

# Singapore



## ECONOMIC OVERVIEW

Singapore's economic growth slowed from 2.2% in 2002 to 1.1% in 2003. This was due mainly to the outbreak of Severe Acute Respiratory Syndrome (SARS) and the Iraq war.

The service-producing industries were particularly affected by the Sars outbreak. Growth dipped to 1% compared with 1.4% in 2002. However, the wholesale & retail sectors registered a hefty 4 points growth in 2003 despite the uncertain backdrop. This growth is partly attributable to pent-up demand due to consumer cutbacks in spending in the earlier part of 2003 and increased buying in anticipation of the 1% hike in the Goods & Services Tax (GST) effective from January 1, 2004. Singapore's retail sales index was up by 9.7% year-on-year in December 2003.

### GDP AND CPI

At current market prices, GDP reached SGD159,135 million in 2003, compared to SGD158,064 million in 2002.

Key economic indicators	1999	2000	2001	2002	2003
GDP (%)	6.9	9.7	-1.9	2.2	1.1
CPI (%)	0.0	1.3	1.0	-0.4	0.5

Source: Singapore Department of Statistics

The consumer price index (CPI) grew by 0.5% in 2003 after shedding 0.4% in the previous year.

### UNEMPLOYMENT

	1999	2000	2001	2002	2003
Unemployment rate (%)	3.5	3.1	3.3	4.4	4.7



**Area ('000 sq km):** 0.68  
(US 9,600 – EMU 2,500 – World 133,700)

**Capital:** Singapore

**Population (million):** 4.17  
(US 288.4 – EMU 305.5 – World 6,200)

**GDP (USD billion):** 88.3  
(US 10,400 – EMU 6,600 – World 32,300)

**GNI per capita (USD):** 21,180  
(US 35,400 – EMU 20,320 – World 5,120)

**Currency:** Singapore Dollar (SGD)

**Languages:** Chinese, Malay, Tamil, English

**Main religions:** Buddhism, Islam, Christianity, Hinduism and Taoism

**Government type:** Parliamentary republic

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## ECONOMIC FORECASTS

The positive external economic environment in the U.S., Europe and Japan argue in favor of stronger growth for Singapore in 2004. In consideration of these positive factors and to reflect the strength of

Singapore's economic upturn, the government has revised upwards its growth expectations for the year from 3.5-5.5% to around 5.5-7.5%.

## REGULATORY ENVIRONMENT

### FOREIGN DIRECT INVESTMENT

Business organization types most commonly used by foreign investors are the subsidiary company. Joint ventures between foreign corporations and local entities may be in the form of a partnership or a company. Some foreign corporations have only representative offices (or regional offices), which do not trade but merely carry out promotional or liaison work.

Companies, whether public or private, are incorporated under the Companies Act. Branches of foreign corporations also come under the Companies Act.

A tax exemption was introduced in the 2004 budget on the first USD100,000 of a new company's chargeable income for the first three years running between the 2005 and 2009 assessment years.

The current Technopreneur Investment Incentive Scheme for high-tech businesses has now been extended to all forms of start-up operations. Under this scheme, investors (either individuals or companies) enjoy tax deductions for losses incurred if the investee fails or is sold at a loss. This will help reduce the risks faced by investors and assist new businesses in getting off the ground.

### LIBERALIZATION OF BUSINESS REGULATIONS

The government has continued to find new ways to help entrepreneurs kick-start their commercial ventures. A one-stop centre has been set up to help entrepreneurs form companies and comply with statutory regulations.

Market liberalization is also reflected in the introduction of audit exemptions for private companies, where there is no presence of a corporate shareholder and where annual revenue is less than SGD5 million. These exemptions are aimed at reducing business costs.

## DEMOGRAPHICS AND CONSUMER BEHAVIOR

### POPULATION

#### Population evolution

In million	2002	2003	2002 – 2003 growth (%)
Total population	4.17	4.19	0.48
Singapore residents	3.38	3.44	1.78

The total population consists of all citizens and permanent residents with local residency and foreigners staying in Singapore for one year or more.

Singaporean residents are citizens and permanent residents with local residency.

Breakdown of the Singapore residents (%)	
Chinese	76.7%
Malays	13.9%
Indians	7.9%
Others	1.5%
Population growth	0.3%

Source: Singapore Department of Statistics

## Population by age group

Ageing population of Singapore residents in 2003	
Below 15 years (%)	21
15-64 years (%)	71
65 years and over (%)	8
Median age (years)	35

Source: Singapore Department of Statistics

Singapore has one of the fastest ageing populations in the world. In 2003, Singaporeans aged 65 years and above made up about 8% of the population. With a mere 37,633 births in 2003, the younger generation is finding itself numerically challenged, and drastic action is needed.

