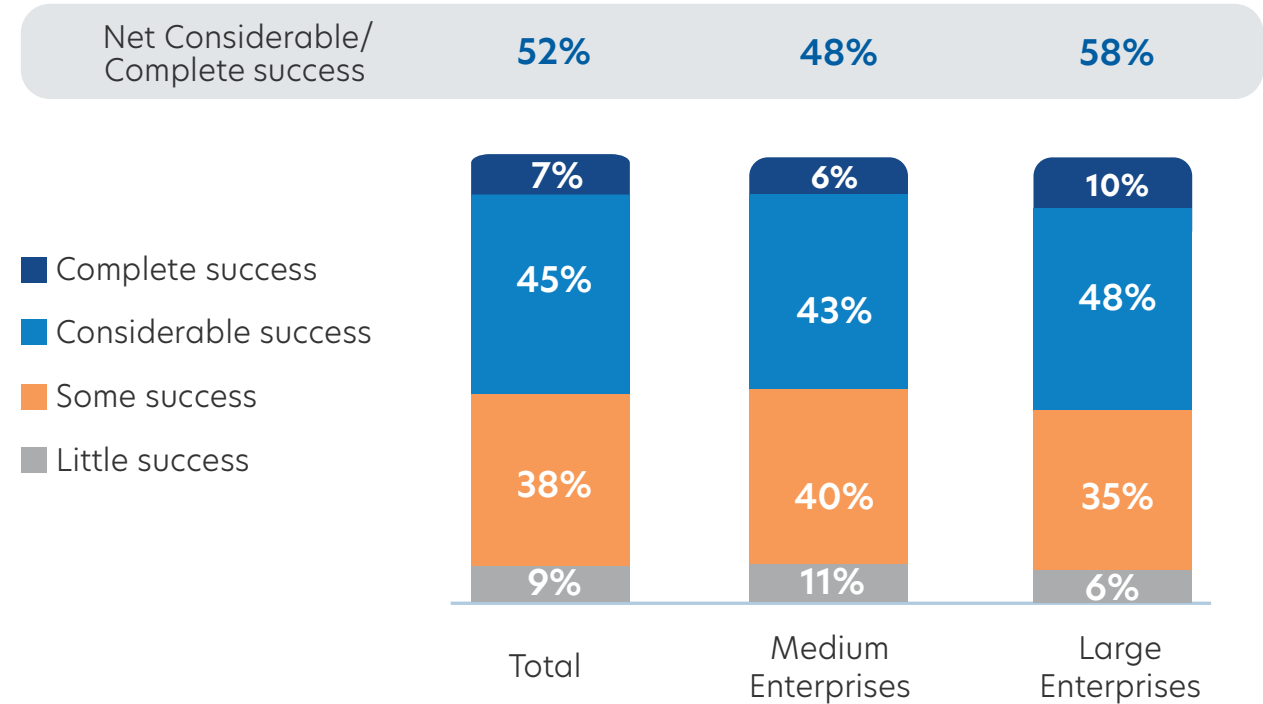
Q) Which of these processes did your company digitalise specifically to help your business perform better in 2022? Base: Those currently trialling or adopted digitalisation in at least one department (530)



Most businesses that adopted digitalisation have been successful in their efforts

Over **5 in 10** businesses have seen success in their digitalisation efforts.

> Success with digitalisation



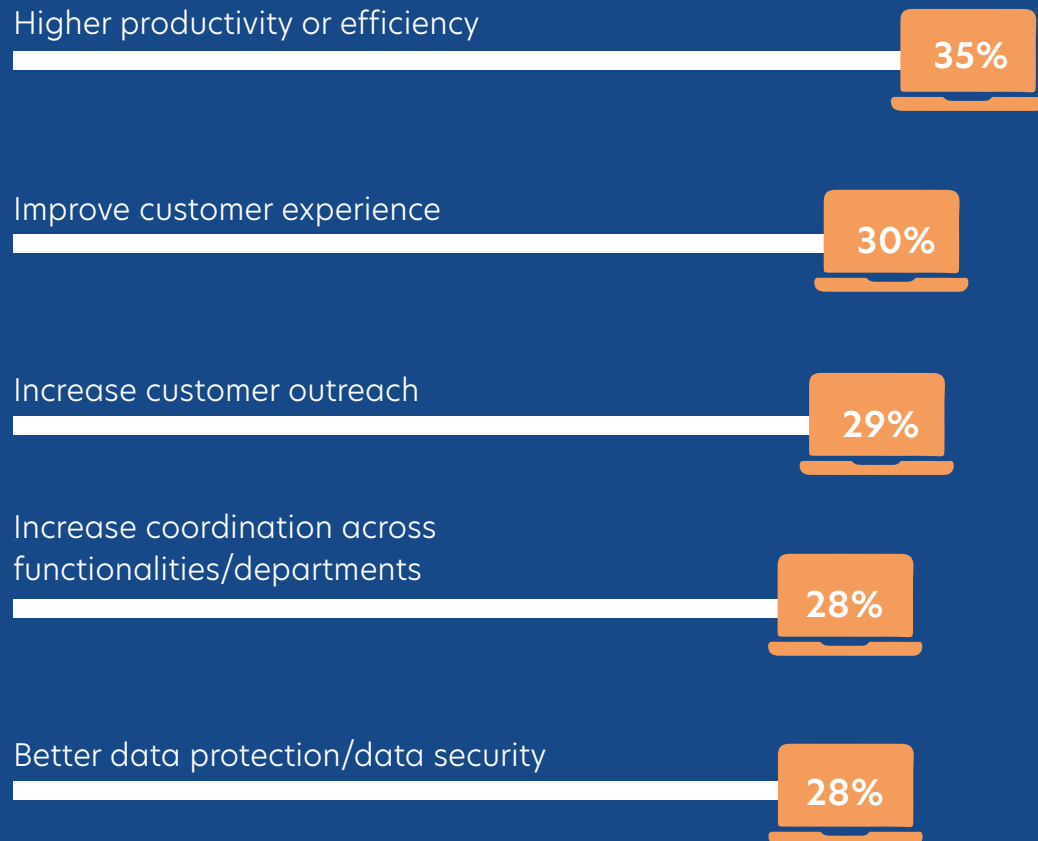
More success with digitalisation (sectors)



