

Food Services: Accelerated Digital Growth and Development

Find Your Success in Hong Kong's
Thriving Food Industry

Invest**HK**



Food Services

Recognised as an important culinary capital of Asia, Hong Kong is home to a thriving food services industry that captivates residents and visitors alike. The city has 11 of Asia's Top 50 Restaurants and 95 Michelin Stars in 2021 and looks to continue this path of excellence. From food & grocery delivery to innovative business models and digital partnerships, Hong Kong's Food Services industry is showing its agility and resilience as the industry continues to enrich the digital ecosystem to cater to the customers of the future in Hong Kong, Greater Bay Area and beyond.

2 The Growth of Green Eating

The Hong Kong customer is increasingly aware of their environmental footprint, and interest in sustainable food options is growing exponentially. Plant-based, green food products have huge potential to capture this market and are now widely available in restaurants and food retailers across the city.



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1 Hong Kong is a Digital Standout

Food delivery in Hong Kong has been adopted rapidly by customers, and 75 percent¹ have stated they intend to increase food delivery frequency in the future. With a market growth of HK\$3.4 billion² in 2020, this trend shows no signs of stopping.



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3 The Digital Maturity of Hong Kong's Food Services

Hong Kong customers increased their food delivery frequency by 44 percent³ in 2020, and in response, businesses in Hong Kong have deftly moved into the online realm. Proprietary delivery services and online retail platforms have been popular and successful for businesses.

¹ Deliveroo

² Euromonitor, 2020

³ Rakuten Insights

4

Growth of Online Grocery Shopping

Hong Kong's food services eCommerce grew by 79 percent⁴ in 2020, which has translated into massive growth for grocery delivery providers - both platforms and specialty importers. Hong Kong customers are digitally savvy, hyper-connected and have affinity for services that deliver quality and convenience.



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6

Diverse and Versatile Business Models for F&B

Similar to Cloud Kitchens, F&B operators in the city are offering new avenues for business in the form of food-halls, which give restaurants opportunities to access dense commercial areas with high foot-traffic at a fraction of the cost. This concept presents an exciting new way for restaurants and caterers to operate in Hong Kong and have been embraced by businesses and customers alike.



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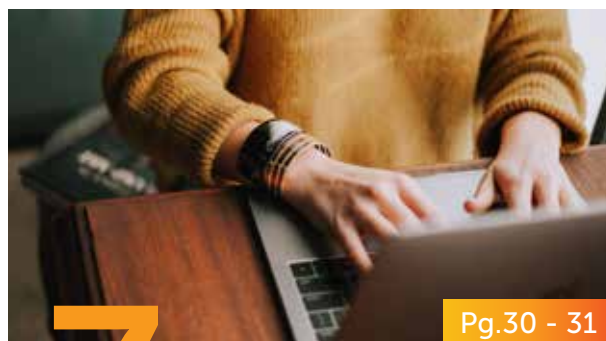


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The Evolution of Cloud Kitchens

Hong Kong's digital ecosystem continues to mature and create new ways for businesses to engage customers online. Cloud Kitchens are an innovative option for restaurants or caterers to expand to new areas or test new menu concepts without large investments in physical retail locations and equipment.



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7

Abundance of Digital Transformation Partners

Hong Kong's enormous density of restaurants provides opportunities for technology platforms to enter the market to support independent operators as digital transformation partners. This is an area that promises growth in both scale and sophistication, as these partnerships allow platforms and businesses to grow together.

⁴ Euromonitor, 2020

The World Stage for Food

Hong Kong is a city known for its diverse, rich food scene that captivates residents and visitors alike. In fact, it is one of the earliest in Asia to have a Michelin Guide, and as of 2021 has over 200 restaurants and 95 Michelin stars in the Guide.⁵ In 2021, Hong Kong claimed 11 spots in Asia's 50 Best Restaurants,⁶ including the top rank – making it the city with the greatest number of top restaurants in Asia. From Michelin star restaurants to food delivery and grocery services, Hong Kong is recognised as the culinary capital of Asia offering a wide variety of cuisines, styles and international products.



in food and drink eCommerce in 2020, accelerated by the mature digital ecosystem of Hong Kong

with meal delivery



online grocery shopping

and Cloud Kitchens



burgeoning in the city to cater to consumer demand.

Food is an integral part of life in Hong Kong, and the industry is predicted to grow at a robust 5.5 percent⁷ for the next three years. Even during a period of global disruption, Hong Kong's Food Services industry has exhibited growth in online business, rapidly evolving to meet the demands of the digital customer. There has been a 79 percent⁷ growth in food and drink eCommerce in 2020, accelerated by the mature digital ecosystem of Hong Kong – with meal delivery, online grocery shopping and Cloud Kitchens are catering to consumer demand. Furthermore, innovation across the value chain from green food products to sustainable waste disposal as well as innovation in business models has further fueled growth and led to the emergence of new opportunities.



⁵ Michelin Guide - Hong Kong & Macau 2021 Selection

⁶ SCMP - Asia's 50 Best Restaurants 2021

⁷ Euromonitor, 2020

With over 16,000 Food and Beverage (F&B) operators in Hong Kong and 205,000 people employed,⁸ it is an industry that has proven resilient in the past two years, overcoming disruption and showing areas of opportunities for continued growth. There has been consistent advancement in the industry since 2003, and in Quarter 1 of 2021, 40 percent⁹ of restaurants reported increased revenue. Businesses have found ways to innovate, adapt to recent challenges and reinvent themselves to continue serving customers of the future.

Importantly, by testing products and services with Hong Kong customers, these adaptations also pave the way for businesses to enter the coveted Greater Bay Area (GBA) and Mainland China markets and access customers who are highly digitally savvy but have similar food habits and culture.

16,000+
food
businesses⁸

Overview of Food Services in Hong Kong

205,000
people
employed⁸

In 2021 Q1⁹
40%
of restaurants
had increased
revenue

⁸ Euromonitor, 2020

⁹ Hong Kong Census and Statistics Department - Quarterly Supplement to Statistical Digest of the Services Sector Q1 2021 Issue



1 Hong Kong is a Digital Standout

In a recent study developed by Tufts University and Mastercard, Hong Kong was categorised as a “Standout” Digital Economy¹⁰ – which has been reflected in the industry’s response to the pandemic.

In a survey released by Deliveroo in 2021, 78 percent of consumers in Hong Kong reported that they ordered from food delivery services at least once a week, spending an average of HK\$170.¹¹ This represents an increased spending of 21 percent from 2019. 75 percent of Hong Kong residents also said they would use food delivery services more frequently in future than they do now.



One key trend is the increased reliance on and adoption of food delivery by the city’s residents, with platforms like Deliveroo, foodpanda and UberEats becoming mainstream channels. In 2019, Deliveroo reported over 100 percent Year on Year (YoY) growth in Hong Kong, and the platform shows no signs of slowing down as it continues to invest for the future. The company opened its third and most ambitious Cloud Kitchen in early 2020, and the three locations now house 17 kitchens and 42 different restaurant brands in the city.

¹⁰ Harvard Business Review, 2020

¹¹ Deliveroo, 2021

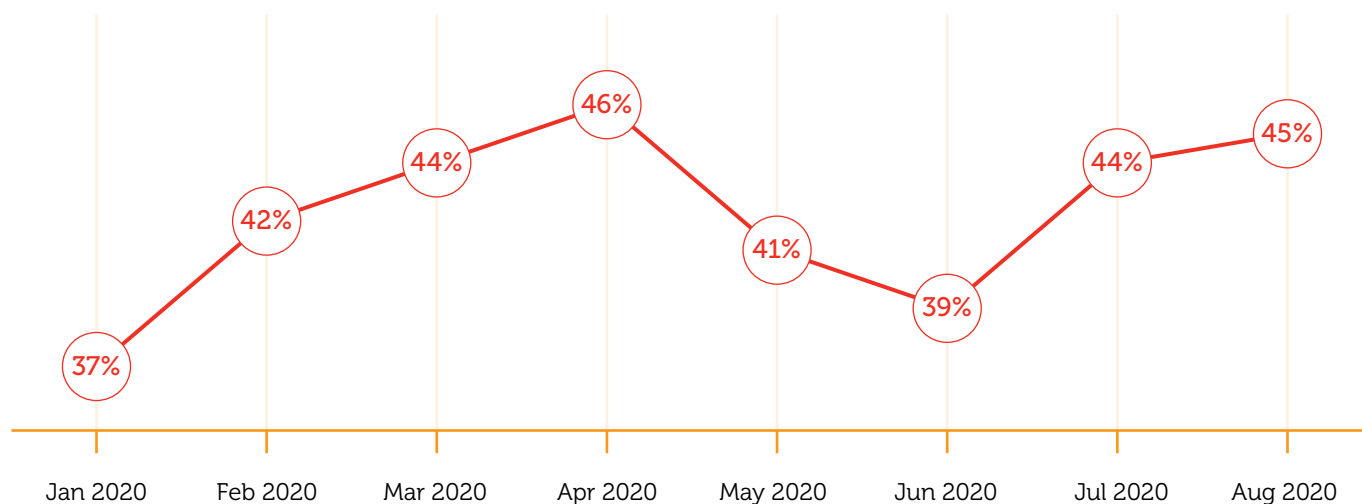


COVID-19 has accelerated the growth of restaurant food delivery, driven by the need to adapt to changing consumer behaviour. In a study conducted by Capital Economics, food delivery has continued to grow and was responsible for 48,000 jobs and HK\$8 billion in revenue¹² through the first three quarters of 2020. Indeed, after the first period of social distancing in Hong Kong, Deliveroo announced the addition of 1,500 new restaurants on their platform, representing a growth in order volume of over 200 percent in just the first eight weeks of the year.

