



STRATEGIC & COMMERCIAL INTELLIGENCE

# Grocery Retailing in Asia Pacific

ADVISORY

# Contents

**Introduction 1**

**Executive summary 2**

**Australia 4**

**China 8**

**Hong Kong 11**

**India 14**

**Indonesia 17**

**Japan 20**

**Malaysia 24**

**Singapore 28**

**South Korea 32**

**Thailand 36**

**Conclusion 39**

# Introduction



Neil Austin



Nick Debnam

The outlook for the retail industry in Asia has never been more promising. Opportunities abound in this region with its ever-more sophisticated and willing consumers, growing populations and steady economies. The world's largest retailers are jostling not only to gain but to preserve market share in this highly competitive retail landscape. This is especially true in the grocery sector, where maintaining differentiation is a constant challenge.

The encouraging market outlook will invite further investment and evolution in the industry. As the region matures and the market grows, the winners in this sector must not only build a business model that accommodates the varied tastes, cultures and vast regional expanses, but also select the right target market and model within the range. Existing players will need to review and refine their propositions to remain competitive, while new entrants will need to pick the right strategy and location as they enter this complex, fragmented sector. Other stakeholders in the industry – producers, manufacturers and logistics providers – will also play a major role in shaping the grocery sector of the future.

We hope you find our findings in this short study interesting and informative. Whether you are an existing operator, a new entrant or an advisor to these businesses, it is clear that there are significant growth opportunities on the cards; and whether this growth is achieved organically, or by acquisition, joint venture or other strategic alliance, thorough commercial and market analysis will be critical to help ensure that the strategy fits the business objectives and customer needs.

KPMG's specialists in the Consumer Markets group and Strategic & Commercial Intelligence unit have considerable experience in helping both multinational and domestic organisations address their operational and strategic challenges. Our advisory teams are located in all the ten countries included in this study, as well as other countries in the region.

**Neil Austin**

Global Chair, Consumer Markets  
KPMG LLP (U.K.)  
+44 (0) 20 7311 8805  
neil.austin@kpmg.co.uk

**Nick Debnam**

Head of Consumer Markets  
Asia Pacific  
KPMG in China and Hong Kong SAR  
+852 2978 8283  
nick.debnam@kpmg.com.hk



# Executive summary



Thomas Stanley



Ajay Rawal

The grocery retailing industry in Asia is probably the most dynamic and diverse in the world. While there are elements of commonality, each of the ten countries profiled in our study displays distinct characteristics. Overall, the region has fared well through various challenges in recent years, including the 1997 Asian economic crisis, the SARS epidemic in 2003, political upheavals and, more recently, the threat of an avian influenza epidemic.

China and India remain two of the region's (and indeed the world's) major growth engines, with their massive populations and relatively immature retail industries. Already the second and third largest grocery retail markets in Asia after Japan, there is still scope for further development and expansion. Although their economic and consumer indicators are the fastest growing, they do have among the lowest per capita gross domestic product (GDP) and personal disposable income (PDI) statistics in the region.

Countries across the region are seeing similar population trends – higher levels of education, increasing wealth, smaller families, urbanisation, Westernisation – which all contribute to the inexorable rise of modern retailers in this region. Modern format operators are wooing with success the high-to-mid income and professional classes. Consumers are increasingly demanding, requiring not only quality and value for money, but also a wide range of products, convenience and comfort. Although still price sensitive, they have embraced Western brands with gusto.

These factors have led to the popularity of the hypermarket format in Asia, and in this segment Western grocery retailers have established a strong presence. French hypermarket group Carrefour has operated in most Asian countries since the 1990s, and ranks among the top five players in half of the countries in this study. Tesco and Wal-mart, who followed soon after Carrefour, have made less of an impact in comparison, but have declared further expansion plans in existing and new locations.

Asian regional retailers have also made their mark. Hong Kong's Dairy Farm and Japan's Aeon hold significant positions outside their home markets, and are two of the largest retailers in the region. Dairy Farm is the leading grocery retailer in Singapore and Malaysia, operating under its Giant and Cold Storage brands.

The huge disparities in wealth, education and standards of living in most countries mean that traditional format grocery channels still maintain a big share of the market, dominating the rural or suburban areas. With the exception of Australia, Hong Kong, Singapore and Malaysia, traditional channels command more than half of the grocery retail market in our surveyed countries.