Q) How much success has your company had so far in its digital adoption journey?
 Base: Those currently trialling or adopted digitalisation in at least one department (530)

Digitalisation has led to higher productivity, improved customer experience and increased customer outreach

> Impact of digitalisation

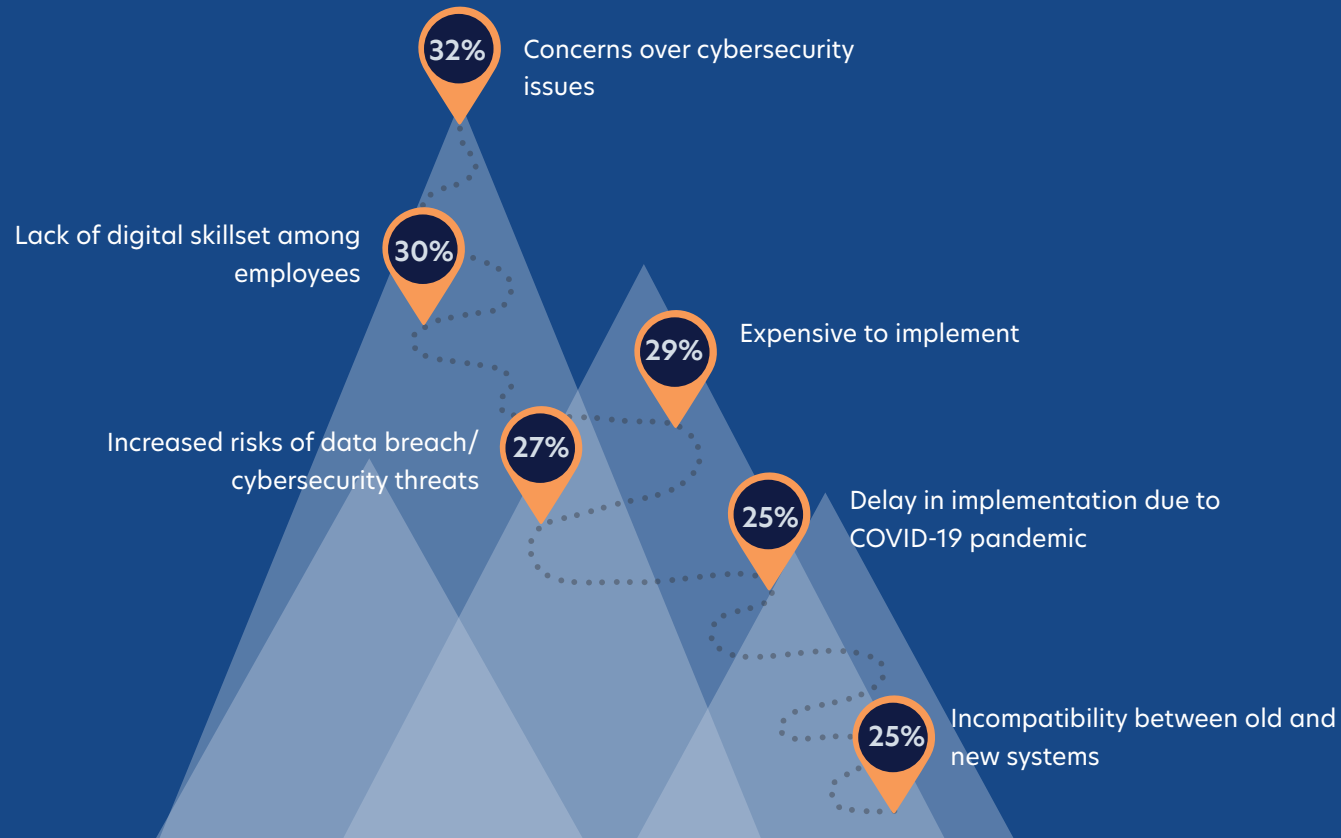


> Most impacted areas by sectors



Yet, there are several challenges that need to be addressed

> Top challenges in digitalisation



> Top challenges by sectors

Lack of digital skillset among employees

43%
Manufacturing & Engineering

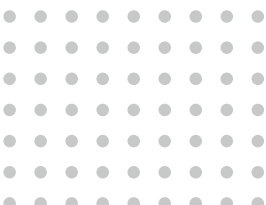