This boom is not only from merchants, but also reflected in consumer behaviour, as 56 percent¹³ of respondents in a recent survey conducted

by Statista reported that they “ordered more through delivery apps” than they had previously as a result of COVID-19. Accordingly, the share of revenues between traditional dining out and groceries vs. food delivery has shifted, and food delivery now represents 45 percent¹⁴ (Figure 1). Hong Kong consumers are increasingly digital, and they are wasting no time in transition. In addition to Deliveroo, competing platforms are seeing similar results. Uber Eats announced a 400 percent increase in users YoY in 2020,¹⁵ Hong Kong-native delivery company Zeek claimed a 20 percent¹⁶ increase in orders the first weekend after social distancing measures were implemented, and foodpanda reported an 80 percent increase in demand during the Lunar New Year Holiday in 2020.¹⁷

Figure 1 Share of Revenues for Food Delivery



Source: Gini Transactional Data, 2020



As befitting of a “Standout” Digital Economy, Hong Kong shows its willingness and ability to adapt to new circumstances. Not only have digitally native market players hastened to expand, customers have responded by shifting their consumption behaviours online and taking full advantage of the digital ecosystem.

¹² QSR Media Asia

¹³ Statista - HK COVID-19 Impact on Food Delivery

¹⁴ Gini Transactional Data, 2019-2020

¹⁵ Uber Newsroom - Celebrating 4 Years in Hong Kong

¹⁶ Forbes.com

¹⁷ SCMP - Deliveroo, Foodpanda Enjoy Brisk Orders During Hong Kong Coronavirus Scare

2 The Growth of Green Eating

Hong Kong, similar to other global cities, is becoming more conscious of environmental pressures, with a growing interest in sustainability – especially in green food and waste disposal. In a recent study conducted by the independent public policy think tank Civic Exchange, 84 percent of the Hong Kong population think climate change will be significant in the future, and 84 percent stated that they adopted energy savings measures “very often”.

40% of Hong Kong residents already practice a “flexitarian” diet¹⁸



We see this sentiment reflected in consumption behaviour, with strong growth in the market for plant-based products. For instance, Deliveroo reported a 104 percent growth in plant-based orders in 2020 and more than 100 percent YoY growth in the number of restaurants serving vegan options. Green Monday, a social enterprise based in Hong Kong, reported in 2020 survey that 40 percent of Hong Kong residents already practice a “flexitarian” diet where they eat vegan meals at least once a week,¹⁸ and that 70 percent of residents were willing to try the diet. The market for plant-based, green food products continues to show high potential and strong growth, as reflected in the growing availability of alternative meats in restaurants and groceries across Hong Kong. For example, US plant-based meat company Impossible Foods has quickly expanded its presence in Hong Kong to capture this demand. As of October 2020, Impossible Foods’ new plant-based beef is used in 700 restaurants across Hong Kong, representing a 150 percent increase in 2020.

¹⁸ Green Monday



Launched by Green Monday, Hong Kong's native plant-based alternative OmniPork has seen a similar growth of 120 percent between 2019 to 2020.¹⁹ OmniPork is specially created for Asian cuisines, and has used Hong Kong as a launch pad into Mainland China, launching their Tmall flagship store in late 2019.²⁰ The company has also been able to connect with key strategic partners based in Hong Kong, such as Swire Pacific who are now looking to add OmniPork products across their network of retail locations in Hong Kong and Mainland China. OmniPork is an excellent example of how companies can use Hong Kong as a testing ground to tailor their recipes or products to local palates before looking for opportunities in the GBA and other parts of Mainland China.

The market for plant-based, green alternatives is an area that continues to show high potential and strong growth. This is an important rising trend in Hong Kong as consumers look for ways to lower the environmental impact of their consumption. In PwC's March 2021 Global Consumer Insights Pulse Survey, 34 percent of respondents for Hong Kong "agreed" that they would include more plant-based food in their diet, and 18 percent of respondents "strongly agreed" with the statement.



¹⁹ Ipsos - The New Normal Webinar Final

²⁰ SCMP - Kong Meatless Meat Firm Green Common Opens Omnipork



One company actively pushing sustainability forward in Hong Kong is Green Monday, which not only advocates eating of plant-based meals for one day each week, but have also expanded to retailing and serving completely vegan food. They now operate Green Common, a hybrid retailer and food service restaurant that is dedicated to bringing high quality green food alternatives to the market. Hong Kong's demand for these green products is skyrocketing, with grocery sales at Green Common growing by 77 percent in 2020²² as more customers look to consume more sustainably.



²¹ PwC's March 2021 Global Consumer Insights Pulse Survey

²² GreenQueen.com - Interview with David Yeung Asia Plantbased King



The company has been leading the charge and continues to grow not only its own business operations, but the entire sector by extension, attracting attention to the burgeoning meatless food industry in Hong Kong. Green Monday operates a programme that covers 800 schools and 600,000 students, educating the next generation on how to lower the environmental impact of their dietary habits. For companies like Green Monday,

Hong Kong is also a prime location to raise funding. At the end of 2020, Green Monday raised US\$70 million in financing,²³ and was also listed on Fortune Magazine's Change the World list. These trailblazing efforts are creating huge opportunities within the sustainable food industry in Hong Kong, as customers and businesses alike are opening their eyes to a brand new way of consuming and producing food.

²³ TechCrunch.com - Green Monday Holdings Raises 70 Million from TPG, Swire, Pacific

Green Monday Paves the Way for Sustainable Business in Hong Kong



Sustainability exists in the public consciousness, and there are still many areas of opportunity to explore.

David Yeung

FOUNDER & CEO, GREEN MONDAY



The awareness of sustainability and the Green movement has been growing in Hong Kong, and one of the city's champions is Green Monday. The social enterprise has noted that people in the city are proactively trying to be greener. The government has enforced a HK \$0.50 charge on plastic bags since 2009 and built a foundation for sustainability in Hong Kong, with many areas of opportunity for investment and growth.



Hong Kong Consumers Embrace Sustainability

In Hong Kong, vegetarianism has increased dramatically in recent years, and in 2020 Green Monday recorded that 40 percent of Hong Kong people had some level of vegetarian habits (Flexitarian). They observed that when the right options are provided, Hong Kong people are quick to try and adopt green options for food and nutrition. This demand is partially fueled by the growing attention to wellness and fitness, as consumers are shifting their lifestyle to be greener and healthier. Food is a natural part of this equation, and the awareness of



Hong Kong consumers as customers are VERY receptive to, and may even be seeking out sustainable options.



green alternatives is rapidly growing. Although consumers may not become full-time vegans, they are certainly looking for greener food options on a regular basis.



Green Monday notes this positive trend, but understands that consumers need to be provided with products that meet their real demands, not just their aspirational selves. Consumers are very receptive to new experiences and products if they meet the criteria of “tasty, accessible and affordable”. This has become a mantra for Green Monday, which advocate price reductions in pursuit of price parity between meat-alternatives and

animal products. For instance, Green Monday's OmniFoods product line have undergone two separate 20 percent price reductions and is now priced similar to, or even cheaper in some instances, to pork products. This is an achievement that allows Green Monday to reach everyone in the market with alternatives to real meat and is important in cultivating the growing demand for meat analogue products.

Innovation and Growth are Never-Ending

The increasing number of flexitarians in Hong Kong has resulted in restaurants and food retailers adding more vegetarian and vegan options to their menus. Green Monday launched Green Common in a timely fashion as their hub for consumers to purchase and eat plant-based products and foods. Green Monday continues to pioneer and has released a line of plant-based fish (Omniseafood) in 2021 in response to demand for fish products.

