2015-16 Outlook for the Retail and Consumer Products Sector in Asia

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Foreword

One doesn't have to live in Shanghai or Mumbai to understand that the most dynamic markets – and many of today's most creative retailers – reside in Asia. Just this past November the Western press was filled with stories touting China's 2014 Singles Day sales of US$9.3 billion, which beat out the combined US's Black Friday and Cyber Monday shopping days by more than two times.

The genius of Singles Day is that it's the perfect microcosm for the scope and energy that define the opportunities in Asia for global retailers. Our PwC 2014 APEC CEO Survey recently showed that they are aware that they need to pay more attention to the region, with most respondents – 67% in fact – intending to increase investments in the region next year.[1]

But do they really appreciate the nature of the opportunity? Online sales in Asia Pacific are expected to reach US$1.3 trillion by 2019, growing at a compound annual growth rate of 18.5% over the next five years.[2] Both India's and China's shoppers are particularly active users of mobile technology and social media, and the use of these technologies for purchasing, while still nascent, is bound to increase as screen size and security issues are resolved. In fact, China will soon overtake the US as the world's biggest retail market, and most of the rest of the region will see retail spending growth far in excess of the global average over the next five years.[3]

Then there is the urbanisation factor. In 2015, the UN estimates that there will be 22 mega-cities with populations over 10 million; 12 of those cities are in Asia. New, more densely-packed city dwellers will fuel a rise in discretionary spending, prompt development of modern retail outlets and require investment in urban infrastructure, while new, modern retail space will in turn bring new retailers to the region.

So, in a nutshell, what is the outlook for Asia? Millions of connected, sophisticated, urban dwellers – consumers who will readily buy products. Not a bad place to start for global retailers looking for new paths to growth.

I invite you to read this report to learn more about the retail opportunities in Asia. Finally, I would like to express my great appreciation to Mr Chitranjan Dar of ITC Limited, Mr Weiming Cao of Hermès, Ms Lixia Tan of Haier, and Mr Masaaki Kanai of Ryohin Keikaku, for their time and sharing their business insights and visions. I am sure you will enjoy reading their interviews as much as I have.

February 2015

1. New vision for Asia Pacific, PwC 2014 APEC CEO Survey
2. Forrester Research Online Retail Forecast 2014 to 2019 (Asia Pacific)
3. "Asia Rising" Economist Intelligence Unit, 2014

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This report was written in cooperation with the Economist Intelligence Unit's industry and management research division.
The economic and industry forecasts included are those of the Economist Intelligence Unit. Due to a change in methodology some historical figures may be significantly different to those published in past years' reports.

Executive summary

Asian retail sales are expected to amount to over

US$10 trillion by 2018

Set against a distinctly mixed global backdrop, the outlook for Asia's consumer goods and retail sector represents a bright spot. Sales growth in the region will be the fastest in the world over the next five years, averaging 8.5% in US dollar terms and 4.6% in average volume terms. This compares to global average rates of 5.6% and 3% respectively and to Western European rates of 0.6% and 0.8% respectively.[1] By 2018, Asian retail sales are expected to amount to over US$10 trillion,[2] almost half of the US$23 trillion in sales generated by the world's 60 largest economies and twice that of North America, the next largest region. Much of this will be driven by the regional economic powerhouses of India and China which are continuing to deliver on some of the expectations surrounding BRIC markets,[3] even as Brazil languishes and Russia suffers from the economic fallout and sanctions related to its intervention in Ukraine. Added to this is a new wave of interest in other Asian economies. Indonesia has joined Turkey, Mexico and Nigeria to form the latest emerging-markets acronym, "MINT",[4] while retail liberalisation and rapid growth in markets such as Vietnam are also attracting investment.

While the macro picture is bright, expectations must be tempered by some micro realities. China's size and growth may remain eye-watering by Western standards, but the economy is slowing markedly from the double-digit highs of the past decade. This slowdown in growth is set to continue as the market matures and is being compounded by a number of factors, including renewed weakness in consumer sentiment, a government crackdown on displays of wealth and fears of a property bubble. Bricks and mortar retailers which have invested heavily in China are having to rethink strategies—especially luxury firms, with store closures, consolidation and even market exits becoming more common.

In India, there seems to be little prospect for deregulation of the type necessary to fully unleash growth. The government which came to power in May 2014 is opposed to the liberalisation of foreign direct investment in multi-brand retail. This will ensure that multinational retailers are denied access to a market expected to pass the trillion dollar mark in 2015, and will also starve brands of shelf space and discourage much-needed investment in infrastructure and distribution. When combined with low per capita incomes, the lack of reform will leave India a difficult market despite its obvious potential.

Elsewhere, Japan is see-sawing between spikes and troughs in consumption as "Abenomics"[5] seeks to drive inflation and consumption growth, with only partial success. Spending sprees ahead of a sales tax hike have been followed by steep declines, and fiscal loosening only appears to have had a temporary impact. Still one of the world's largest markets, Japan is struggling to move on from a second "lost decade" of weak growth, while continuing to decline in significance as the likes of India and China rise—not helped by a weak yen, which has detracted further from its appeal. Two of the region's other developed economies, Taiwan and Hong Kong, are faring better. However, both have become reliant on investment and visitor numbers from mainland China to bolster their consumption growth, exacerbating the potential fallout of any weakness in China.

This report discusses the outlook and trends affecting six retail and consumer product sub-sectors in Asia: food and general retail, fashion and apparel, online retailing, fast-moving consumer goods (FMCG), luxury brands and durable consumer goods and electronics. It focuses in particular on the key markets of China, India, Japan, Taiwan and Hong Kong with further profiles of Indonesia, Malaysia, Singapore, South Korea, Thailand and Vietnam. The report looks at the state of each sub-sector in 2014 and how the industry is expected to develop in the five years to 2018.

The main findings of this report include:

China is expected to become the world's largest retail market by 2018,[6] but growth is slowing and attention within China's retail markets is increasingly shifting away from physical retail towards fast growing e-commerce channels.

E-commerce is becoming a focus for retailers and brand owners, with China becoming the world's largest e-commerce market and its leading e-commerce player, Alibaba, launching a record-setting IPO.[7] Other Chinese and Indian e-commerce IPOs are also set to generate significant investment, with a number of incubator projects also in place across the region.

Interest in India will remain significant but will be hampered by government opposition to foreign investment in multi-brand retail. As a result, foreign investors will be focused on single brand retail and paying close attention to the mooted liberalisation of e-commerce channels as a means of developing the market.

Food safety is becoming an increasingly prominent concern in Asia, especially in China, where efforts to assuage consumer fears are prompting greater regulatory scrutiny and driving the acquisition of more trusted firms in mature markets.

Luxury firms across the region will need to revisit strategies, as a crackdown on corruption and weakening consumer sentiment in China leave them vulnerable following their recent aggressive expansion. Other regional factors such as currency weakness in Japan are also hitting profits.

Fast fashion firms will continue to expand rapidly, plugging the gap between luxury and standard apparel products. This is particularly the case in China and India, with competition becoming fiercer as H&M, Gap, Fast Retailing and Inditex all pursue broad store-opening strategies.

Introduction

Figure 1: Real GDP growth (% at market exchange rates)

Region	2011	2012	2013	2014	2015	2016	2017	2018
Asia and Australasia (incl Japan)	3.7	3.8	3.9	3.8	4.0	3.9	3.8	3.8
Latin America	4.4	2.9	2.6	1.5	2.7	3.3	3.5	3.6
Middle East and North Africa	3.0	3.6	2.6	3.1	4.0	4.3	4.3	4.3
North America	1.7	2.3	2.2	2.2	3.2	2.5	2.4	2.6
Sub-Saharan Africa	4.1	3.5	3.4	3.6	4.5	5.1	5.5	5.4
Transition economies*	3.8	2.1	1.4	1.2	1.9	3.1	3.3	3.4
Western Europe	2.0	-0.2	0.3	1.3	1.4	1.6	1.7	1.8
World	2.6	2.0	2.1	2.3	2.9	2.8	2.9	2.9

Source: Economist Intelligence Unit
*Transition economies are defined as former planned economies in Central and Eastern Europe
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

What began as a promising year for the global economy ended on a sombre note. The recovery from the global financial crisis of 2008-2009 has been disappointing and European policymakers are working feverishly to prevent another recession. Officials in Japan are trying to determine whether a tax increase, which caused the economy to plunge by more than 7% from April to June, will stall the nascent recovery. Important emerging economies are also stagnating, with fears over stability weighing on the outlook for Russia and the Middle East.[8] In Africa, the outbreak of the Ebola virus brought not just humanitarian but also economic concerns for the affected countries with a likely impact on retail activities as we move into 2015.

Amid the disappointment are a few bright spots. The US economy, still the world's largest, is enjoying what appears to be a durable recovery. Despite an economic slowdown, China's economy is estimated to have grown by around 7.5% in 2014, while sentiment in India has risen sharply following the election victory of Narendra Modi's majority government in May 2014.[9]

The global outlook will brighten over the next two years, although the renewed slowdown in Europe and uncertainty in Russia, Ukraine and the Middle East casts a pall over the forecast. Global retail sales volumes are expected to grow by an annual average of 3% over the next five years although regional growth will vary from just 0.8% in Western Europe to 4.6% in Asia for the same period. From 2015, growth in the US and a stuttering euro zone recovery will boost demand for Asian goods.[10] Greater political stability in Thailand and promised economic reform in India will also help. However, the winding-down of the US Federal Reserve's bond purchase programme could weigh on some Asian markets and in Japan "Abenomics", the reflationary agenda of Prime Minister Shinzo Abe, is undergoing a stiff test.

Figure 2: Global retail sales volume growth (% pa)

Region	2011	2012	2013	2014	2015	2016	2017	2018
Asia and Australasia	4.5	4.2	4.1	4.1	4.6	4.8	4.8	4.9
Latin America	7.6	4.0	1.6	-0.8	2.4	3.4	3.4	3.8
Middle East and Africa	5.3	2.7	1.5	2.3	2.9	3.9	4.6	4.3
North America	4.0	2.0	2.7	2.3	2.5	2.4	2.5	2.6
Transition economies	3.8	3.2	3.0	1.2	2.7	4.3	4.1	4.6
Western Europe	-0.6	-1.5	-0.7	0.6	0.8	0.9	1.0	0.9
World	3.4	2.2	2.4	2.3	2.9	3.2	3.3	3.4

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Figure 3: Global retail sales (US$ trillion)

Region	2011	2012	2013	2014	2015	2016	2017	2018
Asia and Australasia	6.0	6.3	6.4	6.8	7.6	8.4	9.3	10.3
Latin America	1.3	1.4	1.4	1.4	1.5	1.6	1.6	1.7
Middle East and Africa	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.8
North America	3.7	3.8	4.0	4.1	4.3	4.6	4.8	5.0
Transition economies	1.1	1.1	1.1	1.2	1.2	1.3	1.5	1.6
Western Europe	3.2	3.0	3.1	3.2	3.1	3.2	3.3	3.3
World	15.8	16.2	16.6	17.3	18.4	19.7	21.2	22.8

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

China will continue to enjoy rising sales, but at a slowing pace as weakening sentiment as well as fallout from a crackdown on corruption and gift-giving reduce demand. Despite falling from 15.6% in 2009, average annual retail volume growth of 8.8%[11] in 2014 and 2015 will lead much of the world with China passing new milestones along the way. In 2013 China overtook the US as the world's largest e-commerce market, and by 2018 it will be the world's largest retail market overall. However, concerns remain over the exposure of retailers, particularly luxury firms, to weakening growth.

The picture is more mixed in India, where growth of 4% in 2014 will accelerate to 5.6% this year and 6.6% by 2018.[12] Optimism over the election of Narendra Modi as prime minister has been tempered by his manifesto pledge to reverse foreign direct investment (FDI) in multi-brand retail. The outlook for FDI in single-brand retail and e-commerce is much brighter, although challenges from poor infrastructure and high inflation remain.

In Japan, which has suffered a second "lost decade" of economic stagnation, fiscal stimulus drove a rare consumption spike in 2013 while a sales tax hike in April 2014 prompted a pre-tax shopping spree. This was followed by a sharp economic contraction, which could be exacerbated by further tax rises, although these have been put on hold for now. Annual average volume growth is now forecast to be just 0.3% in 2014-18. A weaker yen could also threaten revenue streams for foreign firms.[13]

Pro-democracy protests in Hong Kong in the last quarter of 2014 had a destabilising effect on a retail market that is heavily reliant on tourism, particularly from mainland Chinese consumers. Apart from this, retail sales volume growth will benefit from rising incomes and tourist purchases over the next two years, averaging 2.5%, although this is down from an average of 9.3% over the last five years.[14] Interest rate hikes and concerns over the property sector will dent demand from 2016 and weigh on sales growth.

Despite a slowdown in forecast annual GDP growth to 3%, Taiwan will see steady expansion in retail and consumer sectors. Sales will be supported by continued growth in visitors from the mainland, as travel restrictions between China and Taiwan continue to ease. Luxury goods and food retail are likely to be key beneficiaries for a retail market that is forecast to see solid annual volume growth of 2.7% over the next two years.[15]

Figure 4: Asia retail sales volume growth (% pa)

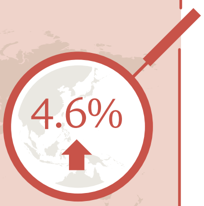
Territory	2011	2012	2013	2014	2015	2016	2017	2018
Australia	-0.5	0.9	1.5	1.3	2.6	2.3	2.0	2.2
China	9.1	8.7	9.3	8.8	8.7	8.6	8.0	7.9
Hong Kong	18.6	5.5	6.6	3.1	2.0	-1.0	0.4	1.3
India	5.7	2.7	1.7	4.0	5.6	6.2	6.2	6.6
Indonesia	6.0	5.3	4.3	3.8	5.1	5.4	5.0	5.0
Japan	0.1	1.5	0.7	0.2	0.0	0.3	0.4	0.6
Malaysia	4.6	4.7	6.4	5.4	5.3	4.6	4.6	4.8
New Zealand	-1.9	2.4	6.3	3.2	2.9	2.2	2.7	2.5
Pakistan	9.2	-0.8	5.1	3.9	4.1	3.8	4.3	4.3
Philippines	3.2	5.4	4.4	4.2	5.3	5.4	5.4	5.5
Singapore	1.9	0.6	1.2	1.7	2.5	2.9	2.4	2.9
South Korea	2.1	1.3	-0.1	1.6	2.9	3.1	2.8	2.9
Taiwan	3.6	0.6	2.5	2.9	2.5	2.4	2.7	2.3
Thailand	1.4	4.9	-2.4	-0.6	0.7	3.6	3.4	4.3
Vietnam	6.7	3.9	3.8	9.5	8.4	7.8	6.0	6.5

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Retail

Food and general retail

Key findings

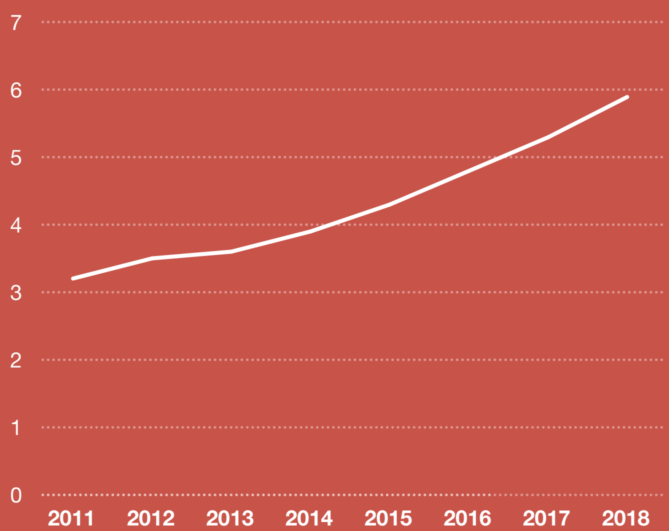


- Rising incomes mean that Asia and Australasia will lead the world in terms of retail volume growth, averaging 4.6%.
- Deceleration in markets like China is prompting a rethink as retailers refocus on core domestic markets.
- Regulation is becoming more prominent in light of food safety issues.

Over the next five years Asia and Australasia will deliver the strongest retail volume growth of any region, averaging 4.6% annually. With sales of almost US$7 trillion in 2014, Asia is also comfortably the world's largest regional retail market, with China accounting for much of this. However, this outlook comes with a degree of risk attached. Decelerating growth in China, weakness in Japan and mixed signals from India will all weigh on the regional outlook. Large players are now showing signs of switching emphasis to smaller Asian markets, notably Indonesia and Vietnam, with the former supported by strong demographic and income growth and the latter opening up more to foreign retail investments.

Regulatory issues and a strategic refocus on domestic markets have also prompted a rethink among global retailers. As the likes of Carrefour, Metro and Tesco[16] seek to recapture revenues in their core home markets they have divested or rationalised operations in emerging Asia. Asian retail markets are also evolving quickly, with e-commerce channels showing particularly strong growth. Indeed, declining investment in physical stores from firms like Walmart has been replaced by a greater commitment to investing in fast-growing e-commerce channels.[17]

Figure 5: Retail sales of food in Asia and Australasia (US$ trillion)



Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Hypermarkets, supermarkets and convenience stores

The global retail landscape is evolving and nowhere is the pace of change faster than in Asia, where convergence and innovation in e-commerce and m-commerce has forced a rethink in the channel strategies of key retail players. The Internet has tipped the balance of power in the favour of consumers. As barriers between physical and virtual channels blur, retailers are exploring multichannel solutions—such as click-and-collect stores, pop-up shops or using beacons (which can send notifications of offers to nearby smartphones)—to drive engagement. While m-commerce and the threat of “showrooming” (where users test products in-store but buy online) remain a threat to physical stores, mobile devices are also acting as a hybrid channel to drive footfall by allowing consumers to locate stores and interact through apps, beacons or QR codes.

