



Are we ready for omnichannel retail in Malaysia?

April 2022



Are retailers in Malaysia ready for the omnichannel revolution?



Omnichannel retail is increasingly being seen as the way forward for retailers in an environment of constant change. So what is omnichannel retail? **It is a fully integrated, consumer-first approach, providing customers with a seamless shopping experience** throughout their customer journey, across all channels.

PwC Malaysia's Omnichannel Readiness Study is an independent research exercise conducted between January and February 2022 to assess the readiness of retailers in embarking on the digital transformation process to become omnichannel retailers.



About the study



PwC Malaysia analysed a total of **50 retail brands**, sampling from a wide mix of **10 retail segments** ranging from clothing, personal care and grocery to departmental stores. The sample had a balanced combination of local and foreign retail brands with a physical presence in Malaysia, including some of the most notable brands in each retail segment.¹

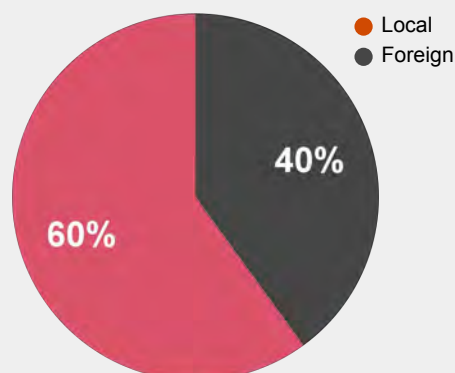
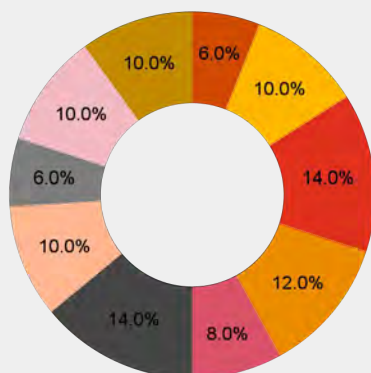
The presence of 59 specific omnichannel features within 6 broad categories in each of the retailer's Malaysia-domained websites were identified and analysed. The analysis included a simulation of the end-to-end actual customer journey.

Examples of such features include purchase as guest functionality, availability of shopping carts, display of product availability in online and physical stores, specification of delivery time, and click and collect service.

We assigned scores for each retailer and ranked them accordingly, to assess their omnichannel readiness.

50 retail brands were studied

- Baby and Children
- Departmental Stores
- Clothing
- Grocery
- Pharmacies
- Leisure and Hobbies
- Personal Care
- Home Improvement
- Shoes
- Electronics

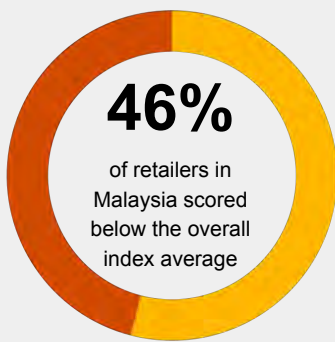
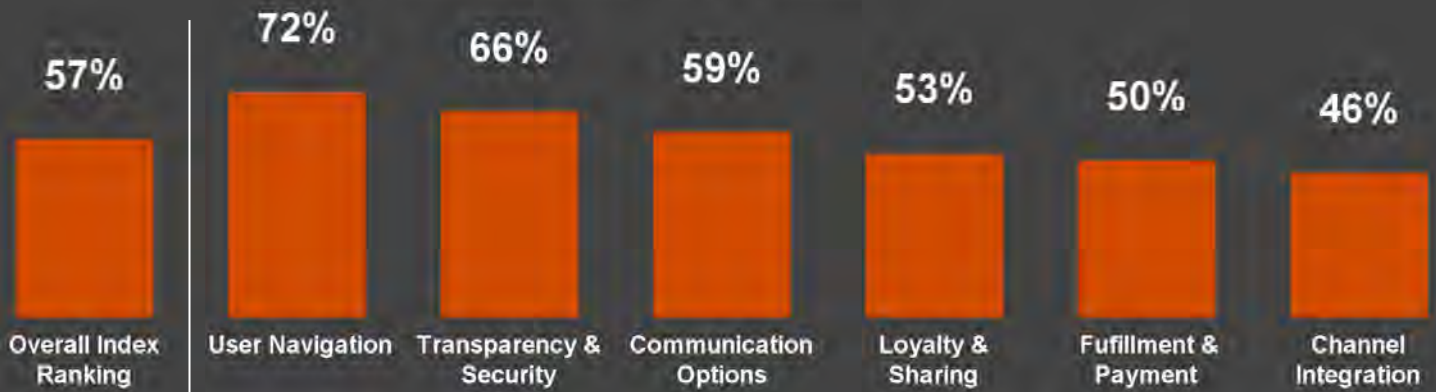