The success of Green Common and OmniFoods are positive signs not only for Hong Kong, but for the region. Green Monday recognises Hong Kong's influence as a barometer for the potential success for new brands in the region, and have used Hong Kong as a launch pad. Their OmniFoods line is now sold across 20 countries at 40,000 points of sale around the world, and they have established retail presence in Mainland China, both digitally on Tmall.com and with a physical store in Shanghai. Hot on the heels of success, the company has plans to further expand into the Greater Bay Area with a production facility in Southern Guangdong.

However, the company understands that they cannot accomplish everything alone. Cross-company and cross-sector collaboration is key to continuing to grow this segment in Hong Kong, and the opportunities are endless. Partners like Brinc (venture capital firm), Hong Kong Productivity Council and Hong Kong Science and Technology Park have shown great interest in developing food tech and innovation in the city, and they have been catalysts to the movement spearheaded by Green Monday.

Sustainability in Hong Kong has grown in awareness and customers show great willingness and agility in adopting sustainable food options. The success of Green Monday is demonstrative of this demand, and there is a plethora of opportunities in different areas and niches for companies to engage the increasingly green customers of Hong Kong.



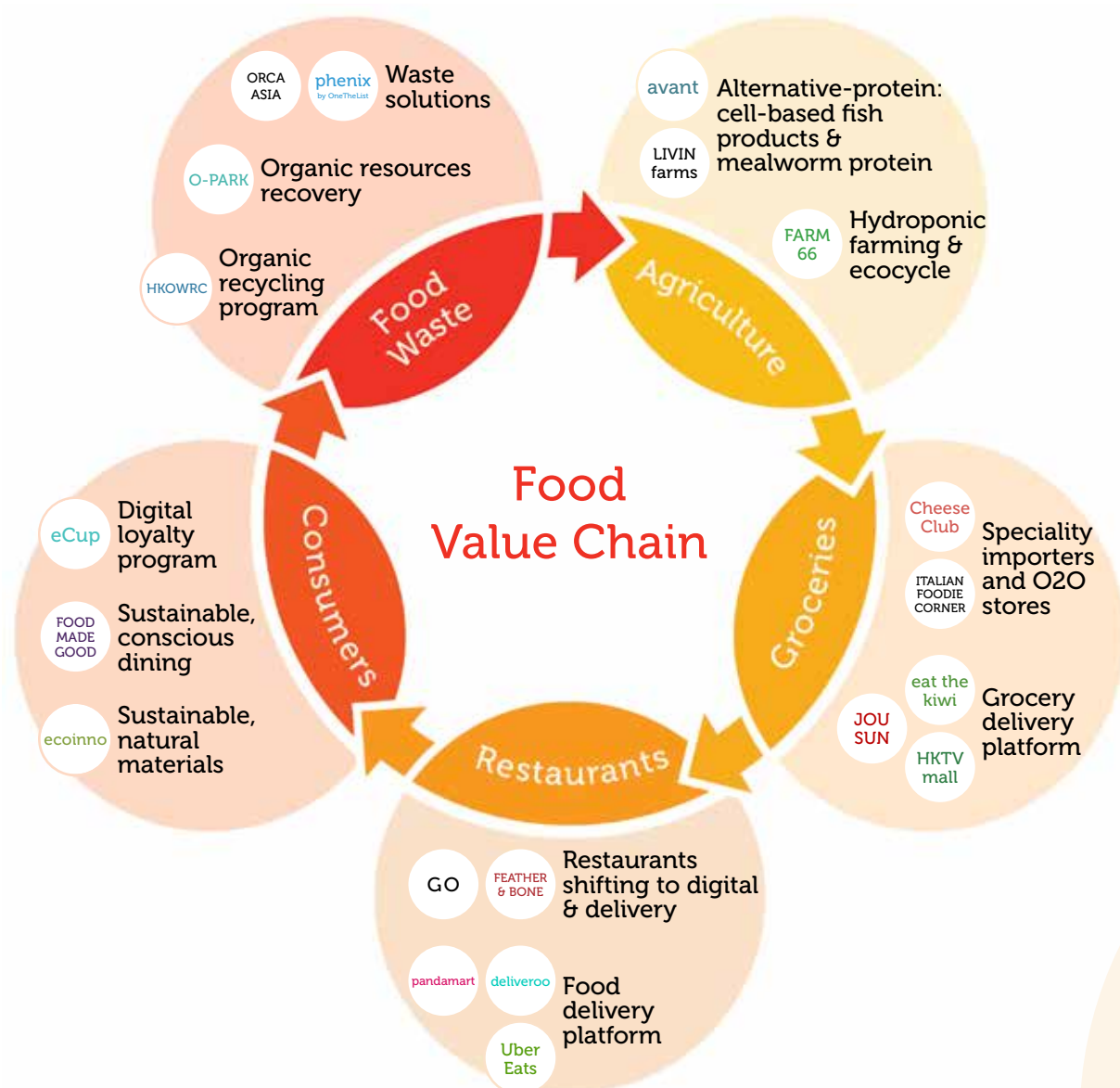
This is just the beginning... there are almost TOO many areas of growth.



3 The Digital Maturity of Hong Kong's Food Services

Hong Kong is innovating across the entire food value chain - from agriculture and food production to grocery and food delivery. Consumers and businesses have turned to online behaviour, and Hong Kong-based companies are evolving to provide modern solutions across the entirety of the food value chain.

The Breadth of Innovation Across the Food Value Chain

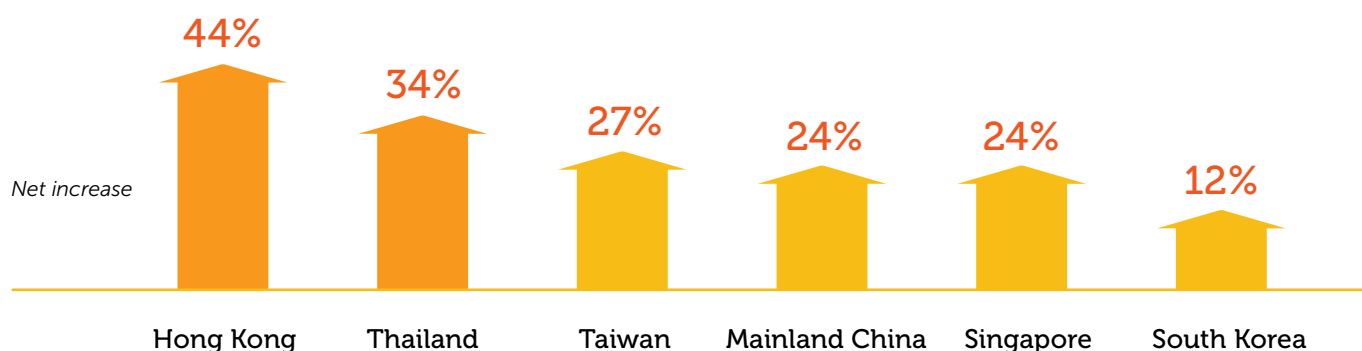




A large part of the success we have seen can be attributed to the digital maturity of the Hong Kong audience, who have changed consumption online swiftly in the face of the pandemic. The ready acceptance of digital alternatives has been apparent, with food and drink eCommerce in Hong Kong growing by 79 percent²⁵ in 2020, reaching a total retail

value of HK\$3.4 billion. As noted by Rakuten Insights, the net increase in shopping frequency for Food Delivery Services after COVID-19 for Hong Kong was 44 percent²⁴ (Figure 2), which was the highest net increase of the places studied, and Thailand was the nearest runner-up at 34 percent.

