



KPMG

Disruptive influences

**Three key trends transforming the
face of retail: An ASEAN perspective**

Introduction



BIG SALE

Globally, retailers report that ASEAN markets have become more important over the past 5 years in terms of their worldwide revenue. This is mostly due to an expanding consumer class and favorable policies on regional integration — with Philippines, Vietnam and Myanmar topping the list of ASEAN countries about whom businesses are most optimistic¹. The last two, along with Indonesia, are increasingly being cited as priority markets for growth, with leading global players having ambitious expansion plans, as they look to diversify outside their increasingly saturated home markets and tap the rising demand for convenience globally². Not only is the ASEAN's middle class expected to be 400 million (mn) strong by 2020, it's a younger and more tech-savvy demographic than any other region in the world — offering businesses, especially in retail, a tremendous opportunity for growth.

As the region evolves, so will consumer preferences. Today's consumers are looking, above all, for **value**, **convenience**, and a **unique experience**. These three needs are driving disruption to existing markets and business models on an unprecedented scale. To achieve any kind of sustainable growth and ensure competitive survival, retailers in ASEAN must find ways to differentiate themselves in at least one of these three needs.

Are there any clear winners and what can we learn from them? We explore the implications of this changing retail environment and look at ASEAN retailers who have used these trends to their advantage.



¹ ASEAN Business Outlook Survey 2016, amcham.org

² Consumer Good Forum – 2016 Planet Retail and CGF Internationalisation of Retail Report

Disruptive Influence 1: Value

Value Defined

Today, value has come to mean cost to purchase instead of the traditional definition of value as cost to quality/service. ASEAN's diverse demographic and slowing economic growth has strengthened this new definition while technology has accelerated this change in perception.

Few regions are adopting digital as enthusiastically as ASEAN, where price comparison websites now allow potential buyers to easily compare offerings from different retailers and/or e-commerce "pure players." With more than 250 mn active internet users (that's 40% of ASEAN's total population) the result is a far reaching shift in consumer behavior and value orientation.



ASEAN - 6 digital population 2015

Indonesia		Thailand	
Population	255.5M	Population	65.1M
Internet users	88.1M	Internet users	35.0M
Social media users	79.0M	Social media users	38.0M
Mobile connections	318.5M	Mobile connections	97.1M
Mobile social users	67.0M	Mobile social users	34.0M
Malaysia		Singapore	
Population	30.8M	Population	5.54M
Internet users	20.6M	Internet users	4.65M
Social media users	18.0M	Social media users	3.70M
Mobile connections	41.9M	Mobile connections	8.10M
Mobile social users	16.0M	Mobile social users	3.40M
Philippines		Vietnam	
Population	102.4M	Population	90.7M
Internet users	47.1M	Internet users	45.6M
Social media users	48.0M	Social media users	36.0M
Mobile connections	114.6M	Mobile connections	136.1M
Mobile social users	40.0M	Mobile social users	29.0M

How are retailers responding?

Retailers are taking advantage of this shift and grabbing market share by providing the best value to consumers through a reciprocal arrangement: consumers scale back their demands in return for reduced prices. The region's diverse demographic segments — 52.2 mn people living in high-density cities such as Jakarta and Manila, 52.6 mn in mixed to mid-density cities, 200 mn in small urban centers, and more than 330 mn in the small towns and rural areas³ — underline the challenges and complexity of correct product pricing. In particular, ASEAN's rural demographic with their rising disposable income, is creating the opportunity for affordable pricing and pack size as entry points for retailers to attract and capture consumers who will experience many brands and services for the first time.

Retail brands are also evolving their product portfolio by pushing private-label brands with competitive price-tags. For cost-efficiency, retailers are establishing optimized and demand-driven supply chains built on reliable forecasting and demand planning, enabling retailers to optimize fulfilment and distribution schedules, and minimize inventory holdings while staying responsive to demand changes. In a fully networked model — retailers, distributors, manufacturers, and suppliers, work collaboratively to respond to fluctuations in demand or adapt to changing consumer requirements.

