

*2012 Outlook for the
Retail and Consumer
Products Sector in Asia*



Carrie Yu

China & Asia Pacific
Retail and Consumer Leader
PwC



Foreword

As the economic and financial crisis in the euro zone deepens and the outlook for the US economy is far from certain, 2012 looks almost certain to be a difficult year. Asia unavoidably is affected by the fallout and economic growth is expected to be slower than the previous year. However, as growth in retail and consumer goods in Western markets is anticipated to be sluggish in the foreseeable future, emerging Asian markets hold out more robust promises for growth and expansion. Indeed, Asia will remain the main engine of global retail growth.

While much attention is inevitably focused on China, the main powerhouse in Asia, other emerging markets in the region should not be overlooked. Potentials and opportunities in India, Vietnam, Thailand and Indonesia, among the others, are substantial.

At present, 24% of Asia's population has internet access and the figure is rising quickly. In well-connected countries such as Japan, South Korea and China, the growth of online

retailing will bring enormous benefit to retail and consumer products companies, while at the same time, industry players in the US and Europe will also stand to gain from such growth in multi-channel retailing for a long time to come.

Notwithstanding the opportunities, the challenges of sustaining growth in a volatile global economy remain to be daunting. Retail and consumer products companies are renowned for their resilience and persevering spirit. In times of difficulty, the industry needs to work together to confront the many challenges ahead. Alliance and collaborative efforts will help to surmount many issues too huge for any single company to handle.

Traditional wisdom has told us: cash is king in times of uncertainty and volatility. Companies must re-examine critically their cost structure, liquidity and operation effectiveness and efficiency. We must continue to embrace our core mission and values, which should not be compromised by short-term pressure.

Furthermore, companies must remain focused on serving their customers and be sensitive to their employees, since they too are similarly affected by the economic woes and uncertainties.

History has proven time and again that those who have overcome challenges will emerge not only more adaptive but also stronger and more committed to their core values, thereby making them successful and sustainable.

I would like to express my deep gratitude to Chairman Zhang Jindong of Suning, Mr Daniel Zhang of Taobao Mall, Mr Robert Kwee of SM Hypermarket and Mr Rajesh Jain of Lacoste India for sharing their vision with us in the interviews. I would also like to thank our colleagues in the region for their input, and the Economist Intelligence Unit for their assistance. We hope that this report will provide some insights for addressing the present challenges and in capturing the opportunities.

Sincerely,

A handwritten signature in black ink that reads "Carrie Yu". The signature is fluid and cursive, with the first name "Carrie" being larger and more prominent than the last name "Yu".

December 2011

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. Some historical figures may have changed since our last report based on revisions to official data by the countries concerned.

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Executive Summary

The outlook for the global economy once again looks uncertain. While emerging markets such as those in Asia will continue to grow, the rate of expansion is expected to be somewhat subdued in the near term, especially in export-dependent economies. However, fundamental trends in Asia's markets, most notably rising incomes, ensure that over the medium- to longer-term Asia will be a key engine of growth for the global retail and consumer goods industries.

The region's prospects for growth continue to attract increased attention from multinational retail and consumer products firms. While investing increasing amounts in bricks and mortar operations, companies in the sector are increasingly seeking to sell their products online, to tap into rising demand beyond the major cities and to cater to rapidly changing consumer tastes. Mainland China ("China") is a particular priority, where rising incomes and government policies aimed at shifting towards a more consumption-led model of growth are expected to lead to robust expansion.

While inflation is currently affecting retail sales in volume terms, the underlying trends of rising incomes and relatively strong growth will ensure solid future expansion. Annual

growth for Asia and Australasia (on a volume basis) is forecast to average almost 6% between 2011 and 2015, remaining above all other regions.

This report discusses the outlook for six retail and consumer products 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 China, Hong Kong, India, Japan and Taiwan, and looks at how the industry is faring in 2011 and is expected to grow through 2015, and opportunities and challenges in the years ahead.

The main findings of the report are as follows:

Global retailers will continue to expand in Asia but will remain hampered by restrictions. Meanwhile, an increasing number of Asian retailers are stepping beyond their borders. Many global retailers are trying to expand rapidly in high-performing Asian markets. While announcing substantial investment plans for China, large-format retailers such as Wal-Mart, Tesco and Metro continue to face a host of restrictions in other markets like India, Malaysia and Indonesia (and to a certain extent in China). In most countries across the

region competition from local retailers is already intense. Now Asian retailers, notably from Japan and South Korea, are stepping up their push into markets such as China and Southeast Asia.

Although inflation is depressing food and general retail sales on a volume basis, increased prosperity is driving new trends such as rising demand for functional foods. The impact of inflation on the food and general retail sector is well illustrated by China's numbers. China's consumer expenditure on food, beverages and tobacco will more than double in 2011-15, reaching US\$1.4 trillion, partly driven by very rapid increases in food prices. Yet, market demand for these products grew only 1.1% in 2010 and is forecast to expand 3% in 2011. At the same time, as incomes rise and concerns about health and food safety increase, sales of functional foods in Asia Pacific are set to outperform those in traditional European and US markets.

Demand for fashion and apparel will remain buoyant, with foreign brands increasingly targeting the casual and sportswear markets. Our forecast that clothing demand in Asia and Australasia will surpass demand in Western Europe and North America in 2011 remains on target. International casual wear and sportswear retailers



are expanding frantically in Asia, most notably in China, where overall demand for clothing is forecast to grow 7.9% in 2011. India, where demand for clothing is predicted to rise by 9.5% in 2011, is also attracting attention.

Online retailing will see phenomenal growth, with local retailers maintaining their edge.

Online sales are expected to rise by an average of 20% a year in Asia in the near term and by as much as 40% annually in some markets such as Japan¹. While growing access in currently under-penetrated markets like India will support the rapid growth overall, online retail markets in already well-connected countries such as Japan and Taiwan will continue to expand as well. Pure-play online retailers, both local and foreign, will attempt to expand rapidly, with local firms seeming to have the edge. We interviewed Zhang Jindong, Chairman of Suning Appliance Group, and Daniel Zhang, CEO of Taobao Mall for their views on China's fast developing online retailing sector.

FMCG firms will find Asia's markets increasingly challenging as consumer tastes continue to change, as more companies enter the fray and established market leaders revamp their strategies. Although there may be cyclical downturns along the way, the overall prognosis for FMCG sales is highly positive based on rising affluence in the region. Notable is the outlook for the health and beauty segments, where growth is being driven by young, urban, increasingly affluent Asian consumers. China's beauty and personal care market was the world's fourth-largest in 2010 behind the US, Japan, and Brazil and will be worth US\$34 billion by 2015.

Chinese tourists will continue to fuel demand in neighbouring countries for health and beauty products and luxury goods.

According to the World Luxury Association, overseas buying still accounts for 56% of total luxury consumption in China. Hong Kong is a major market for skincare and cosmetics products, partly owing to their popularity among mainland Chinese tourists visiting the territory. This trend is likely to continue as long as prices for these goods are relatively higher in China (based on taxes and import duties) and counterfeiting remains a concern.

While the US will remain the largest market for luxury goods, China will be the top contributor to growth in this sector. Chinese consumers from mainland and Greater China (including Hong Kong, Macau and Taiwan), counting Chinese tourists, are already the world's number two luxury customers behind those from the US. Luxury sales in mainland China rose 30% in 2010 and are forecast to grow 25% in 2011 to euro11.5 billion (US\$15.5 billion), when sales in Greater China will likely exceed sales in Japan for the first time². Chinese second-and-third-tier cities will be important markets.

Introduction

Faced with the twin prospects of a stagnating US economy and the possible collapse of the euro zone, the outlook for the global economy is darkening. Financial and economic uncertainties are nearing the levels seen during 2008. While emerging markets such as those in Asia will continue to grow, the rate of expansion will be somewhat subdued. Before the latest global turbulence, growth was already slowing in most emerging markets as stimulus measures introduced during the global financial crisis were removed. It will slow further with the latest downturn, especially in export-dependent economies. Still, Asia will remain the main engine of global retail growth, with China its main powerhouse. While inflation is currently affecting retail sales in volume terms, the underlying trends of rising incomes and relatively robust economic growth will ensure solid future expansion. Annual growth for Asia and Australasia (on a volume basis) is forecast to average almost 6% between 2011 and 2015, remaining above all other regions.

China, by far Asia's largest market, will slow but its growth rates are still mouth-watering in comparison with most other economies, particularly those in the West. Indeed in 2013, China will overtake the US as the

world's largest retail market in value terms³. Average GDP growth will be impressive, at 8.5% a year between 2011-15. Inevitably however, growth is slowing, as is the rate of expansion of retail sales volumes. The market is forecast to settle down to a steadier growth of 9.5% and 9.8% in 2011 and 2012 respectively as certain market segments mature and in the absence of stimulus measures, which helped drive growth to 19% in 2010. The government's efforts to encourage consumption through policies to boost incomes, combined with steady economic growth and a tightening of the labour market, will be the main drivers of expansion.

By comparison, growth in India, Asia's other giant, looks modest. Retail sales growth is forecast to dip to 4.4% this year, before levelling out at just over 5% a year until 2015. Government incentives introduced last year, which helped push sales growth on a volume basis to 9%, are being phased out, and a slowing economy (growth is forecast to decline from 8.8% in 2010 to 7.9% in 2011) means less consumer credit is available as financial institutions grow cautious about asset quality. Despite its massive population, India remains a far smaller market than China. By 2015, total retail sales are forecast at US\$1.24 trillion, less than a quarter of China's US\$5.55 trillion. Rising

disposable incomes, a growing middle class, the growth of organised retail and an influx of foreign brands are the main drivers of growth.

In Hong Kong, retail sales on a volume basis are set to grow at 4.5% in 2011, outstripping an earlier forecast of 1.3%. This continues the trend of 2010, when retail sales grew by 8.9% against a forecast of 5.6% on the back of stronger than expected economic growth (7% in 2010). Retail sales continue to be strongly supported by Chinese tourists. Despite the high base created in 2010 and 2011, volume growth will still average 2.6% during the forecast period, in line with earlier forecasts.

Retail sales volumes in Taiwan are forecast to expand at 2.8% in 2011, bettering an earlier forecast of 2.3%, as the economy continues to benefit from 2010's real GDP expansion of 10.9%, which came from a very strong rebound from the 2008-09 global financial downturn. Retail sales are expected to grow 2.5% in 2012, and expand steadily between 1.2% and 1.5% for the rest of the forecast period. The flow of tourists from mainland China to Taiwan remains limited in comparison to Hong Kong, and indeed Taiwanese consumers spend an increasing amount of time working on the mainland, which no doubt has an



impact on retail sales in Taiwan. But Taiwan's overall economic performance will remain closely linked to the global economy. Economic growth is forecast to slow to an average of 4.3% a year in 2011-15 as all main GDP components return to their trend growth rates. Apart from the external sector, the largest contribution to economic growth in 2011-15 will come from private consumption growth, which will average a healthy 3.4% a year in 2011-15.

Although China remains the main engine of Asia's growth, other developing markets in the region also show promising trends. Vietnam, for example, should see retail sales growth accelerate to 9.9% in 2015. Thailand, the Philippines and Indonesia are also starting to attract increasing attention from foreign retailers, with expected growth of around 5% a year over the forecast period.

Against this positive Asian backdrop, Japan will continue to face difficult conditions. A strong yen and continued sluggishness in key markets are denting exports. These factors, combined with the effects of the earthquake and tsunami in March, are likely to push retail sales down by 0.8% in 2011. Restructuring efforts will boost non-food sales slightly this year and next, but even when growth in overall volumes recovers in 2012, the boost will be short-lived.

Figure 1: Real GDP growth (% change)

Region	2008	2009	2010	2011	2012	2013	2014	2015
Asia and Australasia	2.8	0.4	6.5	3.8	4.5	4.5	4.4	4.5
Economies in transition*	4.5	-5.6	3.3	3.5	3.2	3.7	3.9	4.0
Latin America	4.0	-2.1	5.9	3.7	3.5	4.2	4.3	4.1
Middle East and North Africa	5.3	1.5	4.2	3.3	4.3	4.9	5.1	5.0
North America	-0.3	-3.4	3.0	1.8	1.4	1.9	2.2	2.3
Western Europe	0.0	-4.2	2.1	1.7	-0.2	1.2	1.3	1.7
World	1.3	-2.5	3.9	2.6	2.1	2.8	2.9	3.1

Source: Economist Intelligence Unit

*Bulgaria, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia and Ukraine

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

Region	2008	2009	2010	2011	2012	2013	2014	2015
Asia and Australasia	5.1	5.2	9.1	4.6	5.6	6.0	6.2	6.4
Economies in transition	6.5	-5.2	3.6	4.1	4.5	4.4	4.4	4.4
Latin America	4.8	-0.2	6.2	4.0	4.0	3.6	3.9	3.7
Middle East and North Africa	3.2	4.4	3.8	2.0	3.0	3.5	3.7	3.7
North America	-1.1	-5.0	4.8	2.1	1.2	1.1	1.3	1.4
Western Europe	-0.9	-1.8	0.3	-0.4	0.3	0.6	0.9	1.2
World	1.9	-0.3	5.4	2.9	3.2	3.4	3.7	3.9

Source: Economist Intelligence Unit

Figure 3: Global retail sales (in US\$ trillion)

Region	2008	2009	2010	2011	2012	2013	2014	2015
Asia and Australasia	4.50	4.84	5.75	6.61	7.40	8.28	9.32	10.47
Latin America	1.11	1.06	1.21	1.42	1.51	1.60	1.68	1.76
North America	3.40	3.21	3.45	3.62	3.73	3.87	4.02	4.18
Western Europe	2.96	2.71	2.68	2.89	2.80	2.75	2.80	3.00

Source: Economist Intelligence Unit

Figures for 2011 onwards are forecasts. Prior years are actuals or estimates.

