




# FROM BEIJING TO BUDAPEST

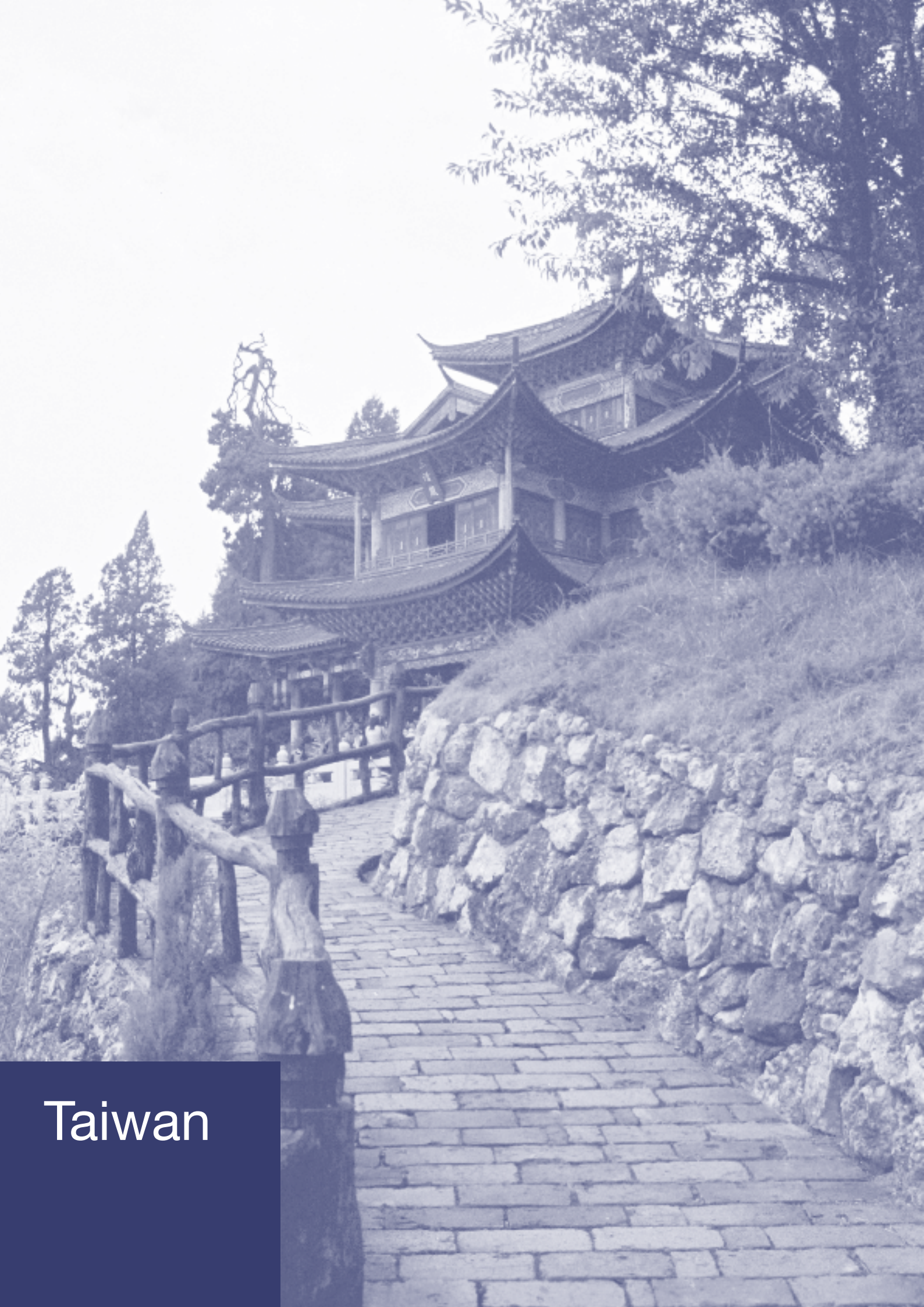
Winning Brands, Winning Formats\*

2005/2006

4th Edition

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PRICEWATERHOUSECOOPERS 



Taiwan

# Taiwan

## ECONOMIC OVERVIEW

### GDP and CPI

On the whole, in 2004, Taiwan's real GDP expanded 5.7% despite the disruption of the presidential election, the rise in oil prices and the impact from China's effort to keep the economy from overheating. The expansion was due to the booming trend in the global economy, which drove the increase of domestic demand and exports, and a series of advantageous policies published by the government.