By the year 2030, the proportion of elderly persons in Singapore will increase to 19%. In other words, about 1 in 5 Singaporeans will be aged 65 years and above. Couples are also marrying later. The average age of females at their first marriage was 26.5 years in 1997. In 2002, it was 26.9. Moreover, the general marriage rate for females has plummeted from 60.6% in 1997 down to 47.8% in 2002.

Couples are also having fewer children. The crude birth rate as at 2003 was 10.4 (per 1,000 population) as compared to 13.7 in 2000. These childbearing and marriage trends are combining to push down birth rates in Singapore, and the population is aging as a result.

## INCOME / BUYING POWER

Singapore has one of the highest standards of living in Asia after Japan. Average household income worked out at SGD4,940 in 2000, which compares with SGD3,080 in 1990 and denotes annual growth 4.9%. Given that inflation has remained low, household income also increased in real terms: measured in 1990 dollars, average household income rose by 3.1% per annum between 1990 to 2000.

According to the census taken in 2000, median income among working persons amounts to SGD2,200. Median household income amounts to SGD3,600.

## CONSUMER BEHAVIOR

### Average household spending patterns

In accordance with the Household Expenditure Survey 1998 (conducted once every five years), the bulk of household income in 1998 went on food (23.7%). The current trend is to buy meals out rather than cook since cooked food sales are rising in relation to sales of non-cooked food.

The proportion of household expenditure channeled into transport and communications stood at 22.8%. The other major component is housing, representing 21.6% of total household expenditure.



Source: Singapore Statistics

### Consumer durables in households

With increased affluence and greater emphasis on quality of life, ownership of most consumer durables has increased significantly over the last decade. This trend is likely to continue. As new and better products and services become widely available and the population becomes IT-literate, Singaporeans are getting increasingly likely to want or need essential or lifestyle goods and services like personal computers, mobile phones and Internet access/subscription.

In 2002, washing machines were found in nine out of ten households. Televisions, refrigerators and telephone lines continued to be the most common amenities, with almost all households having at least one such item.

The ownership rate of audio/video CD players jumped from 20% in 1992 to 76% in 2002. About 65% of households had a personal computer in 2002, up from

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20% ten years ago. And more than one in two households had access to internet services in 2002, compared with one in five in 1998.

Ownership of consumer durables in 1998 (% of households)			
Refrigerator	99	Television set	99
Washing machine	91	Audio/ VCD Player	76
Video cassette recorder	58	Pager	20
Mobile phones	85	Air-conditioner	68
Personal computer	65	Internet access/subscription	52
Cable TV	32	Car	35
Motorcycle/scooter	8		

## RETAIL & CONSUMER SECTOR PERFORMANCE

### MAJOR CONSUMER GOODS PLAYERS

#### Major consumer goods companies

Ranking	Company	2002 sales (SGD million)	2003 sales (SGD million)	2002 – 2003 sales growth (%)
1	Wilmar Trading	5,573	7,123	27.8
2	Samsung Asia	3,629	4,959	36.6
3	Hitachi Asia	3,662	3,526	-3.7

All top consumer packaged goods players fall into the electrical / electronic / computer goods categories. Among the non-high-tech companies are: British American Tobacco, Philip Morris, Moet & Hennessy and Procter & Gamble.

### MAJOR RETAIL PLAYERS

#### Retail sales

SGD million	1999	2000	2001	2002	2003
<b>Total</b>	24,644	27,236	27,131	23,789	25,811

In 2003, the retail industry generated sales of SGD25,811 million. The increase was due largely to strong growth in motor vehicle sales, especially from April onwards. All retailers also reported higher sales in December, due mainly to the Christmas and New Year holiday season as well as the rush to buy ahead of the 1% hike in the Good and Services Tax (GST) rate in 2004.

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## Major retail players

Ranking	Company	Retail formats	2003 Sales (SGD million, excl. VAT)	2002-2003 growth (%)
1	NTUC Fairprice Co-operative	Supermarket, 24-hr convenience store	1,154	8.5
2	Cold Storage Singapore	Supermarket, hypermarket, 24-hr convenience store	915	17.5
3	Robinsons Group	Department store	342	0.6
4	Takashimaya Singapore	Department store	326	- 2.1
5	Metro	Department store	254	- 2.3
6	Popular Group	Department store	270 (*)	5.1
7	Osim International	Department store	287	20.1
8	Courts (Singapore)	Department store	209	2.5
9	Isetan (Singapore)	Department store	244	24.5
10	C K Tang	Department store, specialty store (**)	171	- 1.2

(\*) Sales refers to retail and distribution sales only and does not include publishing sales.