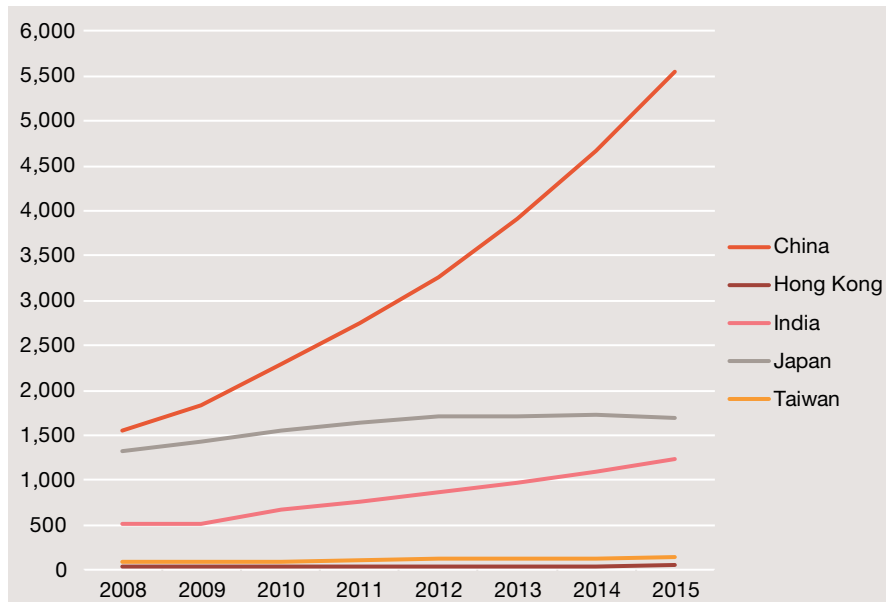
Figure 4: Asia retail sales growth by volume (% pa)

Territory	2008	2009	2010	2011	2012	2013	2014	2015
Australia	0.7	1.4	0.2	0.8	1.9	1.6	1.9	2.3
China	14.7	16.8	19.0	9.5	9.8	11.2	10.9	11.2
Hong Kong	-0.4	-2.3	8.9	4.5	2.8	2.2	2.1	3.2
India	4.1	-0.6	9.1	4.4	5.3	5.4	5.4	5.4
Indonesia	8.5	3.9	5.1	4.5	4.6	4.9	4.7	4.7
Japan	-0.5	-0.9	2.5	-0.8	1.2	0.2	0.6	0.1
Malaysia	7.7	0.7	6.1	3.5	5.0	5.3	4.5	4.4
New Zealand	-1.7	-1.3	-1.9	-1.4	0.6	2.6	2.3	3.3
Philippines	4.1	0.0	6.0	2.5	4.4	4.5	4.8	4.7
Singapore	1.2	-2.0	-3.6	1.4	2.7	4.3	5.1	4.5
South Korea	0.5	-0.2	3.9	1.3	1.8	2.3	2.3	2.9
Taiwan	0.3	-1.4	4.1	2.8	2.5	1.2	1.5	1.4
Thailand	-2.1	-0.5	6.2	3.2	5.2	5.9	5.8	5.8
Vietnam	8.9	2.9	4.7	2.2	5.8	8.4	9.8	9.9

Source: Economist Intelligence Unit

Figures for 2011 onwards are forecasts. Prior years are actuals or estimates.

Figure 5: Retail sales in Asia (in US\$ billion)



Source: Economist Intelligence Unit

Section 1: Retail



Retailers are scrambling to expand across Asia. China, where policies to raise incomes and promote domestic consumption are expected to lead to substantial growth in demand, remains the main target for new outlets. While Western retailers such as Tesco have announced major investment plans, regional players are venturing beyond their borders as well. The anticipated wave of foreign investment is creating concerns in some countries such as Indonesia, Malaysia and Thailand, where traditional small retailers worry about their sustainability. With telecommunications and payments infrastructure constantly improving, online retailing is growing quickly, giving impetus to the trend towards multi-channel retailing.

Food and general retail



Hypermarkets, supermarkets and convenience stores

Many global retailers are trying to rapidly expand in high-performing Asian markets. In most countries across the region, competition from local retailers is already intense, helped in no small amount by remaining market barriers, whether overt or otherwise.

In China, foreign retailers are announcing massive expansion plans aimed at capitalising on the growth expected from the government's policies to boost incomes, especially among the less

well-off. These policies, coupled with steady economic growth and a tightening of the labour market linked to demographic factors, will see disposable incomes rise very quickly in 2011-15, not only in the more developed cities but also in the hinterland.

But the retail sector remains highly fragmented. China has just 2.4 hypermarkets per million people, while France has 25, the US 12.3 and South Korea 7.6⁴. The hypermarket leader is Sun Art, a joint venture between Ruentex Group of Taiwan and Groupe Auchan of France, which has a 12% market share, according to the company's IPO prospectus. The same document puts the share of Wal-Mart (US) at 11.2%, China Resources at 9.8% and Carrefour (France) at 8.1%.

Key findings

- Global retailers will continue their expansion to capture opportunities in Asia amidst intense local competition and market barriers.
- Retailers in China are facing significant cost pressures due to rising commercial rents, wages and commodity costs.
- India's cabinet has vowed to further open the retail sector by allowing 51% foreign ownership in multi-brand retail but it is likely that political opposition will continue.
- Sales of functional foods that promise a health benefit are rising in Asia, driven by increased prosperity and health awareness.
- Both international and local food and beverage brands are actively engaged in R&D and marketing of health products, though foreign companies in China still have an edge in quality and stability of supply.

In supermarkets, the largest player, Shanghai Bailian Group, has a market share of 11%.

Large foreign retailers hoping to expand remain subject to several restrictions. But the more pressing issue in the current environment is spiralling costs. Wages in many cities are rising in double digits, spurred not only by increases in official minimum wages but also by a shortage of labour supply. The situation will only get worse as the number of 15-24 year olds entering the workforce is expected to shrink by 30% over the next ten years⁵. In addition, commercial rents in most cities are increasing rapidly, while rising commodity and material costs are leading suppliers to attempt to raise prices.

The Chinese government is keen to develop a small number of local retailing giants, hence restrictions on foreign retailers are unlikely to change soon. Undeterred, Tesco plans to double the number of its hypermarkets in China to 200 by 2015, while quadrupling revenues at the same time. Wal-Mart and Carrefour also have big expansion plans — with the French retailer planning to open over 20 stores a year. Regional players such as CP Lotus⁶ are entering the fray. CP Lotus plans to open a second Super Brand Mall in Shanghai, anchored by a CP Lotus hypermarket.

SM Hypermarket, together with SM Supermarket, Savemore and Makro, complete the four retail formats of the SM Food Group — the leading food retail company in the Philippines. The SM Food Group was established by the Sy family in 1985 and will have a total of 132 stores by end of 2011.



Q&A with Robert Kwee of SM Hypermarket

Robert Kwee
President
SM Hypermarket

What kind of revenue growth are you expecting for your industry over the next five years? And for your company as a whole?

As a company, we are optimistic about our capability for growth in the coming years. Based on the Retail Index audit by Nielsen Philippines, the Philippines' FMCG is growing at 8.4% as of June MAT (Moving Annual Total). The SM Food group is growing better than industry average. And we expect to sustain our current rate of growth in the next five years by aggressively expanding nationwide.

In terms of foreign expansion, which markets are the most attractive for your firm?

At this point, we want to remain focused on our business operations in the country. We wish to strengthen the presence of the SM brand in those areas where we do not yet operate, particularly in the provinces. This is in fulfillment of our mission to expand our reach and bring the SM shopping experience closer to as many Filipinos as we can.

What challenges to the growth of your business do you expect over the next year and over the next five years?

One challenge that we face is inflationary pressure in the economy. There's the issue of increasing overhead costs, which every business has to deal with. The increasing cost of electricity, manpower, and property lease are among the things we have to manage.

Also, because of our aggressive growth, staffing our stores can be a recruitment concern. We make sure that every store is staffed with competent and skilled personnel, and as such, we have to be aggressive in finding and hiring them, especially with the migration of many Filipinos abroad.

To what extent is competition increasing in the Philippines? Where is that competition coming from?

There is a healthy competition among local players. Expected foreign presence will make the playing field more competitive.

But we don't let complacency set in despite our dominance in the industry. Competition keeps us awake and it challenges us to do better every year.

In India, big retailers, whether foreign or local, continue to be the subject of political debate. The retail sector is India's second-largest employer, featuring approximately 12 million mom and pop shops⁷. Organised retail currently accounts for about 8% of the market in India. Major domestic conglomerates such as Reliance Industries, the Tata Group, Bharti Retail and the Aditya Birla Group have ambitious expansion plans. But most retailers face challenges such as high rents, inflexible labour laws, complicated property codes, multiple licensing requirements and a shortage of skilled managerial staff. Still, the local players will have a head start on their foreign competitors, who are

currently prohibited from investing in "multi-brand retail" stores such as hypermarkets. Metro (Germany), Tesco (UK), Wal-Mart (US) and Carrefour (France) currently operate in India as wholesalers. The Indian cabinet recently indicated that it would allow 51% foreign ownership in multi-brand retail. However, the details of investment conditions have yet to be announced and it is likely that political opposition will continue. Meanwhile, more local players are entering the market. For example, local conglomerate Sahara India has announced plans to set up 10,000 franchised retail outlets in 285 cities to sell FMCGs⁸.

The Japanese market remains among Asia's most difficult for foreign retailers, given its market maturity, planning restrictions and the difficulty in purchasing larger sites. But the march of Japanese retailers abroad continues as they seek to offset economic stagnation at home. Lawson, Japan's second-largest convenience store chain, plans to open 30 stores in Dalian, China, by the end of 2012 and to have 150-200 by 2016⁹. The company already has around 310 stores in Shanghai and Chongqing¹⁰. Lawson also plans to enter the Indian market through a proposed joint venture with Future Group, a top Indian retailer, that would involve investment in Future Group's food sourcing and manufacturing operations¹¹. Lawson's top management said in June that the company was also preparing to open in Southeast Asia but did not give details.

Food, beverages and tobacco

Growth in demand in the food, beverages and tobacco sector in Asia will come in at a slightly slower rate than expected in our last report, averaging just over 3% in 2011-15, based largely on surging prices. However, those higher prices are also inflating sales in value terms. They are now expected to reach US\$5.6 trillion by 2015 (we had forecast total sales to reach US\$4.6 trillion in 2014). China's consumer expenditure on food, beverages and tobacco will more than double in 2011-15, reaching US\$1.4 trillion, partly driven by very rapid increases in food prices. Yet, market

demand for these products grew only 1.1% in 2010 and is forecast to expand 3% in 2011, against forecasts of 6% and 5.7% respectively. Demand is being depressed by high inflation, rising prices and slowing economic growth. These same factors also mean that growth in demand will average 3.2% in 2011-15, lower than originally predicted. Meanwhile, prices will increase sharply but the rise will be outpaced by increases in income. Hence, the share of household income spent on food will fall from 32% currently to 28.8% in 2015.

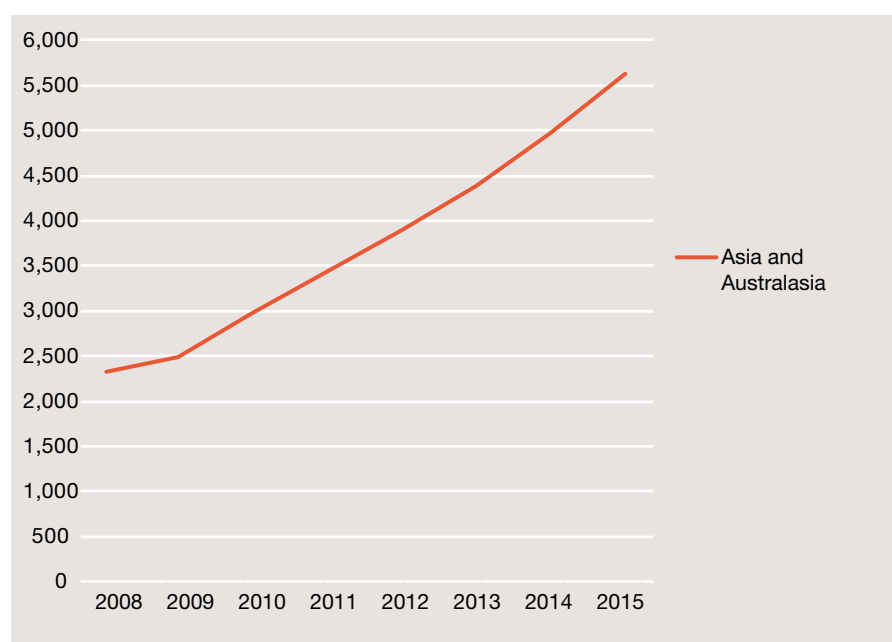
This category is one in which India's demand will outstrip that of China's, averaging 4.8% over 2011-15, based on rising incomes and a growing appetite for non-traditional products such as ready meals, ice cream, noodles, canned foods and snack foods. India has the lowest spending per head on packaged food in the region. The country also has one of the lowest per-head consumption levels of chocolate in the world, at 0.03 kg, against an average of 4.9 kg in European countries. Cadbury (owned by US-based Kraft) expects India's chocolate and confectionery market to

grow by more than 12% a year. Overall, India's consumer expenditure on food, beverages and tobacco is forecast to rise to US\$507.2 billion in 2015, from an estimated US\$325.8 billion in 2010. As a percentage of total household expenditure, however, spending in this segment will continue to decline, to 28.8% in 2015 from an estimated 33% in 2010. This compares to a forecast 11.4% in North America and 16.2% in Western Europe¹².

