Bangkok Post

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Yuan Keru, a postgraduate student, shops online at Tmall.com during an annual 24-hour online shopping sale in Hangzhou, China.

PHOTO: BLOOMBERG

RETAIL REVOLUTION

MAIN PHOTO
Shoppers ride on an escalator inside the Tongzhou Wanda Plaza shopping mall in Beijing.

Expanding cities, more real estate development and richer consumers are leading to an ever-wider array of shopping choices across Asia.
By **Tanyatorn Tongwaranan**

● The global retail industry is counting on Asia to lead growth in the coming years as the region's consumers become more affluent and its cities expand, leading to the creation of new shopping venues of all shapes and sizes.

"Active real estate development has driven the supply of quality and organised retail space in Asia," said Henry Chin, head of Asia Pacific research with the US-based real-estate firm CB Richard Ellis (CBRE). "This has translated into the ongoing entry and expansion of overseas retail brands in the region to exploit new business opportunities and offset the slowdown in their home countries."

The total supply of retail space in the region exceeded 65 million square metres (sq m) last year. By the end of this year, another 20.4 million sq m will be completed. China boasts the most new space in the region, with aggregate completion of around 3.2 million sq m.

In Southeast Asia, more than 92,000 square metres of retail space in cities such as Bangkok, Kuala Lumpur, Manila, Jakarta and Singapore have been developed so far this year.

Research by CBRE showed that Asia Pacific saw 464 new retail entrants last year, a rise of 23% from the year before. Tokyo topped the table, attracting 63 new retail brands, followed by Singapore (58), Taipei (49), Hong Kong (45) and Beijing (34).

Those brands are all chasing a new critical mass of shoppers whose numbers are growing by the millions.

Asia's share of global gross domestic product (GDP) was 36.6% in 2013, compared with 26.8% in 2001. By 2020 the region will be home to 1.74 billion people classified as middle class, compared with 525 million in 2009.

The size of the global middle class is expected to increase from 1.8 billion in 2009 to 3.2 billion by 2020 and 4.9 billion by 2030, according to Mario Pezzini, director of the Development Centre at the Organization for Economic Cooperation and Development.

"The bulk of this growth will come from Asia and by 2030, Asia will represent 66% of the global middle-class population and 59% of middle-class consumption, compared to 28% and 23%, respectively in 2009," he said.

The Economist Intelligence Unit (EIU) forecasts that by 2040, Asia's population of 4.6 billion will include an additional 800 million customers with high purchasing power as its economy continues to outperform other regions in the world.

PricewaterhouseCoopers (PwC), meanwhile, predicts that that the region will be the world's largest regional retail market with sales exceeding US$10 trillion by 2018.

Total retail sales in Asia over the next five years are forecast to grow by 8.5% a year in US dollar terms, compared with a global average of 5.6% and just 0.6% in Western Europe, it noted.

In China alone, the retail market is expected to be worth double that of the United States by 2020, reaching $8 trillion.

The US-based consulting firm AT Kearney has observed that more luxury goods providers are now entering the developing markets in Asia, saying retailers will continue to expand their bricks-and-mortar presence.

Mall developers are taking a long-term outlook in developing markets as the economic and political shifts take shape. The growth can be seen everywhere — from economic powerhouses China and India, to mature markets such as Japan, Hong Kong and Taiwan, and other emerging economies such as Indonesia and the Philippines.