Expensive to implement

42%
Manufacturing & Engineering



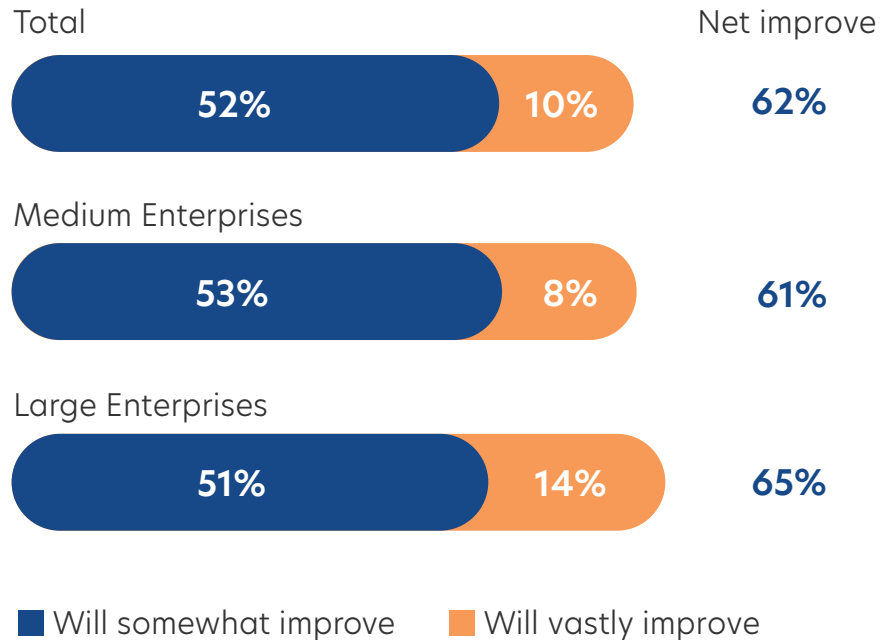
State of Digitalisation

Outlook for 2023



Post digitalisation business outlook is expected to be positive

> Business outlook post digitalisation



Most positive outlook (sectors)

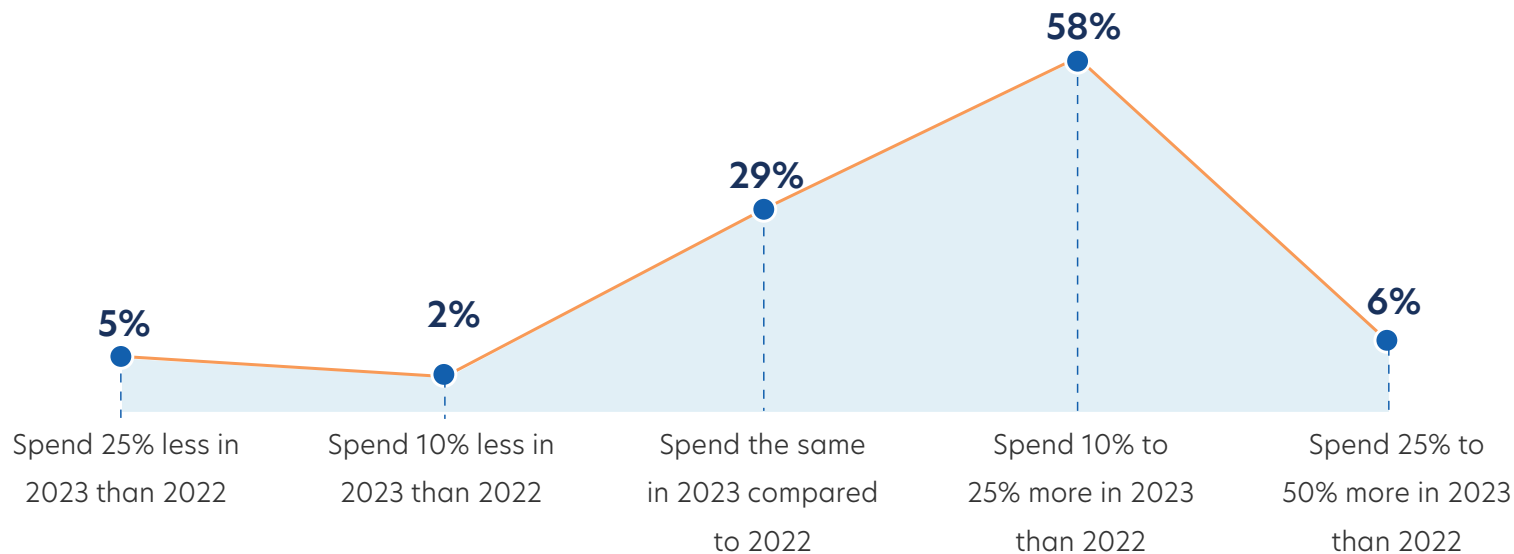
 **73%**
Consumer Goods

 **68%**
Real Estate/
Hospitality

 **67%**
Business Services

Hence, businesses are continuing their digitalisation journey. Most expect to spend more on it in 2023

> Future expenditure in 2023



64%
of businesses foresee spending more on digitalisation in 2023.