Note: ¹ Retailers chosen for this study must have at least 10 physical stores in Malaysia (with the exception of 5 brands). The study includes various notable brands like AEON, MR.DIY, H&M, Nike, Watsons, etc. The study was conducted independently without soliciting participation from the retailers.

Source: PwC Malaysia Omnichannel Readiness Study, 2022

Key findings

With an average score of 57%, there is still much room for improvement for retailers in Malaysia, to get to at least 75%¹



User Navigation

is consistently one of the highest scoring categories amongst the top 10 retailers

3 highest-rated standout features²



Clear page navigation and layout (16%)



Exclusive discounts for online store only (15%)



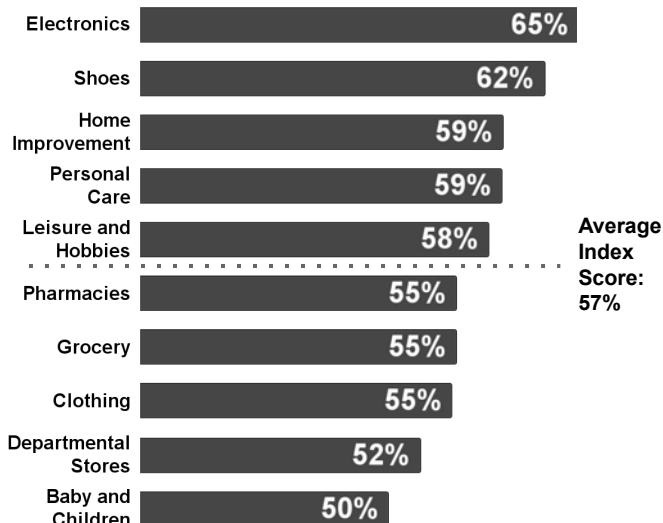
Presentable and visually appealing website (15%)

Top 3 features to consider adding³

1. Click & Collect (20%)
2. Product availability in physical stores (11%)
3. Context recommendations (7%)

Most retail segments have the fundamentals but are still lacking in channel integration and payment options

Readiness score by segment



8/10

of retail segments analysed scored **below 50%** in more than one omnichannel readiness category

7/10

of retail segments performed weakest in the **Channel Integration** category

5/10

of the Top 10 scoring retailers are from the **top 3 retail segments**

Local and foreign retailers aren't too different in their overall omnichannel readiness, but...



Local retailers have ...



A wider selection of communication options (i.e. hotline, Whatsapp, live chat) to better address the concerns of consumers new to e-commerce.



Greater flexibility in payment and financing options including contactless and virtual payments, digital wallets, and 'Buy Now, Pay Later' services, due to better understanding of local consumers' preferred methods of payment.