According to Dr Chin, demand for expansion

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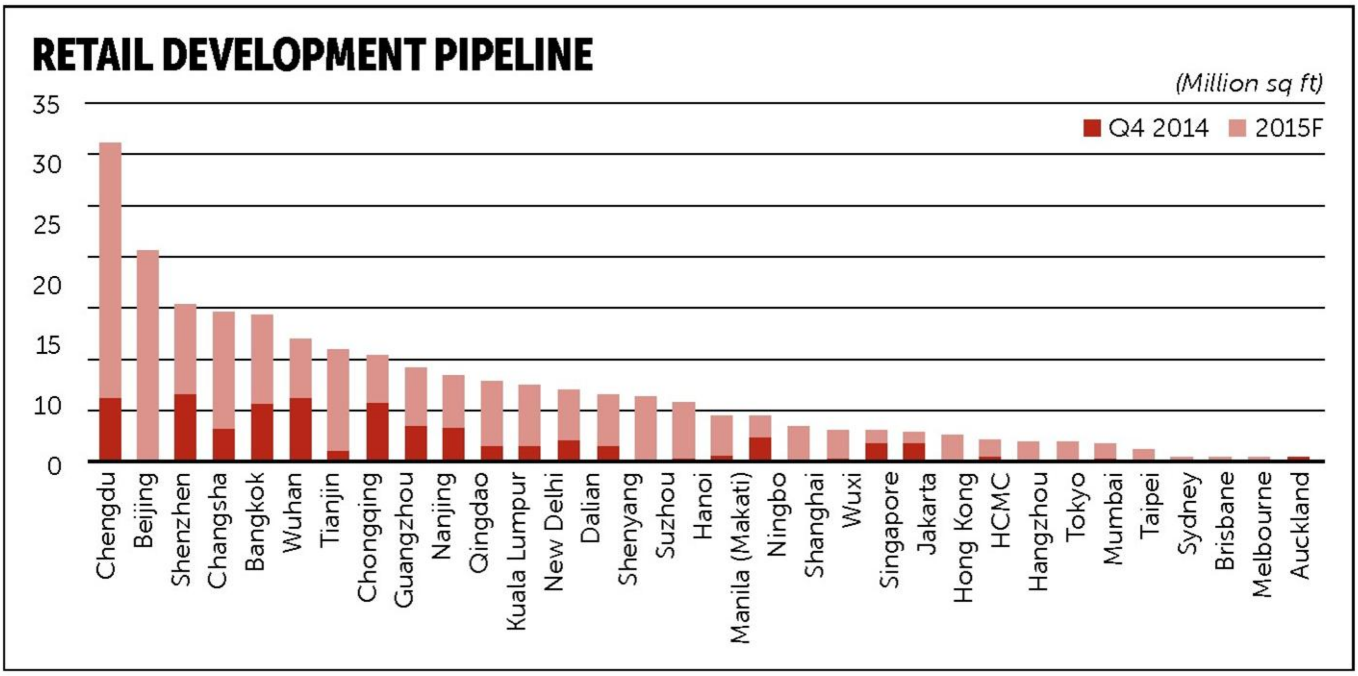

Source: CBRE Research, October 2014

POSTgraphics

has been particularly strong in mainland China and Hong Kong as affluent Chinese show strong demand for branded products. Luxury groups and fast-fashion labels have led the leasing demand in tier 1 and tier 2 cities in China. Tier 1 and 2 cities are densely populated metropolises with income levels much higher than the national average.

In the top Tier 1 cities such as Shanghai, Beijing, Guangzhou and Shenzhen, there is very little that cannot be found these days when it comes to global brands at all price levels.

While "accessible luxury" brands are expanding their presence, fast and value fashion are also growing in densely populated markets where new real estate development offers attractive locations as well as scalability. China, India and parts of Southeast Asia top the list, said Joel Stephen, senior director and head of retailer representation at CBRE Asia.

"Luxury has slowed across Greater China with brands evaluating their existing portfolios for efficiency," he said. "However, luxury is booming in markets such as Japan and Australia, with mainland China's vast luxury shopper population taking advantage of the depreciation of the Japanese yen."

Retailers are also discovering hidden gems such as Taiwan, where they find less competition and affluent local customers, resulting in a positive trend that market.

Due to the volume of new supply, China, Singapore and Malaysia are facing increasing rental pressures while the emerging markets in Southeast Asia such as the Philippines and Jakarta are seeing steady growth.

The rapid growth of cities across the region has been accompanied by a wave of real estate development that will include many more shopping malls and other retail properties.

The figures are clear in a Nielsen report in 2012 on some of Asia's most developed economies. South Korea had 849 modern retail stores per million population, Taiwan 514, Singapore 304, Hong Kong 295, Malaysia 209, China 162 and Thailand 136. Among those with very low retail store density were India (6), Vietnam (9), the Philippines (38) and Indonesia (60).

Less than half of the population in Sri Lanka, Vietnam, India, Thailand, Pakistan and China

•**Continued on Page 3**

live in cities, so there will be more room for retailers to tap into these markets as urbanisation grows.