A global drive toward convenience channels is already well established in Asia with the likes of Japan, Taiwan and South Korea setting a global precedent for small, well-located outlets. The declining role of the hypermarket has therefore had a muted impact in Asia. Amid the overarching shift towards convenience and online shopping there is still substantial investment in flagship retail outlets, notably by fast fashion retailers and technology firms like Apple. In the case of markets like China, the development of flagship stores is moving further and further inland towards tier three and four cities, with retail brands hoping to use such stores to generate a buzz among Chinese consumers. Property consultants CBRE singled out second-tier city Chengdu as the world’s most active retail development market in 2012.[18] In India, too, the relaxation of FDI laws around single brand retail stores has allowed the development of well-sited flagships in key city locations. The likes of H&M, IKEA and Marks & Spencer have been quick to seek market entry.[19]

Rising incomes in many parts of the region mean that the dramatic shift towards discount retail channels taking place in regions like Western Europe is not as apparent in Asia, although it is catching on. A price-sensitive public in Japan means that 100 Yen shops, led by Daiso, already proliferate but bargain-hungry Chinese consumers are also joining the fray. iResearch Consulting Group reported in June 2014 that online discount retailing in China has experienced triple digit annual growth since 2008, although the sales figures remain comparatively small, forecast to be just US$18 billion by 2016.[20]

The truly compelling story in the region is aligned with the global shift towards online channels and away from physical stores. This has caught some foreign retailers flat footed. Despite pledging over 100 store openings in China by 2015,[21] Walmart has controversially been closing underperforming stores there[22] and has refocused more on investment in e-commerce, notably through its majority stake in Yihaodian.[23] Tesco has also consolidated in China by rolling its operations into a minority stake in a joint venture with China Resources Enterprise, which operates the CR Vanguard[24] retail brand among others. Joint ventures remain a key element to Chinese retail investment with another key local player—Sun Art Retail—majority owned by French firm Auchan.[25] Sun Art boasts a market share of 13.6% and a footprint of 273 hypermarket complexes across 25 provinces and municipalities. Auchan has a 51% stake in the holding company which owns a majority of Sun Art.

Foreign investors are also reassessing India. Carrefour has decided to pull out since the majority government, elected in May 2014,[26] has announced its opposition to FDI in multi-brand retail. Carrefour had set up wholesale operations in the country. Tesco may have been more fortunate. The UK retail giant signed a deal with Tata for US$140 million to take 50% ownership of Trent—which runs 16 hypermarkets—before the election and has so far received assurances that its investment will not be rolled back.[27] Walmart ended its own joint venture with Bharti Enterprises before the new government came to power, preferring to invest in its existing wholesale brand and in online operations. The rejection of multi-brand foreign investment in India comes as a significant blow to foreign retailers and will affect overall market development. Indian retail will remain fragmented, to the benefit of the many small independent businesses Mr Modi is seeking to protect: there are more than 14 million shops in India, with over 90% of them smaller than 50 square metres.[28] Larger groups such as the Aditya Birla Group and Bharti Enterprises may rue the opportunity for a partner with deep pockets, and retail growth will be hampered by a lack of investment in infrastructure and logistics—benefits which it was anticipated foreign players would provide.

While far more developed than India's, Japan's retail market is relatively fragmented by developed-market standards, although it is consolidating. Competition in the convenience-store sector will remain strong as the main players continue to expand their operations at the expense of smaller players. The leading player in the market is 7-Eleven with over 16,300 stores in February 2014, followed by Lawson (11,600) and FamilyMart (10,500).[29] Japan remains one of the most difficult retail markets for foreign operators to penetrate, with only Walmart and Metro maintaining a presence following exits by both Carrefour and Tesco.

Japanese retailers are now increasingly targeting investments elsewhere in Asia. Aeon is already the region's largest retailer, with over 250 companies operating over 18,000 stores across a range of formats in 14 Asian countries.[30]

Foreign investors continue to be attracted to Taiwan, where 7-Eleven has a firm presence, trading as President Chain Store Corporation and dominating the convenience sector together with FamilyMart. Carrefour, in a joint venture with local partner Uni-President, remains a key player in the stagnating Taiwanese supermarket and hypermarket channel alongside RT Mart, a joint venture between a local firm, Ruentex, and another French retailer, Auchan. US firm Costco, a wholesale-style warehouse club, has been enjoying significant success in Taiwan with ten warehouses, which are reportedly among the firm's most profitable stores.[31]

In Hong Kong the share of the retail market accounted for by supermarket and department stores fell to about 20% in 2013,[32] driven in part by convenience shopping, but also by retail tourism, with rising mainland visitors opting more for flagship stores and boutiques than grocers. The takeover of prime retail space by luxury retailers seeking to court mainland tourists has encouraged protests from local consumers. Chinese retailers have also been looking to expand into Hong Kong, an exercise that is proving costly given the high rents (CBRE has ranked Hong Kong as the world's most expensive location for retail rentals).[33] The supermarket sector is already heavily consolidated with Wellcome and PARKnSHOP, the respective subsidiaries of Jardine Matheson and Hutchison Whampoa, accounting for around 80% of supermarket sales.[34]

In-depth interview with

Chitranjan Dar, *Divisional Chief Executive, ITC Limited, Foods Division*

ITC's Foods Division is one of the fastest growing foods businesses in India. The division offers products in four categories: staples, snack foods, ready-to-eat foods and confectionery.

What are your expectations for market growth in packaged food over the next two years? Do you see a pick-up in consumer spending in the next few quarters?

In packaged foods, except for snack foods, growth is in the range of 8-12%, down from between 17% and 19%. This is more or less the same as FMCG in general. Growth is likely to start picking up by 1-2 percentage points per quarter over these next few quarters. Snack foods have been growing at 20-25%. This is due to the continual introduction of innovative new products in the finger snack format, as well as growing penetration in semi-urban markets. But it is growing from a small base.

A recurrent theme in the consumer goods industry has been 'rural markets'. How important are these for your business?

There is no 'omnibus' group when you talk of the rural market. There are certain categories, such as biscuits, that have an extremely high penetration rate of over 90%. However, other products such as noodles and snacks tend to be less relevant in the rural market in terms of penetration. It is still just one-fifth to one-seventh of the penetration for these products in urban markets. The market skew is 75% urban and 25% rural. This contrasts with the ratio for other products, which is now almost 50-50. Of course, some products like packaged atta have almost no penetration in rural markets.

More recently, the buzz has been 'rurban' – smaller towns and rural markets that have developed urban tastes. Do you see this as a distinct and new consumer category?

Yes, the small town market – that is, towns with a population of 50,000 and below – has been growing consistently over the last seven or eight years. There are a lot more products available there now. Today, the stockist model has gained a lot of acceptance. It existed before, but not on the same scale. Today stockists sell products from seven or eight different companies. So it is easier for companies to target these towns (traditionally they have had to set up their own distribution chains).

The stockists get products directly from manufacturers, and are also sometimes financed to the extent of employing salesmen who go shop to shop. This model has taken root in small towns of 10,000 – 20,000 people. Also, consumers in these towns are a lot more connected and aware than they were previously. They've got mobile phones, electricity, televisions and the Internet. Now you can go into the heartland and people will know what Yippee is (a brand of noodles). They haven't seen or eaten it, but they have seen it on TV.

However, this model does not seem to have penetrated into villages with populations of 5,000 and below. Here, the village retailers go to a wholesaler to stock up, and he carries just a few products and brands.

The Modi government seems unlikely to open the multi-brand retail sector any further. What impact does this have on packaged food producers such as ITC?

Since modern retail [ie, supermarkets and organised retail chains] has not really had an impact on the packaged foods industry, liberalisation of foreign direct investment (FDI) in this sector is unlikely to make more than a marginal dent. Six years ago, we estimated only 6-7% of packaged foods was sold through modern trade. This figure today may be closer to 10%. But in 2002 we had envisaged that by 2015 40% of sales would be through modern retail. There are still many challenges which FDI itself is unlikely to crack. For example, the convenient locations enjoyed by traditional retailers. India's existing retail infrastructure of small corner shops is very competitive because they have the best locations and offer personalised service. Furthermore, rental costs are very high for new entrants.

There is also the matter of low gross margins. Modern retail usually brings a lot of products which are generic or store brands, thus igniting fierce price competition. This has not happened in India because the margins here are so low. India has the lowest prices in the world for potato chips and snacks. So you don't get low-price private label products which would draw traffic away from main street products. Modern trade is an expensive machine to oil. In low margin economies there is only so much that variety and convenience can do.

What do you see as ITC's biggest challenges over the next few years? How do you plan to overcome these?

There is very high penetration in the largest-selling product categories, so here there is very little headroom for growth. This is a problem for everyone. The key is to grow consumption with new tastes, textures, formats, and brand identities. Many areas in India are like countries in themselves. So innovation – and micro-segmentation of the market – is going to be key.

Regulation will also pose a challenge, especially more stringent rules on food packaging. Indian companies are going to have to work at a much faster rate than their global peers to find solutions to these problems. They are genuine problems. Then there is a need to tap great opportunities like functional foods. But it will be very difficult to fund the investment required to tackle these pressing needs and opportunities. Large players will need to look beyond quarterly results and look at inclusive growth strategies which recognise the societal requirements from the packaged food industry.

Inflation has been a challenge in recent years. Do you see pressure easing?

Yes, definitely. At the moment, it is extremely soft. The price of edible oil is linked to the price of oil, which is falling. I don't think inflation is going to be a problem for the next few quarters. However, in the medium/ long term the dairy sector is going to present severe inflationary pressures. Dairy production is growing at just 3-3.5% a year. Unless a lot of money is spent on animal husbandry, cattle feed, and returns to farmers, it will be difficult to attain the growth rate that is required to meet dairy demand and milk prices are likely to multiply over the next seven or eight years.

What will be the main driver of growth in packaged food sales in the coming years?

It will largely be a lot of convenience-driven growth. Until now, the Indian food industry has been very focused on indulgence. We've left out convenience as a driver because domestic help is so easily available, as is home delivery. But as these things become more difficult and expensive, and as more women start working, then there will be growth in the ready-to-cook area. Ready to eat might take more time.

Food, beverages and tobacco

Asia is set to drive global growth in consumer expenditure on food, beverages and tobacco. Nominal growth in the region over the next five years is expected to average 9% per year compared to a global average of 6.4% per year.[35] By 2018 Asia will account for 60% of global consumer expenditure in this category, with its share worth US$5.9 trillion compared with US$3.9 trillion in 2014. This will be driven by expenditure growth as incomes rise and consumer preferences shift towards packaged, processed and value-added food and drink products.

Convergence and inflation will also play a part as per capita spending and prices continue to rise. Asia will be more susceptible to rises in soft commodity prices, with consumers in markets like India, Vietnam and Indonesia continuing to largely consume unprocessed staples. Soft commodity price rises are expected to continue to moderate from highs in 2010-12,[36] but supply shocks can have a wide reaching impact.

In terms of size China will be the regional powerhouse. Consumer expenditure on food, beverages and tobacco will reach over US$1.73 trillion by 2018, compared with an estimated US$1.05 trillion in 2013. As a proportion of total household expenditure, spending in the category will fall from 30.7% to 28.5% over the same period as household spending across other categories expands at a faster rate and incomes rise. Leisure and education, clothing and footwear and healthcare will also grow as a proportion of overall spending.
By 2018, non-food retail will account for over 34% of total retail spending, compared with 32.2% in 2014.[37]

Figure 6: Food, beverages and tobacco: Market demand growth (real % change pa)

Region/Territory	2011	2012	2013	2014	2015	2016	2017	2018
Asia and Australasia	2.5	2.3	2.0	1.6	2.0	2.0	1.9	1.9
Australia	3.5	3.1	2.5	2.5	3.6	3.4	3.2	3.4
China	3.9	1.4	1.2	1.2	1.1	1.0	0.9	1.1
Hong Kong	6.6	2.0	1.9	-0.3	1.4	-0.2	0.7	-0.5
India	3.2	3.2	3.6	3.8	4.2	3.6	3.2	3.2
Indonesia	3.5	4.3	4.3	4.3	4.8	4.7	4.8	5.0
Japan	0.4	2.1	1.9	0.4	0.1	0.4	0.5	0.5
Malaysia	4.5	5.7	6.4	4.9	4.2	4.3	4.7	5.1
New Zealand	2.7	3.2	4.2	3.5	3.3	2.7	2.9	3.1
Pakistan	-0.1	4.4	-1.0	-3.2	3.1	0.5	1.2	0.9
Philippines	3.3	4.2	3.3	3.2	3.4	3.3	3.4	3.3
Singapore	4.5	2.2	2.9	3.4	4.7	4.8	4.8	4.9
South Korea	1.3	0.4	0.7	2.3	2.0	2.2	1.8	1.8
Taiwan	2.3	0.8	1.2	1.7	1.8	1.5	1.2	1.5
Thailand	-0.3	4.9	-1.3	-1.3	1.9	2.9	2.9	2.8
Vietnam	-0.4	0.2	0.9	1.9	2.8	3.0	3.0	3.4

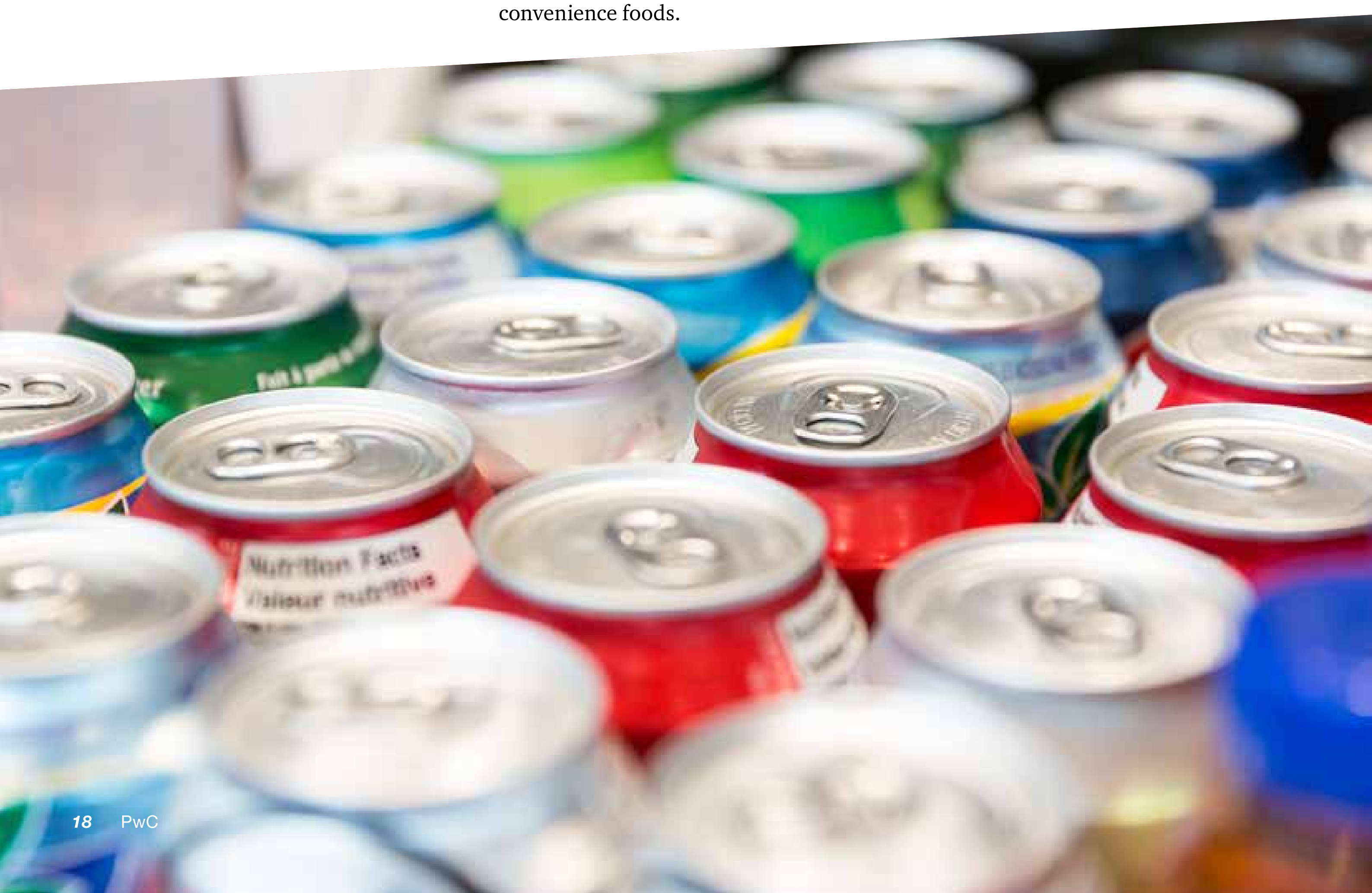
Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

India will also supply strong regional growth, averaging 10.7% in nominal terms over the next five years, although this may be undermined somewhat by food price inflation. Consumer expenditure on food, beverages and tobacco will pass US$700 billion in 2018, from just under US$400 billion in 2014. As a proportion of total household expenditure, spending in this category will continue to decline, from an estimated 32.6% in 2013 to 29.7% in 2018.[38] But this average disguises significant disparities between rich and poor, and urban and rural households, as well as the low price paid for staples in India compared to other markets.

Japan's expenditure on food, beverages and tobacco is currently the world's third-largest after the US and China, estimated at US$480 billion in 2014. However, currency weakness has eroded this value in US dollar terms and growth in food sales (in local-currency terms) in this category will remain weak, averaging 1.5% a year. By 2018 expenditure will have risen only modestly, to US$507 billion,[39] partly reflecting the maturity of the market—spending levels are already high—but also competition between local players and continued weak consumer sentiment.

Although also mature, spending growth on food, beverages and tobacco will remain solid in Hong Kong, averaging 5% a year in 2014-18. However, Hong Kong presents a much smaller market with total spending amounting to just US$38 billion in 2018, up from US$30 billion in 2014.[40] With sales of fresh fruit and vegetables already reaching maturity, time-poor consumers are increasingly turning to processed foods with perceived health benefits, and, conversely, snacks and convenience foods.