Stronger economic growth in Hong Kong is also translating into stronger than expected demand for food, beverages and tobacco — with growth forecast to hit 4.2% in 2011 compared to our earlier forecast of 2.7%. In 2012, demand in this segment will grow at 2.8%, better than an earlier expected 2.2%, and will then grow moderately for the remainder of the forecast period. In Taiwan, market demand for food, beverages and tobacco is expected to grow at 2.7% in 2011, against an earlier forecast of 3.5%, because of the higher base provided by 2010's stronger than forecast growth.

Japan's consumer expenditure on food, beverages and tobacco stood at about US\$568 billion in 2010, making it the world's third-largest food market after the US and China. However, sales growth in this category will remain weak, reflecting intense competition and deflationary pressures. Japan's recent economic woes are also affecting demand, which will fall by 0.5% in 2011 against an earlier estimate of 1.4% growth, and remain subdued at between 0.4% and 1.6% through the forecast period.

Figure 6: Retail sales of food in Asia (in US\$ billion)



Source: Economist Intelligence Unit

Figure 7: Food, beverages and tobacco: Market demand growth (% real change pa)

Territory	2008	2009	2010	2011	2012	2013	2014	2015
China	2.2	4.5	1.1	3.0	2.8	3.6	3.3	2.7
Hong Kong	0.9	-0.5	5.1	4.2	2.8	1.6	1.4	1.0
India	2.5	6.7	4.3	5.1	4.6	5.1	4.6	4.7
Japan	-0.9	-2.0	2.0	-0.5	1.6	0.9	0.7	0.4
Taiwan	-1.9	0.3	3.0	2.7	2.7	1.9	2.3	2.3

Source: Economist Intelligence Unit

Figures for 2011 onwards are forecasts. Prior years are actuals or estimates.

Health-related products

From salmon to snack bars, selling food in Asia is increasingly about marketing health benefits. Sales of 'functional' foods that promise a health benefit are rising across the region, driven by increased prosperity and health awareness, especially because of frequent food scares. Health matters now to consumers in Asia, a continent "burdened with the largest number of undernourished and the biggest number of overnourished individuals" according to the Nutrition Society of Malaysia.

Riding to the rescue with everything from energy boosters to anti-cholesterol products, multinational food and beverage brands are building up manufacturing and research and development (R&D) capacity in the region. According to a Datamonitor report, the Asia Pacific functional food market will outperform that in traditional European and US markets. It values the combined US, Europe and Asia Pacific functional foods market at US\$95 billion in 2012, up from US\$72 billion in 2007.

Growth in China looks especially strong. New Zealand Trade & Enterprise, a government agency, claims that China's health food market will be worth RMB450 billion (US\$71 billion) in 2015, up from RMB133 billion (US\$21 billion) in 2010. According to the Norwegian Seafood Export Council, functionality is key to food sales growth in China. Explaining

in noisy Chinese supermarkets how omega acids in salmon strengthen human tissues has increased imports of Norwegian fish in Greater China by an average of 30% a year since 2005.

The dairy sector has also benefited from Asia's hunger for functional and healthy food. According to the UK's Tesco, while previously Chinese consumers preferred buying UHT milk, they are now increasingly consuming fresh milk and yoghurt. Developing markets like Indonesia and Vietnam are investment targets for dairy manufacturing by multinationals like Unilever (UK-Netherlands) and Nestlé (Switzerland). Nestlé has spent US\$200 million in the past five years on new milk processing plants on Indonesia's Java island, the latest of which will be operational next year. Per capita milk consumption in Indonesia is less than 12 liters, one-fifth of European averages.

Local food firms are struggling to match the multinationals' R&D clout and well-honed marketing machines. China's two leading dairy giants Mengniu and Yili, lag their international peers in technology and processing know-how. Local competitors are currently focused on liquid milk and flavoured yoghurt, but are keen to tap into higher-margin areas like infant formula and probiotic yoghurts — the latter of which accounts for half of China's functional dairy market, according to consultants

of Beijing Orient Agribusiness. Mengniu has hired Danish biotechnology and food ingredients firm Chr. Hansen to produce probiotic culture for yoghurt. Suppliers of ingredients for functional foods have also been adding manufacturing capacity in Asia to meet rising demand, though foreign companies operating in China still have the edge in quality and stability of supply.

Food companies are keen to adapt to local requirements and integrate local ingredients in flavour and formulations. For example, Dutch cocoa supplier ADM increased the cocoa content in its cocoa powders for the Asian market to increase their calcium and anti-oxidant values. Nestlé's R&D centre in Beijing is researching the nutritional benefits of traditional Chinese herbal ingredients with Xi'an Jiaotong University. Some Asian countries have yet to develop strict laws on the health claims they permit, and many lack modern laboratories and trained staff to test food products. Therefore, multinationals are doing more to explain the nutritional advantages of their products and to engage governments in the region. The Singapore government collaborated with food companies on a Healthier Choice Symbol Programme. While the Hong Kong Nutrition Association works with the local government to promote knowledge about nutrition to the general public.

Fashion and apparel



Key findings

- Asia's fashion and apparel market will continue to grow quickly, although inflation is dampening expansion in some markets.
- Online apparel retail will emerge as a major retail market segment in the next few years.
- China and India are star performers with demand forecast to grow to 8.4% and 8.7% respectively in 2012.
- Demand in India, where younger and middle class consumers are driving growth, will nearly double from 2010 to US\$13.32 billion in 2015.
- To counteract high import duties in India, foreign retailers have increased the level of local sourcing.
- Hong Kong has a robust stable of local apparel brands, which will expand strongly on the mainland and in Southeast Asia.

Demand will stay strong, growing at between 8.2% and 8.7% for the rest of the forecast period and will almost double from US\$6.99 billion in 2010, to US\$13.32 billion in 2015. However, retailers of ready-to-wear garments will find the environment highly competitive, while the custom (for traditional clothes) of buying cloth and having clothes tailored will remain prevalent.

In Hong Kong, demand in 2011 will grow faster than expected, at 5.4% against an earlier forecast of 3.4%, based on strong overall economic performance. Demand will continue to grow during the forecast period. Hong Kong has a robust stable of local apparel brands, which will expand strongly on the mainland and in Southeast Asia in 2011-15. Hong Kong's clothing and apparel market will grow from US\$40.34 billion in 2010 to reach US\$52.65 billion in 2015.

Asia's fashion and apparel market will continue to grow at a healthy clip through 2011-15. As forecast last year, clothing demand in Asia and Australasia is set to surpass demand in Western Europe and North America during 2011. Demand will grow at 4.8% in 2011, the same as in 2010. Demand in China is forecast to grow at 7.9% in 2011, slower than a previously expected 10.8%, given high inflation and rising prices. However, expenditure on clothing will rise throughout the forecast period. Demand will be driven by rising personal disposable income levels, and an increased focus on fashion apparel, especially in the main cities. Online

apparel retail will emerge as a major market segment in 2011-15. Numerous foreign apparel brands are already present in China, and they will spread steadily from wealthier cities into fast-growing second-and-third-tier cities during the forecast period.

In India, demand in 2011 is expected to grow at 9.5%, higher than an earlier forecast 7.6%. Growth is being driven by demand from young and middle class consumers, with fashion that is fresh, stylish and aggressively priced to suit the value-conscious market expected to sell well. Expansion of this segment comes despite slowing economic growth and high inflation.

Taiwan's clothing and footwear markets rebounded from a downturn in 2008, with demand growth of 3.6% in 2010. On that higher base, demand is expected to grow at 3.8% in 2011, against an earlier estimate of 4.8%, and is expected to grow moderately over the forecast period, helped by demand from Chinese tourists.

In Japan, demand for apparel and footwear will fall by 0.9% in 2011 against an earlier prediction of 1.2%, on the back of weak sentiment in the wake of the country's recent natural disasters and consequent economic problems. The short-term outlook for retail sales remains uncertain, as Japan's trade-dependent economy continues to suffer and domestic demand remains weak. Demand growth will stay subdued during the forecast period. However, clothing sales will remain the most important category of retail sales (excluding sales of food and beverages) in 2011-15.

While much of the media attention on Asia's consumer markets has focused on demand for luxury goods, Asia's markets for casual wear and sportswear are attracting a great deal of attention from foreign brands. International casual wear and sportswear retailers are expanding frantically in Asia, most notably in China. One example is Uniqlo, Japan's low-price clothing specialist and Asia Pacific's top-selling clothing retailer. Its international division is growing strongly, with 129 stores including outlets, in China, Singapore, Taiwan, Malaysia and South Korea. Uniqlo intends to increase international sales from 10% of total sales to over 50% in five years, and increase the number of its stores worldwide to 4,000 by 2020¹³,

with a total of 1,000 stores in China by then (it currently has 77 stores)¹⁴.

For Nike (US), China is now the second-largest market after the US. Its sales in China increased by 18% during its 2011 fiscal year and Nike aims to double that figure by 2015. It has already opened its largest Asian distribution centre in China¹⁵. Nike's rival Adidas has similar ambitions. It plans to open 2,500 new stores in China by 2015. It opened a new regional office in Western China in 2011¹⁶. Danish retail chain Bestseller has over 3,000 outlets in over 300 Chinese cities, while Spain's Inditex group is present in 30 Chinese cities¹⁷.

India is another exciting market. Although Indian consumers are increasingly affluent and aware of foreign brands, pricing remains crucial to growth. Given the country's high import duties, Western brands must often sell their imported wares in India at prices 20% higher than in their home markets¹⁸.

To combat this, many international brands have begun sourcing products for the Indian market from within India itself. As well as bringing down prices, this move also allows them to cater more to local tastes and bring the latest fashions to India faster. For example, Marks & Spencer (UK), which has 19 stores in India, has reduced prices by 20% since it started local sourcing two years ago. It now sources about 40% of the items it sells in India locally, and aims to increase that to 60% in two years. Mothercare (UK), which has 45 stores in India, also sources 40% of the items it sells in India locally; the figure is 100% for United Colors of Benetton (Italy and international) and 90-95% for Levi's (US)¹⁹.

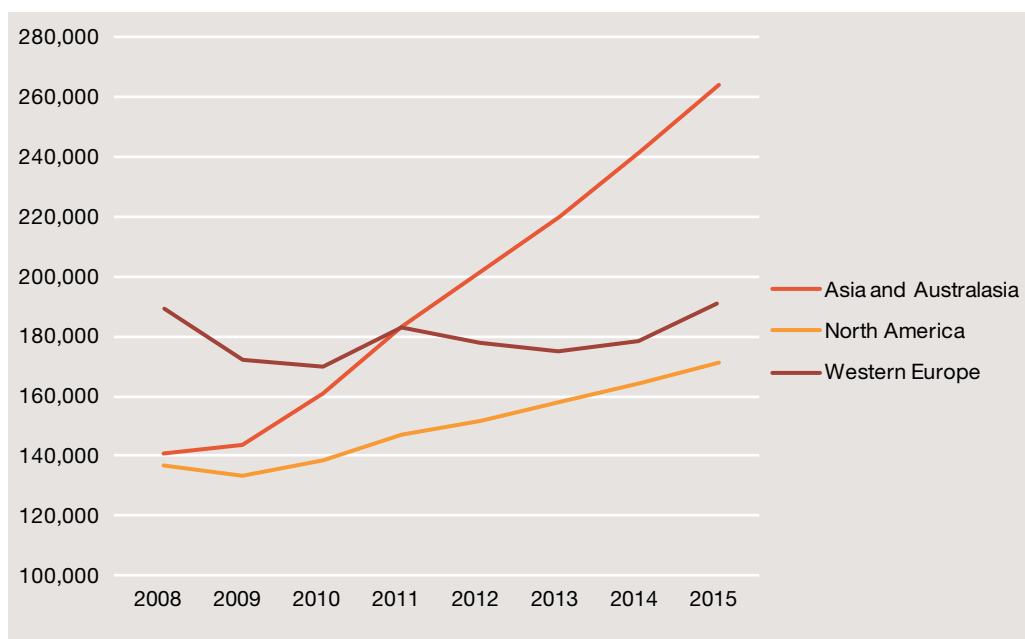
Several other global retailers with operations in India have released media statements that they plan to increase the level of products and accessories currently sourced from the country.

Figure 8: Clothing: Market demand growth (% real change pa)

Territory	2008	2009	2010	2011	2012	2013	2014	2015
Asia and Australasia	1.8	1.9	4.8	4.8	5.1	4.6	4.5	4.4
China	3.2	11.0	6.2	7.9	8.4	8.1	8.8	8.3
Hong Kong	2.7	-1.4	5.8	5.4	4.4	3.1	2.4	2.0
India	0.7	7.5	8.2	9.5	8.7	8.9	8.2	8.2
Japan	-1.1	-2.6	1.5	-0.9	1.5	0.9	0.8	0.6
Taiwan	-1.3	0.7	3.6	3.8	3.9	3.2	3.7	3.7

Source: Economist Intelligence Unit

Figures for 2011 onwards are forecasts. Prior years are actuals or estimates.