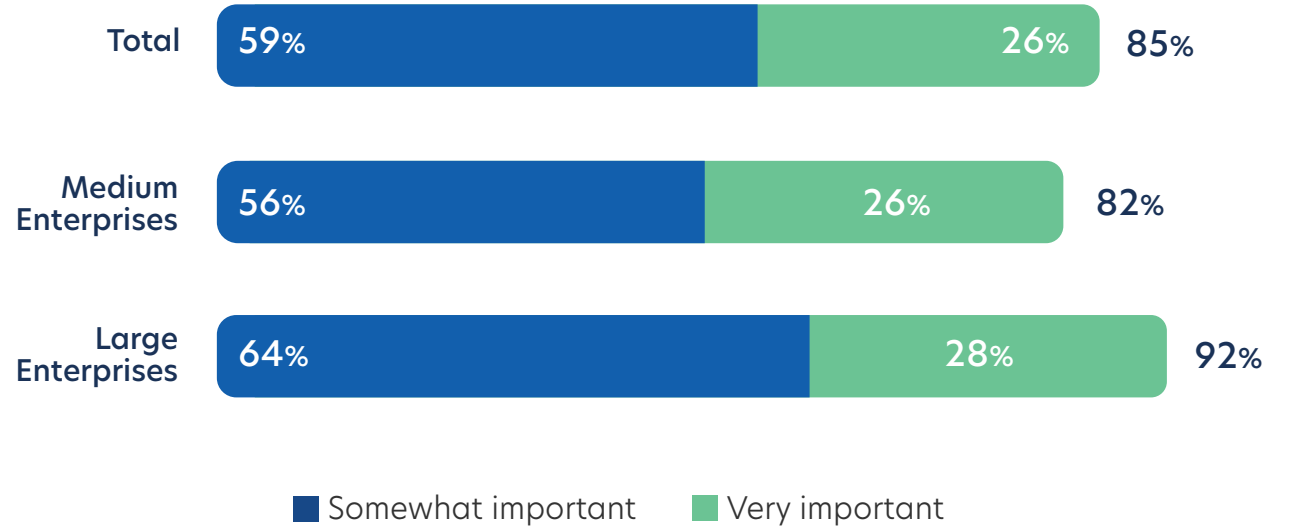
6. | Supply Chain Management (SCM)

SCM is important to most businesses in Hong Kong

Nearly **9 in 10** businesses consider SCM important.



> Importance of SCM



Higher importance to SCM (sectors)

97%
Manufacturing & Engineering

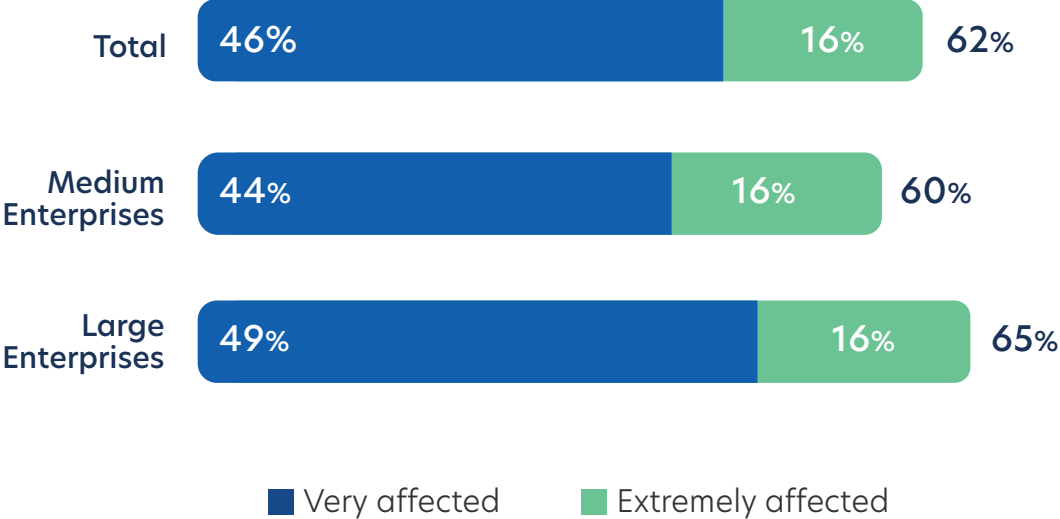
93%
Wholesale Trade

89%
Tech, Media & Telecom

Q) How important is supply chain management to your business? Base: Total (557)

Geopolitical tensions are having an adverse impact on supply chains

> Geopolitical impact on supply chains



Over **6 in 10** businesses say their supply chain has been affected by geopolitical tensions.