Despite all these measures, outside of urban centers such as Singapore and Bangkok, ASEAN value retailers are lagging behind their Western counterparts in terms of presence and market share.



Example



“The French Cellar, a wine e-commerce company based in Singapore, is revolutionizing the way Asian wine lovers purchase and appreciate wine, with a subscription-based model. The company sends, on a monthly basis, artisanal wines from top wineries in France, chosen by Nicolas Rebut, a former chef-sommelier at two 3-starred Michelin restaurants. With a valuation of \$5mn the company has plans to expand into major cities in Malaysia, Indonesia, China and Japan, according to Vincent Morello, The French Cellar’s CEO.”

³World Urbanization Prospects: The 2014 Revision, United Nations Population Division

Making it work: The implications for retailers

To provide a consistently low-cost product for value buyers, retailers need to recast their traditional models, and consider:



Differentiated business models



Streamlined operating models



Digitally-enabled operations

A differentiated business model provides a portfolio of differentiated products, such as private-label and/or venture brands that are focused on the middle- to low-income segments. Retailers can then target the diverse demographic groups within ASEAN, especially with the number of affluent individuals expected to reach 277 mn in just five ASEAN economies – Indonesia, Myanmar, Philippines, Thailand and Vietnam⁴. Also worth considering are differentiated business models such as subscription-based that could trade lower margin per single purchase towards a recurring revenue stream.

A streamlined operating model is not easy to achieve. The challenge in ASEAN lies in the complex import and trade regulations that makes leveraging economies of scale, in areas such as purchasing and supply chain, even more difficult. But progressive retailers are extending the share economy mind-set to logistics infrastructure by partnerships that allow the parties to not only extend their supply chains from urban centers but also manage warehouse and distribution cost. Ultimately, to deliver the best possible price, retailers have to continually and rigorously minimize overhead cost, by:



blending smart product design (design to value)



optimizing sourcing



rethinking the value chain (removing middlemen)



streamlining key processes



integrating supply-chain partners

Digitally-enabled operations that integrate analytics and digital technology can improve efficiency and profitability. Applied analytics for store location analysis, SKU assortment by store, customer experience and product profitability analysis will help retailers constantly monitor and adjust their market offers. Digital technology, such as mobility and Internet of Things (IoT), can provide near real-time insights that help to increase operational efficiency and reduce waste. Retailers should also enhance the supply-chain visibility and information sharing, establishing a centralized control tower that enables visibility into demand, supply, and inventory, facilitating planning and improved decision-making.