THE DIGITAL WORLD

When they're not at the mall, many consumers today are checking out what to buy next on their laptop, tablet or smartphone screens as internet access becomes faster and almost ubiquitous.

Retailers in Asia were slow off the mark initially when it came to online commerce, partly because internet access in many countries was spotty until quite recently, but now they are making up for lost time.

China, for instance, overtook the United States as the world's largest e-commerce market in 2013. Bricks-and-mortar retailers have ventured into e-commerce and set up their own shopping portals, which compete against pure internet-based retailers such as Alibaba or JD.com.

The increasing prevalence of e-commerce isn't limited to mature markets, according to Mr Chin.

"Online retailing is increasingly popular among Asia Pacific consumers, especially in emerging markets where quality retail space is limited in terms of their immediate access," he said.

For example, in Thailand, Tesco Lotus now offers 20,000 fresh food and grocery items through its online portal, ready to be delivered. It also sells non-grocery items through Lazada.com, one of Asia's most successful e-commerce portals.

However, Salinla Seehaphan, corporate affairs director of Tesco Lotus, said that although online shopping was showing a positive trend, "e-commerce is not yet statistically significant compared to our bricks-and-mortar retail in Thailand".

Tesco Lotus currently operates around 1,800 stores across Thailand with 1.46 million square metres of retail space and about 12 million customer visits per week.

Its rival Big C has also made a strong commitment to omni-channel sales through both

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physical and online stores such as Cdiscount.co.th and bigc.co.th. In the bricks-and-mortar world, Big C has 637 stores with total space of 767,000 square metres.

Of greater significance for retailers is that the lines between the digital and physical worlds are blurring. The most successful retailers will be those that can seamlessly integrate both models.

In China, for instance, PwC notes a big rise in online-to-offline (O2O) retailing, with retailers using websites to increase awareness and subsequently drive consumers into their bricks-and-mortar stores.

More than 80% of Chinese consumers reported going online first to research the product they were interested in, examining the product at a physical store, and then purchasing it online for a lower price.

This has driven some pure online shopping portals to invest in physical stores so that both they and their customers can have the best of both worlds.

For example, Alibaba last year invested 4.3 million yuan or about $693,000 in Intime Retail, a Chinese department store operator. The chat application developer TenCent, the search engine Baidu and the property and media conglomerate Wanda have also ventured in O2O businesses.

These moves ate noteworthy because for many Asian consumers, the lines between digital and physical are becoming irrelevant, says Michael Cheng, retail and consumer leader for PwC Asia Pacific, Hong Kong and China.

"Retailers need to offer brand-defining engagement, such as real-time personalised offers in order to create differentiated services that entice customers to come back," he said in a recent interview with the Asian business publication Enterprise Innovation.

To prevent stores being used as mere showrooms, retailers are adopting in-store technology that uses customer data to design a customised and enriched shopping experience that keeps them in the store, said Colin Light, digital consulting leader with PwC for China and Hong Kong.

Analysts note that consumers trust information shared on social media and suggest that retailers invest their money where the customer is, turning social engagement into retail action. "To stay relevant in the O2O world, retailers must meet consumers' appetite for innovation," said Mr Light.

Robert Cissell, the president and CEO of Big C Supercenter Plc, agrees. "With the widespread popularity of social media ... we communicate our campaigns and promotions through both traditional media outlets as well as digital marketing such as the official Line account which has over 10 million subscribers now," he said.

Easy availability of information, as well as the rise in overseas travel, also means that consumers in Asia are becoming more knowledgeable and demanding. They know, either firsthand or from online research, about the quality of retail offerings in leading global shopping cities, notes Mr Stephen of CBRE.

"Retailers have to offer the same or better in Asia as they increasingly expand with directly operated businesses, investing more in shop design and experience," he said.

The best in-class retailers are moving toward a true omni-channel experience, seeing internet retailing as complementary rather than a threat, he adds, which means the in-store experience has to be more compelling.

Over the next five years, Mr Stephen expects to see a huge advancement in the in-store experience, from technology to brand education.

Dr Chin agrees that much more can be done at the bricks-and-mortar end.

"To retain consumers, retailers have to enhance their physical offering by adding more experiential elements like F&B, lifestyle, to provide a better and more energetic in-store experience," he said.