Most impacted sectors

82% Wholesale Trade

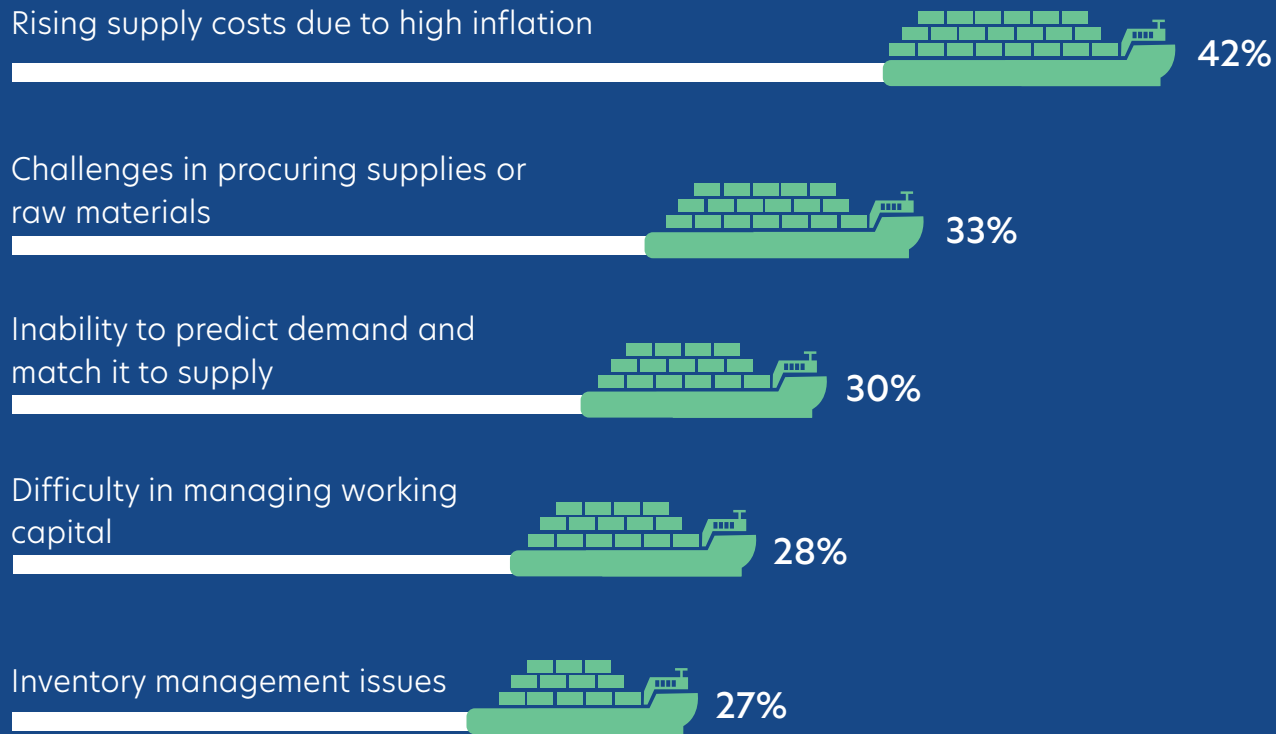
74% Tech, Media & Telecom

68% Professional Services

Q) To what extent has your company's supply chain been affected by geopolitical tensions such as Russia-Ukraine conflict, US-China trade tensions, or by COVID-19 restrictions etc.? Base: Total (557)

This has led to rising supply costs and challenges in procurement

> Key supply chain challenges



> Higher challenge sectors

Rising supply costs due to high inflation



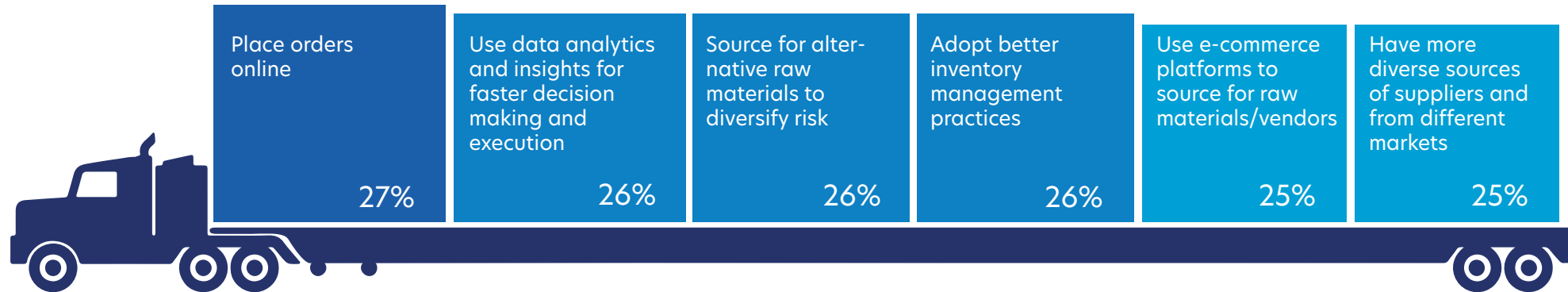
Challenges in procuring supplies or raw materials



Over **2 in 5** businesses say their key supply chain challenge is rising supply costs due to high inflation.


To address these challenges, businesses are placing orders online and using data analytics and insights for faster decision making and execution

