

RETAIL OPERATIONAL EXCELLENCE



Internationalisation is disrupting the market in some countries — in Australia, for example, new entrants such as Uniqlo have changed the longstanding balance of power.

10 global trends shaping the retail industry

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What are the trends that are currently driving retail growth? RETAIL ASIA's **Millette Manalo-Burgos** finds out from Paul Martin, UK head of retail at KPMG, that there are 10 global trends that retailers should take note of.

While retailers are all for achieving retail operational excellence, there remains a number of challenges that they continue to face and overcome before achieving their goals. That is why it is crucial for retailers not only in the Asia-Pacific region to bear in mind the 10 global trends that are driving the retail industry, says Paul Martin, UK head of retail at KPMG.

A global retail strategy expert, Martin has more than 15 years' experience in advisory, research and

analysis focused on the retail and consumer goods sector. He frequently travels around the world studying and analysing various retail markets. Martin says every year, based on its research, KPMG Boxwood will reveal 10 global trends that are driving the growth in retailing.

1 Internationalisation — still a very important driver for many retail businesses. This is applied when retailers want to expand and grow their business in other countries. "In Asia, for example if you are in Singapore, the market

has only a certain size, so obviously retailers there are interested to move in on other countries," Martin explains. "If you take the Japanese market, where there is also limited growth, and you are companies such as Aeon or Lawson, you will need to look at new markets."

However, he points out that in the past, internationalisation would mean opening many stores in many different countries. "But that is not the case anymore, because it is difficult to execute that very well and still drive profit," Martin relates.

“Initially, European retailers who came to Asia to open lots of stores had failed, because they really didn’t know how to operate in the different Asian markets and there was a lack of focus.”

But now, retailers who are bent on going international do not need to open stores — they can either open a flagship model or operate an e-commerce platform. Martin cites Asos.com, a large online UK fashion retailer, as an example. “It initially opted to operate centrally, meaning it sat in the UK, and just sold everywhere around the world. You can also operate de-centrally so you can build an e-commerce platform in-country, or you can work with a platform operator such as Tmall or Zalora. However, the challenge is that retailers do give away a large part of their margin if they operate with a third-party arrangement.”

Internationalisation is disrupting the market in some countries — take Australia, for example, where new entrants such as Aldi, Costco or Uniqlo have changed the longstanding balance of power.

Economies that have matured such as South Korea and Taiwan have very established businesses, but in a number of cases they are all looking at where they can go next from an international perspective, says Martin. “Then you have hidden heroes, which

are economies that are really starting to mature such as Vietnam, the Philippines and Indonesia (one of the largest economies in Asia).”

2 Convenience, which is very prevalent in Asia-Pacific.

The convenience store channel in the region is large, but it needs to change its category mix in the future, suggests Martin. “Today, retailers in this sector are broadly focused on the impulse category, as well as the BWS (beer, wine and spirits) and tobacco category.”

However, in North America and Europe, the convenience sector has evolved. It is now a full-service offering, catering for multiple shopping missions although the shopping space is very limited.

“The fresh category though has become very important in the European convenience market, but not yet in Asia, as in Asian context this still happens in wet markets — it’s a cultural thing, and that’s not going to change overnight, but it will start changing in the future.”

Convenience stores, which is the third-fastest growing retail channel, need not be just store-based; it can also mean click-and-collect or e-commerce. While click-and-collect and e-commerce are already in a number of Asian economies, Martin says they are still in their infancy. “But obviously China

has the largest and most established e-commerce market in the world today,” he adds.

3 Fulfilment or the final mile, which Martin says is mission-critical and is one of the main battle grounds of the future.

“The big question or challenge that we see in Europe and North America is that a number of markets have moved to home delivery. Home delivery of groceries is very expensive, and home delivery for the apparel category is very challenging from a returns perspective. In general, we see some 30%-40% returns in certain categories, but Germany is the ‘return world champion’, where the average returns number is 40%. It is very difficult to deliver very profitable business model if for every single purchase, four out of five products are returned,” Martin reveals.