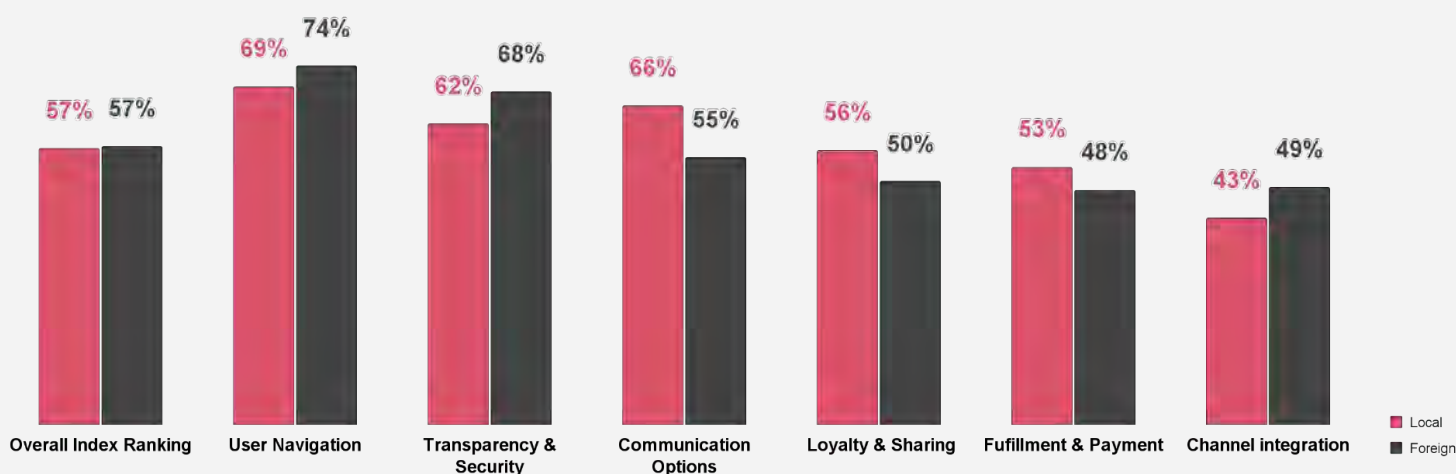
Foreign retailers have ...



Websites that are more user-friendly, visually appealing and have clearer information regarding shipping, returns and payments.



Better channel integration due to the transfer of knowledge and technical capabilities in developed markets (i.e. click and collect, automated display of product availability in physical store, route planner).



New digital innovations in Malaysia have also accelerated the demand for omnichannel shopping by making the digital experience more accessible, convenient and simplified



Chatbots have guided consumers on use of e-commerce features and app navigation



'Buy Now, Pay Later' gives consumers more financial flexibility



Mobile payment platforms like GrabPay and Touch 'n Go eWallet reward customers for usage



Virtual cards offer safety and security given consumers' concerns around data breaches and information theft

Malaysia's retail industry is being transformed

Online retail has experienced 19% growth during the pandemic in 2020-2021

The evolution of consumer behaviour online has been driven by:

- High data connectivity and smartphone ownership
- Ability to research and browse before making a purchase decision
- Convenient and safe shopping experience

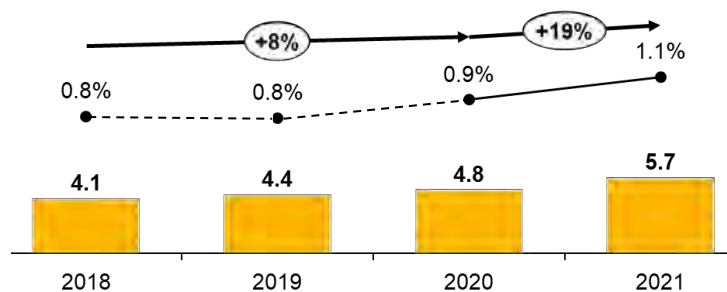


With the acceleration towards digitalisation, we continue to identify ways to leverage digital tools to engage our customers and support them with a seamless shopping experience.