#### GDP and CPI

	2001	2002	2003	2004
GDP growth (%)	-2.2	3.9	3.3	5.7
CPI (%)	0.0	-0.2	-0.3	1.6

Source: EIU, July 2005

### Unemployment

The increase in the number of average employed persons for 2004, compared with 2003, reached its highest level for the past 12 years, as the unemployment rate steadily decreased due to growing economic prosperity and the government's introduction of the Infrastructure Expansion Programme and Programme to Expand Employment of Public Service in 2003 and 2004, respectively.

#### Unemployment

	2001	2002	2003	2004
Unemployment rate (%)	4.6	5.2	5.0	4.4

Source: EIU, July 2005



Area ('000 sq km)<sup>1</sup>: 36  
(US 9,600 – EU25 3,981 – World 133,700)

Capital<sup>2</sup>: Taipei  
(Number of inhabitants: 6.9 million)

Population (million)<sup>3</sup>: 22.5  
(US 293 – EU25 456 – World 6,376)

GDP (USD billion)<sup>3</sup>: 305.3  
(US 11,735 – EU25 12,723 – World 39,503.5)

GNI per capita (USD)<sup>1</sup>: 12,570  
(US 37,870 – EU25 22,810 – World 5,110)

Currency: New Taiwan Dollar (TWD)

Languages: Standard Chinese (Mandarin), Taiwanese, Hakka dialects

Main religions: Mixture of Buddhist, Confucian and Taoist (93%), Christian

Government type: Multiparty democratic regime headed by popularly elected president

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

## Economic forecasts

The global economy may experience subdued growth in 2005, according to the recent world economic outlook. Taiwan's export expansion is expected to decelerate, as its economic growth mainly relies on export performance. Simultaneously, the domestic sector will not grow as solidly as in 2004.

## Key economic forecasts

	2005	2006	2007
GDP growth (%)	3.6	4.2	4.7
CPI (%)	1.4	1.3	1.4
Unemployment rate (%)	4.2	4.1	3.8

Source: EIU, July 2005

## REGULATORY ENVIRONMENT

### Foreign direct investment

Taiwan places great importance on foreign investments. Laws and regulations governing such investments are adapted, and every effort made to remove investment obstacles and improve investment conditions. The government also provides other assistance to foreign nationals and overseas Chinese investing in Taiwan.

Investors are prohibited from investing in industries that could have a negative impact on national security, public order, good customs and practices, or national health, and those that are prohibited by law. Investors who apply to invest in an industry, in which investment is restricted by law or by an order given under the applicable law, need to obtain approval or consent from a relevant authority in charge of the industry in question.

The Taiwan Government offers numerous incentives to work towards its goal of making the island a major global logistics hub. These incentives are detailed in policies such as the Regulations for Encouraging Foreign Profit-Seeking Enterprises to Establish International Logistics and Distribution Centre in Taiwan, which assists logistics providers, shopping malls, retailers and wholesalers in obtaining land, low-interest loans, business income tax exemptions and other relevant assistance.

### FDI

	2001	2002	2003	2004
FDI (TWD bn)	131.44	46.05	14.39	60.76
FDI (USD bn)	4.11	1.44	0.45	1.90

Source: EIU, July 2005 (exchange rate 31 December 2004)

### Property/Real estate regulations

In Taiwan, regulations governing the use of land and buildings are slightly different in each city or county. Stores or markets can only be located in those areas or buildings that are permitted to carry out commercial activities under Urban Planning Law and relevant buildings management regulations, covering fire control and security.

### Other regulations

#### Competition Law

The Fair Trade Law was enacted mainly to prevent restrictive and unfair competition. It provides a legal framework regarding business behaviours and conditions such as monopolies, mergers, concerted actions and unfair competition, as well as damages; The Fair Trade Commission will make decisions according to information provided or following investigation into suspicious business activities.

#### Tax and VAT

Taiwan's current tax items include national taxes, special municipality taxes, county and city taxes.

The value-added and non-value-added business tax system is generally identical with those in force in many European countries. Except when legally exempt from tax, business tax is assessed at each stage in the implementation of goods and services in which value is added. Business tax is calculated on imported goods according to the designated tax rate after adding import tariffs, excise tax, and wine and tobacco tax, to the price duty paid of the goods.