Growth in spending in Taiwan will be lower than in Hong Kong, but will still comfortably outstrip Japan at 3.3% per year over the next five years. Total expenditure will amount to US$90 billion by 2018.[41] Like China, Taiwan has not been immune to food safety scares of its own, and the island's reputation for high food safety standards has been tarnished in recent years. In early 2013 authorities confiscated large quantities of food starch after it was discovered to be tainted by maleic acid, prompting import bans on tainted Taiwanese products from a number of neighbours in Asia.[42] In September and October 2014 there was a further scandal involving the sale and use of tainted cooking oil, prompting the resignation of the Minister of Health and Welfare.[43]



Quality and safety concerns

As emerging Asian markets develop at a rapid pace, so too does concern for food safety. Markets such as Japan and South Korea already place a high premium on quality and food safety, but health scares have made the issue even more prominent across the region. The concern about safety is driven by rapidly expanding food and agricultural industries across the region, rising trade in foodstuffs, inadequate distribution systems which lead to quality problems and the continued presence of large numbers of small-hold farmers, who are difficult to educate and monitor. The problems have been particularly acute in China, where branded producers are rapidly coming to the conclusion that it is impossible to control quality in the supply chain and are opting for vertical integration. The latest big name to be embroiled in the issue is fast food chain McDonald's, whose products were found to contain expired meat. The problem was discovered in China but affected markets around the region. Most surprising to observers was the fact that the tainted meat came from a local division of OSI, a well-respected US firm.[44] Among those who have opted for vertical integration, which seems to enjoy Beijing's blessing, is Fonterra, the New Zealand dairy giant whose joint venture partner in China was found to be using melamine in its infant formula in 2008.[45] Fonterra has set up two wholly-owned and managed dairy farms in China and has three more planned. Cargill, an American agribusiness conglomerate, has invested US$250 million in a poultry supply chain which spans feed cultivation right up to chicken processing.[46]

Concerns about safety have also prompted Asian food producers to look abroad both for expertise and trusted brand names. China, in particular, is becoming increasingly acquisitive in the food and drinks sectors. Outbound investment in the food and beverage industry from Chinese firms between 2010 and 2013 amounted to about US$9 billion. In the first half of 2014, food and drink deals accounted for 17% of total Chinese outbound M&A activity.[47] Among the more notable deals have been Shuanghui's purchase of Smithfield Foods of the US, the world's largest pork producer, for US$4.7 billion, marking the largest ever Chinese acquisition in the US.[48] Shanghai's Bright Food has also been on a shopping spree, buying up UK cereal brand Weetabix as well as Israeli Dairy producer Tnuva and Italian olive oil maker Salov Group.[49]

While food safety scandals grab the headlines, there is also rising concern across the region about quality more generally. On one end of the spectrum, obesity—with all of its associated health costs—is a rising problem across the region, notably in China and India. In the former, the incidence of childhood obesity has risen from 0.8% in 1985 to 8.1% in 2010, while in Delhi, a recent study showed that one in three children in private schools in the city is obese.[50] Producers of processed foods are certain to come under pressure to change their formulations and/or advertising as more governments in the region seek to combat the problem. On the other end of the spectrum, micro-nutrient malnutrition remains a stubborn issue in many Asian countries, prompting governments to consider mandatory fortification of staple foods.

Fashion and apparel

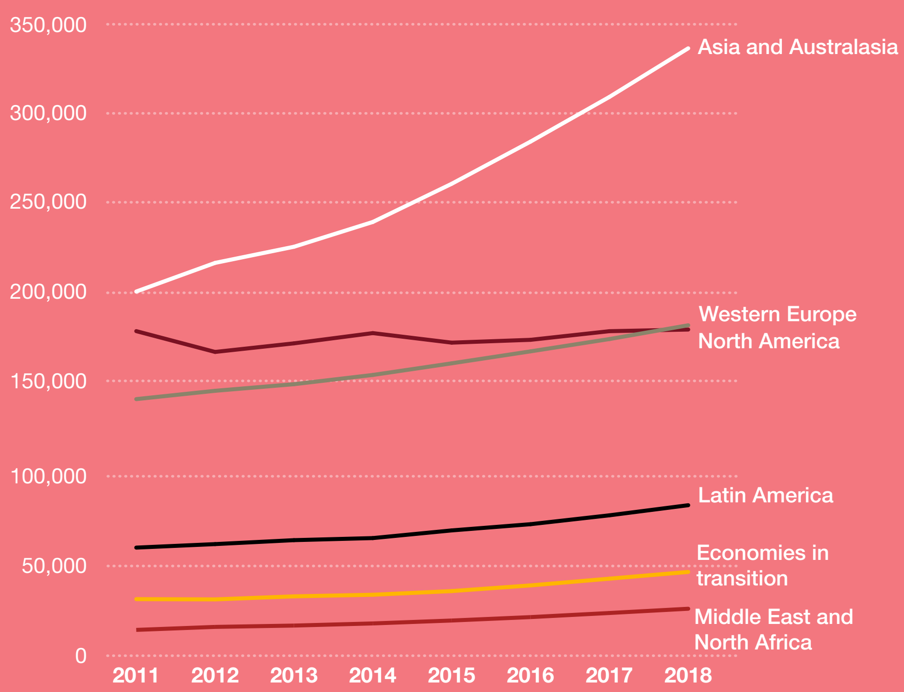
Key findings

Almost
10%
rise per year

- Fast fashion houses are expanding aggressively across Asia with average expenditure on clothing set to rise by almost 10% per year.
- By 2018 market demand for clothing in the region is set to reach almost US$340 billion in nominal US dollar terms.
- By 2018 China will account for almost one-third of regional demand for clothing.

The Asian clothing and apparel sector is expected to grow rapidly over the next five years. Annual average expenditure growth on clothing and footwear, at 9.5%,[51] will comfortably outstrip that of any other region as rising incomes lead more Asian households towards discretionary purchases. As more households move into middle class income brackets, consumer complexity will increase and fashion will form a sizeable part of the identity of an increasingly sophisticated Asian consumer base. Demographics will help too. The fact that India and China accounted for a combined population of 2.6 billion people in 2013 (37% of the world's population[52]) means that the overall market size for clothing is also larger than that of any other region. Consumer expenditure on clothing and footwear in Asia is expected to reach almost US$920 billion by 2018, compared to an estimated US$625 billion in 2014.[53] The Chinese market will account for over US$500 billion of this total by 2018, equivalent to those of Western Europe or North America.[54]

Figure 7: Clothing: Market demand (nominal US$ million)



Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Current demand growth seems to have become increasingly centred on fast fashion trends, with Asian consumers appearing to have an insatiable appetite for the quick and trendy brands that are proliferating. With incomes and aspirations rising, young affordable brands have rushed in to plug a gap for consumers who want to stay chic but cannot yet afford luxury items. The speed of turnaround on fast fashion collections also ensures high volume demand, as storefronts move quickly from one trend to the next, tapping into the immediacy brought on by greater connectivity, notably through social media. Even as luxury firms have reported slower growth in markets such as China, fast fashion retail brands such as H&M, Gap, Zara and Uniqlo are outlining ambitious store opening plans to sit in a sweet spot that blurs the distinctions between mid-market apparel and low-end luxury.

Figure 8: Clothing market demand (nominal US$ million)

Region/Territory	2011	2012	2013	2014	2015	2016	2017	2018
Asia and Australasia	200,698	216,657	225,645	239,462	260,736	284,237	309,132	336,241
Australia	9,212	9,781	9,600	9,481	9,724	10,538	11,377	11,791
China	50,918	58,054	64,368	71,248	79,542	88,218	96,981	105,828
Hong Kong	44,908	48,317	51,326	53,302	56,079	57,620	60,788	63,487
India	7,182	7,025	7,220	7,873	9,217	10,932	12,955	15,031
Indonesia	8,690	9,127	9,367	9,504	11,145	14,144	16,061	20,036
Japan	28,231	28,543	23,717	23,195	23,507	24,010	24,676	25,450
Malaysia	3,581	3,850	4,135	4,374	5,005	5,722	6,367	6,967
New Zealand	2,185	2,348	2,480	2,617	2,465	2,459	2,547	2,606
Pakistan	3,121	2,967	3,078	3,287	3,792	4,239	4,521	4,884
Philippines	5,695	6,515	7,094	7,602	8,623	9,610	10,680	11,895
Singapore	3,227	3,422	3,560	4,126	4,622	5,206	5,802	6,306
South Korea	8,485	8,583	8,967	9,560	10,215	10,484	10,831	11,351
Taiwan	3,995	4,089	4,178	4,276	4,479	4,646	4,811	4,956
Thailand	6,579	7,137	7,473	7,279	7,756	8,488	9,349	10,440
Vietnam	14,687	16,899	19,083	21,738	24,566	27,919	31,386	35,214

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

As with all things in retail, China's gravitational pull is impossible to ignore. In 2014 Inditex, the global leader in apparel with 6,500 stores in 87 countries—largely through its Zara brand—was expected to open its 500th store in China. Meanwhile, as the US fashion retailer Gap closes stores in its domestic market, it is focusing on Japan, China and Hong Kong to propel growth (although a change in CEO may see that policy moderated). Gap currently has around 80 Chinese stores but opened 34 of those in 2013. It planned to open 30 more in 2014. The firm recently identified 50 cities in China with more than 5 million people to target for its physical store expansion, with a view to tripling Chinese revenue to US$1 billion by 2016. Meanwhile, Fast Retailing, owner of the Uniqlo chain, plans to open 100 Chinese stores a year. There are already over 250 Chinese Uniqlo outlets and the plan is to expand this to 1,000 by 2020. Fast Retailing's ambitions in China are almost matched by H&M, currently the world's second largest clothing retailer, which planned to open 80-90 Chinese stores in 2014. The firm intends to triple the number of stores it has on the Chinese mainland over the next three years.[55]

With the exception of US brand Forever 21, which has just seven Chinese stores,[56] fast fashion expansion in China is notable because it has quickly moved beyond the coastal hubs and into faster growing smaller cities in the interior. These tier two, three and four cities offer much stronger potential for fast and affordable brands because they have a consumer base that is more aspirational (consumers in first and second-tier cities have higher incomes and the influence of luxury brands is stronger) and higher growth in consumer expenditure. British e-commerce player ASOS has also joined the fray, launching a dedicated Chinese-language site which will initially offer about 2,000 own-brand styles designed for the local market, with tailored delivery solutions and payment methods, local language customer care and a domestic distribution partner. UK-based Topshop is also expected to follow a 2014 online launch in mainland China, with pop-up outlets in up to 40 department stores in 2015.[57]

A multitude of international fashion retailers are also looking to the larger Asian region. Fast Retailing is targeting aggressive expansion in South Korea, Taiwan and South-East Asia as well as China, and will bring in sister brands such as Comptoir des Cotonniers and Princesse Tam Tam. It also recently acquired the British fashion and homeware firm Cath Kidston, which enjoys popularity in Japan. Not to be outdone, H&M planned to open up to 195 new Asian stores outside China in 2014.[58]

Despite the dominance of China, Japan will remain a cornerstone of the global fashion industry, with a number of internationally recognised designer names. In addition, Japanese street fashion continues to influence apparel and footwear trends in many other countries, one of the driving factors behind Uniqlo's aggressive expansion in the wider region. One niche growth area in Japan will be clothing and footwear for single working women in their 20s. Many such women in Japan still live with their parents, and so have high disposable incomes and are able to indulge their penchant for luxury items.

Like Japan, Hong Kong has developed a stable of local apparel brands, such as Giordano, Baleno, Bossini, Shanghai Tang, I.T and Esprit (some of which are now foreign-owned). These companies are also targeting mainland expansion, although not always successful. Esprit posted a loss in the 12 months to June 2013 after writing down the value of acquisitions in mainland China,[59] although the firm returned to profit in 2014. Conversely, foreign firms are also looking to Hong Kong as a means of tapping into mainland retail tourism, despite high rental costs. Topshop opened in Hong Kong in June 2014 as part of a strategy to establish flagship stores in key global cities.[60] J.Crew of the US opened two new stores in Hong Kong in 2014, their first in Asia, joining other recent US arrivals such as Tommy Bahama, Forever 21 and Abercrombie & Fitch.

Mainland Chinese shoppers will also help drive growth in Taiwan, where Uniqlo is the market leader in foreign apparel. Uniqlo had 43 Taiwanese outlets by the end of April 2014, with plans to grow this number to 100 by 2020. Inditex entered the market in 2011 and now has six Zara outlets in Taiwan.[61] Rising prices and labour costs have undermined Taiwan's domestic production industry, with many leading garment manufacturers, including Makalot, shifting production abroad to restore margins.

One recipient of such investment is India, whose textile exports exceeded US$30 billion in fiscal year 2013/14 (ends March). Spending on clothing in India, although large in aggregate and rising quickly, comes from a low base in per capita terms. Equally, the environment is competitive, with custom tailoring from raw cloth still prevalent.

However, clothing sales will rise rapidly, driven by a growing young population and greater awareness of Western fashion. Liberalisation of restrictions on foreign investment in single brand retail is helping, with H&M securing final approval to invest in India in 2013.[62] In addition, it was reported in August 2014 that Inditex is planning to open Massimo Dutti stores in a joint venture with local retail group, Trent.[63]

In-depth interview with

Masaaki Kanai,
President,
Ryohin Keikaku

MUJI is a Japan-based retailer selling a diverse range of products including clothes, household items and food through 385 stores in Japan and 257 in 24 other countries around the world. MUJI was launched in 1980 by Seiyu, a Japanese retail conglomerate. It is now part of Ryohin Keikaku, which spun off from Seiyu in 1989. MUJI products have the tagline "pleasant lifestyle", with a design emphasis on simplicity and modesty – quintessential Japanese aesthetics.

What are the core principles behind MUJI?

MUJI—which means "unbranded"—was founded as the antithesis to the consumer society. The founder of the brand questioned the implications of such a society, including the devaluation of non-consumable items and a relentless fashion cycle that diverted consumers from buying what they really needed.

Some leading designers empathised with this view and formed a team with a mission to offer unbranded "good things" (*ryohin*) at reasonable prices. This meant cutting out excess in all processes, including design, manufacture, packaging, marketing, and so on. This corresponds with the aims of craftsmanship, in which through years of practice the craftsman arrives at essential forms, which are characterised by both their beauty and their high efficiency.

How are you communicating your brand values, especially in overseas markets?

Our branding is based on three components: gathering products "with no makeup on", displaying them in stores with matching spatial qualities, and then explaining what they are. We've always focused on plain-spoken communication. Of course our product range, covering a wide spectrum from apparel to housing, plays a big role in expressing what we are about, and our values.

Being the antithesis of major consumer trends helps us in many ways. For instance, we have an initiative called the "Found MUJI" project, where we discover everyday artisanal or industrial items around the world that are simple and modest, and in so doing help preserve local traditions and identities. The related exhibitions and events have been well received in China and France, for instance.

The increasing maturity of markets and consumers worldwide is a tailwind for us, too. East Asia is hot for retailers and its consumers are increasingly sophisticated. They are better able to identify the real value of products, and are less easily influenced by branding or marketing. Our consumers in China, for instance, are more interested in enhancing the quality of everyday living, going beyond the type of lifestyle that used to put emphasis on branding.

I must also note that people whom you might call "creators" around the world tend to act as gateways of communication for us in each country that we operate. They tend to be a cultural group that responds well to our values.

Finally, we host competitions, asking people to design products for us. That is, instead of telling them what MUJI is about, we ask them to think and produce for MUJI. We find this is a better way to be understood.

What do you see as growth areas?

Housing is one area. With an ageing and shrinking population in Japan, the sector needs a paradigm shift in thinking and approach. We've just launched an initiative in Japan called "House Vision" that puts MUJI's "pleasant lifestyle" concept into practice in the housing space. In other countries in Asia too, we are beginning to see that there are huge unmet and hidden needs to improve the quality of living space, at reasonable prices.

Our food business is another area that is closely linked to the problems of population growth and energy, as well as food safety. We are promoting "*So-no-Shoku*", a food culture that puts MUJI's principles of minimalism and quality into practice, cutting out the excess in all aspects from production to processing and eating, unleashing food's essential qualities.

E-commerce is certainly a potential area of growth, too. In addition to our e-commerce site, we are building a platform that brings together people who are working on and interested in tackling a variety of social issues, ranging from abandonment of farm lands to regional revitalisation and sustainability. These are people who share our values. There is a link from the platform to our e-commerce site. We find this unique structure helps the volume of online sales.

What particular challenges are you facing and tackling?

Supply chain management is on our agenda. We have some catching up to do in implementing appropriate support systems to help our offices abroad. We've started with our non-brand strategy, and then we've worked to build the quality to win consumer confidence. We've also worked hard to achieve reasonable prices. Now the challenge is to secure matching systems to support our global operations.

Online retailing

Key findings

- Asia, notably China, will continue to drive global growth in e-commerce.
- 2015 is likely to be India's year for e-commerce stories as regulation eases and the likes of Flipkart and Snapdeal drive growth.
- Alibaba's dominance in China will make it difficult for foreign e-tailers to penetrate and the Chinese firm will be increasingly acquisitive abroad.

Asian markets, especially China, are driving growth in e-commerce globally. They are also well primed for sales made using mobile devices (m-commerce) and social media (s-commerce). The latter is still nascent, but interest has been lodged by Asian firms. Japanese e-commerce firm Rakuten has invested heavily in online pinboard community Pinterest, with a view to using the network as a storefront for popular items. More recently, Alibaba's purchase of a US$586 million stake in Sina Weibo,[64] a Chinese Twitter-like service, has highlighted the value that social media could hold for online retailers.

China is already the world's largest e-commerce market. According to iResearch Consulting Group, year-on-year growth in online sales in China slowed in 2013, but was still estimated at 42%,[65] reaching US$306 billion. This compares with estimated sales in the US of US$263 billion (up by 16.9% year on year[66]), according to the US Department of Commerce. McKinsey, a management consultancy, expects Chinese e-commerce sales to reach US$650 billion by 2020.[67] In China, mobile payments

accounted for 8% of total online transactions in 2013, up from just 1.5% in 2011. Data from iResearch show that 26% to 30% of web visits (through browsers and apps) are made by smartphones and tablets, and mobile devices already contribute to 15% of orders. If the current trend continues, there is a high likelihood that mobile payments will account for 20%-30% of online transactions by 2016.