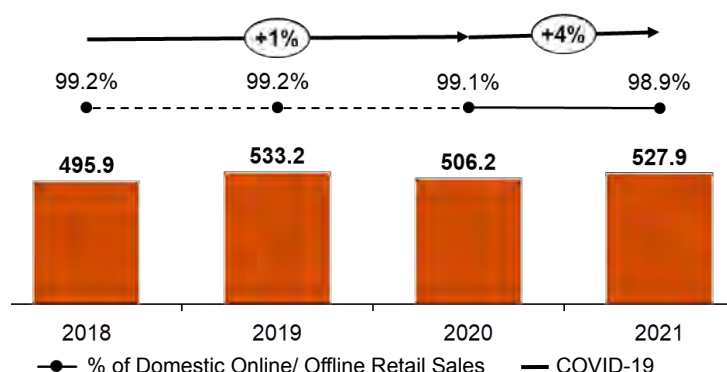


Yuki Yamada, CEO of Uniqlo Malaysia and Singapore Retail Asia

Online Retail Trade¹: Sales Value, RM billion



Offline Retail Trade¹: Sales Value, RM billion



Omnichannel retail M&A deals in South East Asia have picked up pace in recent years

Acquirer	Target	Date	Deal Size (USD bil)	Equity (%)
Walmart	● Flipkart	May-18	16.0	77%
Amazon	● Whole Foods	Jun-17	13.7	100%
Alibaba	● Sun Art	Oct-20	6.5	72%
Walmart	● Jet.com	Aug-16	3.3	100%
Tata Group	● BigBasket	May-21	1.7	64%
Alibaba	● Easyhome	Feb-18	0.9	15%
Grab	● Jaya Grocer	Dec-21	0.4	Majority
Sephora	● Feelunique	Jul-21	0.2	100%
Carsome	● CarTimes	Mar-22	0.06	51%
Phoon Huat	● Le Petit Depot	Jun-21	Undisclosed	91.5%
Nike	● RTFKT	Dec-21	Undisclosed	100%

Type of Deals:

- Online acquiring Offline
- Offline acquiring Online



Observations

Deal activity in Online-to-Offline / Offline-to-Online ("O2O") retail has been rapidly increasing in developing countries in recent years as retailers are catching up with their peers in more developed markets like the U.S., Europe and China.

Not surprisingly, as **O2O businesses** have mutually beneficial relationships. Whilst offline retailers leverage on the digital and technical competencies and large consumer datasets of online players; online retailers use the physical outlets of offline retailers to offer services like curbside pickup / in-store exchanges and returns in a more cost-efficient and convenient way.

Note: ¹Sales values refer to online and offline sales of retailers with a domestic presence and excludes e-commerce purchases from foreign marketplaces.
Sources: Department of Statistics Malaysia 2018-2021, Mergermarket, PwC research and analysis

Exploring the potential of omnichannel retail

It's no longer enough to sell through various marketplaces. Retailers are asking themselves **how they can deliver a consistent and continuous brand experience** and **build a personal connection with every customer**.



Efficient,
integrated
fulfillment



Brick and
mortar store



Call centre,
customer
service

Omnichannel Retail



E-commerce,
Web portal



Mobile app



Social
media



The Goal

To allow customers to have the same level of experience regardless of the device, platform, marketing, sales or delivery channel used.