Figure 2 Change in Shopping Frequency at Food Delivery Services

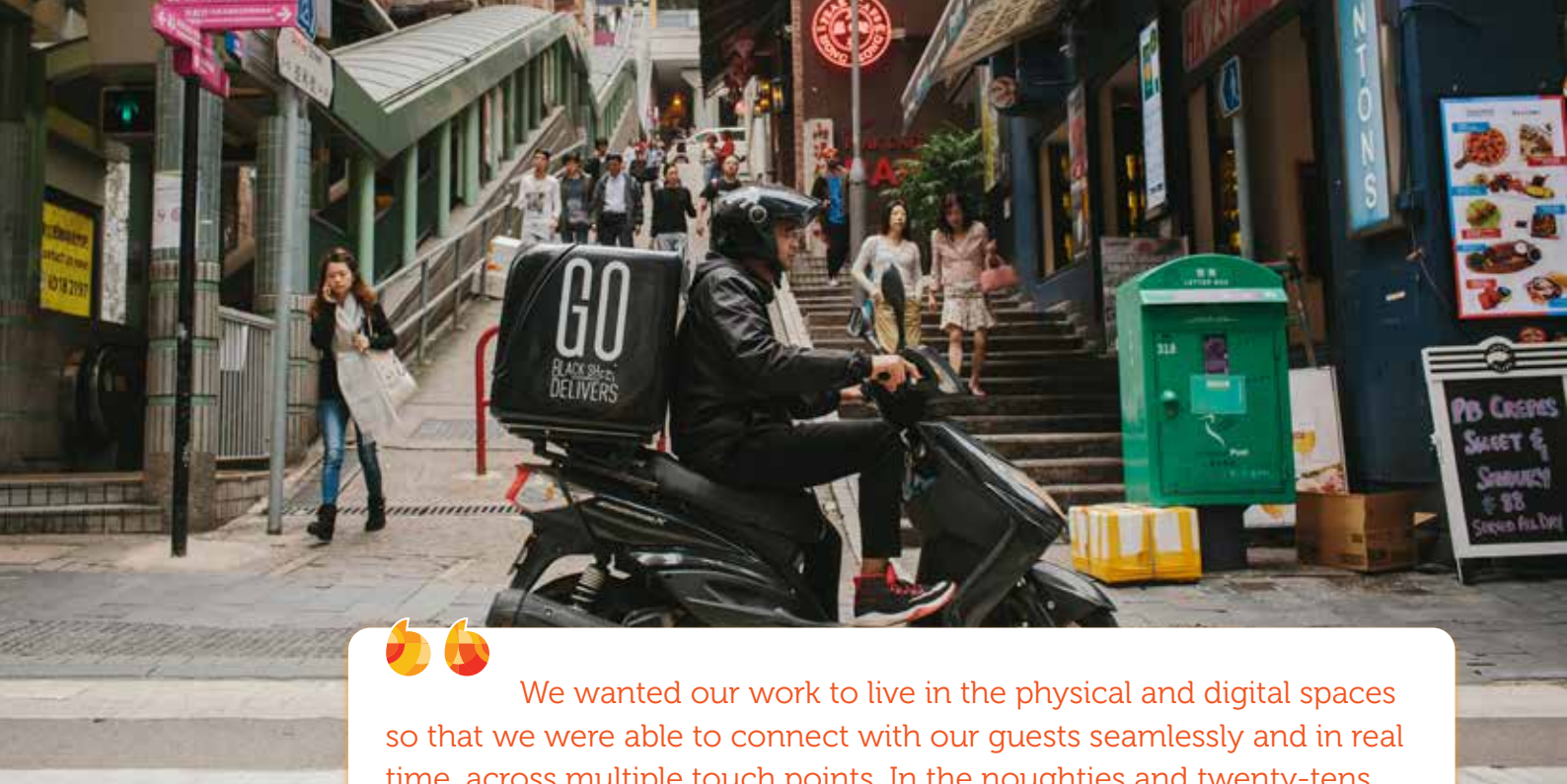


There are not only new entrants to the market, but also incumbents innovating through forward thinking digital evolutions. One example is Black Sheep Restaurants, a Hong Kong-based hospitality team founded in 2012. They have successfully nurtured a loyal and engaged digital community by leveraging Hong Kong's digital ecosystem and engaging customers through preferred channels. Black Sheep is at the forefront of Hong Kong's buzzing food scene, and delivery has been the fastest growing part of their business since it launched.



²⁴ Rakuten Insights

²⁵ Euromonitor, 2020



We wanted our work to live in the physical and digital spaces so that we were able to connect with our guests seamlessly and in real time, across multiple touch points. In the noughties and twenty-tens, restaurants predominantly lived in the physical space, but now, with the rise of online platforms, the world is one integrated space and we have harnessed this to our advantage. An example of this would be our Pizza Making Parties from Motorino. Launched as an in-house experience, we decided to deliver ingredients to guests at home where they could participate in a pizza making class with the Chef virtually.

Syed Asim Hussain

CO-FOUNDER, BLACK SHEEP RESTAURANTS



To capitalise on the acceleration in demand for delivery, the company launched its delivery mobile app, GO in 2019 which has rapidly become pivotal to their team's success. Even when consumers stay in the comforts of their own home, GO has allowed Black Sheep to continue to provide premium dining experiences to their guests.

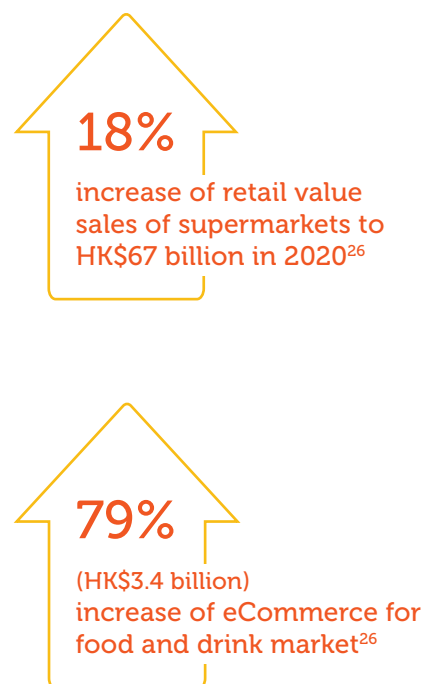
Using this digital initiative, Black Sheep has developed their very own O2O business environment and platform to engage both returning and new customers online before the proliferation of food delivery aggregator platforms. GO has also given them the ability to capture customers across a wide variety of digital touchpoints and build their very own digital community to engage customers directly via email, SMS or social media.

Hong Kong app customers have been receptive to digitalisation, and the company announced a 50 percent YoY growth in January 2020 for GO. The company also launched two fully virtual restaurant concepts at the end of 2019, serving customers purely via delivery. Their success has been enabled by Hong Kong customers' rapid acceptance of digitalisation, and willingness to engage with products and services over digital only touchpoints. For instance, their online cake store Butter was so successful that it warranted a brick-and-mortar store.

Hong Kong has the digital infrastructure in place and Black Sheep is a prime example of how companies can leverage Hong Kong's rich digital ecosystem to cater to the future customer and adapt their product offerings to match the changing expectations of Hong Kong's customer.

4 Growth of Online Grocery Shopping

In addition to growth in (prepared) food delivery, an increased reliance on eCommerce at supermarkets is also evident in Hong Kong. In 2020, the retail value sales of supermarkets was HK\$67 billion, an 18 percent increase from 2019. One of the key drivers of this growth is the increasing prevalence of digital sales for food and drink, a market that grew by 79 percent and HK\$3.4 billion in 2020.²⁶ Customers have increasingly moved their shopping online, both for everyday commodities as well as specialty products and treats. Euromonitor projects the Compounded Annual Growth Rate (CAGR) for food and drink eCommerce will be at a healthy annualised seven percent for 2020-2025.



Many companies in the city have capitalised on this demand for online groceries shopping and expanded their capabilities to engage customers. One of the key players in this category is foodpanda, which launched Pandamart in early 2020. Pandamart offers quick demand delivery for over 4,000 unique products 24 hours a day, 7 days a week. Since launching, Pandamart has already established 16 locations in the city and has 80 percent coverage in Hong Kong, with goals to achieve 100 percent in 2021. In a study by Sun Life Hong Kong, many respondents recorded increased eating habits: For instance, 43 percent of respondents stated that they consumed more snacks than the previous year. This increase in consumption, combined with a reliance on delivery services presents a great opportunity for companies like foodpanda to leverage its established network of logistics and couriers to provide a valuable service to customers.

²⁶ Euromonitor, 2020

Another prominent figure in the grocery delivery market is HKTVmall, which has seen astronomical sales growth in its six years of operation. In 2021, HKTVmall announced an increase in daily sales to an average of 38,000 sales per day, marking a 14 times growth over the past 4 years. Accordingly, HKTVmall announced a turnover of HK\$2,878 million in 2020, marking a YoY increase of 104 percent.²⁷ Not only are Hong Kong customers ordering more frequently, but they are also increasing their basket size per order. HKTVmall is an established player in eCommerce for food and drink in Hong Kong, and consumers are increasing their reliance on them during this disruptive time. Many popular retailers within the city have created designated eCommerce stores on the platform, such as Japanese consumer goods retailer MUJI.

MUJI leverages HKTVmall's large existing user base to access new online customers and have extended their product line to include frozen and packaged foods.

Grocery delivery continues to grow, and platforms such as HKTVmall and foodpanda have become launch pads for companies. These platforms provide retailers access to new demographics in prime areas of the city that traditional retailers may not have had access to without incurring the costs of opening a physical location. Grocery delivery services also create opportunity for new market entrants who can leverage the sophisticated logistical capabilities of platforms to bring their goods to customers without having to invest in proprietary delivery networks.