The market opportunity is clear, but non-domestic players will find it difficult to tap into. Chinese firm Alibaba has been commanding the world's attention, having launched a record-breaking IPO which values the company at over US$230 billion. As China's leader in e-commerce, Alibaba owns several major e-commerce sites including Alibaba.com, Tmall and Taobao Marketplace. It accounts for almost 40% of China's B2C e-commerce market and dominates eBay-style "marketplace" selling. The company is also developing international ambitions as it outstrips its US rivals Amazon and eBay. In the three months to 30 June 2014, Alibaba outsold Amazon and eBay combined by reporting GMV (gross merchandising volume or sales made through its portals) of RMB501 billion (US$82 billion).[68] This compared with GMV of around US$20.5 billion for eBay and about US$37 billion for Amazon over the same period. (Amazon does not report GMV but reported direct sales of US$15.25 billion, which accounted for an estimated 41% of total sales.)

Despite the focus on Alibaba and Chinese e-commerce, other Asian markets such as India are creating a buzz of their own around social media potential, although actual results remain minuscule compared to China. According to the Internet & Mobile Association of India (IAMAI), Indian e-commerce rose by one-third to reach Rs629.7 billion in 2013 (about US$10.5 billion). Moreover, the IAMAI reported that 71% of Indian e-commerce was for travel.

Indian online retail is hampered by poor infrastructure, low Internet penetration and difficulties with basic enablers like online payments. Regulation presents another hurdle, especially to foreign entrants who cannot sell directly but can invest in marketplace-driven ventures, which host and fulfil for domestic third-party sellers.

The number of Internet connections is estimated by the IAMAI at 243 million, a large number in itself, but less than a quarter of the population, although the number grew by 31% year on year in 2013. More significant is the rapid growth in mobile Internet users, opening the door for mobile commerce (m-commerce). Reliable estimates of mobile Internet users are not available since most consumers continue to access the Internet through WiFi. But the number of 3G subscribers in India is expected to have grown to 88 million in 2014, from 56 million in 2013, and the number of smartphone users to 116 million in 2014 from 67 million the year before.[69]

Nasscomm, an industry association, estimates that e-commerce sales in India will reach US$100 billion by 2020, creating up to 50,000 jobs in the process—although global tech consultancy Forrester Research has set a more modest forecast of US$16 billion for online retail by 2018. Expectations have led to a host of firms—domestic and foreign—expanding aggressively to ensure they are well placed when the market takes off.

Snapdeal and Flipkart, the two largest domestic players, both have ambitious goals. Snapdeal, a marketplace seller which boasts 25 million registered users, hopes to emulate Alibaba's success and has set an annual transaction target of US$1 billion on its platforms by the end of 2015.[70] Flipkart, which merged with fashion portal Myntra in May, sees apparel retail as the next area of growth, targeting a 60-70% share of Indian online fashion.[71]

Much of the current frenzy of activity could also be due to timing. Despite closing off avenues of foreign investment in multi-brand retail, there are expectations that liberalisation to allow foreign ownership of e-commerce ventures is likely to come to pass soon. Walmart has already announced significant investment plans in its Indian technology business, in anticipation of deregulation.[72] Amazon and eBay both have a foothold in India. Amazon, initially through its Junglee.com portal, but more recently under its own brand, has been present in India since 1998 and operating an online marketplace since 2012. eBay, meanwhile, has a modest direct presence but has also invested heavily in domestic firms, notably Snapdeal.[73]

As with multi-brand retail, anticipation over the potential of Indian e-commerce could be premature. Despite the investment, Indian e-commerce players have yet to see their activities become profitable. Rapidly rising sales have done little to address the high capital investment required to get established in e-commerce. With annual per capita consumer expenditure of around US$970, margins on any e-commerce venture will remain tight, although it will take a lot to dampen the current optimism around India's e-commerce future.

Japan has the fourth-largest number of Internet users in the world after the US, China and India, along with a dynamic mobile telecommunications sector. It therefore offers huge potential for online and mobile shopping. Japan's many convenience stores already offer multimedia kiosks for customers and often act as collection points for e-commerce orders, a trend that has made its way to South-East Asian markets. Rakuten, a local firm, and Amazon.jp, the local subsidiary of the US-based Internet retailer, are the two largest online retailers in Japan, with market shares of 24% and 12% respectively, according to New York-based Goldman Sachs. Rakuten's virtual mall hosts many smaller retailers, while Amazon focuses on selling directly to consumers. However, Rakuten has been aggressively buying new businesses overseas in its ambitious attempt to compete with Amazon on the global market.[74]

Yahoo! Japan has a 4% share of the online retail market in the country, operating a similar business model to Rakuten. Other players include Zozotown, with an online mall, and other specialised online retailers.

E-commerce in Taiwan has also grown strongly, recording double-digit growth in sales in recent years. The Ministry of Economic Affairs expects the value of e-commerce sales to surpass NT$1 trillion (US$33.6 billion) in 2015, up from NT$767 billion (US$25.7 billion) in 2013. Retailers are increasingly focused on improving their online offerings, including raising security and delivery standards. In late 2012, regulations were relaxed to allow small businesses to carry out online credit-card transactions. Leading domestic e-commerce retail platforms include Yahoo!, PayEasy and PChome Online. Chinese e-commerce firms, such as Alibaba's Taobao, have already made rapid advances in the Taiwan market, largely free from restrictions. Leading Taiwanese e-commerce firms include Yahoo!-owned Kimo, PChome, Fubon Group's Momo, PayEasy, and Rakuten Taiwan Ichiba.

Hong Kong's heavily-concentrated population and high level of Internet penetration make it a promising prospect for online retail. A culture that favours bargain-hunting and a hands-on shopping experience will mean that a large amount of shopping continues to be done offline. Yet, couponing and Groupon-type sites, as well as social media or mobile applications linking location services to special offers, are increasingly blurring the line between online and bricks-and-mortar retail.

Electronic-goods retailers are the main beneficiaries of e-commerce, but apparel and also health and beauty products are becoming increasingly popular. Taobao and Tmall (both owned by Alibaba) as well as Amazon are among the most popular sites.

Consumer goods

Fast-moving consumer goods

Key findings

- Disposable income growth gains will create hundreds of millions of middle class households in Asia, driving up discretionary purchases.
- Regional consumer spending on household goods will rise by an annual average of 8.5% to reach US$730 billion by 2018.

8.5%

- Domestic competition and the need to cater for diverse local tastes present challenges for the world's FMCG giants.

Income distribution acts as a crucial barometer for FMCG firms in emerging markets, by allowing firms to assess when household incomes reach levels at which discretionary spending takes off. As households move into middle-class income brackets, aspirational consumers switch purchases from basic food items and towards FMCG items as well as labour-saving devices such as washing machines and white goods.

In this sense emerging Asian markets present a particularly attractive prospect for firms over the next five to ten years, as hundreds of millions of households in China and India join the middle class. Just as compelling, albeit in smaller numbers, are markets such as Indonesia, Vietnam and the Philippines. FMCG covers a broad range of categories, but household goods such as detergents and personal care items represent the greatest opportunities in terms of volume turnover. These categories benefit further when consumers can afford bigger ticket items—dishwashers and washing machines create demand for dishwasher tablets and laundry detergent, for example.

Figure 9: Soaps and cleansers: Market demand growth (real % change pa)

Region/Territory	2011	2012	2013	2014	2015	2016	2017	2018
Asia and Australasia	6.2	5.8	4.1	3.6	3.8	3.8	3.7	3.7
Australia	4.8	4.2	3.4	4.6	4.5	4.5	4.3	4.5
China	14.4	10.5	5.3	5.2	4.3	4.3	3.9	4.0
Hong Kong	12.8	6.5	4.5	1.7	3.1	-1.3	0.9	-0.7
India	5.7	5.2	5.9	5.9	6.9	7.0	6.4	6.4
Indonesia	7.8	8.4	9.3	9.6	9.6	10.0	10.3	10.4
Japan	0.1	2.6	2.6	1.4	0.9	1.3	1.4	1.5
Malaysia	9.4	11.0	9.1	7.9	7.7	8.6	9.5	10.3
New Zealand	4.1	3.9	4.5	3.9	3.8	3.2	3.6	3.4
Pakistan	11.7	13.5	5.8	1.3	11.2	-2.1	-1.6	-2.2
Philippines	9.0	9.8	8.1	8.4	8.9	9.1	9.3	9.3
Singapore	7.0	4.4	3.6	8.4	7.5	7.9	7.9	7.8
South Korea	4.0	2.0	1.7	2.4	4.4	4.5	4.1	4.1
Taiwan	4.3	2.4	2.8	3.5	3.6	3.3	2.8	3.1
Thailand	3.0	9.9	0.9	0.4	5.1	7.2	7.5	7.9
Vietnam	13.0	8.6	8.2	9.4	10.4	10.9	10.4	11.1

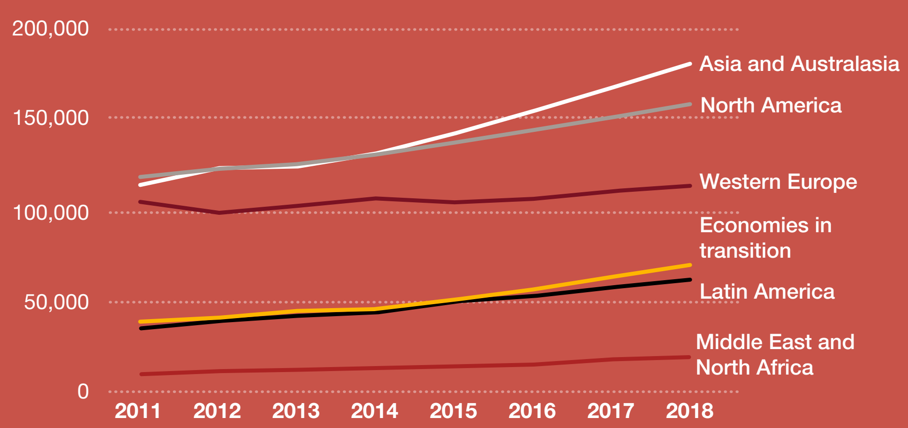
Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Consumer expenditure on household goods and services is expected to rise by an annual average of 8.5% in Asia over the next five years, with regional sales rising from US$500 billion to US$730 billion over the same period. As in other categories, this means that Asia will supply the strongest potential of all the regions worldwide; although growth levels may be more muted than other consumer categories, given that markets such as Japan, Taiwan, Hong Kong, South Korea and Singapore have already reached middle or higher income status, when FMCG growth levels plateau.

Much of the focus within the region remains on China and India. In the case of China, many observers are watching urbanisation and the rapid growth of third and fourth tier cities with a view to seeing a take-off in the discretionary spend of an increasing urban workforce. There are risks to this scenario, however. What appears to be an emerging real estate bubble in China could burst, weakening market potential for consumer products. Equally, the market remains diverse and difficult to penetrate in some cases. Consumer firms in China have had to tread carefully to meet regulatory requirements and consumer preferences, and competition is intense, not least from domestic firms with superior local knowledge and distribution chains. As competition from local firms like Chando and Pehchaolin has grown, L'Oréal of France decided to discontinue sales of Garnier-branded products. This followed the 2013 market exit of Revlon. L'Oréal looked to a more local approach instead, buying up domestic company Magic Holdings.[75]

In India foreign FMCG firms have a more established foothold with the likes of Hindustan Unilever, the local subsidiary of Unilever, contributing to a relatively concentrated (especially by

Figure 10: Soaps and cleansers market demand (nominal US$ million)



Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Indian standards) household goods and cosmetics and toiletries market. Just a few well-known brands dominate sales of items like shampoo, hair conditioner and hygiene products. Growth in demand for most of these products will be rapid, averaging 10.7% over the next five years in 2014-18, compared to 8.4% in China (albeit from a lower base) leaving scope for new companies to make inroads into market leaders' dominance. Brand loyalty is high, however, and market leader, Lakme Cosmetics (owned by Hindustan Unilever), is unlikely to yield its 18% share of the Indian cosmetics market to local and foreign challengers such as Godrej Consumer Products or L'Oréal without a fight.

With Hong Kong presenting a more mature market, growth in FMCGs will be much more modest with expenditure on household goods rising by an annual average of 2.4%. Much of this growth will come from rising sales to mainland-Chinese tourists, particularly at mid-range retailers such as Sasa and Mannings. Brands from South Korea (such as Innisfree, Laneige and Hanskin) and Japan (for example, SK-II and Sofina) sell well in Hong Kong's personal care market, and products that emphasise their natural ingredients are also set to outperform the overall market over the next five years.

In Japan a focus on well-being and beauty means that the personal care and toiletries market segment of FMCG is the second largest in the world after the US, valued at US$50 billion. This sector is led by domestic firm Shiseido, one of the world's largest cosmetics firms, which gets 20% of its sales from abroad. Japanese interest in health and beauty products will sustain annual average growth in expenditure on household goods of 2%, in line with nominal retail sales growth, despite the maturity of the household goods market. While it is emerging middle class households driving growth in India and China, Japanese demand for FMCG goods is increasingly sustained by an ageing population, with companies shifting their focus towards anti-ageing products and other items for the senior market.

The Taiwan FMCG market, like Hong Kong, will benefit from mainland retail tourism. Like Japan, it has an ageing demographic profile and an appetite for products aimed at improving well-being. Growth will exceed that of both markets with household expenditure rising by an annual average of around 3.4%. A positive investment environment allows foreign firms to establish themselves and the likes of L'Oréal, Unilever and Procter & Gamble all have a presence alongside regional firms like Sasa of Hong Kong and Shiseido and Kanebo of Japan. Chlitina, a local personal care chain, may expand rapidly in 2014-18 after it gained capital through a 2013 stock listing.[76]

Luxury brands

Key findings

- Luxury growth in Asia is slowing after a significant period of China-led growth. The impact of a clampdown on corruption is being felt but Chinese luxury buyers are also becoming more sophisticated.
- Sales tax increases in Japan have dampened consumer spending. The weakening of the yen has also had an impact on the bottom line of international firms.
- India could present a bright spot but even wealthier Indian consumers are price sensitive and retain a preference for traditional dress, provided by high quality local tailors.

After years of strong growth, Asia's luxury goods market is showing signs of a slowdown, although the rising number of middle class and ultra-rich consumers offers huge long-term opportunity.

China's significance in dictating the fortunes of luxury firms is undisputed. Some retailers who have spent the past decade expanding aggressively to capture this market are now looking increasingly vulnerable as it cools. Over the past decade China has grown into one of the world's biggest markets for luxury goods but the recent slowdown has been swift. Global consultancy Bain estimates that growth in personal luxury sales in greater China (including Hong Kong, Taiwan and Macau) fell from 30% in 2011 to 7% in 2012 and to around 2% in 2013. Both Kering (previously known as PPR) and LVMH have reported slowing sales in China, scaling back expansion plans as a result.[77] A weakening economic outlook is exacerbating the issue, but Chinese luxury also faces government-led opposition to flashy luxury accessories, with anti-corruption drives cracking down on practices such as gift-giving.

Figure 11: Number of households ('000s) earning over US$50,000

Territory	2011	2012	2013	2014	2015	2016	2017	2018
China	1,951	2,764	3,655	4,694	6,047	7,715	9,555	11,609
% of total	0.5	0.7	0.9	1.1	1.4	1.8	2.2	2.6
Hong Kong	1,072	1,118	1,161	1,193	1,235	1,271	1,325	1,379
% of total	44.1	45.1	46.0	46.4	47.1	47.5	48.7	49.7
India	223	165	152	318	565	849	1,304	1,955
% of total	0.1	0.1	0.1	0.1	0.2	0.3	0.5	0.8
Japan	36,025	35,981	27,661	25,569	24,280	25,268	26,542	27,911
% of total	70.6	70.5	54.1	50.0	47.4	49.3	51.7	54.3
Taiwan	2,077	2,108	2,151	2,226	2,388	2,531	2,686	2,827
% of total	26.8	27.1	27.6	28.5	30.5	32.3	34.3	36.0

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

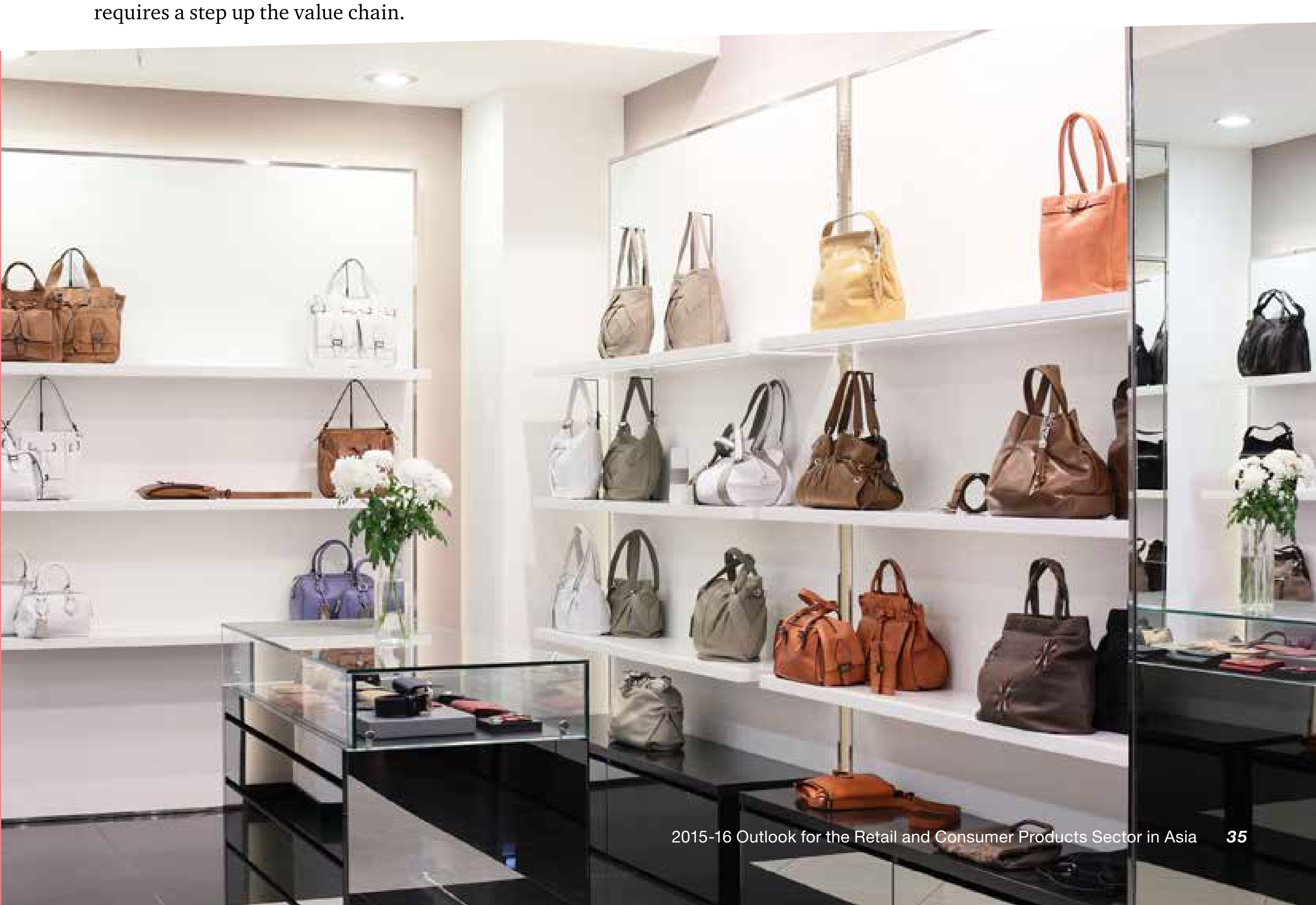
Despite this, China's appetite for luxury remains strong. The Fortune Character Institute put luxury spending by Chinese shoppers at US$102 billion in 2013, accounting for nearly one-half of its global market estimates. Equally, even as growth declines for Chinese luxury demand it still remains eye-watering when compared to European, North American or Japanese luxury markets. As some firms report market weakness, others are still seeing the Chinese market deliver double-digit growth.