Figure 9: Clothing: Market demand (nominal US\$ million)

Source: Economist Intelligence Unit

Figure 10: Clothing: Market demand (nominal US\$ million)

Territory	2008	2009	2010	2011	2012	2013	2014	2015
China	31,005	34,893	39,156	46,977	55,306	65,168	77,226	90,041
Hong Kong	38,893	37,913	40,347	43,396	46,167	48,622	50,620	52,655
India	5,334	5,568	6,995	8,100	9,253	10,368	11,770	13,328
Japan	22,766	23,982	25,550	27,177	28,078	28,252	28,425	28,034
Taiwan	3,462	3,277	3,565	4,127	4,434	4,673	4,964	5,268

Source: Economist Intelligence Unit

Figures for 2011 onwards are forecasts. Prior years are actuals or estimates.

Key findings

- Improvements in telecommunication infrastructure and in payment and security systems, together with the increasing appetite of consumers to shop online, will push online sales growth to an average of 20% a year in Asia.
- Shopping via mobile phones could become a leading form of e-commerce in the region.
- China will undergo explosive growth during the forecast period and according to industry analysts, the online retail business grew by 97.3% year-on-year in 2010 to US\$77.78 billion.
- In Japan, growth in online sales will outpace sales growth through traditional channels during 2011-2015, partly due to the growing popularity of online shopping among Japan's elderly population.
- The success of .com companies is motivating brick and mortar retailers to go online.



Online retailing

Online retailing in Asia will continue to grow strongly on the back of rapid improvements in telecommunications infrastructure and in payment and security systems, and an increased consumer willingness to shop online. Increasing internet access²⁰ in the region will be a big driver. As of June 2011, 24% of Asia's population had internet access and that figure is rising quickly.

While growing access in currently under-penetrated markets like India will support the rapid growth overall, online retail markets in already well-connected countries such as Japan and Taiwan will continue to expand as well. Online sales are expected to rise by an average of 20% a year in Asia and by as much as 40% annually in some markets such as Japan²¹. Industry intelligence provider eMarketer forecasts that sales in the business-to-consumer (B2C) e-commerce segment in the Asia Pacific will grow by 23% to reach US\$168.7 billion in 2011, with the

leading markets, Japan and South Korea, losing share to China and India²². Given the rapid growth of mobile-phone usage in emerging markets, purchases made via mobile phones (m-commerce) could become the leading form of e-commerce in these economies.

Over 36% of the Chinese population, or 485 million people, have internet access as of June 2011, accounting for 52% of Asia's internet users. With this user base — larger than the population of the US — China will remain a key market during the forecast period and explosive growth will continue. China's e-commerce transactions grew 22% to RMB4.5 trillion (US\$682.16 billion) in 2010, according to a study from the China e-Business Research Centre and CNZZ Data Centre. Of this amount, the online business-to-business (B2B) sector accounted for RMB3.8 trillion, a 15.8% year-on-year increase, while the online retail business grew 97.3% year-on-year to

RMB513.1 billion (US\$77.78 billion). According to Chinese research firm Analysys International, the e-commerce market in China will top RMB6.4 trillion in 2012²³.

Internet penetration in Hong Kong was a high 68.5% in June 2011. This, along with Hong Kong's concentrated population and the high levels of mobile and smartphone penetration, will generate opportunities for online retail. However, given the preference for bargain-hunting and hands-on shopping in Hong Kong, a large volume of shopping will continue to be done offline.

Taobao Mall is the dedicated B2C platform launched by e-commerce giant Taobao, part of the Alibaba group, in 2008. It has become a leading online gateway for local and global brands to reach the growing number of Chinese online shoppers. In June 2011, it was established as a separate company, together with eTao (search) and Taobao Marketplace (a C2C platform).



Q&A with Daniel Zhang of Taobao Mall

Daniel Zhang
CEO
Taobao Mall

Could Taobao use its strength in C2C e-commerce to boost its B2C position? Where are the growth prospects for e-commerce in China?

Taobao started off as a purely consumer-to-consumer (C2C) marketplace, but we began to see that consumer needs and demands were diversifying and developing into distinct categories. We also identified a growing trend of traditional offline retailers wanting to sell online, but not having the infrastructure, resources or know-how to foray into e-commerce.

We launched Taobao Mall as a business-to-consumer platform in 2008 to cater to those consumers who were looking for branded, authentic goods, and have witnessed tremendous growth year-on-year. As these consumer needs became more distinct and segmented, and in order to better adapt to and remain nimble in the fast changing e-commerce environment in China, Taobao decided in June of 2011 to reorganise the company into three independent companies — Taobao Marketplace (C2C), Taobao Mall (B2C) and eTao, a shopping search engine. This move allows each of the Taobao companies to focus on their core

competences and better cater to those different consumer behaviours and preferences. For example, some customers prefer the vast product selection and interactive nature of the Marketplace, some like to shop from branded stores on Taobao Mall for quality and consistency as they would in an offline mall, and some want to comparison shop through a search engine environment.

In 2010, online shopping spending accounted for a mere 3.2% of China's total retail spending²⁴. This demonstrates that e-commerce still has huge potential and room to grow in China. Internet penetration and e-commerce adoption and spending will continue to increase. For example in 2010, the number of netizens shopping online reached 148 million, accounting for 32.9% of all internet users and this is predicted to increase to more than 50% in 2014. Taobao Mall is expected to reach nearly RMB100 billion in transaction value this year, and we are aiming to achieve RMB200 billion next year.

Internet is an important part of life for Generation Y (those born in the 1980s and 1990s) in their daily lives. What is the impact of the consumption habits of this generation on the development of e-commerce?

According to our statistics, approximately 80% of online shoppers in China are between the ages of 18-35 but we have also seen that consumers as a whole are becoming more sensitive to product and customer service quality. This shift will encourage e-commerce operators to raise the bar and elevate merchant and product standards in order to better meet consumer demands.

The development of traditional retailing in Tier 1 cities is at a different stage from that of retailing in the interior, although supermarket operators are striving to develop the latter. Is e-commerce changing the imbalance between the Tier 1 and interior cities?

More and more major brands are testing out retail opportunities beyond the increasingly saturated and pricey Tier 1 cities and recognising the growing spending power of those in second-and-third-tier cities. We are also seeing more brands and industries adopting e-commerce as a time and cost efficient way to complement and drive their expansion strategy. As internet penetration deepens in China, we expect more users in the interior regions to take advantage of the access that e-commerce offers, and in turn also drive brand awareness and product demand in these areas.

Japan has a very high internet penetration, at 78.4% in June 2011, and accounted for 10.6% of Asia's internet users. As in the rest of the developed world, online sales will outpace sales growth through traditional channels during 2011-15²⁵. The growing popularity of smartphones will support the growth of e-commerce and m-commerce. Steady improvement in broadband services has made online shopping more popular with Japan's large elderly population, a pattern that will continue.

India will continue to be a highly promising but difficult market for online retailers. India's internet penetration was only 8.4% in June 2011, accounting for 10.7% of Asia's internet users. Despite its population of 1.1 billion, India has only 100 million internet users, but that is a huge rise from 5 million users in 2000. Internet access will continue to grow rapidly during the forecast period, aided by higher mobile access. India has 858.37 million mobile subscribers at end-July 2011, against just 3 million in 2001²⁶. The Indian e-commerce market is expected to grow by 47% to more than Rs460 billion (US\$10 billion) in 2011, according to the Internet and Mobile Association of India. Several India-based online retailers have raised funds from private equity houses and plan to use the money to hire staff, improve the online buying experience, enhance supply chain systems and so on.

Online sales account for a rapidly growing share of Taiwan's retail market and should continue to grow at double-digit annual rates throughout the forecast period²⁷, with a high

internet penetration of 70%. Clothes, accessories, beauty and health products will remain popular online shopping categories.

During 2011-15, pure-play online retailers, both local and foreign, will attempt to expand rapidly, with local firms seeming to have the edge. In China, home grown pure-play online retailers such as Alibaba Group and E-Commerce China Dangdang will continue to dominate. In India as well, pure-play online companies are doing well, selling items like books, iPods and jewellery. Home-grown Flipkart is now India's biggest online bookseller, distributing over 10 million titles and also selling mobile phones, appliances, gaming consoles, music and movies²⁸.

Among foreign players, eBay (US) has over 2 million registered users in India, while it expects sales in Greater China to grow 30-40% annually from about US\$4 billion in 2010. But foreign companies have had limited success; in 2003, eBay bought Chinese online auction site EachNet for US\$180 million but was unable to lead the market²⁹.

Local companies understandably have a better feel for their markets and are innovating accordingly. For example, many Asian customers, particularly in smaller towns, do not have credit cards or if they do, do not want to use them. Many online retailers in India therefore offer cash-on-delivery service for their products. Similarly, about 75% of e-commerce customers in China pay for their goods through alternative means³⁰. The role of third-party payment systems is increasing in importance. In May 2011,

the People's Bank of China awarded third-party payment licences to 27 (non-bank) enterprises including Alipay and UnionPay. Several large (traditional) retailers are understood to be preparing for direct participation in the third-party payment market. The distribution of third-party payment licences and recent regulations to standardise the issuance of pre-paid cards should help boost the development of retail finance in China³¹.

Such successes are motivating bricks and mortar retailers to go online as an important additional growth channel. Wal-Mart, for example, in August 2011 took an undisclosed stake in Chinese e-commerce site yihaodian.com. In December 2010, the US-based retailer, along with five other companies, invested US\$500 million in 360Buy³². And in June 2011, Wal-Mart also established its own e-commerce headquarters in Shanghai³³. The company entered China in August 1996 and now has 333 stores there.

With the US consumer market expected to remain challenging, it is not surprising that Wal-Mart is looking to grow both its overseas and online businesses. The Yihaodian investment fits those plans³⁴. Yihaodian currently offers more than 120,000 kinds of products and has more than 600,000 daily site visitors. It already has a strong network in 27 large cities across China, with 90 distribution centres. The two companies are planning strategic cooperation such as sharing suppliers, warehousing and logistics. Approaches like these will be important to the success of online retailers in Asia.

Section 2: Consumer goods



Rising affluence across Asia will ensure that the consumer goods markets continue to grow. Asia's consumers are becoming richer and more aware of brands. China is already the world's largest consumer market for many durables and India's newly prosperous consumers are hungry for these products too. Rapid urbanisation and a growing trend towards nuclear families are creating more households buying appliances, toiletries and cleaning products. Meanwhile, the young, educated Asian consumer is more willing to spend on everything from health to fashion to luxury brands. Indeed, China will be the top contributor to growth in luxury sales worldwide through 2014.

Asia's consumers still look for value though and in order to succeed, companies must get both price and value right. Developing products that cater to unique local needs and preferences will be key. Companies must also be quick to cash in on emerging trends such as a preference for healthier foods.

Asia's emerging markets may hold out big rewards, but companies will have to work hard to earn them. Multinational companies will have to deal with local competitors that not only know their customers and their markets well, but are building their own international presence. They will also have to navigate local needs and tastes, regulatory mazes and suspicious politicians and bureaucrats.



Fast-moving consumer goods

Key findings

- Demand will grow by a strong 12.7% in China in 2012, and then moderate through the rest of the forecast period.
- New Japanese and South Korean brands are making headway in Hong Kong's cosmetics market.
- Rapid growth in India's toiletries and cosmetics market will create opportunity for new players.
- Foreign firms that can add localisation in their health and beauty products, and leverage international expertise and well known brand names, will continue to have a competitive edge over domestic players.

Asia's rising affluence will drive the growth for FMCG firms over the next several years. In 2011, aggregate demand for consumer goods in Asia has remained strong, and demand for soaps and cleansers is forecast to have grown more strongly than previously expected in India, Hong Kong and China, at 11.1%, 8.6% and 12% respectively, against earlier forecasts of 9%, 5.4% and 10.1%. In Japan however, market demand for soaps and cleansers is expected to fall by 0.6% against an earlier forecast of a 1.9% growth because of the country's difficult economic climate.

In China, demand growth will rise strongly in 2012, by 12.7%, and then moderate through the rest of the forecast period. Even as the Chinese government curbs price hikes and tries to contain inflation, incomes will rise quickly in 2011-15, supporting strong sales growth. Foreign companies, which dominate the higher end of the cosmetics and toiletries market, will

benefit disproportionately if the government decides to reduce taxes on luxury products in 2012, to promote domestic consumption. A major beneficiary will be cosmetics, which are among the most popular purchases by Chinese tourists abroad³⁵.

Strong economic growth in Hong Kong will support demand for consumer goods in 2011-15, particularly at the higher end. Hong Kong is a major market for skincare and cosmetics products, partly owing to their popularity among mainland Chinese tourists visiting the territory. New Japanese and South Korean brands are making headway in Hong Kong's cosmetics market, and products that emphasise natural ingredients are also set to outperform in 2011-15³⁶. Sales of consumer goods in Taiwan rebounded strongly in 2010 on the back of its economic recovery and will continue to grow in line with overall economic growth.

In Japan, where the economy is still suffering the after-effects of the earthquake and tsunami in March 2011, demand for staples like soaps and cleansers will dip -0.6% in 2011 before recovering through the rest of the period. However, Japan will remain the second-largest market for cosmetics and toiletries, behind the US, with sales worth around US\$40 billion annually. The skincare segment dominates the market, accounting for around 25% of total sales. Given Japan's ageing population, firms are increasingly shifting their focus towards anti-ageing products and other items for the senior's market. Growing consumer interest in health issues is also expanding the market for cosmetics using natural ingredients³⁷.