In most Asian countries, the grocery retail market is far from saturated. There is much scope for modern format retailers to increase penetration in suburban areas and second tier cities. Fresh opportunities exist in niche areas, such as health foods, private label products and luxury products, which only have a fledgling presence in top tier cities at present. Online retailing is emerging as the latest alternative channel, but this has yet to make much headway in Asia. Overall internet penetration is low compared to Europe and the US, although Japan and South Korea are leading the way in this area.

However, the challenges are considerable. Retailers have difficulty in meeting the needs of a diverse and widespread population, and foreign retailers have struggled in some cases to attune to local cultures and tastes. Domestic retailers are not about to give up their market share easily, and they have the advantage of local knowledge and customer loyalty. Governments have also acted to protect domestic players; most countries have introduced restrictions on foreign ownership of grocery retailers, and there is the additional impediment of bureaucratic red tape.

The encouraging market outlook will invite further investment and evolution in the industry. Asia's growing population of increasingly wealthy, sophisticated and demanding consumers will continue to drive grocery retailing, supported by relatively stable economies and improving retail infrastructures. The months ahead will undoubtedly bring fresh and interesting developments in this charismatic region.

**Thomas Stanley**  
Head of Strategic & Commercial  
Intelligence  
KPMG in China and Hong Kong SAR  
+86 (21) 6288 3051  
thomas.stanley@kpmg.com.cn

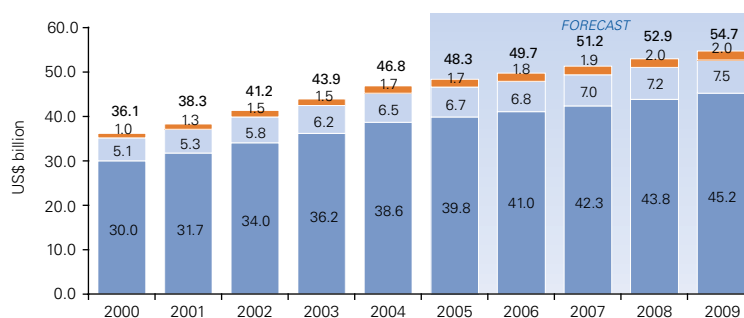
**Ajay Rawal**  
Head of Strategic & Commercial  
Intelligence  
KPMG in Australia  
+61 (2) 9335 8784  
ajayrawal@kpmg.com.au

# Australia



As one of the more mature markets in our study, Australian grocery retailing is characterised by low growth rates and fierce competition, dominated by the country's two major supermarket chains – the effective duopoly of Woolworths and Coles Myer. Between them, these two giants command some 61 percent of the market. This sector is also comprised of other national and minor chains, including Foodland and Franklins; supermarkets account for 82 percent of the total grocery retail market. Convenience stores such as 7-Eleven, City Convenience, independent and speciality retailers make up the balance.

## Grocery retail revenue 2000-2009



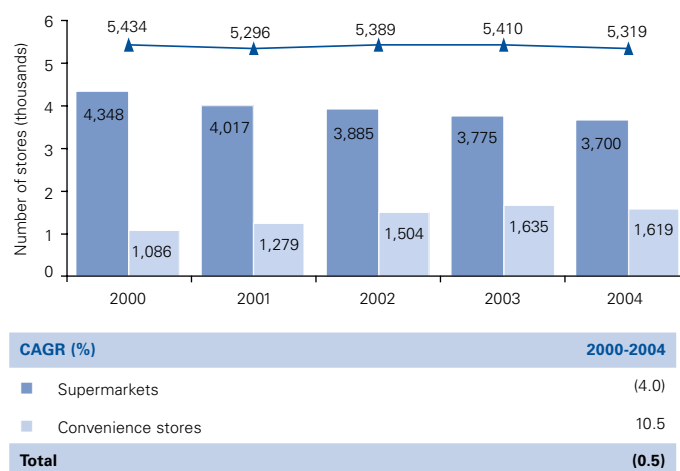
CAGR (%)	2000-2004		2004-2009	
■ Supermarkets		6.5		3.2
■ Other independents		6.2		2.7
■ Convenience stores		13.6		3.9
<b>Total</b>		<b>6.7%</b>		<b>3.2%</b>

Sources: IBIS Convenience Stores in Australia, IBIS Supermarkets and other Grocery (except Convenience Stores) in Australia, 2005 and IBIS 2004 specialised food retailers reports: 5121,5122,5123,5124,5125,5129



Growth in this market has been steady at around six percent annually. With intense competition in this market, the ability to raise prices is very limited, leaving volume growth and trading up as the only real opportunities. Australia's population growth is low at just over one percent per annum<sup>1</sup>, and so, to achieve volume growth, grocery retailers are pursuing various alternatives to increase their share of the retail market. The buoyant Australian economy, with its low interest rates, low unemployment and rising property prices, has boosted consumer confidence, which is manifested in increased spending in general.

