FROM BEIJING TO BUDAPEST

Winning Brands, Winning Formats*

2005/2006

4th Edition

*connectedthinking

PRICEWATERHOUSECOOPERS

Singapore

Singapore

ECONOMIC OVERVIEW

The Singapore economy expanded by 8.4% in 2004, relatively higher than the 3.5-5.5% growth projections.

The higher growth rate was buoyed by strong external demand for Singapore's exports and recovery from the impact of SARS (Severe Acute Respiratory Syndrome).

Between 1997 and 2003, a confluence of unprecedented events, including the Asian financial crisis, the dot.com crash and SARS battered the local economy and also reduced consumer confidence.

In tandem with the economic cycle, the retail industry was similarly affected during the same period. Many retailers implemented major restructuring to streamline cost structures and use more efficient distribution channels. Others adopted strategies like niche marketing, regionalisation or forged strategic alliances with other larger retailers. They focused on growing categories by attracting new customers and increasing loyalty amongst existing shoppers through efficient product ranging, promotions, shelf management and replenishment.

In general, the retail industry in Singapore is getting more mature, as characterised by intensifying competition with retailers developing more sophisticated marketing strategies.

GDP and CPI

GDP and CPI

	2001	2002	2003	2004
GDP growth (%)	-2.0	3.2	1.4	8.4
CPI (%)	1.0	-0.4	0.5	1.6

Source: EIU, August 2005

Area ('000 sq km)[1]: 0.68
(US 9,600 – EU25 3,981 – World 133,700)

Capital[2]: Singapore
(Number of inhabitants: 4.2 million)

Population (million)[3]: 4.2
(US 293 – EU25 456 – World 6,376)

GDP (USD billion)[3]: 106.8
(US 11,735 – EU25 12,723 – World 39,503.5)

GNI per capita (USD)[1]: 21,230
(US 37,870 – EU25 22,810 – World 5,110)

Currency: Singapore Dollar (SGD)

Languages: Chinese, Malay, Tamil, English

Main religions: Buddhist (Chinese), Muslim (Malays), Christian, Hindu, Taoist

Government type: Parliamentary republic

Sources: CIA Factbook; (1) World Bank 2005; (2) City Population; (3) Economist Intelligence Unit 2004 data

Unemployment

Unemployment

	2001	2002	2003	2004
Unemployment rate (%)	3.3	4.3	4.7	4.0

Source: EIU, August 2005

Economic forecasts

Key economic forecasts

	2005	2006	2007
GDP (%)	3.7	4.7	4.6
CPI (%)	0.9	1.0	1.2
Unemployment rate (%)	3.9	3.5	3.3

Source: EIU, July 2005

REGULATORY ENVIRONMENT

Foreign direct investment

FDI

	2001	2002	2003	2004
FDI (SGD m)	24.6	9.3	18.7	22.3
FDI (USD m)	15.0	5.7	11.4	13.6

Source: EIU, August 2005 (Exchange rate: 31 December 2004)

Property/Real estate regulations

Commercial and retail space in Singapore is highly regulated by the Urban Redevelopment Authority (URA). The URA releases land through its land sales programme for private sector development.

Property tax is imposed under the Property Tax Act (Cap 254). The prevailing property tax rate for industrial, commercial and lease-out residential properties is 10% of annual value, while owner-occupied residential properties are taxed at a concessionary rate of 4% of annual value.

During the FY2005 budget, stamp duty for transfer of Singapore properties into listed Real Estate Investment Trust (REITS) or REITs to be listed, will be waived for five years to encourage more listings.

The relaxation of the property prices and policies, as well as the government's focus on business finance centres, will inevitably lead to an increase in demand for both commercial and residential properties. In addition, with the revaluation of the Chinese yuan and the Malaysian ringgit, many Chinese and Malaysian property buyers will be keen to buy Singapore property as they will deem them undervalued.

Other regulations

Competition law

The Competition Act 2004 was introduced as an exposure draft for public consultation, with a view to implementation in 2006.

This is a national competition law to safeguard against anti-competitive activities. Previously, rules and regulations against anti-competitive activities only existed in certain industries like energy and telecommunications.

The Act will apply to commercial and economic activities carried out by private sector entities (both foreign owned and domestic) in all sectors, but will not apply to the government, statutory bodies or any person acting on their behalf.