Except in instances where a 0% rate is applicable, the business tax rate may not be lower than 5% and may not exceed 10%. The Executive Yuan shall set the tax rate; the current rate is 5%. Business tax on imported goods is uniformly collected by customs when goods are imported.

### Store openings

There are no specific regulations concerning the hours of operation for stores in Taiwan. To provide better services for customers, more and more stores, including convenience stores, supermarkets and hypermarkets, are open 24 hours a day.

### Imports

A corporation or business firm registered with the Bureau of Foreign Trade as an importer may engage in import business.

Where the increase in the import volume of a good causing or threatening to cause serious injury to the domestic industry, which produces likewise or directly competitive products, the authority in charge of the said industry, its associations, or related organisation, may apply to the pertinent authority for investigation of the injury and for import relief.

In the event that a foreign country exports any goods to this country by way of subsidising or dumping, thereby causing or threatening to cause substantial injury to domestically produced products competing with the said goods or creating substantial hindrance to the establishment of the domestic industry concerned, and the injury has been verified after investigation by the authority, the authority may impose, by law, countervailing or anti-dumping duties.

## DEMOGRAPHICS AND CONSUMER BEHAVIOUR

### Population

#### Population evolution

With a population of approximately 22.5 million people in 2004, Taiwan has a relatively small population in Asia. However, as its land area is only 36,188sq km, the population density is considerably high (persons per sq km is close to 627).

Up to the year 2004, the population of Taiwan has been on the increase. However, the growth rate of the population has declined significantly during the last decade from a level of 0.97% per annum in 1994 to 0.37% in 2004.

#### Population

	2001	2002	2003	2004
Population (m)	22.3	22.5	22.5	22.5

Source: EIU, July 2005

#### Population by age group

The number of minors under the age of 14 has gradually decreased, while the number of senior citizens over the age of 65 has increased to 9.1% of the population in 2002, and is forecast to rise to 10% in 2007. Because of the rapidly decreasing birth rate and the extending lifespan, the overall population structure is set to age significantly in the future, which will consequently influence consumption.

#### Age profile

% of total population	1997	2002	2007 (f)
0 – 14 years	22.9	20.4	19.1
15 – 64 years	69.1	70.6	70.9
Over 65 years	8.0	9.1	10.0

Source: EIU, September 2003

#### Urbanisation of the population

The population of the five main urban areas in Taiwan – Taipei-Keelung, Jhongli-Taoyuan, Taichung-Changhua, Tainan and Kaohsiung – accounted for 65% of the island's total population.

#### Urban/Rural split

% of total population	1998	2003
Urban	68.1	69.1
Rural	31.9	30.9

Source: Statistical Yearbook of Interior, Ministry of Interior

## Income/Buying power

Due to the recovery of the domestic economy and increase in employment, the average disposable income per household rose continuously, also stimulating national consumption spending. From the projection made by the Directorate-General of Budget, Accounting and Statistics, the expenditure will continue to rise in the coming years.

### Monthly average income, expenditure and saving per household

Monthly average (TWD)	2001	2002	2003	2004	2003-04 (%)
Income	72,388	72,993	73,472	74,271	1.0
Expenditure	54,823	56,052	55,531	57,721	3.9
Saving	17,565	16,942	17,941	16,550	-0.8

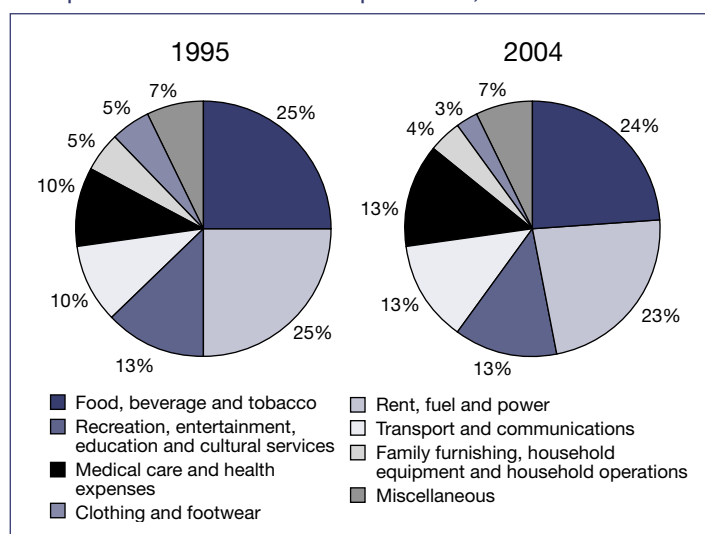
Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