> Actions for supply chain stability




> Top actions by sectors

Source for alternative raw materials to diversify risk

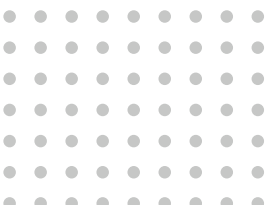
 **42%**
Manufacturing & Engineering

Have more diverse sources of suppliers and from different markets

 **37%**
Manufacturing & Engineering

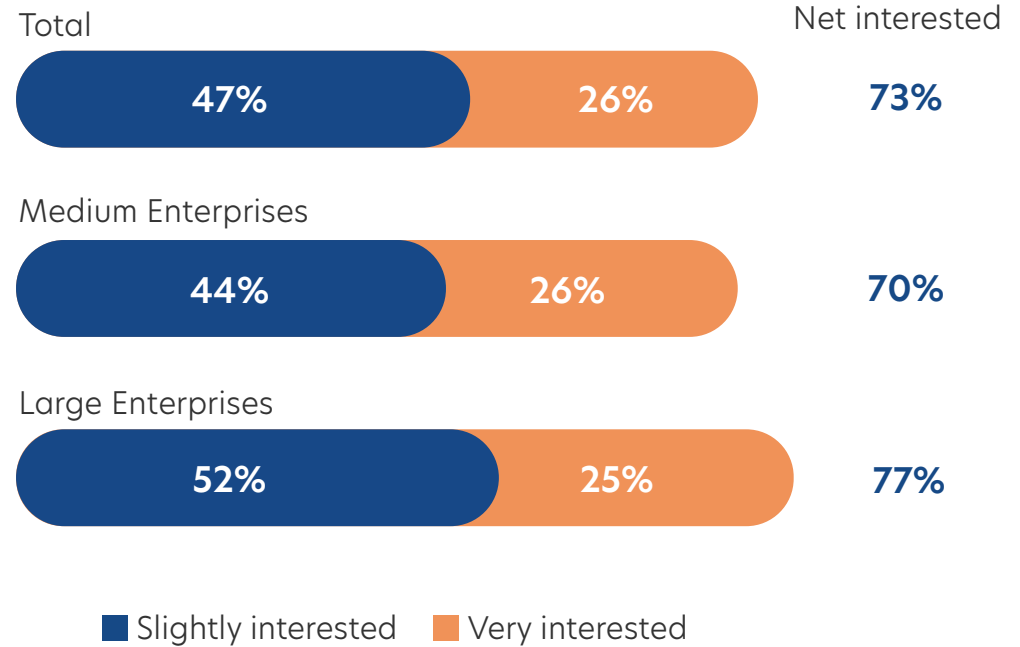


7. | Interest in Overseas Expansion



Over 7 in 10 businesses in Hong Kong are interested to expand overseas

> Interest in overseas expansion



Most interested sectors

88%
 Wholesale Trade

82%
 Tech, Media & Telecom

78%
 Manufacturing & Engineering

Q) How interested is your business in expanding overseas in the next three years? Base: Total (557)

Interest in expansion is fuelled by a desire to improve profitability, grow revenue and build an international reputation

> Motivators for overseas expansion



Improve profitability
70%



Grow revenue
50%



Build reputation as an international business
50%



Leverage my company's regional/global network
42%



Take advantage of government policies/schemes
38%



Reduce business risk by diversifying into other markets
34%

> Top motivators by sectors/enterprises

Improve profitability

85%
Construction & Infrastructure

83%
Manufacturing & Engineering

Grow revenue

70%
Manufacturing & Engineering

55%
Medium Enterprises

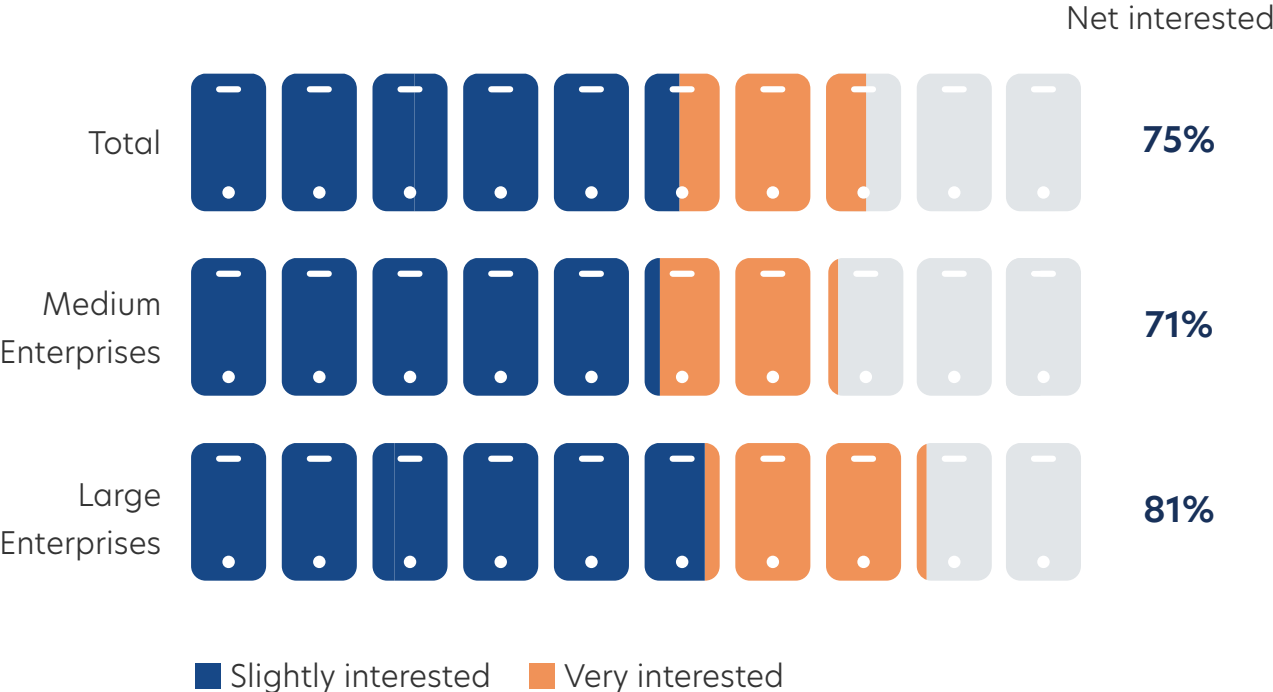


7 in 10

businesses are looking to expand overseas to improve profits and revenue.

Thus, cross-border digital trade platforms as a means for overseas expansion have high interest

> Interest in using cross-border digital trade platforms



Nearly **8 in 10** businesses are interested in leveraging cross-border digital trade platforms for their overseas expansion.