Tax

Goods and Service Tax (GST) was raised from 3% to 4% on 1 January 2003 and was raised again from 4% to 5% on 1 January 2004.

Top Personal Income Tax rate will be lowered from 22% to 21% with effect from year of assessment (YA) 2006, and further reduced to 20% in YA2007. Marginal tax rates of all other income brackets will also be reduced.

Store openings

The Investment Allowance Incentive grants certain companies, engaged in qualifying activities, exemption from tax on amount of taxable income equal to a specified proportion (up to 50%) of new investments, subject to certain conditions being met.

In the FY2005 Budget, the Incentive has been extended to flagship concept projects in retail, F&B and entertainment to encourage more retailers to set up flagship stores in Singapore.

Imports and exports

Singapore is a trade-driven economy, with one of the highest trade to GDP ratio in the world. Singapore relies heavily on imports for food, energy and industrial raw materials, and also on overseas markets to absorb its exports due to its small domestic market.

Free Trade Agreements (FTAs) with other countries are a key feature of the Singapore Government's drive to expand trade.

To date, FTAs have been signed with New Zealand, Japan, Australia, United States, Jordan, the European Free Trade Association and India. There are ongoing discussions to sign FTAs with China, Canada, Korea and United Arab Emirates.

DEMOGRAPHICS AND CONSUMER BEHAVIOUR

Population

Population evolution

Population

	2001	2002	2003	2004
Population (m)	4.1	4..2	4.2	4.2

Source: EIU, August 2005

Population by age group

Singapore has a relatively young population, with only 7.2% of the population above 65 years old. 75.5% of the population is between the age group of 15-64 years.

Age profile

% of total population	1998	2003	2008 (f)
0 – 14 years	19.0	17.3	16.1
15 – 64 years	74.4	75.5	76.5
Over 65 years	6.6	7.2	7.4

Source: EIU, May 2004

Population by ethnic group

Population by ethnic group

% of total population	1998	2003
Chinese	76.4	76.2
Malay	14.9	13.8
Indian	6.4	8.3
Other	2.3	1.7

Source: 1998 CIA World Factbook, Singapore Dept of Statistics and Singapore Ministry of Health

Income/Buying power

Singapore's GDP per capita of USD24,560 in FY2004 is among the highest in the world, which should put them amongst citizens with the highest buying power. However, the level of personal disposable income is actually lower than perceived due to the high level of indebtedness. (Refer to section intitled "Indebtedness of Singaporean consumers".)

On average, there was a 1.1% increase in income and 0.9% increase in spending per year, over the five-year period from 1998-03. Also, the Consumer Price Index increased by 0.4% per annum over the same period.

That means real income has increased over the period. However, growth was modest compared to the previous five-year period. This may be the start of a longer trend low-income growth, matched by a corresponding slow down in expenditure.

Monthly average income, expenditure and savings (EUR)

	Income	Expenditure	Savings
2001-2002 growth (%)	0.5	3.3	-2.6
2002-2003 growth (%)	2.5	-0.3	10.5
2003-2004 growth (%)	11.1	7.6	13.2

Source: Singapore Dept of Statistics

Monthly spend (USD)

	1998	2003
Average monthly spending for all household (USD)	3,095	3,244
Average monthly income for all household (USD)	4,608	4,867

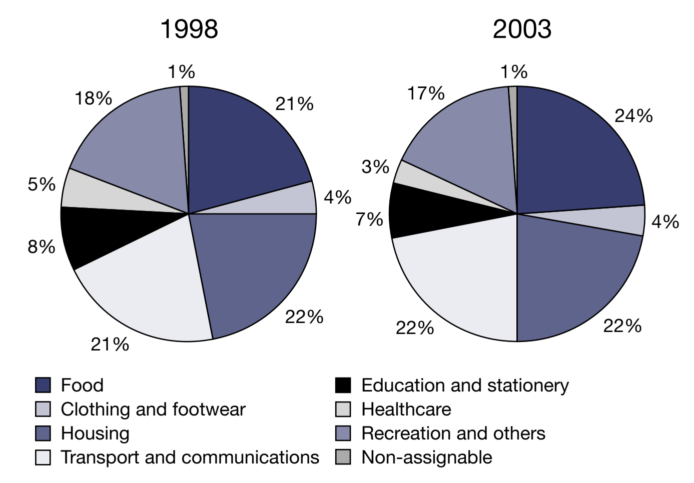
Source: Singapore Dept of Statistics

Consumer behaviour

Average household spending patterns

There is a shift in spending patterns in the past five years, reflecting a more affluent society where consumers are willing to spend more to finance their desired lifestyles. However, Singaporeans are still relatively conservative in their expenditure on retail goods compared to some other nations. A retail industry cluster study conducted in 2002, revealed that Singaporeans spent only about 20% of their disposable income on retail items, compared with 35% for England and 30% for Hong Kong. The lower household disposal income can be attributed to the high level of indebtedness due to car and house mortgage loans.