“In the Asian context, there are big infrastructure challenges in a number of markets. You’ve got very large markets, very rural markets or you have very densely populated markets. You’ve got challenges at every end of the spectrum. You’ve got things such as cash-on-delivery, which

“The market is complicated, so keeping things simple unfortunately no longer works. As a retailer, you need to think which of these areas are most important for you, and you have to focus and you have to prioritise.”

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“The convenience store channel in the Asia-Pacific region is large, but it needs to change its category mix in the future.”

is very important in the Chinese market. So there are a whole host of aspects that need to be taken into account,” says Martin.

Retailers really need to know how they will solve all these problems. This means delivering profitable growth, while continuing to delight the consumers and deliver value to shareholders.

4 Discount channel, the fastest-growing physical channel globally. In Europe and North America, it is a very mature channel. Martin says: “The Aldis and the Lidl’s of this world, who are the two big players in this category, are very well established and growing strongly — mainly through their stores business. They do defeat the argument that everything has to be omni-channel today, as they are successful single-channel retailers. And there is still a lot of runway for their future

expansion globally. They haven’t really made an impact in Asia yet. My projection is that this is just a question of time. These organisations are very proactively thinking of how they can enter the Asian marketplace.”

5 Innovation. “Innovation can take a different number of formats. We are seeing a lot of innovation — which we call the shiny stuff — that tend to attract media attention. However, retailers need to make sure not to get too distracted with the shiny stuff that they lose focus on supply chain or e-commerce issues. Getting backend right is just as vital.

“But where we do see real necessity is in store innovation. Globally, if we look at the data, five to seven years ago, many analysts were saying that the store is dead, which, thankfully, is complete rubbish,” says Martin. “Today, even

though e-commerce has a global penetration of about 11%, almost 90% of transactions are still done in physical stores.

“When we look at our projections where these are going to go by 2025, we think it will reach only about 25% penetration, and we don’t think it is going to be much more than that.”

Nevertheless, while e-commerce growth is projected to continue to grow, the take-up of this channel in some categories is already proving to be very popular. “For example, in electronics we see that there will be a deeper penetration than the global average,” he says.

Furthermore, although the projected 75% of sales will continue to be transacted in stores, retailers should re-think about the role of stores in the future. “It would not just be an environment where you will put products on the shop floor, open the doors and then people would come,” says Martin.

Retailers cannot focus only on products, he adds. “It has to be more than just products. It has to be experiential. It has to be products that are customer-centric, and it has to be theatre around retail.

“You look at Singapore’s Changi Airport, at what they are trying to do around experience — it is all about exciting the consumer, letting the consumer interact with the product. Also, it is connecting a number of different aspects — such as F&B for great dining out experiences or product experience. Asia is very focused on malls and delivering an experience when visiting the mall is key. What we haven’t seen much yet is how to bring these experiences to life online, which is becoming more and more important in a number of European and North American markets.”

Martin stresses: “What is really important is how, as a consumer, can you really interact with a product which you can’t physically touch in an online environment. How can you bring that story to life? Speaking of store innovation, it should be the bridge between the physical and the digital worlds. That is the key point. And that puts the retailer in a unique position.

They are the touchpoint — they still have that direct connection with the consumer. What online can't do is, it cannot fulfill that personal interaction with a human being. And that is why pure online players such as Amazon are opening more physical stores."

6 Business model innovation. Historic business models are being challenged. "Let's take the hypermarket concept," says Martin. "The hypermarket concept in Asian economies is already challenged by strict property regulations that often does not permit the opening of additional hypermarkets. In a number of European markets, we are also seeing changes in the socio-economic demographics factors. We are seeing two-people households, and a reduction of car ownerships among people living in big cities. Going out and doing a big weekly or bi-monthly shopping trip is becoming more uncommon, which is why the convenience sector is becoming more important."

As people use big shops for big shopping, they are also using convenience shops for top-up

shopping, he asserts. Thus, the business model for the big box retailing concept is very likely to change in the next years.

Another catalyst for change is e-commerce, which will continue to grow. Even if the projected penetration rate by 2025 is still at 25%, the symbiotic relationship between online and offline will become more important.