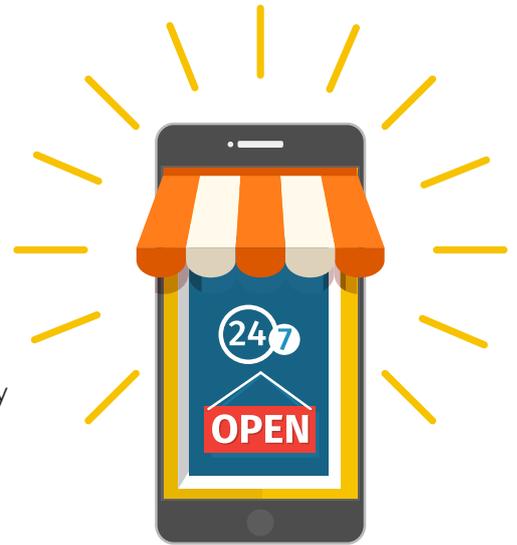
⁴ KPMG Research

Disruptive Influence 2: Convenience

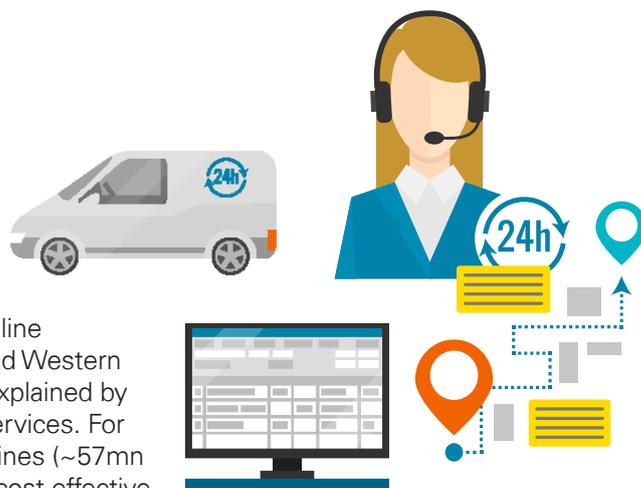
Convenience Defined

The desire for convenience has always influenced buying behavior, particularly for affluent, time-poor consumers. But while convenience is not new, it is an increasingly important trend. Retailers are constantly demanding the consumers' time and attention. But for the modern consumer, time is a currency more precious than money. In the dense urban environments of ASEAN cities, with infamous traffic jams and poor public transport infrastructure, consumers would rather not spend time on travelling beyond their local environment unless absolutely necessary. So for retailers to capture share of wallet, they need to rethink how to get the consumer's attention without demanding too much of the consumer's time.

In the search for convenience, ASEAN customers have seen a rapid and enthusiastic adoption of digital platforms across the region. Blurring the line between physical and digital channels and embracing the power of omni-channel shopping, the ASEAN customers expect a seamless, integrated "anytime, anywhere" retail experience. Patience can no longer be expected, thanks in part to the "Uberization" of services, where consumers become disappointed – up to the point of abandoning their basket – after more than a six-minute wait time.



How are retailers responding?



Despite e-commerce revolutionizing the shopping experience, online transactions in ASEAN (except in Singapore) are still trailing behind Western countries, compared to the overall retail spending. This is partly explained by the vast numbers in ASEAN who don't have access to banking services. For example, 63% of Indonesia (~156mn people) and 57% of Philippines (~57mn people) are still 'unbanked'. Further, providing time sensitive and cost effective last-mile deliveries (and returns) for small lots is also proving to be a challenge — even in major urban areas — due to factors such as, lack of transport and logistics infrastructure, regulatory loopholes in e-commerce, and non-transparent trading procedures.

But some retailers have found ways around these constraints. Successful brick-and-mortar retailers are embracing digital technology to deliver faster transactions using mobile payment solutions, self-servicing stations or in-store location and navigation capabilities. On the other hand, online-only retailers are overcoming the limitations of the lack of a physical footprint via pop-up stores and using partnerships with other storefronts as pickup points for online orders.

Digital deployment – both for the customer-facing and enterprise-facing capabilities – is a precious ally that can enable on-time delivery at the speed demanded by the increasingly impatient ASEAN consumer. Retailers can also use these digital capabilities to capture data and dissect their consumers' journeys, identifying additional pain points and making the shopping experience faster, more informative and, in the end, more enjoyable.

Example



“After delivery partnerships with players such as SingPost and 7-Eleven, Zalora, the fashion e-store headquartered in Singapore, is closing the gap between online and offline sales. Zalora has extended its online fashion retail business to a traditional showroom that offers an enhanced in-store digital experience. With an innovative click-and-mortar concept, the ZALORA Shop in the Philippines, creates a seamless omni-channel shopping experience through multiple physical and digital touch points in a stylish and modern retail environment.”

Making it work: The implications for retailers

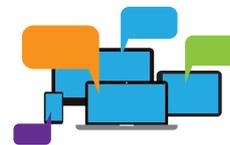
Fundamentally, convenience is all about being easy to do business with — and the easier it is, the more likely that consumers will choose to give you their business. Delivering the right level of convenience along with sufficient choices and a seamless consumer experience might require a renewed strategy for business and operating models. In particular, retailers need to consider:



Elevated business models



Smart inventory



Digital enablement

Elevated business model exploit the unique strength of brick-and-mortar retailers to better serve their consumers. The physical store is made more agile and adaptable to key consumer needs. There is a growing demand for the “one-stop” retail experience, near the consumers’ home or office, where they can fulfil as many of their needs as possible in one place. Even if a portion of the products is offered through partners or through a digital channel and only fulfilled by the store, the most important thing from the consumer’s perspective is that they found all the products of their choice in the store. Retailers can elevate their operating models, strengthening their partnerships to develop joint business models. Today’s consumers mark the end of the era of silos. It’s time to team up to enhance your service portfolio.

