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Hong Kong

Retail Food Sector

Internet Food Retailer adM@rt Closes

After Suffering Losses Approaching HK\$1 Billion

2000

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Report Highlights:

adM@rt, a forerunner in on-line food retailing in Hong Kong, announced its closure on December 11 after only a year and a half of operation. A company representative claimed that Hong Kong is not yet ready for full-fledged Internet retail business and that its home delivery cost was too expensive. He said these were the two main reasons leading to adM@rt's failure.

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adM@rt, the creation of Hong Kong media mogul Jimmy Lai, burst onto the food retail business in June 1999, billing itself as a scrappy upstart, a low-price competitor to the supermarket duopoly of Wellcome and Park'N Shop. Its emergence promptly touched off a price war among the key supermarket chains in Hong Kong.

As a member of the Next media group, adM@rt advertised its products heavily through its sister enterprise, the newspaper Apple Daily. Orders could be placed by phone, fax, over the Internet, or through one of its small retail showrooms, and the goods were delivered the following day. The idea was that adM@rt could keep its costs down by limiting the use of expensive retail outlets, however, it found that maintaining a delivery fleet and providing efficient home delivery service were very costly. Also, the number of online transactions never reached expectations. Internet orders never exceeded 25 percent of purchases, while 65 percent of orders were placed over the telephone and 10 percent by fax.

adM@rt was plagued as by complicated system of 10 distribution centers which failed to function properly during the Christmas 1999 shopping season, leading to many failed orders. To capture more business, adM@rt tried to offer lower prices, but major supermarket chains were able to respond with even lower prices, given their strong financial backing and significant buying power.

adM@rt also had difficulties in securing supplies from local agents. Unofficial sources claimed that pressure from dominant retailers prevented some Hong Kong agents from supplying goods to adM@rt, which then had to rely on parallel imports and consolidators for supplies. Eventually charges were brought that adM@rt sold counterfeit versions of a famous French wine, which further damaged adM@rt's reputation.

adM@rt's brief presence on the Hong Kong supermarket scene raised awareness of the home-delivery concept. Both Park'N Shop and Wellcome revamped their own home delivery services to be more competitive with adM@rt. However, it seems that Hong Kong is not yet ready for large scale business-to-consumer Internet sales. Competing retailers believe that the conveniently located food shops in Hong Kong and consumers' habits of seeing and touching the products present stiff challenges to the success of Internet food retailing for the time being.

Hong Kong remains a very competitive environment for food retailers, with the two major players enjoying choice store locations and support from suppliers on an informal retail price maintenance scheme. New entrants to the supermarket industry find it difficult to compete with either lower prices or better locations. adM@rt rolled up a loss of over HK\$1 billion in its year and a half of existence. The adM@rt representative admitted that the amount of most transactions were not large enough to cover the delivery cost. The loss had been accumulating to point that the owner finally decided to end the business.

This year Hong Kong has witnessed the exit of three food retailers, including Market Republic, Carrefour and adM@rt. The retail market continues to be dominated by two major supermarket chains and it seems that their leading position is even more secure than ever. With steadily more Internet users in Hong Kong and improved security of transactions, Internet food retailing may eventually succeed since Hong Kong people are very busy and the home delivery concept has a very good potential. However, as adM@rt learned, that point lies somewhere off in the future.