India's rapidly-growing middle class, with annual household incomes of US\$3,000-5,000, is becoming increasingly brand-conscious and aware of the importance of personal grooming. The market for cosmetics, toiletries and other personal care items is concentrated, with a few well-known brands dominating sales of shampoos, hair conditioners, make-up, fragrances and personal hygiene products. Growth in demand for most of these products is expected to be rapid in 2011-15, leaving scope for new companies to make inroads into the current market leaders' dominance³⁸.

Men's grooming products, such as skin lightening creams, deodorants, facials cleansers and so on is an area that is showing steady growth.

Although there may be cyclical downturns along the way, the overall prognosis for FMCG sales is highly positive based on rising affluence in the region. A 2011 report by Boston Consulting Group estimates that 125 million households in emerging-market cities will enter the middle class (defined by annual income of US\$5,000 in most markets or US\$10,000 in others) between 2010 and 2015, a jump of 70%³⁹. This will propel demand for income-elastic consumer items, including luxury goods, although demand in Japan could be hampered by consumer uncertainty.

Western firms are keen to make the most of this emerging market growth, but breaking into Asian consumer markets is not always easy. Success will depend not only on new approaches, tailored for individual markets but for different regions and consumer segments within these markets. Pricing is important, because developing Asia's middle class is much less prosperous than that in the developed world. The Indian middle classes have similar levels of disposable income to Western consumers in the 1950s. Consumer-goods companies such as Unilever (UK-Netherlands) and Procter & Gamble (US) have had great success selling their detergents and cosmetics in small sachets that are affordable to Asian families⁴⁰. Sales processes also need to be adapted. For example, the predominance of small, family-owned retail outlets throughout emerging Asia

makes it difficult for consumer-goods companies to ensure that their products are strategically displayed.

However, Asia often throws up surprising sales strategy successes. For example Amway, an American direct sales retailer, has become one of China's largest consumer-goods companies since the government allowed it to start selling its products door to door⁴¹. From here on, however, the markets will get tougher as consumer tastes evolve rapidly based on rising incomes, more companies enter the fray and established market leaders step up their game. For example, Nestlé has been in India for almost a century. Now it is moving to keep pace with the market. Five years ago it undertook "Project Epicure" under which it made 1,500 visits to Indian homes, rich and poor, to see how people cook and eat⁴². On 30 July 2011, it reported a 20% increase in total sales to Rs17.63 billion (US\$394 million) and a 9.8% rise in its net profit for the second quarter to Rs2.14 billion (US\$47.8 million). It is planning to invest US\$450 million to double its capacity. Hindustan Unilever, a subsidiary of the Anglo-Dutch consumer-goods colossus, has also been very successful. On 28 July 2011, it reported that profit for April to June increased by 18% to Rs6.3 billion (US\$140.8 million), beating analysts' expectations. Hindustan Unilever is renowned for its distribution process. Its Project Shakti recruited 45,000 rural women as sales agents, turning them into micro entrepreneurs⁴³.

Catering to unique local needs and preferences will be especially important in the health and beauty segments, which are emerging as

future growth markets based on the rise of the young, urban, increasingly affluent Asian consumer. According to Euromonitor International, in 2010, China's beauty and personal care market was the world's fourth-largest behind the US, Japan, and Brazil, and will be worth US\$34 billion by 2015. However, despite sales of US\$24 billion in 2010, more than triple its size in 2000, per capita spending in China in the category was only US\$18 in 2010, well below developed markets' and lower even than Brazil's US\$192⁴⁴.

In a reflection of the importance of the China market, Estée Lauder, a US-based beauty company which owns brands such as Clinique, Origins and Bobbi Brown, set up an Asia Innovation Centre in Shanghai in June 2011 to develop products for Asian skin. The company is already present in 38 cities across China. One of Estée Lauder's cosmetics brands, Nutritious, developed specifically for mainland Chinese women, is now being sold globally and the company estimated that Chinese women around the world account for about US\$1 billion of its sales in the past year⁴⁵.

It's a similar story in India, where French cosmetics major L'Oréal has 30 million buyers that it aims to grow to 150 million over the next decade⁴⁶. L'Oréal has been in India for 15 years and has had a compounded annual growth rate of 30% in the last decade. The company intends to maintain that growth and says that its Indian operations could be amongst L'Oréal's top five markets worldwide within ten years⁴⁷. The company has multiple growth strategies. Given India's large size, distribution is key, so L'Oréal has

increased its distribution from 250,000 outlets in 2009 to 600,000 today, and it aims to reach 1 million outlets in the next four years. It has introduced smaller pack sizes and formulations for local needs. By end 2011, L'Oréal will open its sixth global R&D centre in Mumbai. It is developing products suited for the Indian market and even exports products developed in India to both Asian and Eastern European countries. L'Oréal anticipates that almost 70% of its launches in India in 2011 will be of products that are locally developed, including skincare products for men.

Foreign firms that can add localisation to their big budgets, international expertise and well-known brand names may be able to edge out domestic competition for the moment but whether this holds true over the longer term remains to be seen. In some markets, notably India and China, local companies are countering by promoting their knowledge of traditional medicinal systems. Dabur, a large Indian consumer-goods maker which has 55% of the market for fruit juice, is also a major producer of shampoo, skin cream and other health and personal care products⁴⁸. Most of these products are based on ayurveda (the Indian traditional system of medicine) and appeal to local consumers. Several other Indian

beauty companies have succeeded at different price points by incorporating ayurvedic elements. Meanwhile, in China, according to Euromonitor, nine of the ten leading health and beauty firms are foreign. The exception is Shanghai Jahwa, the owner of Maxam, a skincare line. While Shanghai Jahwa took less than 2% of the market in

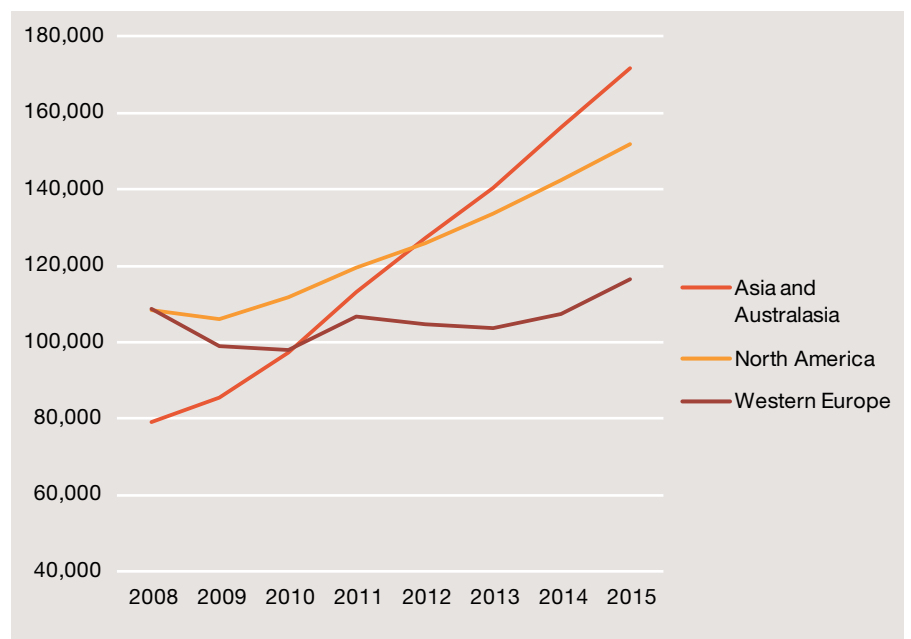
value terms in 2010, its successful Herborist skincare and hair care range, which uses traditional Chinese medicines, reported a compound annual growth rate of 40% from 2005 to 2010⁴⁹.

Figure 11: Soaps and cleansers: Market demand growth (% real change pa)

Territory	2008	2009	2010	2011	2012	2013	2014	2015
Asia and Australasia	4.3	6.5	5.2	5.9	7.0	5.9	5.8	5.3
China	13.3	18.6	3.2	12.0	12.7	9.7	9.3	7.3
Hong Kong	3.9	7.0	8.7	8.6	6.8	3.7	3.4	3.0
India	10.2	16.6	14.1	11.1	9.9	10.5	9.8	9.8
Japan	-0.8	0.6	3.5	-0.6	2.4	1.5	1.4	1.0
Taiwan	-0.8	2.6	5.0	5.5	5.4	4.1	4.8	4.7

Source: Economist Intelligence Unit
 Figures for 2011 onwards are forecasts. Prior years are actuals or estimates.

Figure 12: Soaps and cleansers: Market demand (nominal US\$ million)



Source: Economist Intelligence Unit

Luxury brands

Key findings

- The US remains the world's largest luxury market, with sales there set to grow by 8% to US\$70 billion in 2011.
- China will be the top contributor to global growth in luxury sales and Chinese tourists are fuelling demand in key global cities, accounting for 56% of China's luxury consumption.
- Hong Kong will remain an important market for luxury branded goods in 2011-2015.
- Foreign brands are experimenting with localisation in India's nascent market.



demand growth in Hong Kong will be a rapid increase in visitor arrivals, particularly from mainland China. Certain categories of goods, such as jewellery, watches and gifts, where tourists are a main driver of consumption, will see rapid sales growth in 2011-15⁵². This trend will also play out in Taiwan, where mainland Chinese tourists are equally important consumers.

In Japan, which used to be the world's biggest luxury goods buyer but is now in third place, luxury sales are expected to fall 5% in 2011 to euro17 billion (US\$22.9 billion). The decline will be largely structural but also as a result of the impact of the devastating earthquake earlier this year. However, in line with the return to broader consumption growth, demand for luxury goods should begin to stabilise and recover⁵³.

India's luxury market is still nascent because of steep import duties of up to 30%, poor luxury retail infrastructure, expensive real estate, a 51% cap on foreign ownership of single-brand retail outlets and customer preferences for localised clothing and jewellery⁵⁴. This market is expected to grow at an average of 5% to 10% through 2014⁵⁵. Foreign luxury brands are experimenting with localising their products by, for example, issuing limited edition bags and shoes sold only in India. But expansion is expected to be slow.

Luxury goods brands are pinning an increasing amount of hope on Asia. According to consultancy Bain & Co, luxury sales worldwide will grow by 8% to euro185 billion (US\$249.3 billion) in 2011. That number was raised from a previous forecast of 3-5% due to the better-than-expected recovery in consumer confidence and demand in the US and Europe, as well as strong demand from emerging markets, notably China. Bain forecasts luxury sales to grow at 5-6% through 2014, with emerging markets being the main drivers⁵⁰.

In 2011, the US will remain the world's largest luxury market, with luxury sales rising 8% to euro52 billion (US\$70.1 billion). However, China will be the top contributor to growth in luxury sales worldwide through 2014. Chinese consumers from mainland and Greater China (including Hong Kong,

Macau and Taiwan), counting Chinese tourists, are already the world's number two luxury customers behind those from the US. Luxury sales in mainland China rose 30% in 2010 and are forecast to grow 25% in 2011 to euro11.5 billion (US\$15.5 billion), when sales in Greater China will likely exceed sales in Japan for the first time⁵¹. China's second-and-third-tier cities will be important markets.

Hong Kong will remain an important market for luxury branded goods in 2011-15, notably clothing and accessories. As the economy continues to grow strongly, local demand will shift away from utilitarian items and back towards luxury goods. Strong economic growth will encourage banks to maintain loose credit conditions, which will continue to spur spending on high-cost items until at least the end of 2012. One of the main sources of

Lacoste is a leading French lifestyle brand operating in more than 114 countries. Lacoste ventured into India in 1993. Today it has become a symbol of relaxed elegance, with a commitment to increase its foothold and market share in India.



Q&A with Rajesh Jain of Lacoste India

Rajesh Jain
Director & CEO
Lacoste India

What are your expectations for growth over the next few years?

Lacoste, which has been in India since 1993, is expecting 40-45% growth over the next few years. Lacoste is growing in Asia very positively, particularly India.

While India still represents a small share of Lacoste sales globally, we see it as a key and strategic growth market. This is why we are pushing to double the number of points of sale and to triple sales over the next three years. According to a recent research, the Indian 'western wear' market in the top 30 cities was estimated to be worth Rs86 billion (US\$1.8 billion) in 2010, that is, some 131 million garments. Of this, just Rs5 billion (US\$100 million) comes from the 'luxury market' and the 'affordable luxury' market, within which Lacoste operates. Though small, this tiny market is slated to grow at a rate of 13% every year to reach Rs9.6 billion (US\$190 million) by 2015.

Are there different pockets of growth for Lacoste products across the country? Which products are tending to sell better in the metros and which in Tier 2 cities?

Lacoste was earlier positioned as a men-focused, polo-centric brand. But over the past decade it has evolved into a lifestyle brand offering a complete wardrobe for men, women and children, including polos, shirts, denims, footwear, handbags, and perfumes. Delhi and Mumbai are witnessing the fastest growth, followed by Bangalore, Hyderabad, Chennai and Kolkata. As of now, we have not entered Tier 2 cities

though we have a few stores in Pune, Jaipur, Goa and Chandigarh. Our strategy is selective distribution. In order to maintain brand exclusivity we are not going to each and every town, or populating any one town with too many points of sale. However, we are closely monitoring market and retail developments in these cities.

Our women's segment is also growing fast in India. We also offer shoes and bags, an essential accessory for the well-travelled modern Indian woman. Our children's segment has also picked up well.

We have also recently launched Lacoste LIVE, targeting the 'young minded' segment (i.e. 20-30+ year olds) that is going to drive the market going forward. In addition, footwear is doing particularly well.