"Take luxury retailing, for example. Only 6% of the sale of luxury goods globally are transacted online. But 84% of the sales are influenced online. We call that the ROPO effect: Research online, purchase offline. So you need both these channels to be closely connected.

"The business model challenge will really be big, going forward. Just doing what you used to do in the past as a retailer will not work in the future," Martin stresses.

7 Connected home and the Internet of Things (IoT) — currently in its infancy globally. But what it really means is, how to connect products and services to deliver an overall proposition,

Martin explains. "Today, it is quite normal to buy a subscription to services such as mobile, broadband, or satellite TV. So how good would it be if in the future all our utility bills are bundled up under the same subscription?" he asks.

This concept could be a saviour for the consumer electronics and home improvement sectors, where margins are becoming very low, especially when competing with online players, says Martin, who gave an example of how an electronics retailer can offer washing machine buyers a subsidised price if they subscribe for a washing powder subscription for three years. This changes the customer interaction from a transactional model that brings in low purchase frequency to a subscription business model where retailers get monthly recurring revenues.

8 Artificial intelligence (AI), which is connected closely with IoT. This is a trend that will grow in importance in the Asian retail sector, projects Martin. "As retailers need to invest more in IT or logistics system to become omni-

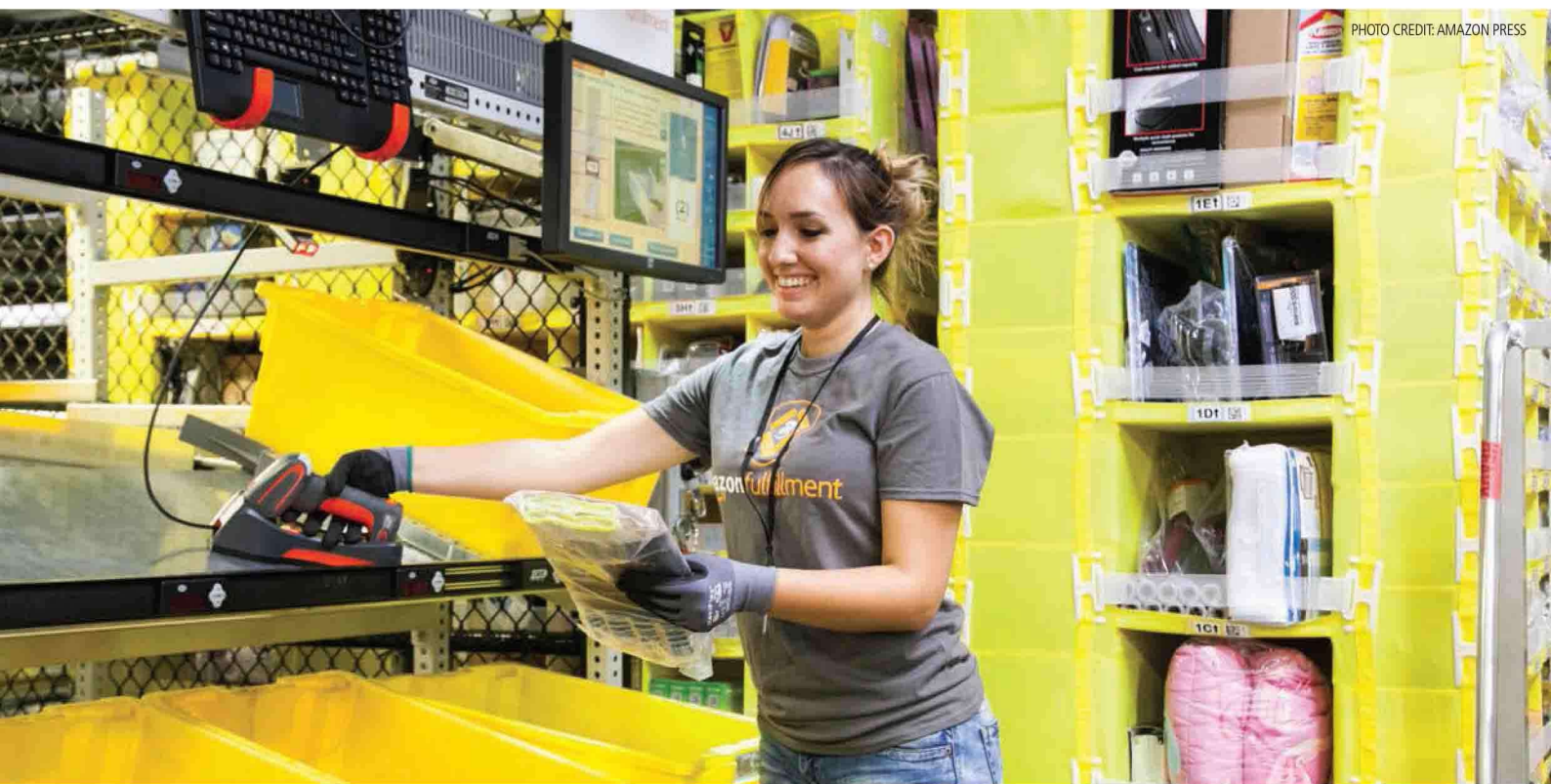


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Trend number three is fulfilment or the final mile, which KMPG's Martin says is mission-critical and is one of the main battle grounds of the future. "The big question or challenge that we see in Europe and North America is that a number of markets have moved to home delivery."

channel retailers, it means you are going to generate less profits, so as an organisation you need to enhance your productivity. You need to be better at what you do, and you need to do that in a more cost-efficient, higher productivity aspect," he says.

Therefore, retailers need to think how AI can be used to optimise labour costs. At a Target store in the US, for example, robots are being used to monitor store inventory and replenish stocks on the shelves. Martin says using AI in the retail operations chain could have its advantages. "It is more accurate than a human being, and has the potential to be more cost-effective. If you look at the entire value chain across the retail sector, there is a use for a robot in every single aspect of that chain and would likely make retail operations more accurate and efficient. It would also increase productivity and reduce costs."