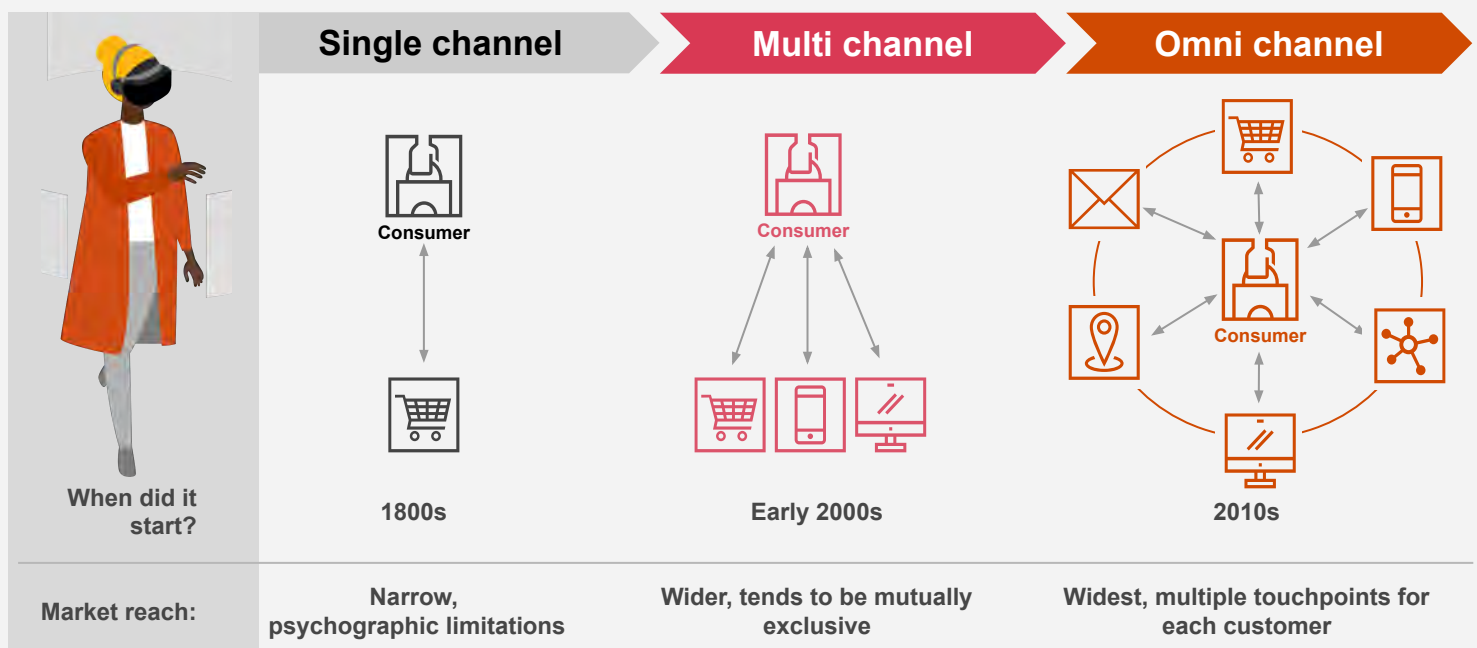
“
E-commerce yields a wealth of data that can be used to further enhance experience offered in physical stores to help drive consumers back to the stores...
”

Murli Menon, Associate Director - Retail
Services of Savills Malaysia
The Edge Markets

“
...With the digital connectivity, we must be able to ask the right question of what is it that consumers really want...
”

Shafie Shamsuddin,
CEO of AEON Co (M) Bhd
The Edge Markets

How has retail evolved ?



Putting retailers in the driver's seat through omnichannel retail



There are several benefits to consider, from a retailer's perspective

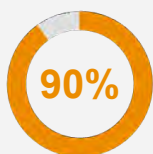
The convergence of physical and online retail has been accelerated globally by the pandemic. These effects have also been felt in Malaysia with the 5.1% year-on-year decline in total domestic offline retail sales in 2020¹. Contrasting that is a 9.1% year-on-year growth in total domestic online retail sales in the same year¹.

A clear shift in consumers' preferences can be seen, with online transaction growth dominating those in brick-and-mortar stores. To drive sales and survive in the new normal, retailers would need to re-strategise business models by providing consumers with a **truly omnichannel experience**. Though challenging initially, an omnichannel strategy will ultimately benefit retailers.

1 Increase in lifetime value²



Increase in lifetime value



Increase in customer retention rate

Omnichannel customers have **30% higher lifetime value** and **90% higher retention rates** compared to customers on a single channel, resulting in:

- Better conversion rates
- Positive word of mouth advocacy

2 Higher purchase rate and spend

287%

Increase in purchase rate³

4%

More in-store spending⁴

10%

More online retail sales⁴

Marketing campaigns with three or more channels experienced **287% higher purchase rate** compared to those with only one channel. Omnichannel customers typically **spend 4% more in-store** and **10% more online**, compared to single-channel customers, leading to:

- Higher revenue per customer
- Higher profitability per customer

3 Discover new customer segments



- With a better understanding of each customer touchpoint across the omnichannel ecosystem, companies will be able to create effective customer journey maps
- When customers are offered a seamless experience through new features and services, this allows companies to discover new and previously untapped customer segments

4 Drive operational efficiencies

- When companies have omnichannel operations, customer data is only collected once, rather than at every touchpoint
- Enables a holistic customer engagement strategy instead of distinct strategies for each channel. This increases operational efficiency and lowers acquisition costs.