What is Lacoste India's strategy with regard to company-owned vs. franchised outlets?

In India, we work through a mix of company-owned and franchisee-owned boutiques, and are also present in premium multi-brand outlets, such as Shopper's Stop, Centrals, Kapsons, Shoe Tree and Lifestyle. The idea is to fortify our presence in key markets and slowly move to building a presence in new markets and Tier 2 cities. Thus we prefer company-owned stores, where we can present the complete Lacoste range and ensure an outstanding experience for the customer. However, we are not averse to joining hands with like-minded franchisees who value our brand parameters.

Have you been customising products to Indian tastes to further boost sales?

Indian consumers of our products are well-travelled and have contemporary tastes. But at the same time they have

traditional Indian values. Thus we try to connect with the consumer to increase our brand appeal without compromising on the international look, feel and quality of our brand.

For example, we introduced the knitted kurta pajamas which attract as much curiosity internationally as they do in India. We also introduced a Diwali collection of Polos.

What is the biggest challenge facing your business today, and how are you tackling this challenge?

India's high retail development and rental cost is our most difficult challenge. Indian property prices are amongst the most expensive globally, yet we cannot price our products at international levels. So, the polo we sell in India for US\$60 sells in Europe for euro83, in the United States for US\$100, and in China for US\$120. To tackle this challenge, we specifically choose properties with good catchment and brand environment, and ensure that we are on the relevant floor to be very, very visible.

Another challenge is the Indian government's recent imposition of excise tax on branded goods, which is putting pressure on the Indian retail industry's top-line and margins. This excise is particularly counter-productive because it is levied on Indian production, not on imported apparel. Cotton and yarn prices have also shot through the roof, and the Indian government's lifting of export restrictions on cotton will further raise prices. India's 30% customs rate and around 155% landed cost for imported apparel is a further pressure.

What is your outlook for the future given the recessionary conditions globally?

We are cautious but optimistic.



Overview of current trends

In its annual Global Wealth Report, Boston Consulting Group forecasts that the Asia Pacific region's share of global wealth (ex-Japan) will rise from 18% in 2010 to 23% in 2015, while in India and China, wealth will increase at a compound annual rate of 18% and 14%, respectively through 2015⁵⁶.

Given this forecast, it is unsurprising that many luxury brands now view Asia, particularly China, as a key region. For Gucci, the Italian fashion brand owned by France's PPR, Japan accounts for 12% of revenues, but the rest of the Asia Pacific region contributes a further 36%. This comes mainly from Gucci's China stores, which have increased from four in 1997 to 41 stores and 15 franchises by 2010⁵⁷. PPR's French rival LVMH is also focusing on China as its main growth market. Its flagship brand, Louis Vuitton, now has 36 stores in 29 first-and-second-tier cities. In August 2011, American jeweller Tiffany & Co said it would open four more stores in China, one in Taiwan and three in South Korea, during the current financial year. Other luxury brands are moving far beyond the region's major cities — France's Cartier recently opened a store in the county-level city of Yiwu⁵⁸, China's largest small-commodities trading market.

One significant target group for luxury goods companies is avid Chinese tourists, who have fuelled consumption across key global cities, including nearby retail centres such as Singapore, Hong Kong, Macau and Taiwan. According to the World Luxury Association, overseas buying still accounts for 56% of total luxury consumption in China. The reason is that in China itself, luxury goods attract high import tariffs and taxes, and there is the perpetual risk of counterfeits. A strong yuan and a better selection also play in favour of overseas shops. Consequently, the Chinese spend a higher proportion of their holiday outlay on shopping than any other group. A survey by China's International Tourism Development Institute showed that 76% of the money spent by Chinese mainlanders in Hong Kong went to shopping. In Macau, the figure was 63%, and in Taiwan 50%.

Such spending is supporting strong growth in these markets. In Hong Kong for example, July's retail sales rose 29.1% by value from a year earlier, according to China's Census and Statistics Department, driven partly by a continued influx of shoppers from mainland China. China was also responsible for most of a 22% year-on-year rise in the number of people visiting Hong Kong for leisure in July,

to 3.8 million. Similarly in Macau, according to the latest data from the Statistics and Census Bureau, luxury goods remain the retail sector's most important business, fuelled by a 15% increase in total visitor spending in the second quarter, with Chinese tourists supplying much of the impetus⁵⁹.

India's rich also prefer to shop overseas, since high import duties make luxury goods cheaper abroad. Most international luxury brands that are present in India have far fewer stores in India than in China. Louis Vuitton has only three stores in India, while Cartier has one and Tiffany & Co, is still only planning to open its first Indian store⁶⁰.

Still, luxury brands are not giving up on India. In July 2011, LVMH's private equity arm in Asia, L Capital, bought a 25.5% stake in India's Genesis Luxury, which markets brands such as Jimmy Choo and Bottega Veneta locally⁶¹. Indeed, the worldwide recovery in luxury goods is likely to lead to a global rise in mergers and acquisitions in the industry, with many of these focused on Asia. For example, Hong Kong luxury menswear operator Trinity, which last year bought Italy's Cerruti fashion house, said it was keen to acquire more heritage brands in Europe to fuel its expansion in China⁶². So Asia, and particularly China, will remain the key focus for growth in luxury brands.

Durable consumer goods and electronics

As Asian economies recovered in 2010, durable consumer goods and electronics saw robust demand and sales. Market demand for electrical appliances and housewares was strong across Asia, growing at 5.4%, in line with an earlier 5.5% forecast. Demand is forecast to grow at 5.3% in 2011, and climb in each subsequent year, to hit 7.6% in 2015. Demand for household audio and video equipment in Asia in 2010 did even better, growing at 6.2%, although some unevenness in regional economies meant that this figure was lower than the 6.6% originally forecast. Demand in this segment is forecast to grow through 2015, at between 6.1% and 8.3%, led by China and India.

In China, already the world's largest consumer of many items such as cars, televisions and mobile phones⁶³, demand for electrical appliances and housewares is forecast to grow at a strong 13.2% in 2011, higher than an original forecast of 12.7%, despite rising prices, because of increasing affluence. Demand for household audio and video show the same trend, with growth expected at 15% in 2011 against a forecast of 14.2%.

During 2011-15, the fastest sales growth in China will come in less-developed third-and-fourth-tier cities, where vast numbers of people will

Key findings

- Demand for household audio and video equipment in Asia is forecast to grow between 6.1% and 8.3% through 2015.
- Growth in China will be led by expansion in second-and-third-tier cities.
- India's growing middle class is driving double-digit growth.
- Demand in Hong Kong will remain robust, while expansion will be more moderate in highly-saturated markets such as Taiwan and Japan.
- More Chinese companies are beginning to expand overseas.

begin to have money to spend on consumer goods as their disposable incomes rise rapidly⁶⁴.

India has a fast-growing and increasingly brand conscious middle class⁶⁵. These "well-off" households can afford air conditioners, washing machines, refrigerators, colour televisions and motor scooters. Rising numbers of households in this income bracket supported growth of 11.2% in demand for electrical appliances and housewares in 2010 (stronger than an earlier estimated 7.3%) despite rising prices. Demand for household audio and video equipment also grew at 13.4% against an earlier estimated 8.9%. Market demand for electrical appliances and household goods is forecast to average 10.5% a year in 2011-15. This will be outstripped by growth in demand for household audio and video equipment, which will average 11.6%.

In Hong Kong, a strong economic recovery meant that demand for electrical appliances and housewares grew at 10.2%, higher than an originally estimated 8.3%, while household audio and video equipment demand grew 8.1% against a 6% initial estimate. Demand will continue to grow robustly in both segments in the forecast period.

In Taiwan, demand in both segments will grow more modestly through 2015, given the high penetration rates for most of these goods. In Japan, demand for electrical appliances and housewares grew at 1.6% in 2010, but Japan's economic problems mean that demand will fall by 1.7% before recovering to a growth of 1.9% in 2012 and growing at lower rates each year through 2015. For the same reason, demand for household audio and video equipment in Japan, which grew at 2.8% in 2010, is forecast to fall 0.7% in 2011, against an earlier growth forecast of 1.5%.

Suning Appliance is the leading retailer in China and in the country's 3C (communication, computer, consumer electronics) market. It operates more than 1,000 stores covering more than 300 cities in China, and is now planning to move overseas.



Q&A with Zhang Jindong of Suning Appliance Group

Zhang Jindong
Chairman
Suning Appliance Group

What has been the impact of e-commerce on the traditional retail business?

The evolution of the internet has indeed posed challenges to traditional retail businesses. First of all, it allows for an unlimited display of products. Within a large retail outlet, you can exhibit no more than 10,000-20,000 stock keeping units. But online you can show millions of products. Second, it offers an easy and much more convenient way for users to compare products on price, features and functions, any time they want. But while the internet makes it easy to display products, this is not enough to be a successful retailer. The really important things are back-end management systems and the entire supply chain. It is about how to serve your consumers, and how to deliver goods to consumers in an efficient way. It's a chain combining production, sales, logistics, and service.

What is Suning's future plan for e-commerce?

In February 2011, we made our e-commerce unit Suning Yigou (www.suning.com) an independent company.

Suning Yigou now has hundreds of thousands of products online, outpacing its offline peers. It is expected to grow rapidly in future.

Given the context of China's internet industry growth and our own planning of supply chain capacity, as well as China's economic growth, we expect Suning Yigou's sales to reach RMB300 billion by 2020, which in my view is quite a conservative estimate. Suning's thousands of offline stores will grow further by leveraging online growth as well.

What is your outlook for China's retail market?

Suning is now a more general retailer, not limited to one category. But in terms of the home appliance market, China has huge potential. In the past decade, there has been increasing demand for home electronics in line with the improvements in the Chinese people's quality of life. Home appliances have turned from a luxury to a household necessity today. Rapid urbanisation in China means demand will continue to grow.

In addition to these demand factors, I think new technology will offer some surprises for the future of 3C products (communication, computer, consumer electronics). Just like Apple has

changed our way of using mobile applications, I anticipate that there will be a lot of affiliated applications for 3C products, especially mobile devices, emerging in the next decade. By then our use of smart tech might be beyond what we can currently imagine.

The 3C market alone, not including other retail products, will ensure Suning maintains a high growth in the next 10-20 years.

How does Suning build up its core competitiveness in this highly competitive retail market?

Retail has been one of the most competitive industries in China in the past decade. We have strived to be the leading player.

We have made it clear that to win market share, it's all about capacity and efficiency, our products and service for our customers. In products, we will continue upgrading together with our suppliers based on the dynamics of consumer needs. On service, we will strengthen our position and continue to build up a highly efficient supply chain and management system while continuing to upgrade our information technologies.

In competing with global players in China, we are also confident, as we understand the local market. Suning is strong not only in scale and profitability, but also in products, IT and the potential for growth.

In the long term, not only will we cement our leading position in China but we will also start to go global. We entered Hong Kong and Japan the year before last and plan to enter Southeast Asia next year. By 2015, we will establish a presence in Europe and America.

What is Suning's strategy in global markets?

We've secured a 65% stake in LAOX (a Japanese home electronics chain) with the expectation that we will introduce it in China. This year we are going to open Laox Life, a general retailer, in China and there will be 150 stores in future. The brand positioning of LAOX is completely different from Suning.

By investing in LAOX, we are also getting more experience outside of China, which lays the foundation for our future plans.

Hong Kong serves as the bridgehead for our internationalisation. Suning now runs 20-30 stores in Hong Kong

and we will accelerate store openings so that we grow 100% there this year. From Hong Kong we will be able to understand more about Southeast Asia.

Internationalisation remains our long-term goal and will require a good talent pool. We will move gradually into foreign markets.

Bestbuy has withdrawn from the Chinese market and Gome has been plagued by management turmoil. Why has Suning been growing so stably?

Suning started with selling air conditioners, which requires installation and good service. Therefore, our corporate culture has always been about diligence and attention to detail. Retail is about detail.

We have gone through several key turning points at the company which were very tough days for us. But we've always kept ourselves focused on our major business and keep that in mind in everything we do.

Speculation, cutting corners or following the latest trends have never been our style. Our culture is more about being focused on our core business, be it building up our IT

capabilities or our investment strategy. Our strategic plan for the next decade (released early this year) is still focused on strengthening our core competitiveness.

How do you manage talent?

We don't use one formula for all. As long as people recognise Suning's culture, and they do their job diligently, they can join us. However, talent is not something that comes immediately. We view talent as those people with whom we share the same values and who have been gradually trained and cultivated over time within the company based on working towards mutual targets.

We have always given talent first priority. But it's not simply about individual heroes. We value team work, and we value people who can grow, strive and live together with the company. We have built up a multi-dimension human resources system to select, train and promote talent and to provide different platforms for them to grow.

Local players expand

Asia is a growth market for multinational durables goods makers like Electrolux, which derived 15% of its 2010 global sales from the region. However, multinational companies face tough competition from local brands. For instance, China's Haier is already the world's number one washing machine maker, according to Euromonitor, and sells a plethora of white goods, televisions, computers, mobile phones and digital cameras. With 6,000 Haier-branded stores and 760 Gooddaymart stores around China, Haier is a formidable local competitor. China's Midea, meanwhile, claims it is the leading producer of electric fans and rice cookers and the largest exporter of household electrical appliances in the ASEAN (Association of Southeast Asian Nations) area.

Local companies have succeeded by designing multiple products tailored to unique regional needs. For example, Haier has perfected affordable rat-proof washing machines for rural markets, and sleeker, super-silent machines for urban customers. Foreign brands are learning fast: in Thailand, Electrolux's fridges are air-cooled rather than frost boxes and it caters largely to low-income consumers. Price is a key competitive factor. Chinese appliances are around 20% cheaper



than comparable multinational brands. Chinese goods have also become cheaper thanks to a free trade agreement (FTA) between China and ASEAN that came into force in 2010.