Smart inventory is about getting your product in the right place at the right time. The collection, analysis, and use of Point of Sale data in real time as well as a single view of inventory is key to delivering what the customer wants, when and where they want it. Demand-driven supply-chain capabilities can also be integrated with smart distribution models for retailers to cope with the peculiar logistic challenges of the variegated ASEAN landscape.

Digital enablement will help to strengthen the partnership between IT and business, to make them work in an absolute lock-step, with a singular focus on customer satisfaction, ease and speed of transaction. Retailers can enable and experiment with omni-channel capabilities to cope with the ASEAN consumers’ “need for speed”. Mobility payment, self-service stations, in-store navigation or call-my-assistant solutions will all help the store become more of an open platform that fulfils some of the challenges presented by the modern demands of convenience.

⁴ KPMG Research

Disruptive Influence 3: Experience

Personalized Experience Defined

Whether teenagers at the mall, online shoppers or retailers buying products, today's consumers have more power, choice, channels and information than just few years ago. Not surprisingly, they also have higher expectations than ever before. The new consumer is connected, informed, empowered — demanding greater choice in products, flexibility in delivery options, and faster service.

They are also increasingly aware of their importance to retailers and are not afraid to leverage it, demanding outstanding service, and an attractive yet memorable retail experience. Consumers want personalized experiences that are tailored for them and provides a relevant and valuable experience that is worth paying for.

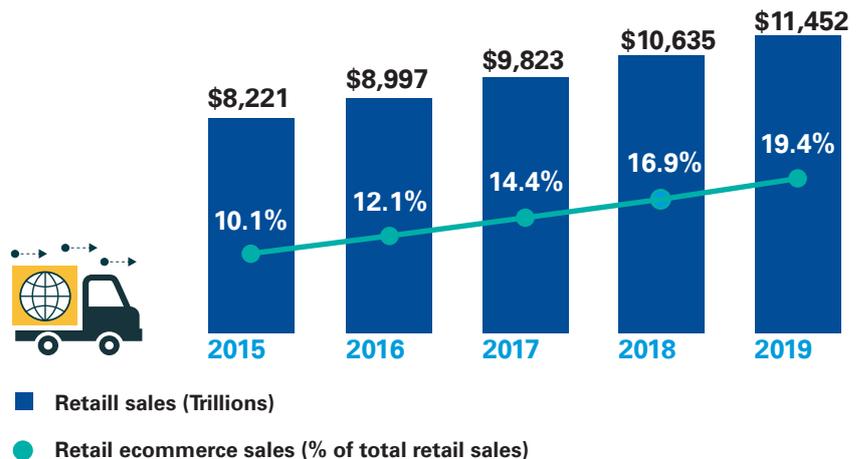
This requires retailers to know the consumer – and more importantly, to act on that knowledge. Consumers are willing to invest time and effort into building relationships with retailers, as long as it delivers a differentiated offering and more perceived value. The bonus for retailers who get this right can expect consumer loyalty, which will ultimately translate into increased profitability.



How are retailers responding?

Consumer-focused retailers are leveraging technology to better the quality of the “shopping experience.” Digital solutions like virtual/interactive mirrors, social integrated panels and location-aware services are all elements of the consumer journey, which broaden and strengthen the customer experience beyond just product offering. Even in the pure e-commerce world, retailers are deploying interactive digital solutions such as virtual/ augmented reality, intelligent digital assistants and voice activated shopping lists to differentiate the consumer experience. Empowered with advanced analytics engines, retailers are delivering this compelling experience not only for a limited set of customers but, at scale and pace that can achieve mass personalization.