Online Grocery Retailers are Growing Rapidly

38,000
sales per day

HK\$2.9
billion in annual
turnover

HKTVmall²⁷

4,000
unique
products

80%
coverage in
Hong Kong

Pandamart²⁸

²⁷ HKTVmall, 2021

²⁸ SCMP, 2021



The Hong Kong customer is digitally savvy, hyper-connected and are now accustomed to the convenience of ordering delivery to their doorstep. There has also been a rise in specialty importers in Hong Kong, specialising in high quality food items sourced from suppliers overseas. These stores are able to engage consumers digitally, reducing the typical overhead costs otherwise required to establish a strong presence in the market. The success of these businesses is largely due to the high demand for premium international goods and luxury food items from the discerning Hong Kong customer, such as high quality cheese, meats and seafood. For instance, there has been a rise of 9 percent in organic dairy sales from 2019 to 2020, and organic rice, pasta and noodles saw a rise of 27 percent²⁹ respectively in the same time period.

A prime example is Eat The Kiwi, an online only retailer that sources high quality produce from New Zealand-based farms and producers. Launched by New Zealand food distributor The Produce Company, Eat The Kiwi delivers directly to consumers as well as sources for over 200 of Hong Kong's top restaurants and hotels. There is high demand for these types of food products, and there is certainly opportunity for businesses to provide specialty services that give consumers access to top quality imported goods that they crave.

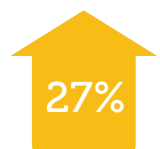
Hong Kong's
Consumption
Increase
(2019 - 2020)²⁹



Organic
dairy



Organic
rice



Pasta



Noodles

²⁹ Euromonitor, 2020

Eat the Kiwi's Digital Adaptations Lead the Way from Hong Kong to Asia



If you can make a name for yourself in Hong Kong, you can go anywhere.

Philippa Kerr

GENERAL MANAGER, EAT THE KIWI



Entering Hong Kong made perfect sense for Eat the Kiwi, who saw the numerous opportunities that the "World Stage for Food" could offer. The New Zealand-based food importer observed Hong Kong's advantageous business environment of low taxes, minimal language barriers and established food importing habits

and capitalised on a growing demand for Western food and produce.

The company's product mix perfectly caters to local customers' demand for high quality, restaurant grade products with an increasing emphasis on grass fed, organic and sustainable foods. The company also recognises the important position that Hong Kong has in the global food scene, and makes use of the welcoming business community to build beneficial relationships and a strong brand, leveraging all of this to expand to other markets including Shanghai, Macau and Western Samoa.



From Hotels to Homes

Although Eat the Kiwi entered Hong Kong with a focus on its booming restaurants and hotels, the company understood the importance of establishing a presence in the home delivery market. The brand's delivery service is a vital branding function in a city where marketing and differentiation are crucial. Eat the Kiwi saw in Hong Kong, an audience that had both buying power and demand for premium products but lacked the time to source it themselves. The

company therefore invested in their delivery platform to target the Hong Kong customer who demanded quality and convenience in what proved to be an act of clairvoyance. With the impact of COVID-19 on Hong Kong consumer's behaviour, Eat the Kiwi saw its home grocery delivery service grow from five percent of overall turnover to thirty percent, and sales grew by a whopping tenfold over the last year.

Eat the Kiwi has noted that this demand for grocery delivery has not wavered even after the relaxation of social distancing rules. Not only have regular customers increased the size of their orders, but the company has also noted many new customers generated from word of mouth and Facebook advertising. To cater to the growing customer base, the company has had to adjust quickly, shorten lead time, increase delivery days and frequency of imports. The company has also expanded to the retail market, joining popular online grocery platforms such as HKTVmall and Jou Sun. Furthermore, Eat the Kiwi has adjusted its product portfolio to accommodate changing customers needs, introducing child-friendly options and convenience options such as frozen foods.

The reason for its success is its early integration with Hong Kong's digital ecosystem. The company invested in its online platform from the beginning, understanding the impact a fast and convenient platform could have on customers' purchasing decision. Seeing a similar growth in digital for its B2B business, the company plans to set up an online platform for restaurants and hotels as well.



People still need to eat, but they have had to change their consumption behaviour.



Growing Together with Hong Kong's Service Providers

Another key benefit that Eat the Kiwi discovered in Hong Kong is the broad network of service providers within the city. Leveraging this network, Eat the Kiwi has built key partnerships to outsource parts of its supply chain and these symbiotic relationships enable the company to grow together with their partners.

For instance, instead of developing their own delivery fleet, Eat the Kiwi partners with local logistics companies, Go Logistics and Logico, significantly reducing the investment needed to scale the business. Beyond logistics, Hong Kong's technology expertise has helped

the company strengthen its digital platform and presence. Eat the Kiwi found that the Hong Kong Government provides incentives and funding for IT, allowing the business to put together an office filled with local, digitally enabled talent.

The partnership opportunities in Hong Kong make it easy for the company to focus on their core business and brand. This enables Eat the Kiwi to look abroad for more opportunities, and expand its brand further into the GBA, Greater China and Asia.



We've been able to find kindred spirits, partnership opportunities and lots of ways to find help in Hong Kong.



5 The Evolution of Cloud Kitchens

Cloud Kitchens represent another exciting area of growth within the digital ecosystem of Food Services in Hong Kong, creating opportunities for restaurants in the city to innovate and expand delivery coverage. Cloud Kitchens provide restaurants with access to customers in new areas of the city, without needing to invest in new brick and mortar stores. With reduced operational costs, restaurants in turn are free to offer innovative new menus in strategic neighbourhoods of Hong Kong while keeping risks at a minimum. These kitchen hubs lower the barriers to entry for the industry and can serve as an easy point of access to the Hong Kong Market.

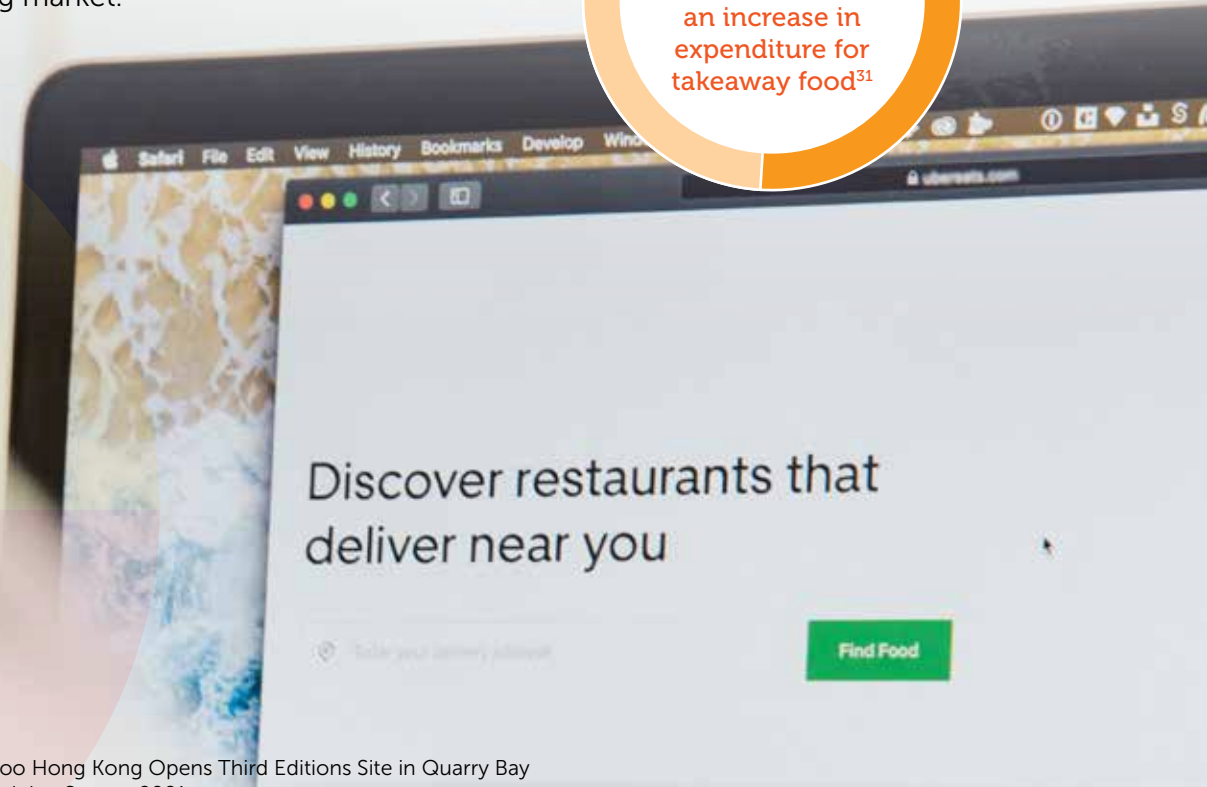
Currently, there are only a few players that are taking full advantage of this new business model to achieve great success. One example is Hong Kong restaurant group FAMA, who teamed up with foodpanda to open Fama's Kitchen in late 2019. This industry leading kitchen hub houses 6 brands in their 1,700 square foot space. Fama's Kitchen provides a home for products that are "sustainable, local, organic and wellness [focused]", and aims to provide an accessible platform for aspiring chefs and food entrepreneurs in the city to enter the industry. In addition to providing kitchen space, they also support the branding, marketing and design of the virtual restaurant and menu. FAMA group is demonstrating that Hong Kong's food industry remains unfazed in the face of disruption and is well poised to continue serving the increasingly digital customer.