Local companies already have large markets at their doorsteps but are now expanding quickly overseas. Even as it expands into China's smaller cities, Haier already has 58,800 sales outlets in over 160 countries and over 70,000 employees worldwide⁶⁶. In July 2011, it bought the consumer electric appliances business of Japan's Sanyo in Japan, Indonesia, Malaysia, the Philippines and Vietnam. The FTA has also prompted Chinese brands to build factories to supply the region and import materials from China on favourable terms. Haier for instance, has 29 manufacturing facilities — 24 of which are outside China⁶⁷, including plants in Thailand, Indonesia, the Philippines and Vietnam. Midea is spending US\$40 million to expand its

Vietnam factory, where it currently produces 8 million rice cookers, fans and kettles annually.

Suning, a Chinese appliance retailer, is now expanding its sales bases in developed markets like Hong Kong and Japan, where it has taken controlling stakes in local retailers Citicall and Laox respectively. It is building its presence in Urumqi, China's far-flung western capital. Brands themselves are trying to control distribution by building out logistics and sales channels alongside production. In Vietnam, Midea distributes through its own logistics company to a network of sales outlets. As local brands build a pan-Asian and even global presence, multinationals will have to fight hard to take advantage of the Asian opportunity.

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

Territory	2008	2009	2010	2011	2012	2013	2014	2015
Asia and Australasia	2.4	1.7	5.4	5.3	6.6	7.0	7.5	7.6
China	7.9	11.5	11.1	13.2	13.1	14.7	15.5	15.1
Hong Kong	3.7	-5.1	10.2	11.8	7.9	7.2	6.2	5.8
India	3.4	8.3	11.2	11.5	10.6	10.6	9.9	9.8
Japan	-0.7	-3.0	1.6	-1.7	1.9	1.0	0.9	0.7
Taiwan	-0.1	1.9	4.2	4.2	4.5	3.9	4.3	4.3

Source: Economist Intelligence Unit

Figure 14: Asia television sets (stock per 1,000 pop)

Territory	2008	2009	2010	2011	2012	2013	2014	2015
China	548	588	631	676	723	773	826	882
India	120	127	137	150	164	179	195	212
Japan	715	730	746	746	747	748	751	754

Source: Economist Intelligence Unit

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

Territory	2008	2009	2010	2011	2012	2013	2014	2015
Asia and Australasia	4.1	4.2	6.2	6.1	7.4	7.7	8.2	8.3
China	13.3	14.4	12.1	15.0	15.6	16.4	17.1	16.5
Hong Kong	4.3	1.9	8.1	7.8	6.7	5.9	5.8	5.3
India	9.9	15.3	13.4	12.8	11.7	11.8	11.0	10.8
Japan	-0.5	-0.2	2.8	-0.7	1.7	1.2	1.1	0.9
Taiwan	0.2	1.9	4.7	4.9	5.1	4.3	4.8	4.8

Source: Economist Intelligence Unit

Figures for 2011 onwards are forecasts. Prior years are actuals or estimates.

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

Figure 16: Retail sales in Asia (in US\$ million)

Territory	2008	2009	2010	2011	2012	2013	2014	2015
Australia	187,157	179,628	217,646	250,906	246,729	243,772	249,439	257,748
China	1,561,239	1,841,603	2,282,844	2,754,547	3,251,134	3,902,650	4,670,287	5,552,964
Hong Kong	32,369	31,963	35,526	38,857	41,277	43,389	45,710	48,706
India	519,798	514,908	665,979	765,104	868,917	967,378	1,096,703	1,240,788
Indonesia	227,802	231,551	292,408	341,878	379,188	418,471	461,383	510,208
Japan	1,317,842	1,423,661	1,544,429	1,648,295	1,702,981	1,714,285	1,723,886	1,699,718
Malaysia	59,009	56,500	66,715	76,767	85,591	94,329	103,810	114,378
New Zealand	31,147	27,922	32,313	34,711	34,508	34,781	35,779	37,167
Philippines	72,643	70,339	81,783	91,650	98,536	108,248	119,214	130,993
Singapore	26,443	25,363	26,821	31,456	34,114	36,175	38,492	41,154
South Korea	210,848	186,603	220,541	248,256	266,851	282,661	300,994	318,572
Taiwan	96,435	89,928	98,735	113,026	120,049	125,151	131,369	137,712
Thailand	89,856	86,096	102,217	115,076	125,881	138,163	151,574	165,968
Vietnam	42,303	43,026	45,675	51,584	58,612	67,094	77,629	88,638

Source: Economist Intelligence Unit

Figures for 2011 onwards are forecasts. Prior years are actuals or estimates.



Indonesia

Overview

Retail sales in Indonesia will grow 4.5% by volume in 2011, higher than an originally forecast 4.2%, on the back of a strong economic recovery that continues from 2010. Retail sales are forecast to grow at 4.6% in 2012, with growth averaging 4.8% in the following three years.

Demographic factors suggest scope for strong medium-to-long term growth in retail sales. The population is youthful — around 30% of people are aged under 15, while only around 6% are over 65⁶⁸. On average, food accounts for around 50% of retail expenditure in Indonesia, so a surge in global food prices could reduce consumer spending in other areas in Indonesia in the short term. However, we expect that as incomes rise, the proportion of retail spending accounted for by food will fall to 40% by 2015.

In 2011-15, the emphasis will remain on the sale of relatively low-cost staple goods, but sharp inequalities in income distribution mean that there is also a market for higher-cost, luxury items. Urban areas, which accommodate an estimated 48% of the population, will remain the focus of retail activity⁶⁹. Shopping centres and malls are proliferating in the capital, Jakarta. The non-food retail sector remains underdeveloped, but several foreign brands and chains have a presence.

E-commerce has strong potential for growth, given the popularity of smartphones and social-networking sites (the size of the e-commerce market in Indonesia is difficult to estimate as many transactions go unrecorded). But there are several obstacles which need to be overcome, including weak payment and delivery systems, a lack of good quality credit information and a high incidence of credit-card fraud.

Small format stores

Indonesia's major retailers are implementing aggressive growth plans. Mini-markets in particular are expanding rapidly, led by a local company, Indomarco Prismaatama, which has expanded under the brand Indomaret, and has almost 5,000 stores⁷⁰. Its main competitor, PT Sumber Alfaria Trijaya, which operates the Alfamart chain of minimarts, has a similar number of stores and plans to open 1,000 new outlets during 2011⁷¹. Together, the two dominate the minimart business, targeting middle and lower-income customers with low prices and convenient locations. A large presence is an essential part of their strategy.

Competition in the retail sector is fierce, both within and across formats. Several multinationals, such as France's Carrefour, have set up supermarkets and hypermarkets in Indonesia. In January 2011, PT Matahari Putra Prima, Indonesia's biggest retailer by market value, scrapped a plan to sell its hypermart food retail business, deciding instead to expand. By contrast, Sumber Alfaria

sold its own supermarkets business, PT Alfa Retailindo, to PT Carrefour Indonesia in 2008, anticipating that it would be difficult to compete against large international retailers in this segment. Since that sale, Sumber Alfaria has concentrated on smaller store formats. Apart from Alfamart, Sumber Alfaria has two other store brands with over 300 outlets in total — Alfamidi stores, a larger version of Alfamarts, and Alfa Express stores, a smaller version⁷².

Several government regulations could constrain the growth of modern retailers. The government is concerned about the decline of traditional retailers. Under regulations introduced in 2007, local government can block the construction of modern retail outlets. Individual cities have similar restrictions. For instance, in 2006, Jakarta's governor issued a gubernatorial decree effectively banning permits for the construction of new mini-markets and convenience stores. Indonesia's Business Competition Supervisory Commission (KPPU) also restricts companies from expanding into areas where traditional suppliers operate. Aggressive expansion by Indomaret and Carrefour has drawn the KPPU's ire⁷³.

Nevertheless, all major retailers are expanding frantically and many have flouted regulations to open new outlets. Although officials are now cracking down on such violations, the growth rates of the country's biggest chains are unlikely to slow significantly.

Malaysia

Overview

Retail sales in Malaysia will grow 3.5% in 2011, higher than last year's forecast of 3.3%, given low unemployment, rising disposable incomes and increased purchasing power, a strong tourism industry and increased discounting by retailers. Although monetary policy remains tight, inflation is stable and consumers remain willing to borrow to buy high-cost items, a trend that will continue in the forecast period.

Malaysia's economy will remain on a sustainable growth path in 2011-15, when average annual GDP growth will be faster than in 2006-10. In the early part of the forecast period, prices will remain relatively low compared with many other markets. However, the government is set to introduce a goods and services tax of 5% or less, possibly from 2012, to replace a sales tax of 5-10% that is currently levied on hotel, restaurant and professional bills⁷⁴. This could exert some upward pressure on overall retail prices. Nevertheless, retail sales are forecast to average 4.8% for the rest of the forecast period.

As Malaysian standards of living continue to improve, expenditure on food, beverages and tobacco will account for a relatively smaller proportion of total household income in 2011-15. Sales of consumer electronics are likely to increase, driven by higher incomes and lower prices for these goods. Personal computer (PC) sales are expected to grow steadily but will largely be limited to the major urban areas. The popularity of shopping malls among

locals and tourists, coupled with steady growth in consumer demand, will help underpin sales of apparel and footwear in 2011-15. Sales of cosmetics and toiletries will also grow at a fairly brisk pace. Direct sales will remain an important sales channel.

Online retailing remains in its infancy in Malaysia. The main obstacle to faster growth is the low rate of broadband subscriptions, but the government plans to continue to focus on promoting e-commerce in the Tenth Malaysia Plan, a medium-term spending programme for 2011-15. Internet cafés are widely available in major cities, but computer ownership remains low, particularly among low-income groups and in rural areas.

Restrictions on growth

Malaysia's food retail sector will remain fragmented during 2011-15. Traditional stores and markets will continue to dominate in rural areas, while supermarkets and hypermarkets will remain popular in urban areas. Both domestic and foreign retailers will continue to expand. In recent years, several foreign retailers like Tesco (UK) and Carrefour (France) have expanded aggressively. Japan's Aeon Co. has operated in Malaysia for 27 years and has 27 stores including its MaxValu supermarkets and Jusco department stores-cum-supermarkets. Aeon now aims to open 100 stores in Malaysia by 2020, including the possibility of convenience stores, drug stores and hypermarket-like discount formats⁷⁵.

However, several government restrictions will prove limiting to foreign players. One rule that continues to hinder foreign investment is the government's local equity rule, which requires firms to offer 30% of their equity to bumiputeras (ethnic Malays and other indigenous peoples)⁷⁶. Until the government lifts this rule, domestic firms are likely to stay dominant in the grocery and department-store sectors. Both domestic and foreign retailers are also restricted by legislation passed in recent years that limits the expansion of hypermarkets and prohibits hypermarkets, supermarkets and department stores from 24-hour trading.

Large companies are now trying to cooperate with the government to address its concerns about the decline of small retailers. Under the Small Retailer Transformation Programme (Tukar), the government intends to modernise at least 5,000 traditional retail shops nationwide by 2020. As part of their own corporate social responsibility programmes, three large retailers, namely the local Mydin, Carrefour and Tesco, as well as the Cooperatives Commission of Malaysia (CCM) have agreed to act as consultants to these small shops to help modernise them⁷⁷.

Singapore

Overview

Both Singapore's economy and its retail sales are performing well in 2011, after rebounding sharply in 2010 from a large contraction in 2009. However in 2011, as in 2010, vehicle sales have fallen, owing to rising excise duties in the form of Certificates of Entitlement, which are required to put a car on the road⁷⁸. Vehicle sales are an important component of retail sales in Singapore and therefore, retail sales volumes are expected to grow only 1.4% in 2011, against an earlier forecast of 3.2%.

Sales growth in Singapore will strengthen in the next few years, as economic growth stabilises and access to consumer credit improves. Retail sales are forecast to rise 2.7% in 2012, then by an average 4.6% until 2015. Although the outlook for economic growth in Singapore in 2011-15 is positive, the city-state depends heavily on external trade, so it will be vulnerable to any fluctuations in the world economy.

Singapore's retail sector is highly developed. Supermarket sales account for over 50% of total food, beverages and tobacco sales, but around three-quarters of fresh fruit and vegetables are distributed through wet markets. In the forecast period, there will be a further shift away from traditional shops⁷⁹.

Spending on consumer goods has picked up and will strengthen in 2011-15, particularly for consumer electronics. However, as Singapore's market for PCs and mobile phones is mature, sales growth in these goods will be limited, except for sales of smartphones.

Price competition among brand names in clothing and footwear will intensify, reducing the price difference between private labels and branded products. Demand for cosmetics and toiletries remains strong, but since many Singaporean consumers are price-conscious, sales of expensive brands could continue to suffer.

Business-to-consumer e-commerce will grow rapidly, helped by an information technology-literate population. According to research from online payments provider PayPal, the online shopping market in Singapore reached S\$1.1 billion (US\$909.8 million) in 2010 and this market is expected to grow to S\$4.4 billion (US\$3.6 billion) by 2015⁸⁰.

Tourist shopping

Retail sales growth accelerated in Singapore in June 2011 to its highest level since July 2008. According to Singapore's Department of Statistics, the retail sales index rose 10.9% over June 2010, after climbing 10% in May 2011. Excluding automobiles, sales rose 10.4% from a year earlier, after rising 8.3% in May⁸¹.