## Consumer behaviour

### Average household spending patterns

Taiwan is a developed country, with rising disposable income and accumulated wealth. The conventional demand of daily necessity is no longer lacking, rather people in Taiwan are now more concerned about healthcare and enjoying a high quality of life. Therefore in 2004, household spending in medical care and health expenses and in transport and communications sectors both rose 3%, compared to 1995.

### Composition of household expenditure, 1995 vs. 2004



### Lifestyles/Shopping habits

Shopping is an enjoyable exercise for Taiwanese urban residents, evident especially on weekends and during typhoons when hypermarkets, supermarkets, DIY shops, department stores, etc., are at their busiest. According to a survey by a lifestyle and consumer research consulting institution, around 52.7% of shoppers are price oriented and 51.3% are taste or quality oriented. However, among those interviewed, 32.1% have mixed shopping habits, where they are concerned about price in certain purchases and taste and quality in others.

### Brand/Price sensitivity

Generally, Taiwanese are used to buying their preferred brand, particularly for high-value products, such as luxury goods and electric appliances. For daily items, loyalty is comparatively low. Even so, highly visible brands are still well liked. In addition, price sensitivity is more distinct in rural areas, especially in southern Taiwan.

## RETAIL & CONSUMER SECTOR PERFORMANCE

### Major consumer goods players

#### Top-10 consumer goods companies

##### Major consumer goods players

Ranking	Top local players	Category of products	2004 net sales (TWD m)	2003-2004 Evolution (%)
1	Taiwan Tobacco and Liquor Corporation	Food & beverages	64,223	-4.30
2	President Enterprises Corp.	Food & beverages	40,889	7.70
3	Far Eastern Textile	Clothes	38,263	12.31
4	Matsushita Electric (Taiwan) Co.	Households	32,817	8.79
5	Taiwan Sugar Corporation	Food & beverages	32,579	8.76
6	Teco Electric & Machinery Co.	Households	26,836	17.52
7	Formosa Taffeta Co.	Food & beverages	24,065	20.55
8	SinKong Synthetic Fiber Corp.	Textile	19,951	10.38
9	Pou Chen Corporation	Shoes	17,142	59.33
10	Sampo Corporation	Households	17,024	-13.71

Source: Common Wealth, Issue No.322, 2005

### Food & beverages

Generally, food and beverages sales grew 1.04% in 2004 because of the domestic economy recovery and the increase of national income and expenditure. There are several other factors that may lead to a positive forecast for the coming year. First, the loosening of restrictions on importing goods, such as granulated sugar. Second, people's quest to maintain their health will drive the manufacture and sale of tea products. Third, the number of people eating out is increasing and it's projected that the need for fast food, canned food and frozen food will increase accordingly.

### Electronics

Most families already have essential electronics, as the standard of living in Taiwan is already high. Therefore, the domestic demand will come from replacement, which means the quantity needed is low. Additionally, the large amount of high-quality electronics from Japan and Korea has made the market more competitive.

### Alcoholic drinks

As of 2002, with Taiwan's accession into the WTO, the government monopoly on the production of alcoholic drinks has been loosened; hence the products are now more diversified. The quantity of alcoholic drinks imported, especially from Mainland China, is increasing, creating a brand and price war on the island.

## Major retail players

### Market share evolution by retail format

#### Retail sales growth

	2002	2003	2004
Total sales (TWD m)	2,592,050	2,706,432	2,930,582
Growth rate (%)	5.2	4.4	8.3

Source: Department of Statistic, MOEA

### Breakdown by number of stores

	Hypermarkets	Supermarkets	Department stores	Convenience stores
2004	107	963	58	8,115
2003	97	922	56	7,577

Source: 2004 Taiwan Chain Store Almanac

### Market shares by retail channels

(%)	Hypermarkets	Supermarkets	Department stores	Convenience stores
2004	20.3	12.3	27.7	23.7
2003	22.1	12.4	26.3	23.9