Another delivery platform that has also been a front-runner for Cloud Kitchens is Deliveroo, who launched their first Edition "Food Market" in late 2018. They have since opened three locations, opening their latest and most ambitious Cloud Kitchen in early 2020, investing HK\$10 million. Across the three locations, they host 17 kitchens and 42 brands-supporting various restaurant groups across the city to provide new, innovative food concepts to their customers. With food delivery on the rise, the concept has been a huge hit with customers – with some restaurants reporting an increase of 400 percent in sales³⁰ after partnering with the Cloud Kitchen.

Cloud Kitchen partnerships between platforms and brands allow restaurants and chefs to experiment with their product mix, deftly extending their brand into different avenues and trialing new menu items with a large existing customer base. It also greatly lowers the barriers of entry, reduces costs of marketing, branding and operating so that companies can focus solely on producing a high quality product for customers. This business model represents a great opportunity for any restaurant brand to enter the Hong Kong market.

Cloud Kitchens and other forms of food delivery have been welcomed with open arms by the Hong Kong consumer, and it will surely continue to grow. In the most recent 2021 PwC Global Consumer Insights Survey, 51 percent³¹ of respondents said that they expected their expenditure on takeaway food to increase; Cloud Kitchens will certainly benefit from it. In addition, as food delivery platforms and virtual kitchens grow in popularity, they are also growing into their role as data aggregation centres, and restaurants can now build strong insights into existing trends. Brands can gather feedback on their products quickly, and can proactively adjust their products to match customer expectations. The large amount of available data would be hugely effective for any business interested in expanding into Hong Kong or attracting new customers. It is an area that is growing rapidly in Hong Kong with food delivery platforms aggressively increasing scale within the city.



³⁰ InsideRetail.Asia – Deliveroo Hong Kong Opens Third Editions Site in Quarry Bay

³¹ PwC Global Consumer Insights Survey, 2021

Deliveroo's Virtual Brands and Kitchens Deliver the Keys to Expansion



What people are eating [in Hong Kong] sets the food agenda for the world.

Greg Kwan

HEAD OF CORPORATE AFFAIRS
(ASIA), DELIVEROO



For Deliveroo, the appeal of Hong Kong was clear from the start. Hong Kong is an "international food city" that is consistently one of the first to identify up-and-coming food trends. The city's avid consumer demand for

quality and variety of cuisines attracts many overseas restaurants, including current or future Michelin Star recipients looking to test out the international market.

As such, Deliveroo sees huge potential for Hong Kong's food delivery market, which matches other international cities like New York or Beijing. The trend of customers ordering food online has grown tremendously in Hong Kong, and Deliveroo has seen increased customer retention as recent disruptions have accelerated the adoption of food delivery as a habit for many customers.



The pie has grown bigger [for food delivery].



Partnering for Success

When COVID-19 social distancing measures required a premium Chinese restaurant to look for alternative revenue sources, Deliveroo provided an innovative way to maintain business continuity. The restaurant partnered with Deliveroo to leverage the platform's capabilities to build a secondary, virtual brand that catered to the mass market. Doing so made the business more resilient in the face of disruption and allowed them to service a completely new customer segment without impacting the prestige of their original brand.

Deliveroo not only helps restaurants increase audience reach and revenue, but also gather significant behavioural insights, allowing them to attract new customers and keep existing customers hooked. Working with Deliveroo to create a virtual brand has provided restaurants with a critical growth avenue in challenging times and can be a strong solution for restaurants looking to enter a new market or extend their current business.

For instance: Cali-Mex Taqueria, a successful restaurant chain with 10 locations across Hong Kong, worked with Deliveroo to bring the brand Wing-It to life. Starting as a brand concept in Deliveroo's London office, the partnership between Cali-Mex and Deliveroo enabled the full realisation of the brand in Hong Kong to capitalise upon an underserved cuisine. Wing-It and other virtual brands are supported by vast amounts of data collected by Deliveroo. Using data, restaurants can build insights on location, cuisine preferences and price to create a tailor-made menu for target customers and locations. Post-launch diagnostics of customer behaviour and marketing support is also available for restaurants.



With changing consumer behavior and increasing demand for eCommerce and ASAP delivery, Deliveroo has extended their partnerships to grocery and department convenience stores such as Marks & Spencer, 7-Eleven and Don Don Donki to supply digital savvy consumers with convenient grocery delivery services, becoming an integral part of the Hong Kong digital ecosystem in the process.

Deliveroo's Editions "Super Kitchens"

By partnering with Deliveroo Editions, the restaurant Blu Kouzina was recently able to translate their successful Singapore business to Hong Kong by leveraging the data and resources provided by Deliveroo. With the high rent in Hong Kong, restaurants like Blu Kouzina can greatly lower the risk associated with expansion and to begin servicing a new area within a short period of 8-12 weeks.

Deliveroo works with restaurants to create Cloud Kitchens, or "Super Kitchens" from the Deliveroo Editions' spaces. By doing so,

restaurants widen their reach to different customers across the city, expand their revenue streams and save on upfront investment without needing to set up new premises. Restaurants who work from a Cloud Kitchen need only prepare the staff and the ingredients. Deliveroo uses its insights to identify gaps and opportunities in the local market and can help restaurants create menus to succinctly address the market. Deliveroo also invests upfront in the Editions kitchens, further helping restaurants as they can expand with lower risk in addition to taking very little capital risk.



As experts in food ourselves, we want to support new and interesting restaurant brands while making sure people have access to the food they want, whenever and wherever they want it.



There is also a rise in independent Cloud Kitchens that have achieved great success, such as Spoonful by NOSH. Spoonful operates centralised kitchen hubs that produce healthy meal plans for delivery, aimed at both corporate and retail clientele. The company has received backing from Alibaba's Entrepreneurs Fund in 2016 and has now expanded to five satellite kitchens, allowing them to complete last-mile delivery for prime locations and complete pre-cooked meals from the central Cloud Kitchen in under three minutes.³² Importantly, Spoonful addresses Hong Kong's demand for sustainable delivery options. Although each satellite kitchen serves a distinct cuisine, the company sources only premium and sustainable ingredients packaged in compostable containers that decompose in 51 days in a landfill.



To complete pre-cooked meals from the central kitchen³²



³² Cyberport - NOSH is Cooking Up a Spoonful of Goodness for Corporate Clients

Growth in Hong Kong is “Sustainable”

As customers become more concerned with the environment, there are rising opportunities for reusable/recyclable packaging and sustainably sourced materials. One company that has leveraged this opportunity is Ecoinno - a Hong Kong based company that produces sustainable packaging out of plant fibres. The company partners with Hong Kong Science and Technology Parks, leveraging the facilities and supportive environment to grow. Ecoinno has secured HK\$24 million from Hong Kong’s Innovation and Technology fund, and in 2020 raised a further HK\$50 million from Alibaba’s Hong Kong Entrepreneurs Fund and others.³³

There has been a rise in innovative start-ups entering this space, such as Sustainable, a company creating 100 percent home compostable packaging for customers; and Distinctive Action, who launched in 2020 to create the “invisible bag” that completely dissolves in water. The growth of Ecoinno and other companies highlights the demand for, and growth of sustainability in Hong Kong. This trending customer sentiment is currently underserved, and is a technological white space that companies should look to enter in Hong Kong.



Sustainability and eco-friendliness is a fast rising concern for consumers in Hong Kong, and it is a factor that is influencing more and more purchasing decisions. This is an area of business that is growing alongside consumer sentiment, and new opportunities will continue to present themselves to businesses in Hong Kong who are able to capitalise.