What is apparent is that the Chinese market is changing. Where the last decade saw shoppers flocking to big and brash items bedecked in highly visible branding, consumers are now seeking out more exclusive but less visible labelling. This is partly driven by anti-corruption measures that frown on visible displays of wealth, but it also replicates other markets where the saturation and ubiquity of certain brands has led to a more subtle approach to displaying wealth and status. In Japan for example, a comfortable majority of women own a Louis Vuitton bag. Standing apart requires a step up the value chain.

Another change is the burgeoning online opportunity for luxury. Historically, the prevalence of fakes has led to a degree of caution in buying branded goods online in China. This goes some way to explaining the proliferation of physical stores offering exceptional service. However, it is believed that the improved supply from the opening of more and more official online stores, or storefronts through e-commerce providers such as Alibaba, has diminished the threat of fakes.

Even if sales in China are at risk of languishing, sales to Chinese consumers in other countries are no doubt continuing to rise. According to World Tourism Organisation figures, China accounts for the world's highest volume of international travellers and the highest per capita spending abroad. In 2012 the Chinese spent over US$100 billion overseas (of which 65% was on shopping). This means that brand houses which have invested heavily in serving Chinese consumers in their existing European and American markets have reaped rewards without the exposure of mass mainland store openings.

As one of the world's biggest luxury markets, but also one of the slowest-growing, Japan tells a mixed story. On the one hand Abenomics and a pre-sales tax spending spree supported luxury growth levels even as other expenditure categories stagnated. In a market where price sensitivity is increasing, Japanese consumers still have a penchant for luxury goods. On the other hand, Japan's position as a global luxury hub is increasingly being eclipsed by China, and a weakening yen is hitting the bottom line of European and American luxury firms.



One question for luxury firms is whether demand will compensate for currency weakness, especially given the negative impact that a sales tax increase in April 2014 has had on consumption. Another hike (to 10%), which was due in 2015, has been postponed to 2017. The government hopes that rising wages will offset these increases, but annual income growth is forecast to average less than 2% for the next five years and the plunge in demand following the 2014 tax hike sets a worrying precedent for policymakers and luxury firms alike.

This means that luxury firms are being forced to gamble on whether to apply potentially alienating price hikes or ride things out and hope for better currency fortunes in coming years. This is evidenced by the experience of Hermès, which has been affected by the plummeting value of the Japanese yen, despite increasing Japanese prices by 10% in 2013. A weaker yen is hitting revenue across the board for American and European brand-houses, especially since low inflation and a looming sales tax make the market sensitive to significant price changes. In 2013, LVMH raised prices in Japan by up to 12%.

Firms must also accommodate changing tastes. Luxury consumers in Japan are 15 to 20 years older than in China, with more conservative tastes. However, a high proportion of younger buyers with disposable incomes, boosted by the fact they live at home, are driving more innovative practices, such as using social media and smartphones to influence luxury purchase decisions.

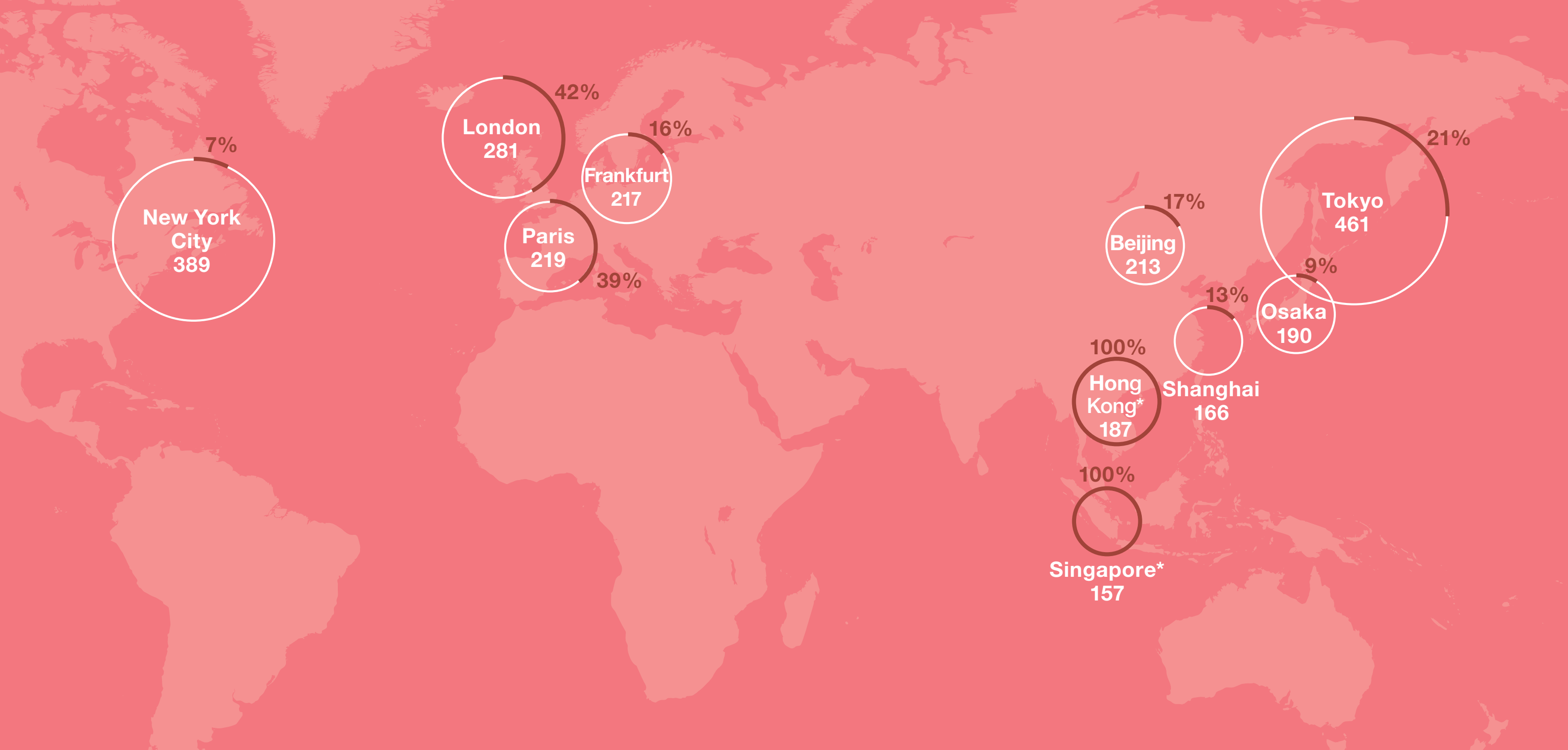
Despite relative market maturity, luxury growth in Taiwan is expected to remain robust, especially compared to markets like Japan. Much of this growth will be sustained by mainland retail tourism, which makes the outlook for Taiwanese luxury particularly vulnerable to the crackdown in China. However, Taiwanese consumers have unsurprisingly similar market characteristics to those on the mainland. Wealth, status and an aspirational focus on Western brands has created a solid base for luxury firms to build on and as consumer confidence continues to grow, domestic luxury demand will also rise, offsetting any exposure to weakening resolve in China.

Hong Kong shares many characteristics with Taiwan as a luxury market. On the one hand it is exposed to changes in mainland demand, but on the other it sustains a healthy luxury market in its own right, from both a consumer and a supplier perspective. Hong Kong's large and wealthy expatriate population has acted to augment rising local demand for western luxury brands, and the large proportion of high net worth individuals in Hong Kong has long made it a focal point for luxury boutiques. According to a 2013 report by WealthInsight, Hong Kong had the 8th highest population of millionaires of any city in the world, more than Singapore and Shanghai but fewer than Tokyo, Beijing or Osaka.

Conversely, despite high hopes for the Indian retail market, the luxury market will take much longer to become attractive. Rising incomes, a small but growing affluent class and hunger for Western brands are hampered by low overall wages, with only a small proportion of India's vast population able to afford luxury goods. Equally, Indian consumers hold different values from those in China, Japan, Hong Kong or Taiwan. Locally-made customised or tailored goods and services remain important, meaning that international brands may not confer the same sense of status or image that they do elsewhere. Equally, Indian consumers, even high-income earners, remain price sensitive, although foreign brands and high prices retain significant cachet in certain subsectors such as spirits.

Bain estimates that luxury sales in India tripled between 2005 and 2012, but the overall market size is dwarfed by other Asian countries, notably China. Nevertheless, India's long-term potential has attracted a number of firms, with AT Kearney India estimating that almost 20 global luxury brands entered the market between 2009 and 2013. They can count on strong growth, albeit from a low base. Both Bain and AT Kearney forecast the Indian luxury market to grow by 20-30% per year for the next few years. One factor acting in favour of luxury firms is the liberalisation of foreign investment in single brand retail, although many firms are already working with local partners.

Figure 12: Top 10 cities for the world's US$ millionaires



Source: "World City Millionaire Rankings", WealthInsight 2013.
Note 1 (white): figures in '000s
Note 2 (red): city's millionaires as % of territory total
*Hong Kong and Singapore, as city states, account for 100% of the millionaires in the entire state.

In-depth interview with

Weiming Cao,
President,
Greater China, Hermès

Hermès is a luxury fashion house established in Paris in 1837. The company has more than 11,000 employees in 50 countries and 60 subsidiaries.

What is your view of China's luxury sector over the next two years?

The economy has entered a stage of adjustment. Some recent changes, such as the anti-corruption campaign and the slowdown of the economy, have led to a change in market sentiment. As a result, the luxury sector's phase of rapid growth is now over. But this period of adjustment is not a crisis.

The economy will continue to grow at 5-6% per year; urbanisation and the development of domestic consumption have just begun; and the income growth of the middle class will become even stronger. This means we are confident in China's growth prospects for the next two to five years.

Competition is becoming fiercer in the luxury sector. What will be Hermès' main challenge, and how do you plan to overcome it?

Competition is good. It brings positive pressure that inspires companies like ours to improve how we manage the business and the services we provide. Thus, Hermès doesn't fear competition. We have our own growth model. We emphasise our quality of service and the strong bond we have with our customers.

One difference between consumers in China and other mature markets is a preference for personalised goods. They want to get exclusive products and they care about one-on-one service when they go to our stores. Therefore we offer tailor-made products and services, and draw attention to the quality of the materials and craftsmanship used in our products.

The slower growth of the market will also give management an opportunity to review the development model of our business; to deliberate on how to improve management, and consider the best way to adapt to the rapidly changing environment.

As China's economy slows down, where are the potential growth areas for Hermès and the rest of the luxury sector?

The development of the luxury market in China is uneven. The major coastal cities—Beijing, Shanghai, Guangzhou and Shenzhen—have matured. You will find high-quality upscale malls in these tier one cities, alongside a sizeable group of retailers and consumers with a very good understanding of luxury brands.

Some other cities, such as, Hangzhou and Chengdu, can be seen as '1.5' tier cities. Meanwhile, consumers in second-tier cities still lack a sophisticated understanding of luxury brands. Many still aspire to own the logos of luxury brands. But this uneven development also means that there is great potential for future growth.

For Hermès, our development in China has been cautious so far. We have been emphasising stable growth. In the 17 years since Hermès first entered China, we have only opened 23 stores in 14 cities across the country. Our strategy is to build on the market's potential step by step. That way we will continue to achieve double-digit growth in the next two years.

Our wide portfolio of products also helps us achieve sustainable growth. We've brought all 16 product lines to China. Some product lines may grow, others may slow down. For example, recent growth in furniture sales is quite healthy. Overall, however, they complement each other.

How will the government's anti-corruption campaign affect the luxury goods sector in China?

One major development has been the rising significance of the female consumer. Before the campaign, male consumption accounted for 70% of the luxury goods market. Now the market share of men and women is an equal 50/50 split. As male consumption has slowed, female market share has steadily grown. Of course, this is also a sign that female consumers in China are maturing.

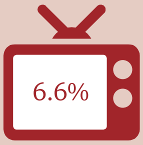
What is Hermès' China strategy in light of all these developments?

Firstly, we will continue to open one store per year, although the size of our new stores—somewhere between 300 to 500 square metres—will be bigger than those of the previous generation. Secondly, we are thinking about building our own e-commerce platform. Our intention is to provide a convenient service for our existing clients, and to attract new customers—especially the younger generation. In China, online shopping has become so common among younger consumers that even luxury brands cannot afford to ignore this trend. Lastly, as part of our continued focus on our brand image and customer service, we have set up a call centre for China and have reinforced our customer relationship management. We want to deepen our interaction with customers and bring them closer to the brand.

Durable consumer goods and electronics

Key findings

- The consumer electronics market is in flux as newer (largely mainland Chinese) firms challenge incumbents in the booming market for smartphones and tablets.
- Electrical appliances and housewares demand growth, in volume terms, will average about 6.6% driven largely by double-digit growth in China.



- Smart appliances and wearable technology will serve more connected consumers, but in emerging Asian markets innovation will focus on addressing developmental challenges such as products that work despite power cuts.

The outlook for Asian markets for durables and consumer electronics in the coming years is mixed. Consumer electronics has long been one of the fastest growing consumer sectors globally, with product launches and technological innovation making the industry virtually recession-proof over the course of the last decade. The trend of disruption will continue. Just as Asian giants such as Sony, Panasonic and LG have been displaced by Apple and Samsung, further upstarts are threatening to topple them, notably the likes of Huawei and Haier from China. While the smartphone sector is becoming increasingly mature and the tablet sector is getting more competitive, newer technologies are likely to drive another wave of innovation that creates new market leaders. Innovations like “smart appliances” are forming part of a nascent “Internet of things” which enables white goods and even homes to use connectivity to anticipate consumer demand. This involves products ranging from light switches that turn off lights at certain times to fridge-freezers capable of warning about out of date items and reordering food when stocks run low. This is an area that Panasonic, for example, has been investing in particularly heavily.[78] Meanwhile the current obsession with smartphones may be overtaken by wearable technology such as Google Glass and the new Apple Watch.

Asian markets have specific challenges that can enable them to lead global innovation. In India power shortages have meant that items such as fridge-freezers are developed with generators or insulation to prevent defrosting. Poor energy infrastructure has also led to a number of solar powered solutions in India that allow goods or appliances to operate “off grid”. In China appliance maker Haier has developed both small washing machines for single-person urban households and much larger robust rural ones that don’t get clogged with dirt when farmers decide to wash their vegetables in them.