5 Improve inventory turnover



- To combat supply chain pressures as a result of growing transaction volumes, omnichannel companies can simplify restocking processes by implementing a one-for-all inventory concept⁵.
- Only a single data set is relied upon - optimising working capital management and ultimately, improving cash flow.

Sources: ¹Department of Statistics Malaysia 2020, ²Internet Retailing 2019, ³Omnisend 2020 Omnichannel Statistics Report, ⁴Harvard Business Review 2017, PwC research and analysis.

Note: ⁵A one-for-all inventory concept encourages companies to connect inventory management of different sales channels into one centralised system, allowing orders to sync simultaneously across all channels.

What does an omnichannel ecosystem look like?



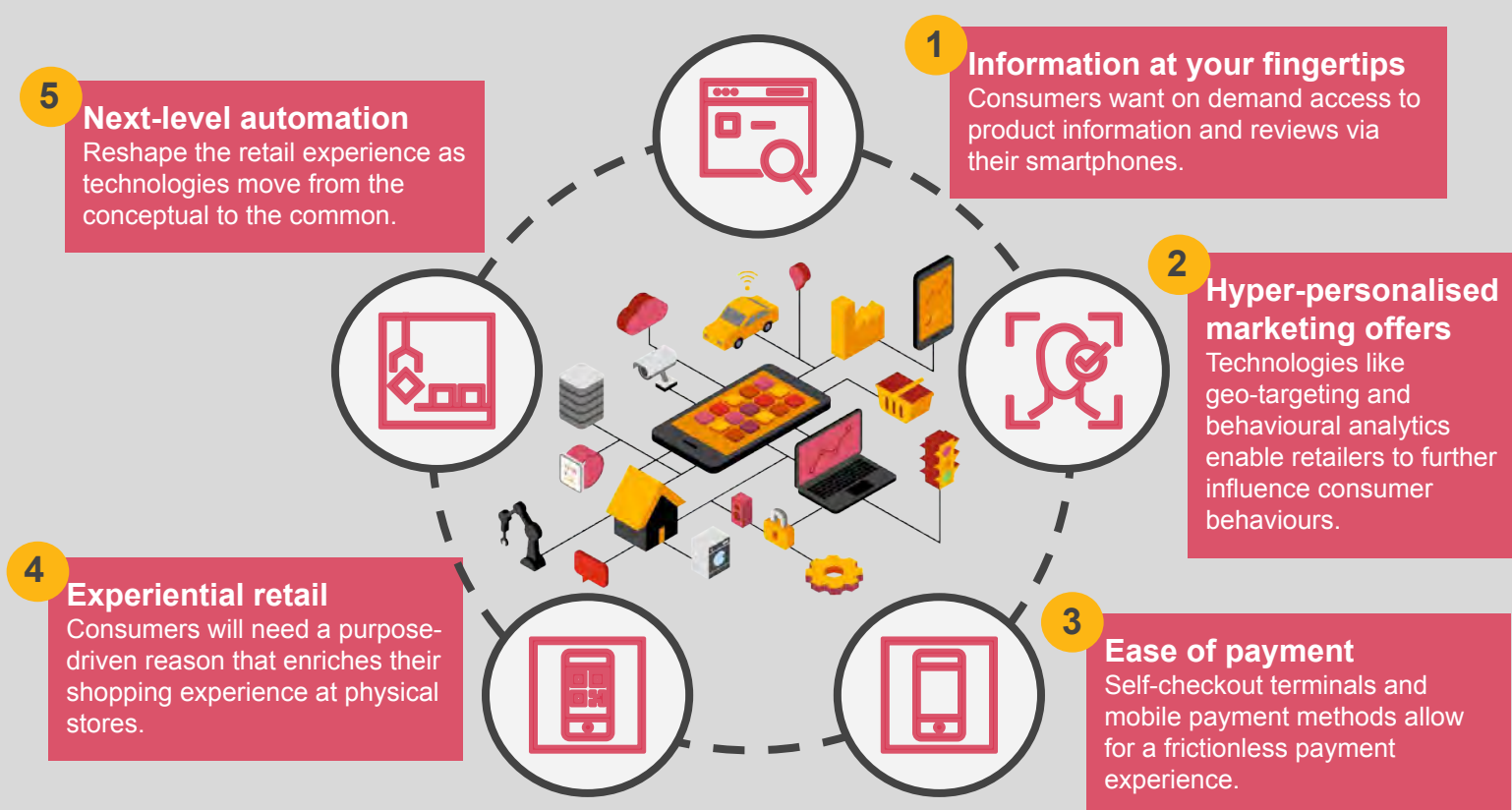
The 3 key challenges 'pure-play' retailers (only online or only brick-and-mortar) will face as consumers' preference for omnichannel retail experience rises:

Inability to connect with, understand and properly service the needs of their existing customers

Declining market share and customer retention as consumers flock to omnichannel retailers

Higher costs and lower sales as one dimensional supply chains lack agility and flexibility to adapt to changing consumer behaviour

Retail reimaged - The 'Store of the Future' will be seamless and tech-enabled



Case study: A leading general merchandise retailer



The omnichannel transformation process is challenging and complex. However, if the fundamental framework is in place and approached in a structured manner, there is a much greater chance for success, generating a positive return on investment.

Let's take a look at how a leading American general merchandise retailer has successfully carried out its omnichannel transformation by focusing on 5 key pillars:

5 Pillars of the Omnichannel Model



Redesigning the customer experience

Rewarded loyalty and increased brand stickiness with a loyalty programme and the brand's own credit card

Made ads more relevant by using rich insights to reach the right people, with the right message, at the right time.

Revisited the store strategy by remodelling stores to cater to grab-n-go shopping and to **attract younger, digitally savvy, urban customers**.



A recalibrated supply chain strategy

New small store format for faster expansion to increase store accessibility

Stores playing a role as micro fulfilment centres for **in-store and drive-up pickup**

Acquired a delivery service company to achieve in-house **same-day delivery capabilities**

Partnered with a grocery delivery service company to deliver groceries in <1 hour



Embedding the omnichannel strategy throughout the organisation

Phase 1: Incubate

Exited partnership with an e-commerce company to focus on in-house e-commerce

Phase 2: Grow

Began omnichannel transformation journey

Phase 3: Integrate

All channels are deeply integrated, supported by robust technology and supply chain infrastructure.



Transforming data into actionable insights

Improved store and floor planning

More relevant product recommendations

Increased personalisation in deals suggestions

Better prediction of stock replenishment timings



Unlocking its omnichannel potential with technology

Robotic sorters in warehouses and stores increase precision and speed of replenishments.

An **in-house single enterprise platform** supports both its digital and physical channels.

Robust all-in-one app with integrated features like in-store availability, latest deals and its loyalty programme.



There will be risks along the omnichannel journey, but these can be managed with necessary mitigants



Risks



Scoping



Integration



Delivery



Operational



Channel-switching



Liability

Areas

Capability gaps

Legacy operations and systems

Budget and time overruns

Changing requirements over time

Single source of truth (pricing, promotions, inventory)

Product mis-information

Mitigants

Training, recruitment, partnerships and M&A

Leverage existing data and systems first

Multi-stage process

Robust after-sales feedback mechanism

Unified data and systems - customer, pricing, stock etc.

A 3-stage approach to develop and implement your omnichannel strategy



Stage 1: Readiness review

Perform a **current state and opportunity assessment**, followed by a **business case for change**



Stage 2: Strategy development

Assess **growth potential** and develop a **customer-centric go-to-market strategy**



Stage 3: Identify and implement

Identify **operational changes** required to deliver the strategy and develop an **implementation plan**



Each retailer's transformation journey is unique and needs to be fit for purpose

Let's chat



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