Asia-Pacific, 2015-2019



Source: eMarketer, 2016

Example



“Uniqlo, the Japanese casual wear designer, has opened its new South-East Asia flagship store in Singapore. The store, with close to 300 digital displays, the largest number anywhere in the UNIQLO world, and a total of 350 in-store rotating mannequins, is the first of all Uniqlo stores in the world to incorporate a switchable film function on the glass facade, allowing different ways to showcase the brand’s apparel. The store will also feature a specially designed creative space – a launch pad for customer creativity and self-expression that will drive the co-creation of elements such as original in-store music, video content on digital displays curated spaces within the shop floor, and exclusive canvas tote bags and shopping bags designed with the local community for a unique and personalized shopping experience.”

Making it work: The implications for retailers

Retailers are also focusing on building personalized relationships with the right content, promotional offer and product recommendations based on behaviors and preferences specific to their consumers. Leveraging seamless consumer interactions among physical and digital channels, each consumer's unique attributes are captured to uncover the most important behavior patterns and profiling is used to deliver a superior omni-channel experience. Some of the things that successful retailers have chosen to focus on, include:



Embracing a customer-centric culture spearheaded by leaders who are dedicated to delighting their consumers. The interest is genuine and relentless and woven into the DNA of the retailer. The focus on the consumer starts at the top and percolates down to staff who are empowered to do what is right for the consumer. The consumer voice is listened to and monitored, with key metrics such as Net Promoter Score (NPS) or Word of Mouth (WoM) closely integrated into decision-making at all levels.

Focusing on consumer and data-driven insights To drive personalized relationships, deep analytics capabilities needs to be embedded into the fabric of the retailer's business. Data can be collected from multiple platforms (including transactional data, demographic, and social data) and used to drive insights that help the business improve its understanding of consumer behavior, for example, basket composition, demand cycles, and buying behaviors. The new consumer becomes a single consolidated entity across the entire organization, a single Customer Profile built on every single interaction and hence, cumulatively beneficial to the retailer.

Focusing on customer loyalty by moving away from traditional rewards. Developing, instead, engagement-based rewards for not just purchase activities but activities such as brand advocacy, referrals, ratings and reviews, satisfaction surveys via physical as well as digital channels. The integrated loyalty concept can become a part of the overall consumer experience, with a focused marketing strategy to drive meaningful consumer engagements across the consumer journey. In addition, retailers can design an experiential-focused loyalty model using exclusive access/experience instead of mass discounts.

⁴ KPMG Research

Conclusions

As in most other sectors, the old rules no longer apply to retail. The trends have been prevalent for a while, but in recent years, the pace has accelerated in ASEAN. A region that once merely provided a risk dilution strategy for boardrooms in the US, Europe and Japan, has now evolved into a strategic priority.

To make the most of this diverse, fast-moving, and competitive region, retailers can lock-in the demand from the new-age ASEAN consumer by:

- **Adapting to trends and their distinctive regional attributes**
- **Engaging consumers through a true and integrated omni-channel strategy**
- **Building brand awareness and loyalty through targeted and tailored messaging.**

To be able to target and reach the millions of existing and new ASEAN consumers, it will be imperative to understand the local business ecosystems of the individual ASEAN states. As the ASEAN economies shift resources from agriculture, there will be rapid industrialization and booming urbanization. This shift will support the continuing growth of the “consumer class,” making ASEAN a pivotal retail market.

It will be important to remember, that even while continually evolving, ASEAN is not a monolith. So, consumers in these ten countries will continue to hold their distinct character. To acknowledge this and treat them as different propositions will be the wiser approach. To bridge these variations, retailers looking to succeed in ASEAN have to think about what connects these different opportunities.

KPMG has an outstanding track record across ASEAN, working with ambitious retail leaders to build and grow successful businesses in Southeast Asia. Our client work relies on a proven combination of a hands-on approach and deep knowledge of the retail and technology sectors within the Southeast Asian context. We help our clients better understand the ASEAN consumer markets by examining key macroeconomic indicators for the region.







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