Figure 13: Electrical appliances and housewares: Market demand growth (real % change pa)

Region/Territory	2011	2012	2013	2014	2015	2016	2017	2018
Asia and Australasia	5.8	6.5	6.0	5.9	6.5	6.8	6.9	7.1
Australia	4.2	4.0	3.4	3.3	4.4	4.2	4.0	4.2
China	14.7	12.3	12.4	13.4	13.0	12.7	12.4	12.5
Hong Kong	14.3	7.6	7.9	4.8	5.5	3.0	4.5	2.3
India	9.2	9.3	5.0	5.2	5.7	6.0	5.7	5.6
Indonesia	7.9	11.3	9.3	9.7	9.8	9.7	9.9	10.2
Japan	-0.9	2.4	1.9	0.6	0.6	0.9	1.1	1.2
Malaysia	8.4	9.8	8.9	9.5	9.0	9.0	9.5	9.9
New Zealand	2.6	4.4	4.4	3.7	3.5	2.9	3.2	3.4
Pakistan	4.1	9.3	3.3	2.0	6.1	2.5	3.1	2.6
Philippines	7.9	9.1	8.1	7.9	8.1	8.4	8.5	8.5
Singapore	5.9	3.7	4.4	5.0	7.0	7.1	7.2	7.4
South Korea	1.4	0.4	0.4	1.3	1.5	1.9	1.6	1.6
Taiwan	3.8	2.4	2.8	3.3	3.4	3.1	2.8	3.1
Thailand	3.1	8.4	2.2	1.7	4.6	5.8	6.1	6.4
Vietnam	8.4	9.9	9.9	10.2	10.8	10.7	10.6	10.8

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Figure 14: Televisions (stock per 1,000 population)

Region/Territory	2011	2012	2013	2014	2015	2016	2017	2018
Asia and Australasia	412	438	465	493	522	552	585	618
Australia	934	981	1,027	1,084	1,134	1,185	1,236	1,288
China	671	718	769	822	878	937	998	1,063
Hong Kong	650	663	675	689	703	718	734	750
India	150	164	179	195	211	229	247	265
Indonesia	293	314	336	361	383	407	434	463
Japan	810	816	815	814	814	815	817	819
Malaysia	403	426	449	472	496	521	546	572
New Zealand	1,010	1,056	1,102	1,147	1,192	1,237	1,281	1,325
Pakistan	123	122	122	121	120	120	119	118
Philippines	197	201	204	208	212	217	222	227
Singapore	331	333	338	340	343	346	349	353
South Korea	690	708	725	743	760	778	796	815
Thailand	269	283	297	312	327	343	359	377
Vietnam	241	244	248	253	259	266	273	281

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

In fact, nowhere is the uncertainty surrounding the durable and consumer electronics sectors more apparent than in China. Both Huawei and Haier have excelled in serving a local market and in expanding globally by competing on price and delivering to localised needs. Local consumer electronics retailer GOME on the other hand has struggled, partially with its bid to move to an online sales strategy. Although there is concern that China is experiencing an expanding property bubble which, when burst, could have a severe impact on the market for home appliances, the expectation is that demand will remain firm in 2014-18. This is partly because a slowdown in home purchasing may be accompanied by a greater focus on upgrading and enhancing existing properties.

In Japan stagnation in consumer durables sales is much more likely. With consumer sentiment weak, spending on big ticket items is unlikely to be a priority and high rates of ownership suggest that expansion will be driven largely by replacement demand. Despite being domestic and global powerhouses, Japanese electronics giants such as Sharp and Panasonic are facing increasing price pressure from firms like Haier and LG. Japan is already seeing stagnation in demand for smartphones and tablets, as well as severe price erosion, and Japanese consumer electronics firms are increasingly focusing on wearable devices as the next generation of products, with Sony and Panasonic both launching new devices in this area.

For India growth opportunities in consumer durables will be among the strongest in the world thanks to the currently low market penetration rate for most white goods. Panasonic has invested heavily in developing its Indian presence, but IKEA's entry into the white goods sector is expected to shake up the market. Meeting the specific demands of India, both from a consumer and regulatory standpoint, remains a challenge and durables will increasingly need to be tailored to market demands. As a result, manufacturers that try to sell US- or European-style products are likely to be disappointed, despite the price relief brought by excise duty concessions in 2014.

In the consumer electronics market, competition is heating up. Samsung is the market leader in mobile devices, although Apple's decision to invest in specialised distributors to sell its popular iPhone is bearing fruit. As well as these established foreign players and two domestic companies, Micromax and Karbonn, more companies are entering the market, including Philips and Xiaomi.

Hong Kong's consumers are keen followers of cutting-edge technologies and strong sales of advanced smartphones and tablet computers and could take up wearable devices relatively quickly. Xiaomi is hoping to challenge established leaders like Apple and Samsung in this market.

Figure 15: Household audio and video equipment: Market demand growth (real % change pa)

Region/Territory	2011	2012	2013	2014	2015	2016	2017	2018
Asia and Australasia	6.7	6.9	6.5	6.6	7.1	7.3	7.5	7.8
Australia	4.6	4.5	3.9	3.9	4.9	4.7	4.5	4.7
China	16.9	13.6	13.5	14.4	14.0	13.8	13.5	13.5
Hong Kong	10.9	6.5	6.7	4.4	4.2	1.4	3.1	3.7
India	10.9	10.7	6.5	6.6	7.2	7.5	7.1	7.1
Indonesia	9.5	13.7	11.3	11.2	10.7	10.2	10.4	10.7
Japan	0.2	2.1	2.2	0.9	0.8	1.1	1.3	1.4
Malaysia	7.5	9.8	7.7	9.4	9.0	8.9	9.5	10.3
New Zealand	3.2	3.5	4.3	4.2	3.9	3.3	3.7	3.8
Pakistan	5.7	9.9	3.3	2.4	6.6	3.6	4.1	3.5
Philippines	9.1	10.1	9.0	8.8	9.2	9.2	9.3	9.4
Singapore	6.6	3.9	4.6	6.4	7.7	7.9	8.1	8.2
South Korea	0.2	1.9	1.8	2.2	3.2	3.5	3.2	3.2
Taiwan	4.2	2.7	3.1	3.6	3.7	3.4	3.0	3.3
Thailand	3.5	9.3	2.3	1.7	5.1	6.6	7.0	7.4
Vietnam	10.8	10.9	10.7	11.2	11.8	11.9	11.6	11.9

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

The picture is much gloomier for consumer durables. Hong Kong's market is mature and rises in interest rates as well as high prices will dampen housing demand over the next five years. Since housing sales correlate closely with durable demand this could mean a contraction in sales volumes as consumers retrench and avoid big ticket items, except as replacements. The situation is likely to be compounded by a stronger renminbi over the next five years which will also drive up prices since most durables are imported from China.

Taiwan is a global centre for the production, development and use of technology and telecommunications equipment. The strength of the local industry means that Taiwan's consumers are keen followers of cutting-edge technologies. Products such as tablets, smartphones and tablet hybrids ("phablets") are popular. Wearable technology (such as smart watches and Google Glass) and 3D printers may drive future purchasing cycles.

Taiwan is home to a leading smartphone producer, HTC. However, the firm has struggled since 2012 and the long-term prospects for the company are uncertain. Penetration rates for consumer electronics products are high but the replacement cycle ensures that sales will continue to grow, albeit at a slower pace.

Demand for energy-saving household items should remain firm, as power-price liberalisation causes energy costs to rise, driving demand for smart appliances. In May 2013 the authorities announced that subsidies would be provided to support purchases of energy-efficient household appliances as part of a wider five-year economic stimulus plan.

Figure 16: Total PC stock ('000)

Territory	2011	2012	2013	2014	2015	2016	2017	2018
China	331,755	363,322	398,572	433,698	471,756	509,299	549,476	592,718
Hong Kong	7,897	8,207	8,494	8,776	9,003	9,180	9,362	9,548
India	87,033	106,904	129,243	155,182	185,435	227,735	281,131	348,298
Japan	137,529	148,087	155,288	161,555	168,756	174,959	181,203	187,523
Taiwan	18,200	18,439	18,665	18,886	19,109	19,335	19,493	19,685

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Figure 17: Total mobile phone subscriptions ('000)

Territory	2011	2012	2013	2014	2015	2016	2017	2018
China	994,420	1,136,684	1,229,000	1,340,500	1,471,251	1,589,620	1,707,119	1,821,674
Hong Kong	12,186	13,573	14,788	15,819	16,826	17,810	18,755	19,647
India	893,844	864,720	886,300	948,642	1,024,782	1,107,852	1,188,155	1,262,361
Japan	130,059	138,359	147,873	152,897	159,220	164,851	169,723	174,368
Taiwan	29,387	30,687	32,002	33,161	34,214	35,201	36,160	37,117

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

In-depth interview with

Lixia Tan,
Senior Vice President and CFO, Haier

Haier is a leading home appliance brand based in China. In 2013 Haier's global revenue was US$29.5 billion.

How do you see the outlook for the consumer durables market in China in the next two years?

This year is very challenging compared to the past few years, given falling demand growth. Things will not improve in Q4 this year, nor next year. However, China is not Europe. The Chinese economy will continue to grow above 7%.

One reason for the slowdown in demand is the impact of government rebates on house-hold appliances for rural families introduced during the global financial crisis in 2009. Since those were withdrawn, demand has naturally fallen.

We will hardly see double-digit growth in the next three to five years. In the long run, however, we're still positive about the home appliance market in China.

Competition in this segment has been intensifying in recent years. Where does Haier see the most challenging competition and what is Haier's strategy to handle this competition?

If you look at segments within the home appliance market, the air conditioner market has a saturation rate of 100% in first and second tier cities. Compared to Japan, which has a 200% saturation rate—meaning each family has at least two air conditioners—there is potential room for growth.

If you look at third and fourth tier markets in China, the saturation rate for refrigerators and washing machines remains at about 70%. The rate for air conditioners in these markets is lower than 30%, despite the push of government rebates. So there is even more potential for growth.

Competition is gearing up for sure, especially price competition. Haier's approach is different. We want to lead innovation based on customer needs. One example is our introduction of high value-for-money products, such as our cloud-freeze refrigerator.

In the white goods market, we want to create a better home living environment, rather than engaging in direct price competition. In the black goods market, especially the TV sector, we have adopted a totally different strategy. TV sets will become information terminals in the near future. TV sets might be the first home appliance to be free one day. If TVs are free, manufacturers obviously won't make profits. Therefore we have sold all our TV manufacturing facilities. In this field, Haier's strategy is to not compete in manufacturing hardware or software, but rather to create a platform for a better living room experience, which revolves around the TV set as an entertainment hub. Haier's strength lies in supply chain management, last-mile service, and understanding the needs of customers, not manufacturing.

How has the slowdown in the housing market in China affected Haier? What is your strategy for countering this?

According to expert estimates, real estate development in China accounts for sales of more than 10 million home appliances annually, which is small compared to the total demand of more than 200 million units. The slowdown in the real estate sector, therefore, has less impact on home appliance manufacturers than people think. A lot of real estate investment is for speculation. Unless people are moving into these new residential units, there is no demand for home appliances.

From a different perspective, the slowdown in the real estate market will make demand for home appliances steadier, making it easier for manufacturers to manage and therefore making the home appliance market healthier. In the long run, the main drivers of home appliance market growth are replacement purchases, new consumer needs, and the establishment of new households. Each contributes about one-third of demand.

What has been the impact of the overall slowdown of the Chinese economy on Haier's growth prospects? What areas/sectors will deliver new potential for growth?

The slowdown of the Chinese economy does have an impact on our growth, but it also provides quite a lot of opportunities. First, falling commodity prices help companies control costs. We expect commodities prices to remain low until at least next year.

Second, the development of online commerce has enabled Haier to consolidate sales channels and reshape the value chain. The big online vendors such as JD.com have taken market share from traditional distributors such as GOME. But they have shown the way for direct sales online. Haier can now sell online, targeting end-consumers directly. With its capabilities for supply chain management and off-line distribution (Haier has built a huge network of stores and logistics capabilities covering China), we really have a huge advantage in online-to-offline.

Third, the disposable income of Chinese families will continue to rise. With increasing disposable income, Haier has the opportunity to conquer not only high-net-value consumers but also the value-for-money sector. Despite rising incomes, consumers will continue to be very price conscious. They can afford to buy more expensive goods (such as products priced over RMB10,000), but the goods will need to offer value for money. For companies like Haier, which can afford to invest in R&D, such trading up in the home appliances sector offers great opportunities.

What are your plans for international growth?

For Haier, overseas sales account for more than one-fifth of revenue. Our overseas strategy is to focus on the creation of local brands (local to each market) and local profit centres. For our five global R&D centres, we've also made adjustments so that these centres cater to the needs of all markets, rather than the one designated market where they are based. While we want to localise supply chains, distribution, marketing, and market research, we want to globalise information sharing and resources distribution. We encourage global R&D centres to compete with one another in servicing internal clients and at the same time to share experience and know-how.

How will Haier use digital commerce/online-to-offline in its business model? What do you see as the biggest opportunity offered by social media?

Haier has built extensive offline infrastructure, such as logistics networks, stores and service networks. To partner with online commerce, Haier can extend its service network and create service platforms around home living and home appliances. One platform is RRS.com, which not only sells Haier branded goods but goods from other brands.

Social media has brought major changes. It has changed marketing altogether. Before, our marketing focused on brand marketing. Now we can use social media to do more targeted customer marketing and therefore make better use of our internal resources.

More interestingly, social media helps us carry out customer-focused R&D. Social media enables the clustering of a group of people with similar interests. Many new hit products manufactured by Haier actually originate from collaborations between Haier's internal product start-up teams and outsiders on social media networks with similar interests, passion and areas of expertise. Haier will introduce IP-pools or share grants to provide incentives for outside collaborators. The fact that Haier encourages small start-ups internally also enables the crowd-sourcing of ideas to be a reality.

At a glance:
Indonesia, Malaysia, Singapore, South Korea, Thailand and Vietnam

Figure 18: Retail sales in Asia (US$ million)

Territory	2011	2012	2013	2014	2015	2016	2017	2018
Australia	223,356	230,143	223,118	218,472	221,203	235,406	249,511	253,875
China	1,978,601	2,259,559	2,580,411	2,912,062	3,311,853	3,740,580	4,189,974	4,660,053
Hong Kong	52,125	57,434	63,854	68,248	71,678	73,010	75,514	78,908
India	836,836	823,039	840,240	918,573	1,076,411	1,278,722	1,518,036	1,764,468
Indonesia	328,994	336,557	335,024	328,268	376,877	468,809	522,000	639,172
Japan	1,696,404	1,721,272	1,421,548	1,395,168	1,416,745	1,448,924	1,490,861	1,538,524
Malaysia	78,260	82,554	87,939	93,295	106,831	123,451	137,517	150,544
New Zealand	39,219	41,579	45,224	47,720	44,934	44,820	46,390	47,470
Pakistan	103,397	103,973	108,161	120,996	134,738	148,549	162,065	179,337
Philippines	99,431	110,918	118,608	124,748	138,803	151,781	165,485	180,847
Singapore	37,015	39,385	40,760	43,573	46,443	49,769	53,203	56,003
South Korea	267,653	272,714	284,011	307,476	331,326	343,002	357,508	377,839
Taiwan	134,141	136,877	140,620	145,482	153,968	160,566	168,035	174,925
Thailand	110,785	117,445	118,471	114,692	119,811	129,414	140,567	154,576
Vietnam	53,929	60,525	66,452	75,606	85,371	96,909	109,041	122,414

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Indonesia

	2011	2012	2013	2014	2015	2016	2017	2018
Retail sales volume growth (% pa)	6.0	5.3	4.3	3.8	5.1	5.4	5.0	5.0
Retail sales (US$ million)	328,994	336,557	335,024	328,268	376,877	468,809	522,000	639,172
Food, beverages and tobacco: Market demand growth (real % change pa)	3.5	4.3	4.3	4.3	4.8	4.7	4.8	5.0
Clothing: Market demand growth (real % change pa)	6.1	6.7	6.8	7.2	7.2	7.2	7.4	7.7
Clothing market demand (nominal US$ million)	8,690	9,127	9,367	9,504	11,145	14,144	16,061	20,036
Soaps and cleansers: Market demand growth (real % change pa)	7.8	8.4	9.3	9.6	9.6	10.0	10.3	10.4
Electrical appliances and housewares: Market demand growth (real % change pa)	7.9	11.3	9.3	9.7	9.8	9.7	9.9	10.2
Televisions (stock per 1,000 population)	292.7	313.7	336.3	360.5	383.1	407.5	433.9	462.5
Household audio and video equipment: Market demand growth (real % change pa)	9.5	13.7	11.3	11.2	10.7	10.2	10.4	10.7

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

The Economist Intelligence Unit forecasts that retail sales in Indonesia will rise from an estimated US$330 billion in 2014 to US$639 billion in 2018. In local-currency terms, growth in retail sales will average 12.1% a year in 2014-18, but rapid inflation means that average annual volume growth will be much lower, at only 4.9%. Together with restaurants and hotels, the retail and wholesale sector employs about one-fifth of the labour force, or around 25 million people. Supply remains highly fragmented and is dominated by informal retailing. For example, in the grocery sector the five largest firms have a combined market share of just 3.8%.

In rural areas the retail sector remains dominated by independent grocers and wet markets. However, shopping centres and malls are proliferating in Jakarta. In the other major cities there has been strong growth in the construction of "trade centres", which offer lower prices than normal malls. As a result, urban areas, which accommodate around 60% of the population, will remain the focus of retail activity.

Although Indonesia's large domestic market and favourable demographic profile (28% of the population is under the age of 15) offer long-term potential, sales growth will continue to be constrained by high levels of poverty and a tightening monetary policy stance. Moreover, very wealthy Indonesians will continue to carry out much of their high-end shopping abroad, with Singapore, Paris and Milan being the most popular destinations. This habit will be further fuelled by the authorities' decision in December 2013 to raise the tax rate on 870-odd imported non-food consumer goods from 2.5% to 7.5% in 2014. Various government officials have also spoken in favour of increasing the rate of the luxury goods tax.

The main growth prospects will remain the sale of relatively low-cost staple goods. Sharp inequalities in income distribution will mean that there is also a market for higher-cost, luxury items, especially in the capital, Jakarta, although the weakness of the rupiah in 2014-15 will make many of these imported goods more expensive.

In focus: *Online retail*

Indonesia has been attracting an increasing amount of attention in its e-commerce sector. From a potential market perspective the opportunity is obvious given the popularity of smartphones (almost 90% of urban Indonesians now own a smartphone, compared with around 20% three years ago) and the trend for retailers to use social-networking websites (Jakarta is one of biggest social media cities in the world) to promote their brands. The country's physical landscape of islands and isolated communities should create a willing market for delivered goods. However, cultural attitudes, poor transport infrastructure and inefficient payment methods are hampering the spread of e-commerce.

The size of the e-commerce market is difficult to gauge, as many transactions go unrecorded. But it is accepted that online purchases make up a tiny proportion of retail sales, despite a growing number of Internet users. Local firm DataStatistik estimates that e-commerce transactions were worth US$1-2 billion in 2013, compared with total retail sales of US$330 billion. Nevertheless, it is believed that the value of online sales has more than tripled in the past two years. This is thanks in part to the proliferation of smartphones, which drew around 65 million regular users to the Internet in 2013, compared with 44 million in 2011.