The growth was due to a strong economy, a three-year low unemployment rate and rising wages.

An equally important factor was rising tourist arrivals which improved business for integrated resorts. Tourism is important to Singapore's economy and the country is virtually a free port.

In 2010 and 2011, Singapore's tourism sector has performed strongly, and related industries like retailing have benefited accordingly. In 2010, according to the Singapore Tourism Board, international visitor arrivals rose by 20.2% to 11.6 million, a record high. Tourism revenue was estimated at S\$18.9 billion, a rise of 49.6%, while tourists spent S\$3.9 billion on general shopping, a rise of 18% over 2009. Similarly, in Q1 2011, tourism receipts grew 35.7% to S\$4.98 billion. Shopping accounted for a 21% share of those receipts⁸².

The Singapore Tourism Board expects tourism contribution to the Singapore economy will grow, and targets S\$30 billion in tourism revenues in 2015, with an average annual growth of 10% from 2010 onwards⁸³. In 2011, Singapore expects visitor arrivals will grow to 13 million and tourism receipts will rise by 22%. Encouraged by this once combined with a strong domestic economy, many retailers are expanding. While property companies are also developing a substantial amount of new retail space. According to property consultants Colliers International, an estimated 4.7 million sq ft of retail space will be completed in 2011-15, meaning an annual supply of 937,110 sq ft of retail space, although this is substantially lower than the average supply levels of 2.4 million sq ft per year seen in 2009 and 2010⁸⁴.

South Korea

Overview

Retail sales volumes will grow 1.3% in 2011 in South Korea, lower than an earlier forecast of 2%, given high inflation, faltering consumer confidence, rising household debt and economic worries. After an economic rally in 2010, South Korea's heavily trade-dependent economy is once more facing uncertainty in 2011 on the back of global worries and the economic crises in the US and Europe, affecting domestic incomes and consumption.

However, South Korea boasts one of Asia's largest and most dynamic retail markets. In US dollar terms it is ranked fifth in the region by total retail sales, at an estimated US\$220.5 billion in 2010, behind China, Japan, India and Indonesia. In 2011-15, the retail market will continue to grow. Retail sales are forecast to rise to US\$248 billion in 2011 and around US\$318.57 billion by 2015. In volume terms, sales are expected to expand by an average of 2.3% a year in 2012-15 as the domestic economic environment improves.

Demand will be supported mainly by demographic trends, with 70% of the population remaining in the main retail target age group of 15-64 years. Moreover, real wage growth is expected to accelerate throughout the forecast period, with a positive impact on private consumption. In 2011-15, competition in the hypermarket sector will remain intense and convenience stores will remain popular. Although high-quality brands will remain a focus for aspirational buying, discount retailers and discounted items will also gain in popularity and the market will

become increasingly polarised. The apparel and footwear subsector will grow by an average of 4.5% annually in 2011-15.

South Korea's sales of electronic goods will rise throughout the forecast period, driven by stronger demand, lower prices, advancing technology, and strong government support for internet services. South Korea boasts one of Asia's fastest-growing online retail sectors, since it has the world's highest penetration rate for broadband internet access and one of the most dynamic communication services industries. According to Statistics Korea (South Korea's official statistics provider), e-commerce sales amounted to W221 trillion (US\$202 billion) in the first quarter of 2011, up by almost 21% year on year. For 2010, e-commerce transactions amounted to W824 trillion, an increase of 22.5% over 2009. Internet shopping malls are popular and nearly all major domestic retailers have invested heavily in their online shopping business. During 2011-15, online sales will continue to rise, also supported by a steady growth in credit-card use and in mobile retailing.

Overseas expansion

South Korea's domestic retailers continue to expand locally but now also have overseas ambitions. The country's leading discount store chain E-Mart, affiliated with South Korea's second-largest retailer Shinsegae, opened its first Chinese outlet in

February 1997 and now has 27 stores, mostly in China's northeastern region. Earlier talks to sell some ten E-Mart stores in China to a local company were unsuccessful, but E-Mart is now in renewed talks on the sale of these stores, including those in Beijing and Shanghai⁸⁵. After reporting a net loss of W75 billion (US\$68.6 million) from its China business in 2010, E-Mart plans to shift focus from China's metropolitan cities to expand into small and medium-sized cities. By 2015, E-Mart aims to have 45 stores in China⁸⁶.

E-Mart's rival Lotte Mart, South Korea's third-largest discount chain store, run by South Korea's largest retail conglomerate, Lotte Group, has similar plans. Lotte has been in China since 2007 and operates 83 stores there. It too reported a net loss of W15 billion (US\$14 million) in China in 2010, but will open 11 new stores there in 2011. Apart from its China stores, Lotte has 23 stores in Indonesia and two in Vietnam. Lotte Mart plans to have 1,000 stores worldwide by 2018 against 200 currently. By then, Lotte plans to have 700 overseas outlets with W25 trillion (US\$23.3 billion) in sales in addition to 300 domestic stores bringing in sales of W25 trillion⁸⁷.

Thailand

Overview

Retail sales volumes will grow 3.2% in 2011, lower than an earlier forecast of 4.8%, given the higher base created by 2010's strong economic recovery and consequent high growth in retail sales volumes. Annual retail sales growth will rise to 5.2% in 2012 and 5.9% in 2013 before settling at 5.8% through 2015. Thailand's consumer goods market will remain one of Southeast Asia's most important, with retail sales of US\$165.96 billion in 2015, below Indonesia but above Singapore, Malaysia and the Philippines.

In the early part of the forecast period, discount retailers will likely remain healthier than high-end outlets. However as the economy recovers, demand for shopping malls and boutiques will strengthen. During the forecast period, demand will continue to shift from unprocessed foods bought in fresh markets to processed foods available in large supermarkets, and foreign companies are expected to remain stronger than domestic firms in these areas. Retail sales of non-food products will grow steadily. Consumer demand will continue to be underpinned by essential items, at least in the early part of the forecast period. Demand for non-essential items, such as health and beauty products, should then recover.

As personal incomes recover, expenditure on consumer electronics will rise. Sales of PCs have grown strongly in recent years, but are still largely limited to the major urban areas. Online retailing will remain in its infancy, mainly owing to low internet penetration in Thailand, but will likely develop in line with greater internet access through mobile devices and the emergence of companies offering secure online-payment systems.

New foreign entrants

Thailand has long been an interesting destination for foreign supermarket and hypermarket retailers, but other foreign retailers also share that interest. For instance in April 2011, Fast Retailing (FR) and Mitsubishi Corporation agreed to establish a joint venture to set up Uniqlo stores in Thailand (Uniqlo is FR's casual wear subsidiary and Japan's largest apparel label). The first Uniqlo Thailand store that opened in September 2011 is the company's largest in Southeast Asia. Meanwhile, Swedish furniture chain IKEA has opened its first Thai store in November 2011, which will also be its largest in Southeast Asia and one of its five largest worldwide. IKEA plans to follow up with two new stores in Bangkok⁸⁸.

However, Thailand's chaotic politics and civil unrest create an uncertain business environment for foreign retailers. Politicians have been known to interfere directly in large business decisions. Keen to protect local

businesses and small establishments, the government often steps in to curb large retailers. In 2006, foreign retailers were pressured into temporarily halting expansion⁸⁹. Thailand's Retailing and Wholesaling Act, in preparation for years, will regulate the growth of modern mass retailers and wholesalers. Once it is passed, such businesses would have to apply for licences when their sales or retailing areas cross certain thresholds, while a government committee would oversee their retail expansion plans⁹⁰.

Meanwhile, the Thai Foreign Business Act does not allow majority foreign owned companies to operate service businesses and foreign retailers must meet minimum capital requirements in order to hold majority stakes in a retailing or wholesaling business. Foreign companies are not allowed to own land in Thailand, a major obstacle for retailers⁹¹. Hence, Thailand will continue to be an attractive but challenging market for foreign retailers.

Vietnam

Overview

Vietnam will remain a highly attractive emerging retail market in 2011-15. However by volume, retail sales will grow only 2.2% during 2011, substantially lower than an earlier forecast of 10.6%, given surging prices. This continues the trend of 2010, when according to Nielsen, a market research firm, FMCG retail sales in Vietnam grew 27.3% year-on-year, but price increases accounted for over 70% of that growth⁹². Retail sales volumes are forecast to improve strongly after 2011, with growth averaging 8.5% until 2015.

Sales growth will be based on rising disposable incomes and a growing middle class. Vietnam's retail sector will remain small compared with those in most Southeast Asian countries. Supermarket chains will continue to expand in 2011-15. As the market opens further, multinational retail giants will undoubtedly enter the market.

Food will remain the most important component of retail sales in Vietnam through 2011-15. Demand for high-end consumer goods will stay weak owing to relatively low incomes, but in the medium-to-long term high-quality brands will remain a focus for aspirational buying.

Demand for consumer electronics and white goods will continue to expand in 2011-15. Sales volumes of PCs and notebook computers will rise in line with internet usage, higher incomes and improvements to internet service

provision. Demand for online retailing will be subdued in the forecast period owing to relatively low internet penetration rates and underdeveloped online-payment systems.

Clothing industry

Vietnam is poised to take advantage of rising costs in China to expand its clothing industry. China still supplies nearly half of the European Union's garment imports and 41% of America's. China's mix of scale, speed and flexibility is hard to beat, as suppliers in Southeast Asia still lag behind. But more and more orders are shifting to lower-wage economies like Vietnam, which is already the second-largest supplier of clothes to America⁹³.

Soaring Chinese wages have contributed to a 10% rise in the price of American garment imports since mid-2010. Last year, American fashion retailer Guess said it would cut China's share of the Asian goods it sourced from one-half to one-third, within 18 months⁹⁴. Other global brands are following suit, and even firms in China itself are starting to outsource low-end clothes manufacturing to Vietnam and Cambodia.

Vietnam, which already takes a 2.5% share of the total global garment market, is benefiting. According to the Vietnam Textile and Apparel Association (Vitas), Vietnam's textile sector and garment sector clocked an

export turnover of US\$11.7 billion in 2010, US\$6 billion of which was from the US market⁹⁵. In the first eight months of 2011, garment exports were over US\$8.95 billion, rising by 29.2% over the same period last year⁹⁶.

Foreign companies are setting up joint ventures or their own companies in order to tap into Vietnam's pool of low-cost labour while ensuring control over operations and quality. According to Vitas, Vietnam had 650 foreign-invested and joint venture textile and garment companies as of 31 December 2010⁹⁷. For example in August 2011, the local Phuoc Long Investment Joint Stock Company (PLI) and Japan's Sumikin Bussan Group began construction of a VND23 billion (US\$1.1 million) garment plant, which will produce garments carrying well-known brands such as Burberry Gold and DKNY for export to the US and Japan⁹⁸. Several other companies including Netherlands-based apparel manufacturer Vert Company have received investment licences for textile and garment projects in Vietnam in 2011⁹⁹.

Conclusion

Developed markets are dealing with faltering growth, falling consumer confidence and saturated markets. Asia could not present a greater contrast, with its rebounding economies, booming cities, crowded shopping malls, huge high-potential markets and millions of consumers with ever more money to spend. Asia's emerging economies will soon be developed ones, and companies that get in on the ground floor are likely to prosper.

Established multinational consumer goods firms and retailers are entering Asia with many advantages. They have stables of brands that Asian consumers know well and aspire to buy. They also come with years of research and product development expertise, as well as marketing muscle and large budgets. But they will face stiff competition from a rising class of local companies who are keen to grow not only at home but abroad as well. All players will be challenged by the rate at which Asia's markets grow and consumer preferences change.



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Asia Pacific Retail and Consumer Contacts

China & Asia Pacific Retail and Consumer Leader

Carrie Yu

carrie.yu@hk.pwc.com

Australia

Stuart Harker

stuart.harker@au.pwc.com

Hong Kong

Michael Cheng

michael.wy.cheng@hk.pwc.com

India

Rohit Bhasin

rohit.bhasin@in.pwc.com

Indonesia

Jim McMillan

jim.f.mcmillan@id.pwc.com

Japan

Koji Kawasaki

koji.kawasaki@jp.pwc.com

Shigeyuki Takahama

shigeyuki.takahama@jp.pwc.com

Korea

On-Gyun Chang

on-gyun.chang@kr.pwc.com

Malaysia

Jay Moorthy

jayaram.krishna.moorthy@my.pwc.com

Zoya Vassilieva

zoya.vassilieva@th.pwc.com

New Zealand

Julian Prior

julian.m.prior@nz.pwc.com

Philippines

Che Javier

che.javier@ph.pwc.com

Singapore

Ooi Chee Kar

chee.kar.ooi@sg.pwc.com

Taiwan

Lewis Lee

lewis.lee@tw.pwc.com

Thailand

Paul Stitt

paul.stitt@th.pwc.com

Vietnam

Richard Irwin

r.j.irwin@vn.pwc.com

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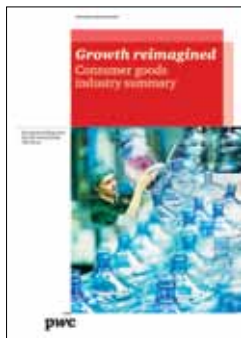
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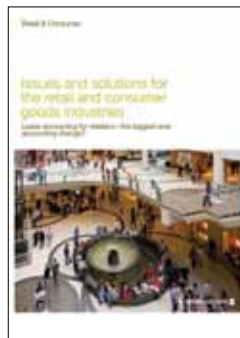
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