Source: Department of Statistic, MOEA

## Scope of organised retailing by retail format

### Key food retailers

Retail formats	Group name	Store brands	Number of stores (2004)	2004 net sales (TWD m)
FOOD				
Hypermarkets	Carrefour	Carrefour	34	51,200
Supermarkets	Pxmart Co., Ltd.	Pxmart	213	N/A
Convenience stores	Uni-president	7 Eleven	3,680	80,943

Source: 2004 Taiwan Chain Store Almanac, Common Wealth Issue No.322, 2005

### Key specialty stores

Retail formats	Group name	Store brands	Number of stores (2004)	2004 net sales (TWD m)
SPECIALTY STORES				
DIY	A JV of Kingfisher and Test Rite Group	B&Q	18	9,701
Home equipment (electrical goods, furniture)	Tsann Kuen Trans-Nation Group	Tsann Kuen 3C	157	30,284
Apparel	Les Enphants	Les Enphants	186	2,132
Department stores	Shin Kong Group	Shin Kong Mitsukoshi	12	54,742
Online retailing	Rebar Group	ET Mall	N/A	13,102

Source: 2004 Taiwan Chain Store Almanac, Common Wealth Issue No.322, 2005

## Food retail channels

### *Hypermarkets*

Foreign companies, including Carrefour, Tesco and Costco, own most of Taiwan's hypermarkets. In order to gain an advantage over other competitors, the stores make great efforts to enhance the product/service quality. A notable strategy is the giving away of large rebates or gifts (such as Roll Back projected by Tesco) to customers, which consequently results in a huge increase in advertising expenditure. In addition, the hypermarket is the most sensitive index of pricing in retail channels; hypermarkets will be the first retailers to be affected by any event that may cause market prices to fluctuate.

### *Supermarkets*

Supermarkets faced a challenging environment in 2004 because of the converging attack by hypermarkets and convenience stores. Except for the largest two chains, Pmart and Wellcome, the number of chains remained almost the same for other supermarkets in 2004. In order to be distinct from other channels, supermarkets are changing their marketing strategy and attempting to capture the affluent expatriate customer, thus Jason's Supermarket was introduced in 2004. The larger players will also continue to merge chains to expand their market share in upcoming years.

### *Convenience stores*

The density of convenience stores in Taiwan is the highest in Asia Pacific. According to a survey of customer behaviour, around 80% of urban customers visit convenience stores every week. Convenience stores have replaced the hypermarket as the second largest retail channel, and it is most likely to grow into the largest channel in the near future. Interestingly, the largest convenience store, 7-Eleven, owns about 46% of the convenience store market share. The top-five convenience stores controlled more than 93% of the market in 2003, and the percentage is still increasing.

## Non-food retail channels

### *Department stores*

Department stores are still the top channel in the retailer sector. Although the number of stores newly opened in 2004 is low compared with other retailers, the sales increase is the greatest. In Taiwan, department stores have formed a climate of targeting affluent customers to the extent that an increasing number of international boutiques are attaching themselves to department stores or malls to cash in.

### *Specialty stores*

The total number of specialty stores, including health and beauty, DIY and home equipment, experienced the highest growth rate (16.9%) among the retailers, especially the drug and health and beauty retailers, which grew 61% in 2004. The high growth rate of health and beauty stores, which are typically contiguous to residential communities, might be due to the convenience of one-stop shopping for everyday use of health care or beauty items.

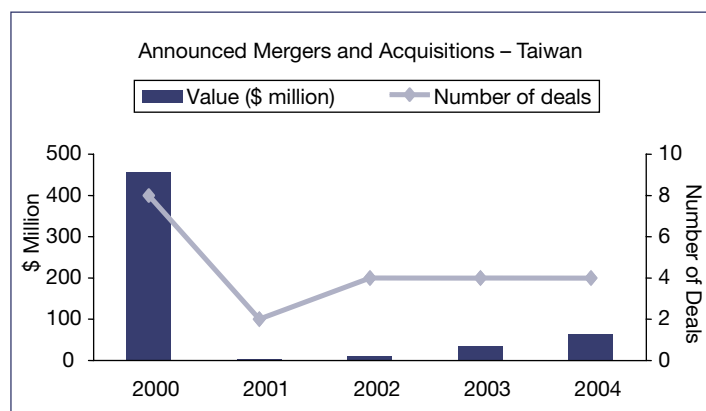
### *E-commerce*

E-commerce plays an important role in the retail sector, as it is a very efficient second channel for retailers. Shopping online is becoming more popular in Taiwan, with a fast growing market share. In 2004, total sales for online shopping were TWD38,900 million, representing 1.1% of all retailing sales. This figure is forecast to increase to TWD60,000 million for 2005.