(\*\*)Number of stores include Tangs Studio, Tangs Studio Shoes and Island Shops.

The Singapore retail market is unique in that huge chains such as NTUC and Cold Storage (Dairy Farm International Group), who dominate at the supermarket level, coexist alongside dry and wet markets as primary sources of groceries and household products. This dominance creates a very different retail scenario in comparison to the rest of Asia.

### Retail channels

The local retail sector is well-developed and comprises a wide range of retail outlets, including large, modern hypermarkets and small specialist stores. There are many international chains competing with local stores and chains, resulting in a mix of retail styles. Indeed, Singapore is often branded as a shoppers' paradise because the major international retailers and brands are represented here, attracting tourists from the region.

Singaporeans spend a great deal of money and time shopping. Indeed it is often considered a national pastime, creating a healthy market for developing

niche retail trends. General food and non-food outlets have grown in number in recent years, but specialized outlets still play a significant role in the retail scene.

In terms of food outlets, market stalls selling fresh meat, vegetables, seafood and fruits are a regular feature in public housing estates as most Singaporeans still prefer fresh products for the day's consumption.

Most Singaporeans live in government-subsidized public housing built by the Housing Development Board (HDB). This fact has a major bearing on the marketing strategies of retailers in areas such as products, price and distribution channel.

Since the early 1990s, modern, air-conditioned shopping malls and eating facilities have sprouted in these estates, existing side by side with small provision shops, wet markets and neighborhood food centers known locally as hawker centers which sell economically-priced local ethniccooked food. Metro, John Little and Isetan have moved into these areas

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and so have international retailers and restaurants such as McDonalds' and Kentucky Fried Chicken.

Singapore has a highly advanced retail infrastructure with modern retail formats being the most popular with Singapore's increasingly convenience-orientated consumers. As a result, hypermarkets and supermarkets already account for an increasing percentage of total sales value in Singapore.

## Hypermarkets

Hypermarkets are a recent phenomenon in Singapore, but are proving popular for their value-for-money concept, plus the fact that they offer one-stop shopping. Carrefour opened its first outlet in Singapore in 1997 shortly after the closure of the American chain, K-mart, after a brief period. The French chain is facing

stiff competition from Dairy Farm, which has opened three Giant hypermarket outlets in Singapore in the last few years. Such hypermarkets are taking over a sizeable share of the market from smaller, specialized retailers, as well as the department stores.

## Supermarkets

Supermarket chains target different market segments. For example, Jason's Supermarket and Tanglin Marketplace attempt to capture the affluent expatriate customer. Cold Storage is the second largest supermarket chain in Singapore, targeting middle and upper income consumers. However, Cold Storage also has its presence on HDB estates. NTUC FairPrice, the largest chain, is located in most of the HDB estates and appeals to middle and lower income residents. NTUC FairPrice operates as a cooperative.

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## RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

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### CHALLENGES

#### *Intense competition*

Despite its small physical size, Singapore has a proliferation of retail outlets. The ratio of retail space to population size is much higher than in neighboring countries such as Hong Kong. Low entry barriers have made it easier for new players to enter the retail market. The industry is fragmented and competition is particularly intense among the local small- and medium-sized enterprises (SMEs) located on HDB estates. These HDB retailers offer undifferentiated products and services and often enjoy little consumer loyalty. Foreign retailers have also encroached into the HDB estates, offering greater choices to consumers.

#### *High costs and low productivity*

The cost of doing business is high. In land-scarce Singapore, space is a luxury. Productivity is low compared to the manufacturing sector. The value-added per worker of the retail trade sector (excluding retail of motor vehicles) is only about SGD30,000, less than a third of that in the manufacturing sector. From a productivity point of view, there is much room for improvement, particularly for SMEs located on HDB estates.

#### *Service quality*

In the retail trade sector, there is a shortage of skilled personnel. Research by the Singapore Standards & Productivity Board shows that a lot of companies in the services sector do not have clear work performance standards and procedures. In most cases, there are only broad guidelines and instructions, and staff are left to do as they see fit. This results in differing levels of services standards throughout the retail sector. There is a need to raise the professionalism and image of the retail workforce, promoting service differentiation and attracting/retaining staff.