Most interested sectors

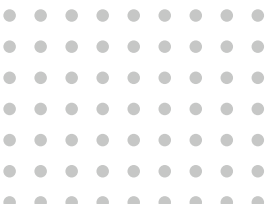


Q) How interested is your company in using cross-border digital trade platforms as a means for overseas expansion?
Base: Total (557)



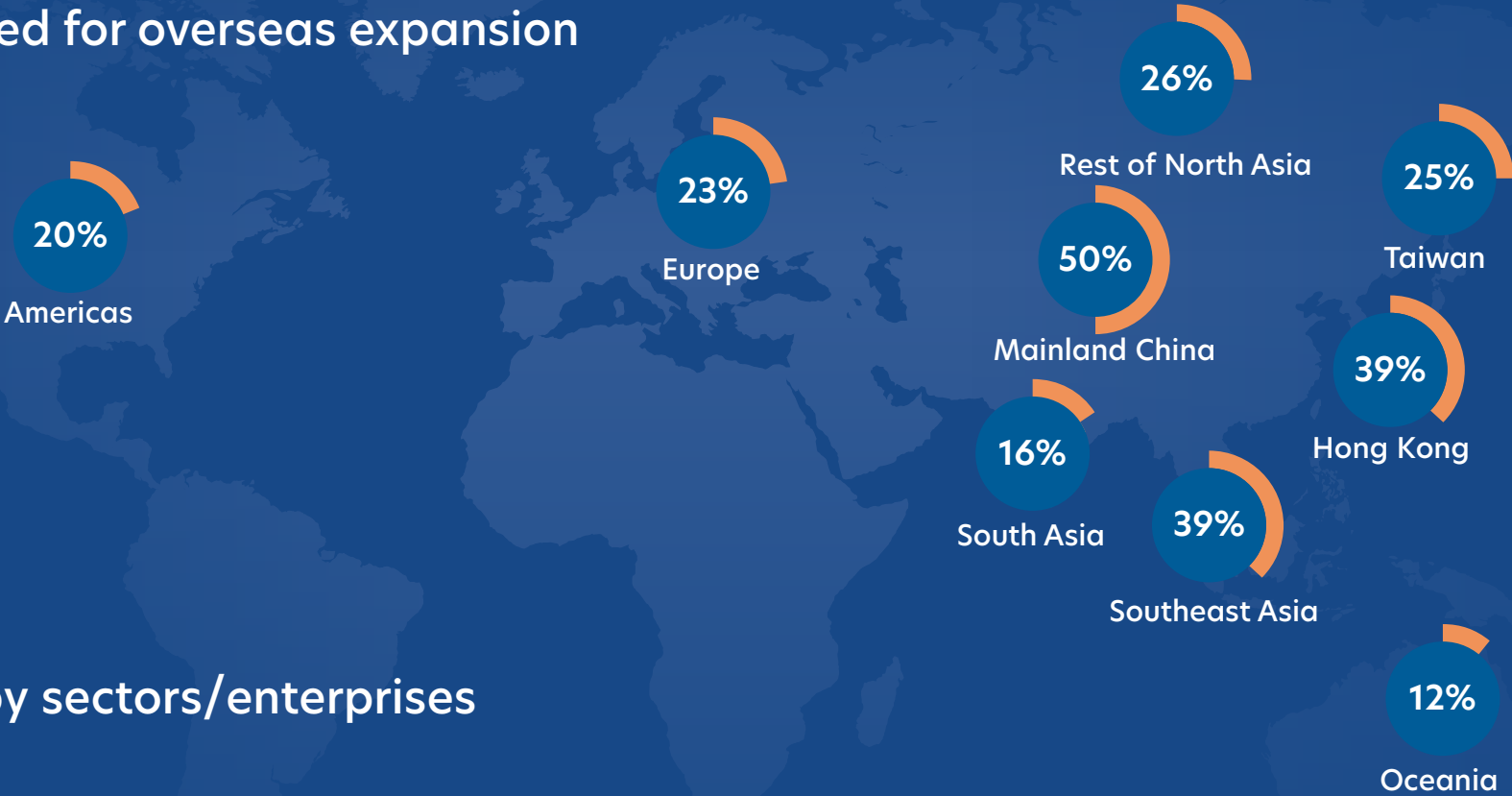
Interest in Overseas Expansion

Future Expansion Plans



Mainland China, Southeast Asia and Hong Kong are key markets of interest for overseas expansion