Martin adds: "We are calling AI the fourth industrial revolution, with the spinning jenny in 17th century England as the first, mass production, second, and Internet, third."

9 **Omni-channel.** "It is no longer a question of do we or we don't do it, but how fast and how

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well we can do it," says Martin. "If you don't do it, you may not exist in the future as a retailer."

But the good news is that nobody has yet achieved being a true omni-channel retailer today, he adds. "Lots of people are on the journey, and it is a journey. But unfortunately, there is no final destination for this journey — it is a constant state of having to evolve."

This is a difficult concept for many businesses, he maintains,

not just for retailing. "Omni-channel would require a retailer to constantly evolve and think about where they are going," he explains. "Omni-channel really means being customer-centric and channel-agnostic. It is a seamless integration of all touchpoints across the brand from both a customer and a backend perspective."

"Many retailers in Asia are really just at the beginning of this journey; they need to start quickly and they need to think how to implement quickly. It is going to be a very big challenge."

10 **Consumer** — the reason why the retail industry exists. Today, more and more consumers want to be recognised as an individual and that's why loyalty cards, personalised marketing and CRM are so important. "Consumers will punish brands that do not treat them as an individual. You need to personalise and you need to drive that understanding," says Martin. Retailers can no longer bombard consumers with the same set of promotions: They must recognise their consumers' individualities.

Retailers now have more data — but the challenge is how to analyse and utilise it all. To get to the right answers you need to know what the right questions are — and that is what the retailers are struggling with.

So what is going to be important is partnership with data aggregators, who have a 360-degree view. You can do an analysis of all your loyalty cards, but that would not tell you who your customers are. That data does not show you what your customers do when they are not shopping in your store. You only have a narrow view through loyalty card analytics, compared to data aggregators who have more information about your customers' preferences or buying habits.

To achieve operational retail excellence, Martin says retailers need to focus on these key trends. "The market is complicated, so keeping things simple unfortunately no longer works. As a retailer, you need to think which of these areas are most important for you, and you have to focus and you have to prioritise." **ra**



Artificial intelligence (AI) is a key retail trend, and there is already interest from retailers such as Target, which was reported to have held trials of robots being used to monitor store inventory and replenish stocks on the shelves.