Composition of household expenditure, 1998 vs. 2003



Source: Singapore Dept of Statistics

Food

On average, the Singaporean household spent 21% of their budget (or SGD784) on food, a slight decrease from the 24% (or SGD833) in 1998. The decrease was more significant in the raw food category than the cooked food category, reflecting the increasing trend of households eating out rather than dining at home.

Clothing and footwear

Singaporean households spent 4% of their household budget (or SGD132) on clothing and footwear, the same proportion they spent in 1998. In absolute terms, there was a decrease in the retail spending from SGD143 (1998) to SGD132 (2003).

Housing

Singaporean households spent 22% of their household budget (or SGD824) on housing, the same proportion that was spent in 1998. In absolute terms, there was an increase amount spent on housing, from SGD770 (1998) to SGD824 (2003).

Generally, Singaporeans are moving into larger units and there is a trend of buying private properties. The strong emphasis on home ownership and the relatively high cost of housing result in Singaporeans spending a disproportionately large portion of their disposable income on properties, instead of consumer goods, as compared to other wealthy countries.

Transport and communication

In 2003, Singaporean households spent 21% of their household budget (or SGD787) on transport and communications, a slight fall from the 22% (or SGD798) in 1998.

Education and stationery

In 2003, Singaporean households spent 8% of their household budget (or SGD288) on education and stationery, a slight increase from 7% (or SGD239) in 1998.

An observable trend is that they are spending more on university education, private tuition classes, childcare centres and other enrichment courses such as art and culture.

Healthcare

In 2003, Singaporean households spent 5% of their household budget (or SGD186) on healthcare, a slight increase from the 3% (or SGD115) in 1998. They are spending more on nursing services (43.6% increase), hospitalisation (15.9% increase), lifestyle treatments, specialised treatment, health supplements and vitamins.

Recreation and others

Singaporean households spent 18% of their household budget (or SGD657) on recreation, a slight increase from the 17% (or SGD595) in 1998.

Singaporeans are taking more frequent and longer holidays. This can partly be attributed to the proliferation of budget carriers offering cheaper regional flights and more flight destinations.

Lifestyles/Shopping habits

Shopping and dining are generally considered the two favourite pastimes of Singaporeans. As Singaporeans are value conscious, they tend to shop more during sales and are attracted by promotions, offers and discounts.

During the 2004 Great Singapore Sale (GSS) held from 28 May to 25 July, Orchard Road (Singapore's major shopping belt) retailers increased their takings by 45%. The 2005 GSS started with a bang in June 2005 with a double-digit jump in credit card spending during the first weekend of the festival. The total spending charged to Visa Cards and MasterCard soared 11% and 23%, respectively. The Singapore Retail Association has predicted that sales during the current GSS will top SGD5 billion compared to last year's SGD4.6 billion.

Brand/Price sensitivity

Singaporean consumers generally purchase branded products to boost their image and for the associated prestige that comes with the brand. However, they are quality conscious as well (well-known labels are also renowned for their workmanship and quality products). Singaporean consumers are generally price sensitive and will seek value for their money.

Singaporean consumers are very brand conscious and exhibit brand loyalty. They tend to switch among only two or three favoured brands. Despite new product launches and price promotions, it is likely that consumers will stick with original, established brands, because they are fundamentally brand loyal.

With the GST increase, Singaporeans are also becoming more price-sensitive. However, they remain value orientated and will always try to find the right balance between quality and price. They look closely at product characteristics to ensure a purchase is worth the price and will pay the amount if they feel the quality merits the price.