Elaine Huang

ESG PARTNER, PwC



³³ Hong Kong Science and Technology Parks

6 Diverse and Versatile Business Models for F&B

Hong Kong is also innovating in F&B retail as property developers are focused on diversifying tenant mix with an emphasis on F&B businesses in order to maintain foot traffic, with a new wave of food-hall style operations opening in prime, foot-traffic dense locations in the city. Similar to Cloud Kitchens, these retail spaces offer restaurant brands an accessible point of entry to the market, minimising risk and overhead costs. While popular abroad, the food-hall creates a cross-over between sit down restaurants and takeaway services that is new to Hong Kong, and presents new opportunities for businesses to explore.



One industry pacesetter is Basehall, located in Central Hong Kong that launched in June 2020. Basehall is a food-hall that has bridged the gap between fast-casual and premium dining, housing 10 rotating brands that offer a variety of cuisines. By collaborating with Basehall, these restaurants are given access to a huge population of customers in a strategic location without investing in physical spaces and kitchens themselves. Most recently, Basehall has extended their business to make the most of Hong Kong's digital ecosystem, collaborating with nearby entertainment space The Grounds to provide customers contactless food ordering through digital menus and QR codes.

Although restaurants may offer a premium dining experience in their own brick-and-mortar stores, collaborating with Basehall offers them the flexibility to innovate and test menus, specifically geared towards providing fast, takeaway-friendly items. This hybrid between food court and premium dining experiences allows for more accessible, consistent and sustainable menu concepts, and appeals to the modern customer who demands convenience, quality, variety and speed. Furthermore, by combining 10 brands under one roof, Basehall is able to create a dining destination for customers, opening cross-sell and upsell opportunities for the brands operating in their space. The food-hall presents another exciting way to operate in Hong Kong, and other companies have been quick to recognise the opportunity - including new entrants such as J.A.M, another food-hall which has opened its doors in early 2021.



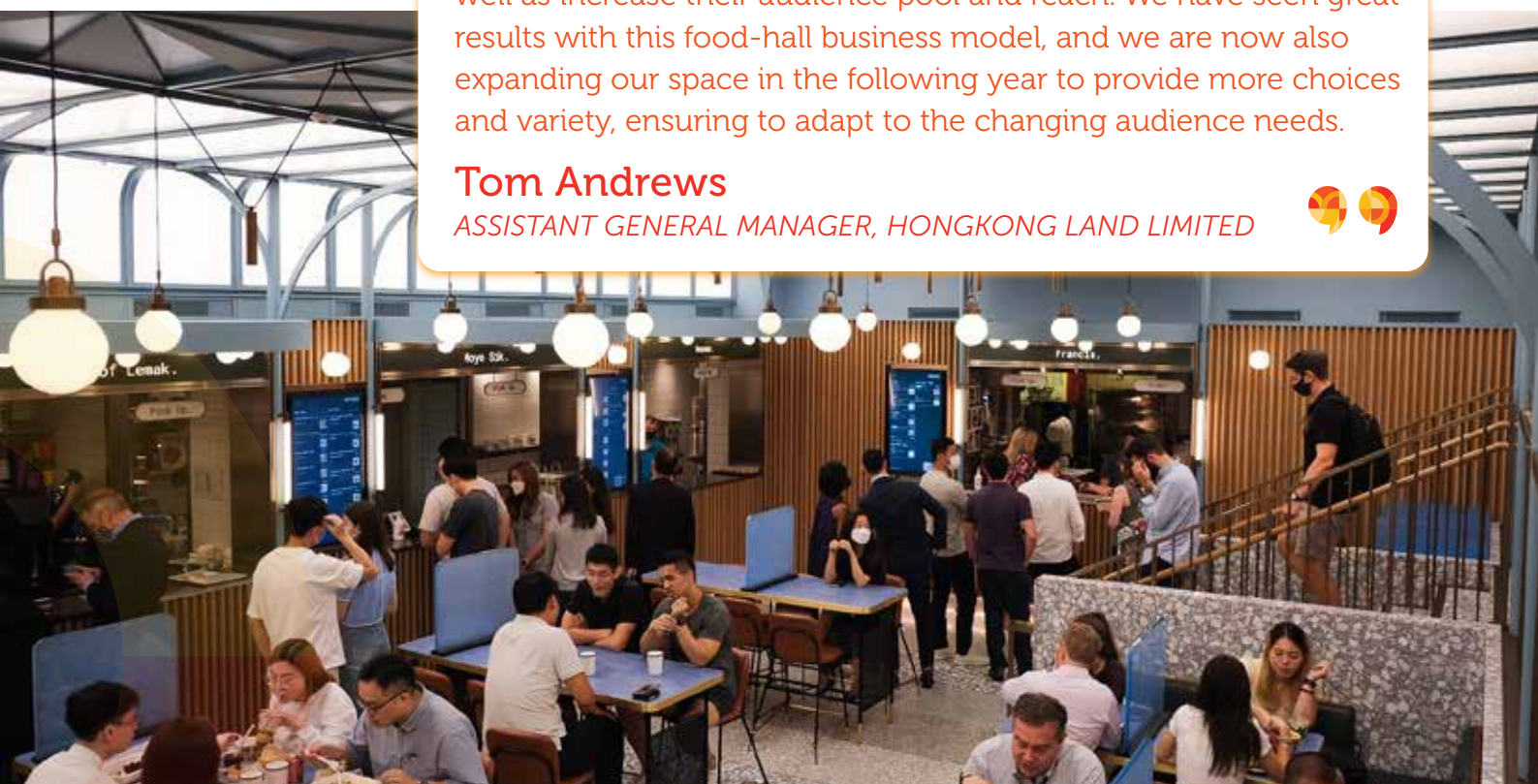
Similar to Cloud Kitchens, food-halls in Hong Kong open up new avenues for business by lowering barriers to entry and making the restaurant industry more accessible for independent operators. Its success is propelled by the fact that it also allows for restaurants to operate with increased flexibility, which is passed on to customers as a unique variety of products which combine to create the ultimate dining destination.



Hong Kong consumers are always looking for the next-level and new experiences; Basehall presents the right opportunity for restaurants to engage these customers in a risk-controlled environment where they can test new concepts and products as well as increase their audience pool and reach. We have seen great results with this food-hall business model, and we are now also expanding our space in the following year to provide more choices and variety, ensuring to adapt to the changing audience needs.

Tom Andrews

ASSISTANT GENERAL MANAGER, HONGKONG LAND LIMITED



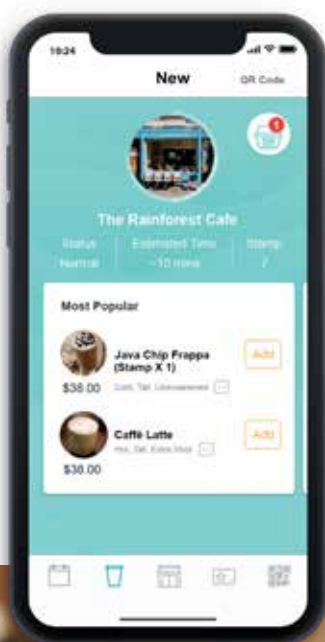
7 Abundance of Digital Transformation Partners

Hong Kong has an expansive F&B scene, with a total of 15,524 restaurants³⁴ - the highest restaurant density in the world. Many of these restaurants are small and independently operated. As a result of this fragmented market, there are opportunities for technology platforms to enter the market as digital transformation partners of independent operators.

HONG KONG

The highest restaurant density in the world

15,524
restaurants³⁴



One such company is eCup, an all-encompassing digital platform for small scale, independent coffee stores and roasters in Hong Kong. There are over 400 independent café outlets³⁵ in Hong Kong, and eCup enables these less digitally savvy, independent operators to manage all digital aspects of their business without needing to invest in infrastructure or talent. Using the platform, customers are able to explore nearby coffee shops, and the stores are able to manage online orders, digital payments, loyalty and mobile commerce. This gives small and independent operators a simplified way to scale and expand their reach to new customers in Hong Kong. eCup streamlines the ordering process and accelerates customers' intent to purchase and actual purchase, helping small businesses increase traffic and revenue. Since launching in late 2018, the company now partners with over 150 coffee shops and roasters, and has amassed over 35,000 users.³⁶



During COVID-19, the consumer behaviours changed dramatically especially on adapting remote ordering, digital payment, eCommerce via web and App.