According to research provided by Lazada, a regional e-commerce firm, under 7% of regular Internet users in Indonesia buy goods online. Those who do buy online spend around US$250 a year. In Brazil the figures are 17% and US$800. E-commerce is also highly concentrated. Jakarta accounted for around 40% of online sales in the third quarter of 2013, Surabaya was responsible for 23% and Medan in Sumatra 11%, according to Nielsen, a market research firm.

The hurdles that slow the evolution of Indonesia's e-commerce segment mirror challenges faced by the rest of the economy. Poor transport infrastructure slows deliveries. Trust between seller and buyer is low and payment processes are tedious. Online payments from the country's biggest banks can involve as many as eight different steps and credit cards are also cumbersome to use online.

Nevertheless, banks are bringing down their barriers, the number of credit cards in use is rising and online retailers are gaining a greater understanding of the Indonesian shopper. Furthermore, the number of Indonesians joining the ranks of the middle class is huge: about 5 million a year, according to a recent study by McKinsey.

For now, Indonesian e-commerce remains a story about potential with firms like Lazada some way off profitability. But the rapid embrace of the Internet and its burgeoning consumer class present a compelling case. Lazada raised an additional US$250 million in equity from investors in 2013, highlighting high hopes for the future.[79]

Malaysia

	2011	2012	2013	2014	2015	2016	2017	2018
Retail sales volume growth (% pa)	4.6	4.7	6.4	5.4	5.3	4.6	4.6	4.8
Retail sales (US$ million)	78,260	82,554	87,939	93,295	106,831	123,451	137,517	150,544
Food, beverages and tobacco: Market demand growth (real % change pa)	4.5	5.7	6.4	4.9	4.2	4.3	4.7	5.1
Clothing: Market demand growth (real % change pa)	6.8	6.6	7.5	6.0	5.9	4.8	6.3	6.7
Clothing market demand (nominal US$ million)	3,581	3,850	4,135	4,374	5,005	5,722	6,367	6,967
Soaps and cleansers: Market demand growth (real % change pa)	9.4	11.0	9.1	7.9	7.7	8.6	9.5	10.3
Electrical appliances and housewares: Market demand growth (real % change pa)	8.4	9.8	8.9	9.5	9.0	9.0	9.5	9.9
Televisions (stock per 1,000 population)	402.5	425.5	448.8	472.4	496.5	521.0	546.1	571.7
Household audio and video equipment: Market demand growth (real % change pa)	7.5	9.8	7.7	9.4	9.0	8.9	9.5	10.3

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Recovering consumer confidence and brisk economic growth are expected to underpin expansion in retail sales in Malaysia. Nominal sales growth is forecast to average 8.7% a year in local-currency terms in 2014-18, while sales volumes are expected to expand by 5% a year. Malaysia's economy is forecast to remain on a sustainable growth path in 2014-18, with average GDP growth accelerating to 5.6% a year, up from an average of 4.3% in the preceding five-year period.

The retail sector will remain fragmented in the forecast period. In rural areas, retailing will continue to be dominated by traditional stores, while in urban areas, there will be a switch to more organised and premium channels and brands. This will be driven by rising urban household income, with the proportion of households earning over US$50,000 expected to more than double from 12% presently to 25% by 2018.

The government is planning to replace the sales and services taxes, which varies by type of good, with a flat 6% goods and services tax (GST) in April 2015, something which it admits will push up retail prices slightly. A spike in retail sales is likely ahead of its introduction. Sales volumes are likely to fall in the aftermath, although the tax will push up nominal sales.

In the grocery subsector, the leading player is Dairy Farm, a pan-Asian retailer with numerous subsidiaries. In Malaysia it operates three chains: Giant (which had 78 hypermarkets and 72 supermarkets at the end of 2013), Cold Storage (17 outlets) and the upmarket Mercato (two outlets). According to the company's financial report for the first half of 2014, its Malaysian food outlets have seen improvements in sales and profits.[80]

UK-based Tesco currently boasts 46 stores, while Aeon of Japan had 58, increased by its purchase of hypermarkets and supermarkets from Carrefour (France) in 2012. Parkson, the retailing arm of a Malaysian conglomerate, the Lion Group, has the largest presence in the department store subsector, with 39 outlets.

In focus: *The ETP*

The wholesale and retail sector is one of the 12 National Key Economic Areas under the government's Economic Transformation Programme (ETP), which was launched in September 2010 with the goal of helping Malaysia to achieve developed-nation status by 2020. The ETP looks to strengthen Malaysia's position as one of the world's leading shopping destinations.

However, one of the ETP's first roles will be to help oversee and implement the 6% GST introduction that is set to have the opposite effect by hitting consumption volumes and discouraging consumer spending from retail tourists. Part of the ETP's role in 2014/15 is to help retailers prepare for the introduction of the GST hike in 2015.

Another challenge for the ETP comes in trying to increase foreign investment in the retail sector. Carrefour left Malaysia in 2012, selling its operations to Japanese firm Aeon because it was aware that it would never be a key market player. Government policies on bumiputera (ethnic Malays and other indigenous peoples) require firms to offer 30% of their equity to this segment of the population. Although 100% foreign-owned department and specialty stores have been allowed since 2012, hypermarkets (with a floor area of over 5,000 square metres, selling a variety of goods) and locally incorporated direct-selling firms still have to abide by this restriction. The policy also requires multi-brand establishments to reserve 30% of their shelf space for goods manufactured by bumiputera-owned industries.

The ETP hopes that the deep pockets of global retailers like Tesco will help it to achieve a 50% increase in available floor space by 2020, with the establishment of 61 hypermarkets and 163 superstores. In addition, it seeks to help small-scale retailers through its Small Retailer Transformation Programme, which entails major retailers sharing their expertise and a MYR80,000 (US$25,300) loan for small retailers to improve their establishments. As well as seeking to attract foreign investment into domestic retail, the ETP also aims to assist local businesses to expand abroad by facilitating investment in foreign retail players.

Singapore

	2011	2012	2013	2014	2015	2016	2017	2018
Retail sales volume growth (% pa)	1.9	0.6	1.2	1.7	2.5	2.9	2.4	2.9
Retail sales (US$ million)	37,015	39,385	40,760	43,573	46,443	49,769	53,203	56,003
Food, beverages and tobacco: Market demand growth (real % change pa)	4.5	2.2	2.9	3.4	4.7	4.8	4.8	4.9
Clothing: Market demand growth (real % change pa)	4.6	1.9	2.9	4.4	5.7	5.9	6.0	6.1
Clothing market demand (nominal US$ million)	3,227	3,422	3,560	4,126	4,622	5,206	5,802	6,306
Soaps and cleansers: Market demand growth (real % change pa)	7.0	4.4	3.6	8.4	7.5	7.9	7.9	7.8
Electrical appliances and housewares: Market demand growth (real % change pa)	5.9	3.7	4.4	5.0	7.0	7.1	7.2	7.4
Televisions (stock per 1,000 population)	331.1	333.3	338.4	340.3	343.0	346.1	349.4	352.8
Household audio and video equipment: Market demand growth (real % change pa)	6.6	3.9	4.6	6.4	7.7	7.9	8.1	8.2

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Despite some hiccups in sales in 2014, the outlook for the consumer goods market is positive. Economic fundamentals, along with real wage growth and the continued popularity of Singapore as a tourist destination will keep aggregate demand strong over the forecast period. After relatively modest gains in 2013 (of 1.2%), sales volume growth is set to accelerate over the forecast period, to 2.9% in 2018.

Singapore's population of over 5.4 million is entirely urban and the most affluent in per-head terms in South-east Asia, with consumer spending per head forecast at US$23,348 in 2014. Real GDP will grow by an average of 4.1% a year in 2014-18, in turn increasing average household wealth; over one-third of households are forecast to earn more than US$150,000 a year by 2018, implying steadily increasing demand for higher-quality retail and consumption opportunities.

The city state's retail sector is mature relative to several emerging markets in South-east Asia, with a strong presence of foreign retailers and department stores and shopping centres located across the country. The next five years will see changes in the structure of the food retailing sector. Rising sales volumes will favour convenience stores and mini-markets. Despite this, the traditional food retail sector and wet markets will be resilient, and are expected to continue to capture a significant share of retail volume.

The strong presence of foreign retailers in Singapore reflects the city state's open and favourable foreign investment climate. But the market remains fragmented, and the growth of supermarkets and hypermarkets, although fairly strong, has been impeded by the limited amount of land available.

Large department stores and malls in Singapore include a number of Japanese chains, such as Takashimaya and Isetan, as well as the Beijing Hualian Group of China and the Robinsons department-store group, owned by the Dubai-headquartered Al-Futtaim Group. Other department stores include those owned by Tangs of Singapore. These stores have an advantage as a result of their proximity to mass rapid transit (MRT) stations and residential estates.

Although traditional wet markets continue to attract significant shares of food retail spending, an increasing number of households are turning to Western-style supermarkets. This retail space is dominated by two retail groups, Hong Kong-headquartered Dairy Farm and locally based NTUC FairPrice, which operate a number of supermarket chains. Other, smaller players include Isetan, Meidi-Ya of Japan and three local players, the Mustafa Centre, Prime Supermarket and Sheng Siong.

In focus: ***Polarised shopping***

The proliferation of both luxury brands and traditional wet markets highlight an extremely polarised consumer base in Singapore. This is driven largely by the differing statuses of the city state's large expatriate communities. On the one hand, Singapore's role as a regional financial hub has attracted highly skilled, and well paid, financiers and analysts from around the world. This influx of big spenders has played a part in making Singapore the world's most expensive city, according to the 2014 findings of the Economist Intelligence Unit's Worldwide Cost of Living Survey. Meanwhile, on the other hand, Singapore's geographical position among lower-income Asian markets and an unwillingness of Singaporean nationals to engage in menial work has created a significant market for low-paid unskilled migrants. Average personal disposable income per capita, estimated at US$25,000 in 2014, is high by regional standards. But it is undoubtedly skewed upwards by the fact that almost one-quarter (23%) of households earn over US$150,000 per year, with almost 90,000 households earning one-tenth or less of this amount.

All of this contributes to an unequal society with divergent retail habits. Testimony to this are Singapore's extremely different shopping districts which tailor to both ends of the income spectrum, without a great deal in between.

It is the wealthier foreign community that helps to drive luxury sales in more prestigious locations such as the malls of Orchard Road. Singapore has emerged as a key luxury market in South-east Asia, with sales of S$4.3 billion in 2013. Growth in this sector, which will also be partly sustained by tourism spending from mainland-Chinese tourists, is expected to continue over the forecast period. International brands such as Gucci and Prada (both of Italy) claim the bulk of Singapore's luxury sales. LVMH alone has positioned five shops in high-end areas such as Marina Bay and the Raffles Hotel Arcade.

This luxury sentiment sits in stark contrast to the hawker centres that pepper street-corners throughout Singapore, where a square meal can set shoppers back just a few dollars. Equally cheap night markets in areas like Chinatown may serve tourist curiosity, but also reflect a shopping culture that supports demand for cheap informal products as well as high-end luxury. Despite efforts to curb low-skilled migrant labour inflows, indications are that income inequality will increase, reinforcing the polarisation of the retail sector. Low-income workers will continue to favour traditional markets and low-end retailers, but a large expatriate community and wealthy Singaporeans will support premium channels. Despite an anticipated fall in real personal disposable income of 2.1% in 2014, the outlook remains positive. Average personal disposable income growth will accelerate from a modest 0.4% in 2015 to 1.3% by 2018, feeding into higher sales at both ends of the income spectrum.

South Korea

	2011	2012	2013	2014	2015	2016	2017	2018
Retail sales volume growth (% pa)	2.1	1.3	-0.1	1.6	2.9	3.1	2.8	2.9
Retail sales (US$ million)	267,653	272,714	284,011	307,476	331,326	343,002	357,508	377,839
Food, beverages and tobacco: Market demand growth (real % change pa)	1.3	0.4	0.7	2.3	2.0	2.2	1.8	1.8
Clothing: Market demand growth (real % change pa)	1.7	0.6	0.6	1.1	2.0	2.3	2.0	2.0
Clothing market demand (nominal US$ million)	8,485	8,583	8,967	9,560	10,215	10,484	10,831	11,351
Soaps and cleansers: Market demand growth (real % change pa)	4.0	2.0	1.7	2.4	4.4	4.5	4.1	4.1
Electrical appliances and housewares: Market demand growth (real % change pa)	1.4	0.4	0.4	1.3	1.5	1.9	1.6	1.6
Televisions (stock per 1,000 population)	690.2	708.0	725.2	742.6	760.1	777.9	796.2	815.0
Household audio and video equipment: Market demand growth (real % change pa)	0.2	1.9	1.8	2.2	3.2	3.5	3.2	3.2

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

South Korea is ranked fifth in Asia for total retail sales (in US dollar terms), at US$284 billion in 2013, behind China, Japan, India and Indonesia. Sales are forecast to reach US$378 billion by 2018.

Retail sales growth has been sluggish since 2011 due to slowing economic growth, partly affected by weak trading with struggling Eurozone countries, and a slumping housing market. High levels of household debt will remain a drag on consumer spending, as people opt to pay down debts rather than spend their income. However, the pace of growth will gradually accelerate, partly reflecting government efforts to reform the labour market and boost the services sector. The government has also been introducing various policy initiatives to keep a lid on household debt, including incentives for debit card usage instead of credit cards.

Over the next five years demand will be supported by a number of factors. The proportion of people in the main retail target age group of 15-64 years is expected to remain stable at around 73% and real wages are expected to grow at a steady pace. The highly urbanised population will also help, with one-fifth of South Korea's population of 50.5 million living in the capital, Seoul, making it a centre of commerce. These will have a positive impact on private consumption and drive steady annual volume growth of 1.6% in 2014, accelerating to 3.1% by 2016 before falling back.

Online retailing and home shopping have been growing in popularity, eroding the share of traditional retailing channels. More recently, a growing number of Internet-savvy consumers are turning to overseas online retailers, mostly in the US, to find bargains at the expense of established importers selling the same merchandise at premium prices in South Korea.

South Koreans are relatively wealthy compared with many of their Asian neighbours. In addition, they have a taste for Western goods and brands. These factors make the country an attractive retail market for domestic and foreign companies alike. A comparatively rich middle-aged population (the biggest cohort by age is 45-50) should drive retail sales volumes. Furthermore, with around one-third of the country's households forecast to be earning over US$50,000 a year by 2018, it is likely that the increase in retail sales will be concentrated in purchases via premium store chains.

South Korea is one of the world's most rapidly globalising countries. The country is fairly open to immigration, and there is a growing population of foreigners working and living in South Korea. Furthermore, South Korea is a major regional tourism destination. Tourists from China and Japan, the two biggest inbound tourism markets for South Korea, account for a considerable proportion of retail shopping activity in Seoul.

In focus: ***Tech savvy consumers***

South Korea has the world's highest penetration rate for broadband Internet access and one of the most dynamic communication services industries. According to US market research firm Strategy Analytics, 70% of the South Korean population are using smartphones in 2014. The penetration rate for tablets is relatively low at 26.2%, compared with 43.8% in the US, because a high proportion of South Korean smartphone users are using large-screen devices, or "phablets."

South Korea also boasts one of Asia's fastest-growing online retail sectors, with online-shopping transactions totalling W10.47 trillion in the first quarter of 2014, a 16.6% increase over the same period the previous year, according to Statistics Korea. Online retail sales' share of total retail sales increased to 11.9% in that quarter from 10.9% in 2013 as a whole.

Based on its strong home base, South Korea has two world-class companies in the consumer-electronics and household-appliance segments—Samsung and LG. According to the Yearbook of World Electronics Data published by UK market research firm Reed Electronics Research, South Korean production of electronics was worth US$105.9 billion in 2012, or 5.7% of total worldwide output. The Ministry of Trade, Industry and Energy's monthly trade tally also shows that in the first five months of 2014 South Korea exported US$69.9 billion worth of ICT (information and communication technologies) products and imported US$34.7 billion worth of ICT devices.

However, both Samsung and LG are experiencing fluctuating fortunes that reflect the advanced and fast-changing domestic consumer base they serve. South Korea's smartphone and tablet market has reached a saturation point with many other countries close behind. LG, for example, has struggled in recent years but announced a dramatic turnaround in fortunes with a 300% rise in quarterly profit in the second quarter of 2014.[81] Samsung, on the other hand, warned on its annual profits in 2014-15 following a 58% fall in Q3 profits, the result of mounting pressure from saturation in mature markets such as Europe and North America, and increasing competition from lower-cost emerging market producers such as Huawei, Lenovo and Xiaomi in China.[82]

In both cases the need to serve an increasingly connected domestic and international market will drive innovation forward. South Korea has already seen a sharp take-up of wearable technology, largely tipped as the next "big thing" after smartphones. Google Glass and the Apple Watch may be grabbing the world's attention, but the October launch in South Korea of a smart watch from LG highlights domestic innovation. The invention of a "bendable" battery from Samsung could be another leading development in wearable technology. South Korea is also among the world's leaders in the development of "smart" household appliances. In June 2014, LG rolled out a number of appliances equipped with its HomeChat technology, enabling consumers to control and communicate with refrigerators, microwave ovens and washing machines using a popular smartphone messaging app. With these product launches it is little surprise that many are tipping South Korea to be the next global hub for technology start-ups. In 2014, South Korea came top of Bloomberg's Innovation Quotient which ranks the world's most innovative countries.[83]

Thailand

	2011	2012	2013	2014	2015	2016	2017	2018
Retail sales volume growth (% pa)	1.4	4.9	-2.4	-0.6	0.7	3.6	3.4	4.3
Retail sales (US$ million)	110,785	117,445	118,471	114,692	119,811	129,414	140,567	154,576
Food, beverages and tobacco: Market demand growth (real % change pa)	-0.3	4.9	-1.3	-1.3	1.9	2.9	2.9	2.8
Clothing: Market demand growth (real % change pa)	2.0	7.6	0.9	0.5	3.9	5.3	5.5	5.7
Clothing market demand (nominal US$ million)	6,579	7,137	7,473	7,279	7,756	8,488	9,349	10,440
Soaps and cleansers: Market demand growth (real % change pa)	3.0	9.9	0.9	0.4	5.1	7.2	7.5	7.9
Electrical appliances and housewares: Market demand growth (real % change pa)	3.1	8.4	2.2	1.7	4.6	5.8	6.1	6.4
Televisions (stock per 1,000 population)	268.9	282.9	297.2	311.9	327.1	343.0	359.5	376.6
Household audio and video equipment: Market demand growth (real % change pa)	3.5	9.3	2.3	1.7	5.1	6.6	7.0	7.4

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Thailand's consumer-goods market will see slow growth, as aggregate demand weakens following a spell of unrest culminating in the installation of a military government in May 2014. In March the economy shrank by 0.6% year-on-year, although a subsequent recovery helped the country to narrowly escape lapsing into recession. This recovery is unlikely to prevent weak sales, with volumes estimated to have declined by 0.6% in 2014.