RETAIL & CONSUMER SECTOR PERFORMANCE

Major consumer players

Key consumer companies

Company	Category of products	2003 sales (SGD m)	2004 sales (SGD m)
Fraser & Neave	Food & Beverage	2,080	2,340
Yeo Hiap Seng	Beverages, sauces, canned food	326	333
Creative	Digitised sound and video boards, computer and related multimedia, personal digital entertainment products	1,149.6 (USD702m)	1,333.01 (USD814m)

Major retail players

Retail sales

Singapore's retail market is highly cosmopolitan and sophisticated; this is clearly reflected by the wide variety of international brands and retailers available here. Retail sales area totals 3.2 million sq m, with retail space in prime shopping districts such as Orchard Road and Marina Bay area being the most sought after.

Total retail sales growth

	2001	2002	2003	2004
Total sales at constant prices (1997=100) (SGD m)	148.2	146.6	159.4	181.0
Growth rate (%)	8.1	-1.0	8.7	13.5

Source: Singapore Dept of Statistics

Key retail companies

Ranking	Company	Retail format	2003 outlets	2003 sales (USD m)
1	Dairy Farm Int'l Holdings	Supermarket Hypermarket Convenience stores Pharmacy/ Personal care	366	914.4
2	NTUC Fairprice Co-operative	Supermarket Hypermarket Convenience stores Pharmacy/ Personal care	135	793.1
3	Takashimaya	Departmental store	1	252.9
4	Robinson & Co	Departmental store	17	196.7
5	Courts	Specialty – Consumer electronics	15	120.2
6	Best Denki Corp	Specialty – Consumer electronics	10	115.7
7	Carrefour	Hypermarket	2	112.1
8	Pertama Holdings	Specialty – Consumer electronics	11	105.7
9	Isetan	Departmental store	6	104.3
10	Metro Holdings	Departmental store	5	104.3

Source: Retail Asia Magazine, April 2004 issue

Food retail channels

The distribution channels for food and beverages retailing are the hypermarkets, supermarkets, convenience stores, mini-mart/provision stores and market stores.

Hypermarkets

A hypermarket is a hybrid or combination of a department store and a supermarket. Currently there are only two hypermarket chains in Singapore; they are Carrefour (French-owned) and Giant (owned by Dairy Farm International Holdings).

Key hypermarkets

Rank	Store brands	Group name	Number of stores 2003	2003 net sales (USD m)
1	Carrefour	Carrefour	2	112
2	Giant	Dairy Farm Int'l	4	108

Supermarkets

Supermarkets provide an extensive selection of products and tend to offer higher-end products in an air-conditioned environment. The key players are NTUC Fairprice, Cold Storage and Shop N Save, both owned by Dairy Farm International.

Key supermarkets

Rank	Store brands	Group name	Number of stores 2003	2003 net Sales (USD m)
1	NTUC Fairprice	NTUC Fairprice Cooperative	68	664
2	Cold Storage		40	376
3	Shop and Save	Dairy Farm Int'l	35	154

Grocery/Provisions stores

Provisions shops are no-frills, small stores (generally known as discount stores overseas) typically set up in suburban residential areas. They cater specifically to residents living in close proximity. They are usually family run and staffed.

Mini-marts offer a slightly broader range of products in a more comfortable and often air-conditioned shop-space.

Both the mini-marts and grocery/provisions stores only sell a limited range of non-Asian or imported products.

The main player in mini-marts is Econ Minimart (owned by the PSC Corp).

Key mini-marts

Rank	Store brands	Group name	Number of stores 2003	2003 net sales (USD m)
1	Econ Minimart	PSC Corp	130	35

Convenience stores

They operate for longer hours and sell groceries and snacks in a small but air-conditioned shop-space.

The main players are 7-Eleven (Dairy Farm International Holdings being the main franchisee and other independent stores as sub-franchisees) and Cheers (owned by NTUC Fairprice).

Key convenience stores

Rank	Store brands	Group name	Number of stores 2003	2003 net sales (USD m)
1	7 Eleven	Dairy Farm Int'l	183	190.2
2	Cheers	NTUC FairPrice Cooperative	34	36.0

Market stalls

There are more than 11,000 market stalls operating in 150 markets across Singapore. These stalls continue to be important channels for fresh poultry, meat, fish and other seafood, fruit and vegetables.

Non-food retail channels

Department stores

Department stores in Singapore are losing their prominence as the preferred one-stop shopping concept; having lost ground to specialty stores and new retailing formats like the hypermarkets.