#### Grocery retail number of stores for supermarkets and convenience stores 2000-2004



Sources: IBIS Convenience Stores in Australia, IBIS Supermarkets and other Grocery (except Convenience Stores) in Australia, 2005 and IBIS 2004 specialised food retailers reports: 5121,5122,5123,5124,5125,5129

Supermarkets are under pressure. They vie for consumer dollars in the face of growing competition from convenience stores, as well as restaurants and cafés, which benefit from the cash-rich time-poor nature of both urban and suburban dwellers. Australian consumers are increasingly sophisticated; they now demand a wide range of products and healthier options, as well as convenience and competitive prices. In addition, younger people continue to migrate towards the larger cities like Sydney and Melbourne. This has led to streamlining of supermarket outlets, with the closing of unprofitable stores, and there has been an average four percent decrease in stores annually since 1999.

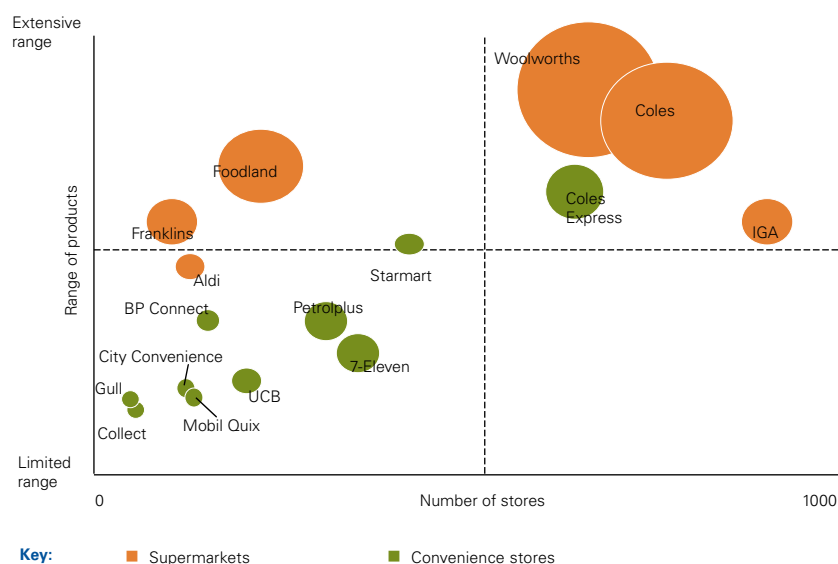
In contrast, the number of convenience stores has grown by an average annual compound rate of 10 percent between 2000 and 2004. To capitalise on this trend, the same chains have opened smaller city-centre and road-side outlets. For example, Coles Express offers a smaller product range of basic necessities and other facilities such as petrol, cafés and take-away food and drinks.

Specialist and independent retailers are the unfortunate casualties in the struggle for market share. These include family-owned and specialist product retailers, such as butchers and bakeries. Although important to local suburban communities and smaller towns, they are struggling to compete with the operational economies of the larger players.

<sup>1</sup> EIU Australia retail report, 2005

In the pursuit of growth, supermarket chains are attempting to provide a one-stop-shop solution to customers, expanding their range of products and services significantly in the last decade. Non-food items, such as health and beauty products, electrical goods and toys, complement traditional grocery shelf space. The large chains have had a successful entry into the petrol retailing market with co-branded petrol-and-convenience store outlets, as well as discount and voucher schemes in collaboration with the major oil companies such as Caltex and Shell. The latest in new offerings – banking and financial services, including credit cards and insurance – aim to leverage their massive consumer base.

#### Illustrative competitive positioning of grocery retailers, excluding independent retailers 2005



Sources: IBIS Convenience Stores in Australia and IBIS Supermarkets and other Grocery (except Convenience Stores) in Australia, 2005  
AC Nielsen Grocery report 2004

Notes: Size of bubble is an approximate representation of turnover  
Starmart is owned by Caltex  
Petrolplus is owned by Woolworths



The Australian private label grocery sector is surprisingly under-developed compared to other mature markets in Europe and the US. The entrance of Aldi, the German own-label discount retailer, has given the industry a delayed wake-up call and private label is now touted as the wave of the future. Most grocery chains already produce low-end own-label products, but as Aldi continues to build market share, the national chains are seeing premium private labels as being the only real growth opportunity. It remains to be seen how this strategy works out.