> Location planned for overseas expansion



> Top locations by sectors/enterprises

Hong Kong

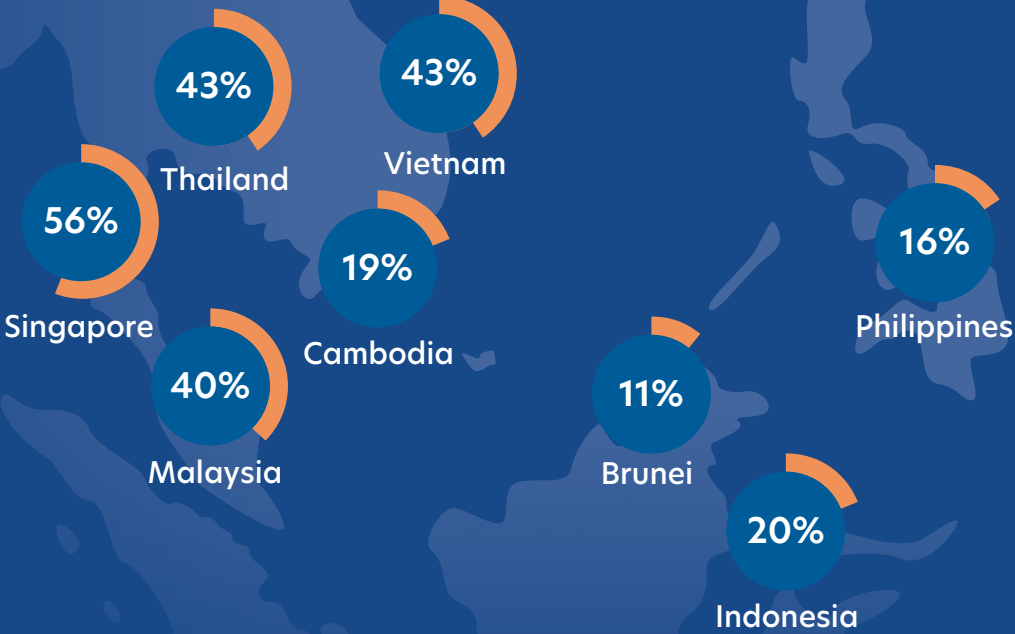
55%
Professional Services

45%
Large Enterprises

Q) Which of these markets is your enterprise intending to venture into within 3 years (by 2025)? Base: Interested in overseas expansion (406)

Singapore, Thailand and Vietnam are the top 3 expansion markets within ASEAN

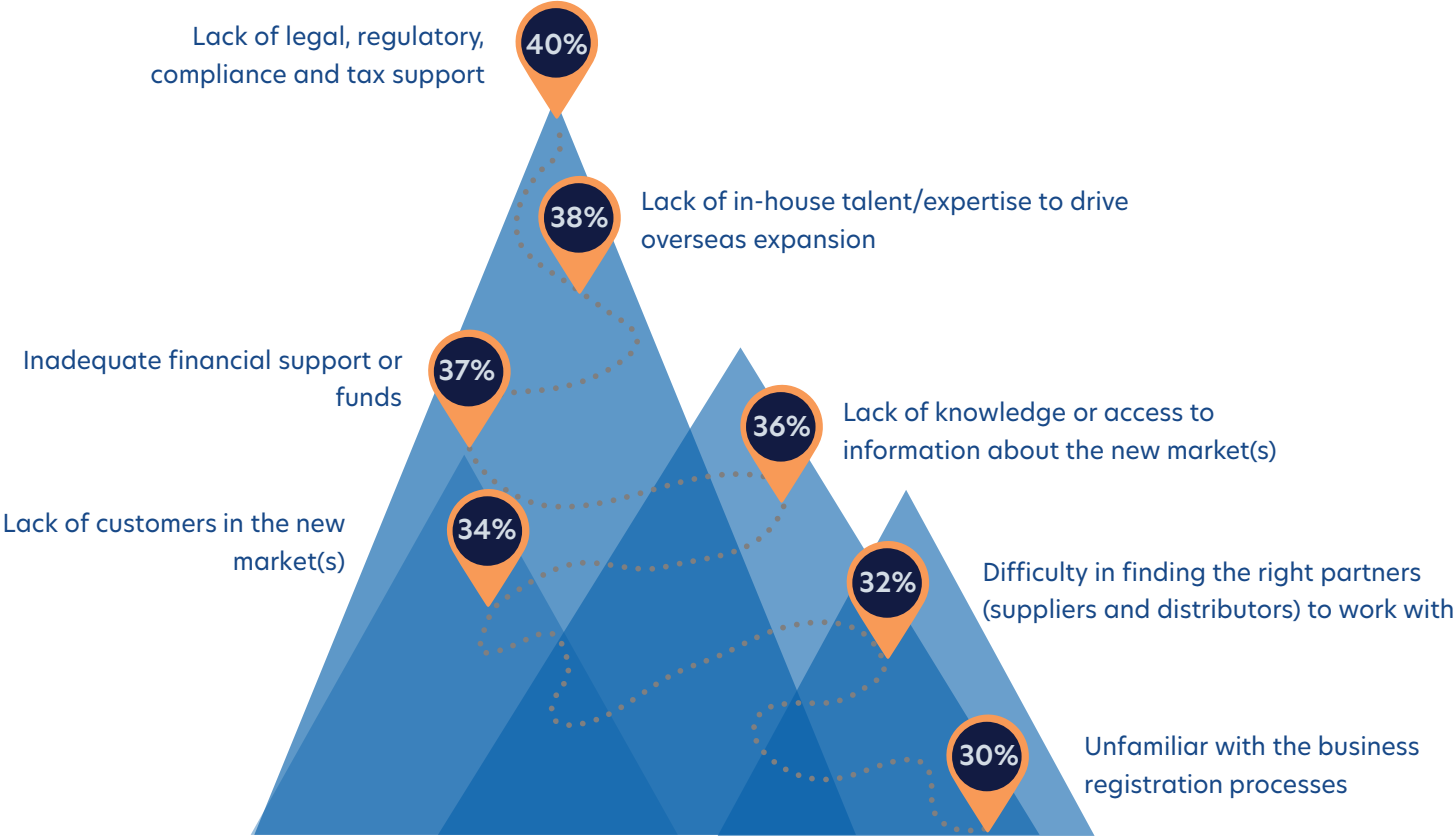
> Priority markets within ASEAN



Q) Please select the most important countries (up to 3) in ASEAN that your enterprise is intending to venture into within 3 years (by FY2025).
Base: Interested in expanding within ASEAN (93)

Lack of legal, regulatory, compliance and tax support and lack of in-house talent/expertise are key hurdles to overseas expansion

> Expected challenges for overseas expansion



> Top challenges by sectors

Lack of legal, regulatory, compliance and tax support



Lack of customers in the new market(s)



Q) What are the key barriers in your effort for overseas expansion? Base: Total (557)



Right By You

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