Key department stores

Rank	Store brands	Group name	Number of stores 2003	2003 net sales (USD m)
1	Takashimaya	Takashimaya Singapore	1	253
2	Robinson, John Little, Marks and Spencer	Robinson Group	17	197
3	Isetan	Isetan Singapore	6	104
4	Metro	Metro Holdings	6	104
5	Tangs	CK Tang	1	98
6	Seiyu	Seiyu Wing On	3	93

Source: Companies' annual reports

Specialty stores

Specialty stores are the retail concept favoured by younger Singaporeans who prefer the focus on specialised products and services. They also prefer the more exclusive and cosy shopping atmosphere, as compared to department stores.

Key consumer electronics retailers

Rank	Store brands	Group name	Number of stores 2003	2003 net sales (USD m)
1	Courts and Courts Powerhouse	Courts	15	120
2	Best Denki	Best Denki	10	116
3	Harvey Norman	Pertama Holdings	11	106

Key pharmacy, health and beauty retailers

Rank	Store brands	Group name	Number of stores 2003	2003 net sales (USD m)
1	Guardian	Dairy Farm Int'l	150	86
2	Watsons	Watsons Personal Care	61	76
3	Unity	NTUC FairPrice Co-operative	33	34

Key book retailers

Rank	Store brands	Group name	Number of stores 2003	2003 net sales (USD m)
1	Kinokuniya	Kinokuniya Bookstores	3	33
2	Borders	Borders Group	1	26
3	MPH	MPH Bookstores	5	5

Key jewellery retailers

Rank	Store brands	Group name	Number of stores 2003	2003 net sales (USD m)
1	Aspial, Lee Hwa, City Gems	Aspial Corp	20	37
2	Goldheart	Goldheart Jewellery	19	28
3	SooKee	Soo Kee Jewellery	16	21

Key clothing retailers

Rank	Store brands	Group name	Number of stores 2003	2003 net sales (USD m)
1	This Fashion	This Fashion	44	25
2	Giordano	Giordano Int'l	43	23
3	Bossini	Bossini Int'l	35	20

Key furnishing retailers

Rank	Store brands	Group name	Number of stores 2003	2003 net sales (USD m)
1	Ikea	Inter Ikea	1	41.4
2	Novena Furnishing	Novena	25	25

Key toy retailers

Rank	Store brands	Group name	Number of stores 2003	2003 net sales (USD m)
1	Toys R Us	Li & Fung Retailing	4	16

Source: Retail Asia magazine, April 2004

E-commerce

The internet is gaining popularity and has the potential to be a highly competitive distribution channel.

Young Singaporeans who are more technologically advanced are making more purchases online.

M&A activity

M&A activity

Year	Acquiring company	Acquiree/ JV company	Nature of business	Equity stake
2003	Cold storage	Shop N Save	Supermarkets	100%
2004	Carrefour	Zhong Yu Telecom (Alliance)	Mobile handset retailing	–

RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

Challenges

High operating costs

Retailers are facing rising business costs generated by the recovering economy.

Rental fees have quadrupled over the past 25 years and now make up an average of approximately 36% of operating cost of retailers.

Labour costs are rising along with wages, caused by the labour shortage in the retail sector in the short term.

More retailers are now seeking shop space in sub-urban shopping places to stay competitive and at the same time penetrate the value consciousness of the consumers.

Labour shortages

Retail is a labour intensive business and labour shortages feature prominently in the industry.

Educated job seekers generally avoid jobs in the retail industry, perceiving them as being lower-level employment without a defined career path. The lack of experienced and trained retail executives is the primary reason behind the vacancies in the retail sector.

Indebtedness of Singaporean consumers

The Singapore Department of Statistics reported in 2002 that the average Singaporean household is one of the most indebted in the world.

Household debt, as a percentage of personal disposable income, stood at 174% in 2000, higher than countries such as Britain (116%), Japan (100%) and the United States (90%). This is due to people chalking up huge amounts for car ownership, private property and club membership.

The number of personal bankruptcies has continually reached record levels in recent years.

The government's measures to prevent the rapid growth in consumer credit and rein-in excessive spending may curtail the growth of the retail industry in the near future.

Competition from the region and beyond

The proliferation of budget airlines offering affordable access to shopping destinations like Thailand and Hong Kong, coupled with the strong Singapore dollar, have encouraged more Singaporean shoppers to go on overseas shopping trips.