The retail market is nonetheless expected to grow over the next five years, as increasing consumer demand generates a bounce-back to steady growth. Retail sales volumes are forecast to see a return to volume growth of 0.7% in 2015 before accelerating to 4.3% by 2018. This is contingent on an expected medium-term rebound as political order is restored. In fact, until a decline in September, the relative political stability brought about by the military's assumption of power actually drove a recovery in consumer confidence, with the Thai Chamber of Commerce recording four consecutive months of improving sentiment. This had followed 13 consecutive months of declines, which had put consumer confidence at a 13-year low in April 2014. Increasing median household wealth over the forecast period will shift demand in urban areas towards convenience foods and retail options, with decreased demand for traditional markets. The share of households earning above US$25,000 a year will increase to 17% by 2018, from around 10% in 2013.

The profile of the retail sector has changed markedly in recent years. The sector was once dominated by local shops, but large numbers of shopping malls have since emerged. More recently the convenience store sector has been the fastest growing retail channel with over 12,000 convenience stores nationwide. The leading player, 7-Eleven, accounts for 53% of convenience sales.

Growth and investment in Thai hypermarkets have been driven largely by a strategy to replicate the atmosphere of traditional informal wet markets, which still dominate Thai consumption. Hypermarkets stock a wide range of fresh food and some include entertainment facilities to attract shoppers. The two leading players in the hypermarket segment are Big C, a subsidiary of France's Casino Group, and Tesco Lotus, which has announced plans to expand by investing in a warehouse in the north-eastern province of Khon Kaen.[84]

In focus: *Looking forward to political stability*

Political turmoil over the leadership of the former prime minister, Yingluck Shinawatra, drove consumer confidence to its lowest level in 13 years. In May 2014 this entered a new phase when the army chief, General Prayut Chan-ocha, announced that the military would assume power.

The political crisis continues to weigh heavily on the economy. Following a dismal first quarter of 2014, when GDP shrank by 0.6% year on year, the economy avoided recession in the second, growing by 0.4%, owing largely to an expansion in private consumption. The outlook is uncertain. General Prayut has hinted that he is planning for an election in October 2015, but, as the contents of the new constitution have yet to be thrashed out, it is difficult to assess whether the election will be credible.

Among consumers, however, a spell of stability following sustained unrest has delivered a fillip to sentiment. From a Thai perspective the military's takeover has restored a functioning government. Fiscal stimulus measures— partly to prevent further unrest— have also driven consumer spending. For example, the military government started disbursing delayed payments to close to a million rice farmers in May, and pushed through nearly US$4 billion in investment incentives after it took control of the Board of Investment a month later. In late July it approved two high-speed train projects worth US$23 billion.

In addition to political stability, other favourable spending conditions will underpin a more hopeful consumer outlook. Consumer price inflation, which eased to 2.2% year on year in July, remains low by historical standards and price pressures should remain moderate for the rest of the year. Meanwhile, credit is still relatively cheap, with real interest rates near zero, and the Bank of Thailand (the central bank) is unlikely to raise interest rates until 2015. Although a recovery in economic growth has yet to materialise, the recent upswing in consumer confidence suggests that, despite the military takeover, the economy is at least starting to move in the right direction.

Vietnam

	2011	2012	2013	2014	2015	2016	2017	2018
Retail sales volume growth (% pa)	6.7	3.9	3.8	9.5	8.4	7.8	6.0	6.5
Retail sales (US$ million)	53,929	60,525	66,452	75,606	85,371	96,909	109,041	122,414
Food, beverages and tobacco: Market demand growth (real % change pa)	-0.4	0.2	0.9	1.9	2.8	3.0	3.0	3.4
Clothing: Market demand growth (real % change pa)	7.4	7.4	7.5	8.1	8.8	8.8	8.6	8.9
Clothing market demand (nominal US$ million)	14,687	16,899	19,083	21,738	24,566	27,919	31,386	35,214
Soaps and cleansers: Market demand growth (real % change pa)	13.0	8.6	8.2	9.4	10.4	10.9	10.4	11.1
Electrical appliances and housewares: Market demand growth (real % change pa)	8.4	9.9	9.9	10.2	10.8	10.7	10.6	10.8
Televisions (stock per 1,000 population)	241.3	244.5	248.4	253.5	259.2	265.6	272.8	280.7
Household audio and video equipment: Market demand growth (real % change pa)	10.8	10.9	10.7	11.2	11.8	11.9	11.6	11.9

Source: Economist Intelligence Unit
Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

Vietnam's retail and consumer goods market will post strong growth over the forecast period. Despite a weaker dong, stricter monetary policy has brought inflation under control. Real GDP is forecast to grow at a healthy average of 6.4% in the next five years, while household consumption in US dollar terms will rise by an annual average of 10.5%.

Vietnam's retail and consumer sectors remain small compared to some of its regional neighbours, amounting to retail sales of just US$123 billion in 2018. Nonetheless the market is growing quickly (averaging volume growth of 7.5% over the next five years) and it has been attracting significant investment interest for foreign firms.

Sales of non-food products (in US dollar terms) will rise by an average of 13.7% per year over the next five years to reach US$44.5 billion, up from an estimated US$22.9 billion in 2013. Retail sales of food will also increase rapidly—from an estimated US$43.6 billion in 2013 to US$78.9 billion in 2018—although their share of household discretionary spending will decline from an estimated 43.1% in 2014 to 41% in 2018.

This will be partly driven by the expansion of Vietnam's middle class. The proportion of households earning more than US$10,000 will grow from 2% in 2014 to around 20% in 2018.

Food retailing remains undeveloped and dominated by popular wet markets and independent grocers. More than 80% of all food retailers are independent grocers, and wet markets accounted for 78% of the retail grocery trade in 2013. However, the number of modern retail outlets is growing in urban areas. Many are foreign ventures or outlets in which foreign firms have large stakes.

Despite low Internet penetration, e-commerce in Vietnam is growing quickly. A report by the Vietnam Ministry of Industry and Trade's (MOIT) E-Commerce and Information Technology Agency (VECITA) estimated that the e-commerce trading value in Vietnam hit US$2.2 billion in 2013 and forecast that it will reach US$3.7-4.3 billion by 2015.

In focus: ***The deregulation gold rush***

Since Vietnam joined the WTO in 2007, it has been gradually deregulating foreign investment in the retail sector. Liberalisation of retail began in earnest in 2009 when foreigners were permitted to wholly own retail companies in Vietnam. Over the last five years, foreign firms have been circling and investing in the hope of an easing of regulations, notably onerous laws such as the one requiring specific planning permission for any foreign-owned outlet larger than 500 square metres.

In May 2013 the Vietnamese government took another step toward deregulation by announcing that from June 2013 significant exemptions would be made to the planning laws, effectively removing a number of barriers to expansion and prompting a significant rush of potential investors.

According to MOIT, more than 20 foreign retail chains currently operate in Vietnam. At the end of 2012, there were about 130 trade centres and 700 supermarkets nation-wide. The figures are expected to reach 180 and 1,200 respectively by 2020. Major foreign-owned grocery retailers operating in Vietnam include Metro of Germany, Dairy Farm of Hong Kong and Casino of France, but this number is expected to rise quickly.

Lotte of South Korea has opened six shopping centres in the country since 2008, including a US$45 million mall in Phan Thiet City in late 2013. Its latest project, approved in February 2014, is a US$34 million mall in Vung Tau. Lotte aims to open 60 new supermarkets across Vietnam by 2020.[85] Auchan has also announced that it will invest US$500 million in Vietnam over the next decade.[86]

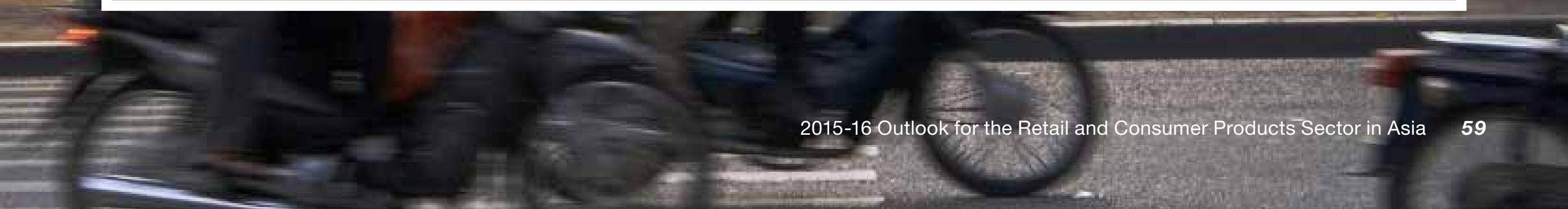
Casino's supermarket chain Big C already has more than 20 supermarkets in Vietnam. Its expansion has continued with the recent opening of an outlet in Phu Tho province and the start of construction on a complex in Quang Ninh province.

Japanese retailer Aeon opened a US$100 million shopping centre in Ho Chi Minh City in January 2014. Another complex is expected to open in Binh Duong province, and a third is due for completion in Hanoi, the capital, in 2015.[87] Aeon plans to open two trade complexes each year in the country, until 20 have been built by 2020 at a total cost of US$1.5 billion. Aeon has also joined forces with the Trung Nguyen Group to develop 500 MINISTOP convenience stores by 2017.[88]

Thai companies have also established a retail foothold. In 2013, Thai conglomerate Berli Jucker bought 40 FamilyMart outlets from a Vietnamese-Japanese joint venture, and is currently completing the acquisition of Metro's operations in Vietnam. In March 2014, Thailand's Central Group launched a Robinson department store in Hanoi; it aims to open a second shopping centre in Ho Chi Minh City by the end of 2014.[89]

E-Mart Vietnam, a joint venture between South Korean retail giant E-Mart and Vietnamese partner U&I Investment Corporation, plans to establish a chain of 52 supermarkets and stores in major cities by 2020, investing up to US$1 billion.[90]

The efforts of foreign retailers have prompted a wave of expansion efforts by domestic firms.



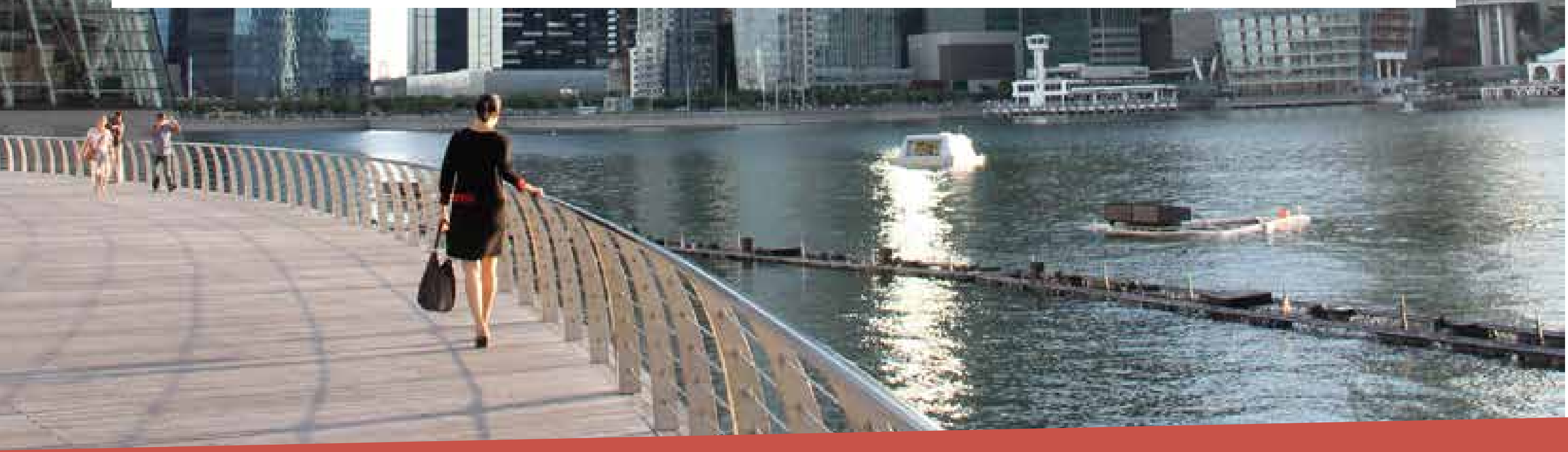
Conclusion

Asia is expected to continue to be a driver of global retail growth. Furthermore, it has the potential to drive innovation in areas such as e-commerce and in developing new products. Japan, South Korea and Taiwan are home to some of the world's leading electronics firms, while China and India are making waves in e-commerce and contributing to other consumer sectors. However, while growth has traditionally focused on China and the continued spending power of Japanese consumers, the region is increasingly seeing other countries become prominent as consumer markets. Alibaba may have been the big e-commerce story of 2014, but 2015 will see Indian e-commerce firms such as Flipkart increasingly step into the limelight. Meanwhile, as Japanese firms such as Panasonic and Sony seek to turn their fortunes around, Korean firms Samsung and LG have grown in visibility. More recently, Chinese electronics firms including Huawei and Xiaomi have also stepped into the limelight.

From a consumption perspective China will still lead global growth. Wage growth and increasing urbanisation in the interior will be key factors in sustaining demand as the Chinese economy evolves. But this is taking place at a slower pace. In Japan, attempts to kickstart consumer confidence are likely to falter under the weight of increases in sales tax. This will give countries like India, Indonesia and Vietnam the opportunity to grow. After a difficult year for retail in India, which saw avenues of multi-brand retail closed off, the focus is switching to fast growing e-commerce opportunities, where legislation is expected to ease. Indonesia benefits from being part of the MINT group of countries that are expected to become key drivers of global growth. The Vietnamese economy may be small but liberalisation, especially in the retail sector, is generating excitement around its potential.

There are pitfalls. Unrest in Thailand and protests in Hong Kong highlight the impact that instability can have on consumer markets in Asia. Meanwhile a potential property bubble and slowing growth in China are weighing on investments, especially among luxury firms. India will also see retail undermined by a lack of foreign investment. However, in the global context Asia still holds more opportunity than other regions. A sustained recovery in the US has yet to translate into a strong performance among retailers, while European markets are still suffering from weak consumer sentiment. Africa and the Middle East are rising from a lower base and Sub-Saharan Africa is struggling with an outbreak of the Ebola virus. Latin America has growth potential but on a much less stable footing than Asia, with markets such as Venezuela and Argentina suffering from significant economic problems.

That said, getting things right in Asia will be tricky. Not only is the region extremely broad and diverse, but individual countries can be very diverse internally, both in terms of income and consumer preferences. Logistics and regulations will continue to present challenges to retail and consumer firms. As a result, getting the basics right—for instance, engaging with local partners and developing products to address local markets—will remain as crucial for global firms in the region as it was 20 years ago, despite the overwhelming changes that have taken place in the intervening period.



Footnotes

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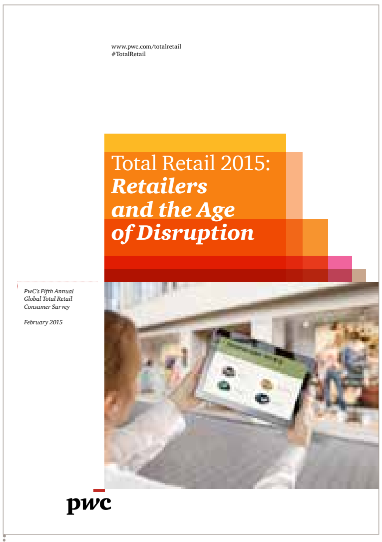
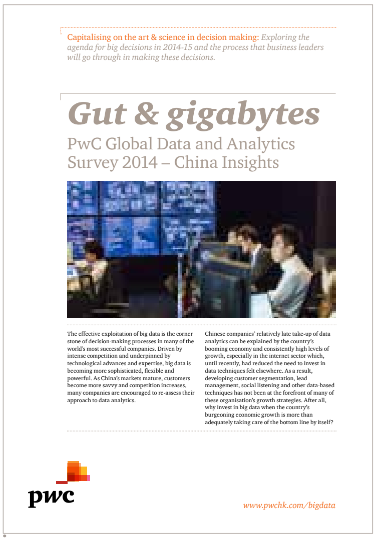


Total Retail 2015: Retailers and the age of disruption

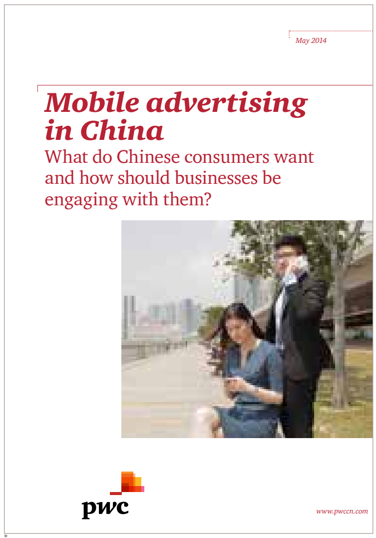
PwC 18th Annual Global CEO Survey

2008-2013 Financial performance study for retailers in China

Revenue recognition standard is final – A comprehensive look at the new model (Retail and consumer industry supplement)



Global data & analytics survey 2014: Gut & gigabytes – China insights



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