#### *Increasingly sophisticated and demanding consumers*

Singaporeans are becoming more affluent and educated, and most have traveled abroad. They have even more choices and are demanding more in terms of service, quality, convenience, variety and state-of-the-art technology. They will spend their shopping dollars where it offers the best experience, value and price. In the face of these changes, the retail sector is expected to restructure and rethink its strategy.

## *Brand marketing*

Brand marketing is becoming tougher due to the proliferation of products and brands. Product lifecycles are becoming shorter as consumers demand innovation and variety. Business practices in the Singaporean consumer packaged goods industry have also changed significantly in recent years.

The entrenchment of category management has fundamentally changed the manufacturer/retailer dynamic.

## *Intense competition from overseas retailers*

Recent developments in the airline industry have seen budget airlines offering consumers not only access to cheaper air tickets, but more subtly, the opportunity to travel to cities like Hong Kong and Bangkok to hunt for bargains. Together with the appreciation of the Singapore dollar against the currencies of its East Asian neighbours, the idea of shopping abroad has come to make economical sense and is very attractive to Singaporeans.

Cheaper air travel has also made duty-free shopping, both in Singapore and abroad more appealing. This factor is consequently expected to draw business away from retail outlets located outside the airport.

The combined effect of these trends on the retail and consumer landscape is more intense competition. Not only must retailers contend with competition from within Singapore, they must now also examine the threat posed by overseas retailers located in popular tourist shopping havens.

## **OPPORTUNITIES**

### *Changing consumer profile*

With the Generation X's and Y's now having entered the job market, and with more of them taking on professional and managerial positions, the typical Singaporean consumer profile has changed. One of the noteworthy changes is that the proportion of women who are educated and who are earning income independently has increased significantly. This has placed a sizeable portion of disposable income in the hands of women, who have become more fashion and beauty conscious. This has contributed to a

proliferation of beauty parlours, slimming centres and spas in recent years.

With dual income households becoming increasingly common in Singapore, the family household income has increased exponentially over the last few years. Coupled with the decreasing size of nuclear families, parents are increasingly willing to splurge on their children more than ever before. The teenagers' dollars have become one of the most sought after in the retail industry, leading to the glut of teenage street wear catering to the wide ranging and often fast changing fads of teenagers.

The rise of the fashion-conscious, sophisticated and culture-savvy urban metrosexual male has birthed a whole new market. This presents exciting opportunities for retailers in the fashion and grooming business.

### *Penetration rate of mobile phones*

According to figures recently published by the Infocomm Development Authority (IDA) of Singapore, mobile market penetration is expected to continue to increase. As of January 2004, the mobile market penetration rate is estimated to be around 84.2%, with 3.5 million subscribers. This, with the advent of Multimedia Messaging Services (MMS) and the propagation of MMS-enabled phones, presents retailers with an exciting new mode of advertising. Personalised MMS messages could potentially become a powerful marketing medium.

## **EMERGING TRENDS**

### *Retail master plan*

The Singaporean government launched the Retail 21 or R21 masterplan in March 2001. Retail 21 is a 10-year strategic plan that sets out the new strategies for growth and expansion of the retail sector. Its vision is to make Singapore a world-class centre of retail excellence. It contains four key thrusts, namely:

- To re-invent the retail sector by encouraging retailers to be more innovative and adopt new retail concepts and business models;
- To raise retailing standards in terms of professionalism and service excellence to achieve a higher level of customer satisfaction;

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- To enhance retail efficiency along the retail value chain by taking a cluster development approach; and
- To manage the restructuring of the retail sub-sector by providing market information and lowering exit barriers.

## *Service excellence*

A conscientious effort has been made to help companies to upgrade service quality. The Productivity & Standards Board will develop skills upgrade standards for all key industries in the service sector, including the retail trade. These standards will specify service performance standards and will be supported by on-the-job training blue-prints. A total service excellence approach is to be used to ensure implementation. Apart from teaching skills, it will also cover service attitudes, standards, and certification measurement, recognition of good performance standards and sharing of best practices.

## *Fair trading act*

This will be put in place to protect traders and consumers, and hence raise the image and professionalism of retailers.

## *Geographical shopping patterns*

With suburban malls sprouting up in many of the Housing Development Board heartlands - such as Tampines, Yishun, Jurong and Woodlands - the general geographical shopping patterns have changed. More retail transactions are now being observed to take place in suburban malls rather than in the city where most retail business activities traditionally took place.

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