Recent research shows that 41% of adult Singaporeans have made a trip overseas in the past 12 months, mainly for shopping trips.

Singapore has been ceding its share of the regional tourism pie to Thailand, Hong Kong and Malaysia. Although tourist arrivals increased by 36% in 2004, this is attributed to the low base in 2003 due to the SARS outbreak.

Expenditure per tourist and length of stay per tourist have fallen as well, meaning Singapore retailers are getting a smaller share of the tourists' shopping dollars compared to their counterparts in Hong Kong and Thailand.

Correspondingly, the increasing number of budget carriers will bring in more budget tourists who are more price-conscious. There is a potential market for lower-end quality buys which appeal to this group of shoppers seeking value for money.

Fall in consumer confidence

The Ministry of Trade and Industry (MTI) forecasted that the economy will slow from 8.4% to 3-5% in 2005. As a result, consumer confidence plummeted, reflecting diminished confidence in the economy, job security and income growth.

Private consumption is likely to fall in tandem with the fall in consumer confidence. This is ominous for the retailers.

Opportunities

Integrated resorts with casinos

On 18 April 2005, the Singapore government announced that two integrated resorts, both incorporating casinos, would be built in Singapore. The move is expected to boost tourism, generate employment opportunities and investment, as well as to further develop Singapore's position as a regional and global hub.

The resorts are expected to open in 2009 and be built in the Marina Bay area and Sentosa Island. The investment in the casinos alone, is expected to exceed SGD3 billion.

Establishment of retail academy

The Ministry of Trade and Industry aims to boost the image of the industry and improve service standards by setting up a retail academy, a tie-up with the prestigious Monash University's Australian Centre for Retail Studies.

The academy will be the first in Singapore to provide high-level retail training and certification in areas such as customer care and retail finance.

In future, retailers can leverage on professionally trained staff to improve their service delivery.

Singapore airport

Terminal 3 at the Singapore Airport, when completed in 2008, is expected to meet the increased passenger flow until 2020. Terminal 3 is being built with state-of-the-art baggage handling system and new automated people mover system to woo more transit tourists.

Emerging trends

More globalised Singaporean consumers

Singaporeans today tend to be better educated, more affluent, well travelled, sophisticated and well informed. Their exposure to foreign media and culture has altered their lifestyles and tastes. They value contemporary and lifestyle products, as much as service, quality and design. While they are more selective when it comes to products and services, they are also more willing to pay a premium in order to get what they desire. Fuelled with an increased demand for luxury goods, various high-end luxury stores like Tod's and Bottega Venetta have made their debut entrances in Singapore in recent years.

The metrosexual

Defined as an urban male with a strong aesthetic sense, who spends a great amount of time and money on his appearance and lifestyle, the metrosexual is drumming up sales in the personal healthcare products sector.

Research shows a significant increase in introduction of new male-oriented products. A survey on Singaporeans in their 20s and 30s revealed that, increasingly, Singaporean men value designer brands and deem keeping up with fashion trends as important; 41% of the men compared to 37% of the women polled indicated so.

They favour French and Italian designer labels like Gucci, Louis Vuitton and Prada; and cosmetics, cleansers and anti-ageing creams by established brands such as SK-II, Biotherm and Zirh. This has significant implications for retailers who have traditionally targeted beauty and clothing brands at women.

Some retailers have already tapped into the trend. G2000 is opening more stand-alone outlets exclusively for men while Tangs is carrying a whole range of skincare regimes and cosmetics for men. NewUrbanMale.com, a men only specialty store, is currently undergoing its fourth expansion in two years.

Late-night shopping in Singapore

54% of Singaporeans stay awake until past midnight. This presents a potential market of consumers who seek late-night shopping on a regular basis.

Mustafa Centre was the first to catch on to this and has been offering 24-hour shopping since 2003. This year, five malls (Raffles City, Wisma Atria, CitiLink Mall, Marina Square and Suntec City) took turns in extending their opening hours for the 2005 Great Singapore Sale.

Suburban shopping malls

Suburban shopping malls are gaining popularity with a number of retailers because of their close proximity to residential areas. This includes shopping malls like Tampines Mall, Junction 8, Jurong Point and Compass Point.

With the increased demand for retail space in suburban shopping malls, rental costs are likely to rise correspondingly.