## M&amp;A activity

## M&amp;A activity since 2003

	Acquiring company	Acquirer/JV company	Nature of business	Equity stake
2003	Walton Pharmaceutical Co Ltd	Pro Healthcare Intl Co Ltd	Household Products	100%
2003	Taiwan Yakult	Yakult Honsha Co Ltd	Food Products	15%
2003	Haagen-Dazs Taiwan Ltd	General Mills Inc	Food Products	50%
2003	Taiwan Kose Co Ltd	Kose Corp	Cosmetics	45%
2004	Kuang-Chuan Dairy Co Ltd	Uni-President Enterprises Co	Food Products	31.25%
2004	Pro Healthcare Intl Co Ltd	Maywufa Company Ltd	Household Products	74.52%
2004	Prosperous Industrial Holding Co	Yue Yuen Industrial	Clothing	30%
2004	Shintai Investment Co Ltd	Taisun Enterprise Co Ltd	Food Products	100%



Source: Public Information (Bloomberg)

Note: In the above graph, the currency is USD

The volume and size of announced deals in the industry in 2001 decreased significantly compared to 2000. In 2000, there was an influx of a broad mix of foreign retailers and M&A activity was dominated by cross-border deals in hypermarkets, such as the acquisition of 50% shares in Far Eastern Department Store by France-based retailer Casino Guichard Perrachon, and the acquisition of 67% shares in RT Mart by Auchan, one of the biggest retailers in France.

Stepping out of 2001's low trough there has been an increasing trend in the level of M&A activity in the CPG sector since 2002, particularly food and clothing industries. Significant announced deals include the high-profile acquisition of Kuang-Chuan Dairy Co Ltd by Uni-President Enterprises Co, resulting in Uni-President holding 31.25% of shares in Kuang-Chuan farm, which manufactures dairy products and beverages that are in direct competition with Uni-President.

The industry is now at a matured stage and highly saturated. In order to remain competitive, aside from pricing, market players have to actively use merger strategies and/or form strategic alliances to expand geographic coverage, and gain cost efficiencies and more leverage in their relationship with suppliers and customers. The level of M&A activity is expected to further increase due to the government's policy to encourage formation of strategic alliances and develop integrated logistics services to enhance the competitiveness of Taiwanese companies amidst low-cost threats from other countries in the region.

## RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

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### Challenges

#### Distribution channels

The retail market is mature and competitive in Taiwan. Due to the homogeneity of products, the distribution channel is the main factor to become a market leader. To fulfil customers' needs of buying goods in one shop, retailers should consider how to build a platform for integrating invisible and physical channels. This may require a sizable investment upfront for hardware/software and building a strong supply chain for support. Utilising a strong Point Of Sales system may lend a hand in reaching the goal.

#### Growing competition

Both CPG and retail companies are now facing critical issues, including a challenging environment, changes in consumer behaviour, competition and uncertain economic conditions. Also, because of the mature and competitive market in Taiwan, an increasing number of CPG manufacturers and retailers are moving to Mainland China. However, uncertainties about political strategies towards direct trading or investing across the Strait should be carefully weighed when considering opening stores or factories in China.

#### Importance of tax specialist

The main area of concern relating to VAT is the issue of compliance. In Taiwan, business tax and VAT are levied on the sales of goods, except for those, which according to the Business Tax Law, are exempt from VAT or are subject to a zero tax rate. Due to too many varieties of goods sold in stores, it's very easy to apply the wrong tax classification. Therefore, a tax specialist is important for businesses.

### Opportunities

#### Platform of commercial development

The government is actively improving the commercial environment to attract investment and is projecting to establish the Commerce Research Institute to build a platform for commercial development. In order to further market globalisation and liberalisation, the government is progressively loosening regulations on importing goods, such as granulated sugar and dairies, which may interest foreign companies looking to expand in the Taiwan market.

#### Emerging trends

In Taiwan, larger retailers are more optimistic.

#### Consolidation

Alliances or mergers with foreign retailers or other retailers/ industries will be considered positive boosts to the existing market.