Matthew Ho

CO-FOUNDER & CTO, ECUP

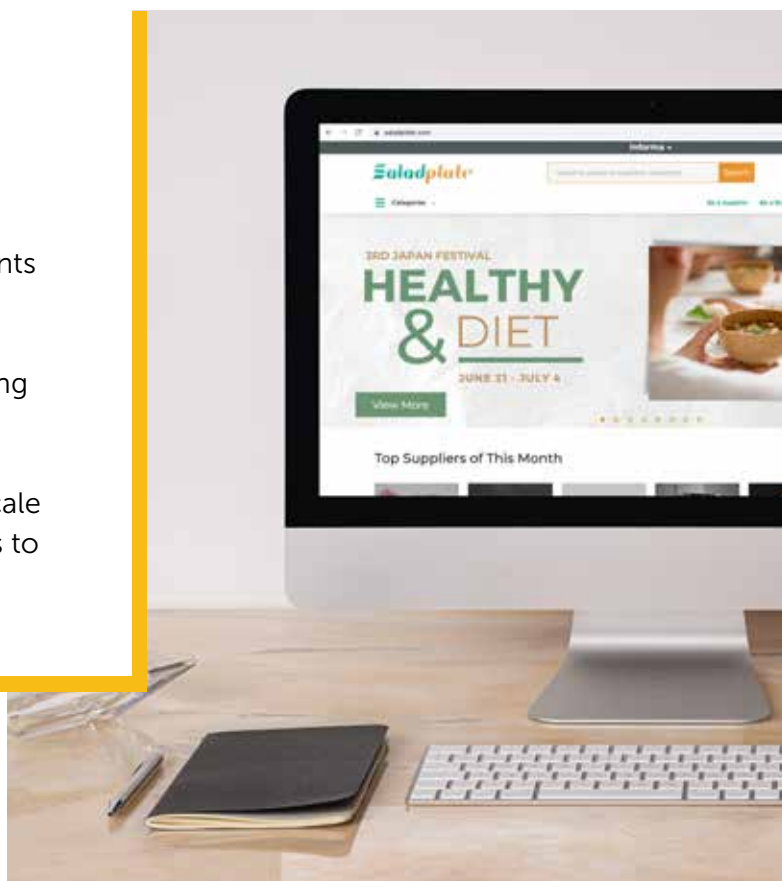


³⁴ LaCrucci - What are the Total Number of Restaurants in Hong Kong

³⁵ Euromonitor: "Independent Café Market Size in Hong Kong"

³⁶ eCup - About Us

There is tremendous growth in this niche, with companies such as Aigens working to enhance Point of Sale systems for restaurants by enabling customers to order items by scanning a QR code. Other platforms such as BistroChat assist restaurants by enhancing purchasing experience through online booking. More importantly these platforms also act as loyalty programmes for small scale operators who may not have the resources to manage their own customer loyalty.



On the B2B side, Saladplate is a platform operating out of Hong Kong, acting as a one-stop online marketplace for sourcing food, beverages and hospitality products around the globe. Created by Informa Markets, the world's largest trade fair organiser and backed by over 2 million buyers and suppliers,³⁷ Saladplate creates a digital solution to replace physical trade fairs that have been disrupted. The platform creates a digital tradeshow that gives buyers instant visibility of suppliers, ensuring that relevant information for products is given to buyers. Saladplate shortens the distance between buyers and suppliers, who no longer need to wait for annual trade fairs to find new business partners, giving businesses increased flexibility, exposure, and helping with business continuity during periods of disruption. Not only can suppliers and buyers conduct business year-round, the platform also allows smaller brands to build visibility and credibility. Saladplate is an important platform for suppliers to locate demand for time-sensitive products during a time where physical trade has been forced to go digital. This digital trade fair marks a new trend where digital or hybrid trade fairs

may replace annual physical fairs to become the future industry standard.

On top of maintaining business continuity, Saladplate provides an analytical dashboard showing top selling products, page views, order tracking and more for businesses to understand and quantify performance. Saladplate also provides branding and marketing support on the platform. The services provided by Saladplate and other similar platforms greatly reduce the start-up costs and resources necessary for businesses to succeed. This is exceptionally powerful for small or medium sized suppliers who are able to leverage it to grow.

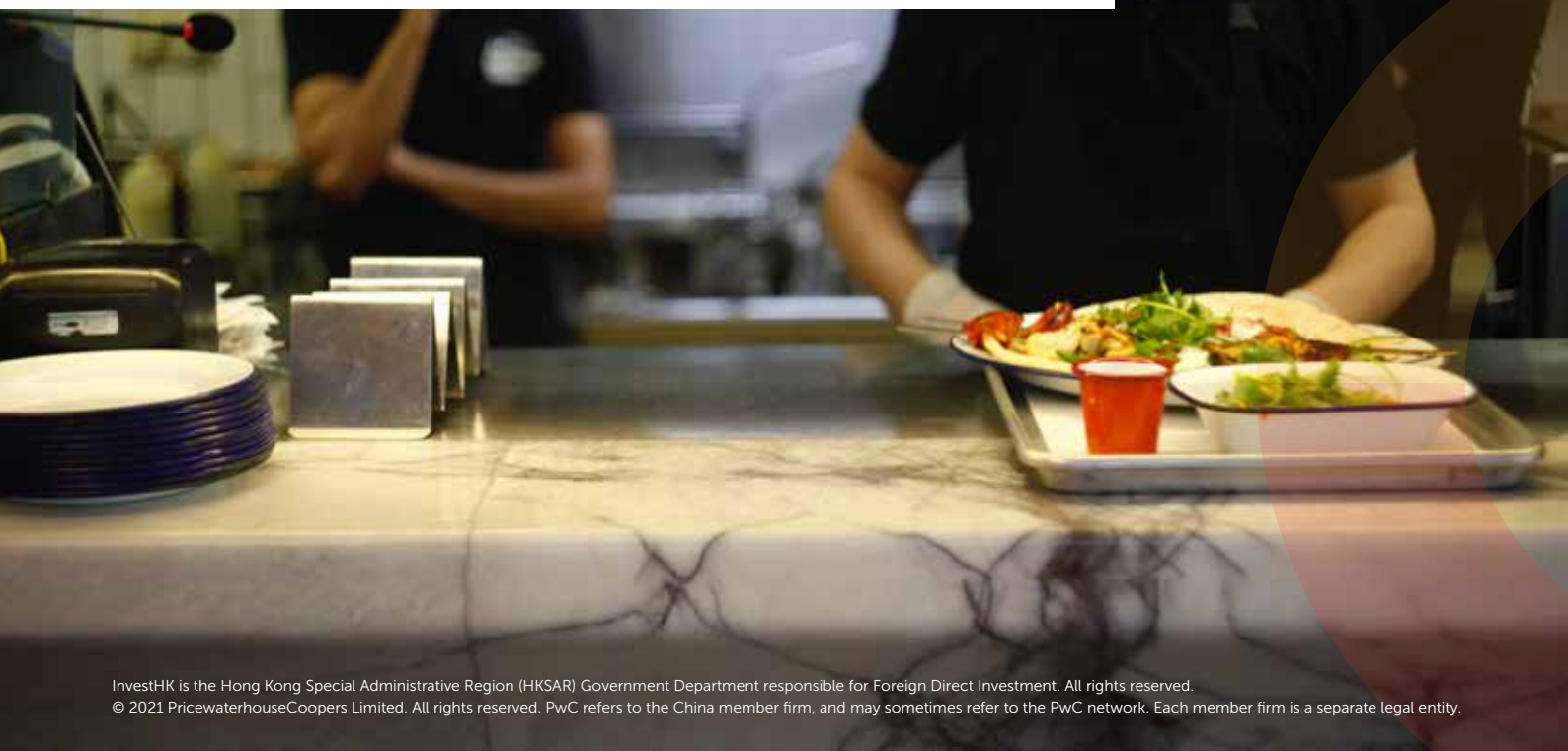
These digital partnerships between retailer and platform can open up opportunities for all sides, handing both parties the tools and capabilities for growth. With the vast amount of food service retailers in Hong Kong, this is an area that will undoubtedly continue to grow in scale and sophistication, especially as digital transactions, virtual showrooms, and loyalty programmes are now the mainstream for Food Services in Hong Kong.

³⁷ Saladplate - About Us



Exciting New Age for F&B

Food Services in Hong Kong is now in a period of rapid digital change and development, with new offerings and innovations popping up across the city. This growth is enabled by the sophisticated digital ecosystem of Hong Kong, which is propelling the Food Services industry to new heights. From the meteoric rise of food and grocery delivery, the growing consideration for green eating to the business model innovations of the Cloud Kitchen and food-hall, all underpinned by an accelerating digital ecosystem, it is clear that Hong Kong is poised to evolve with the changing preferences of the modern consumer. In addition, there are a wide variety of platforms that can serve as digital transformation partners for independent operators, presenting opportunities for companies of all sizes and maturity levels to enter the market with minimised risks and overhead costs.





Hong Kong is a foodie paradise in itself. It is also the perfect launching point for the entire Greater Bay Area. Whether you are searching for strategic partners, financial platforms or marketing agencies to expand or enter directly, there has never been a more exciting time to be part of the food business in Hong Kong and beyond.

Sindy Wong

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