Politics has entered the arena of grocery retailing. With their massive buying power, Woolworths, Coles and other large chains have been partly blamed for poor local sales of Australian produce, as they source mainly from cheaper overseas suppliers. Politicians claim that consumers actually prefer to buy home-grown produce, and are lobbying for clearer food labelling in a bid to help consumers identify the origin of products more easily. If the politicians are right, tougher labelling laws should lead to higher demand for home-grown produce. This in turn may alter supermarkets' buying policies, and hence impact their bottom line.

Despite the challenges, the grocery market is still forecast to grow at a steady rate of 3.2 percent until 2009. While personal disposable income (PDI) is expected to increase at a rate of over six percent annually<sup>2</sup>, consumers' expenditure on food, as a proportion of total household expenditure, is on the decline<sup>3</sup>. The industry has limited scope for organic growth as the market, especially in the capital and other cities, is already fairly saturated. In addition, growth through acquisition may be restricted as the Australian authorities have powers to block any mergers or acquisitions deemed to be anti-competitive.

---

<sup>2</sup> EIU Australia retail report, 2005

<sup>3</sup> IBIS Convenience Stores in Australia and IBIS Supermarkets and other Grocery (except Convenience Stores) in Australia, 2005

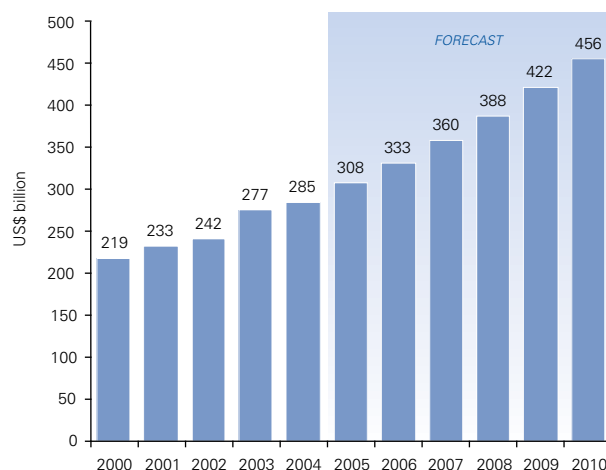
# China



It's a familiar story in China these days – traditional Chinese practices are slowly but surely giving way to the modern Western invasion. But with such an enormous pie, surely there will be enough to go around.

China's grocery retailing market is estimated at some US\$285 billion, and is growing fast at an average seven percent annually. Growth is expected to accelerate over the coming years to a rate of eight percent, to reach a market size of US\$456 billion by 2010. This has largely been fuelled by rising disposable income per capita, which has been growing at over 12 percent annually, and is expected to continue at this rate over the next five years. Another factor is continuous urbanisation, with ever more rural dwellers migrating to the cities in the quest for work, as the government looks to increase the urban population from 42 percent to 52 percent by 2020.

Size of China's grocery market 2000-2010

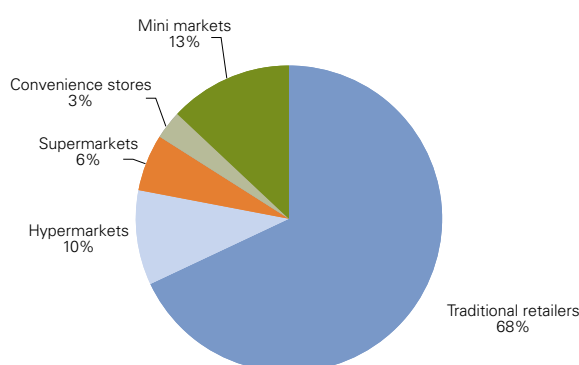


Source: IGD, 2005; KPMG analysis



The statistics are telling: while traditional-style markets are still the leading channel for grocery retail, cornering a 68 percent share by sales, they account for 99 percent of the number of grocery retail outlets in China. Clearly, the value of sales in traditional wet markets and provision goods shops has reduced considerably.

Grocery retail sales by segment (% of total sales) 2004



Source: IGD, 2005; KPMG analysis

In a relatively short space of time, modern retail channels have gained ground and will continue to do so. In recent years, local and foreign operators of hypermarkets, supermarkets and convenience stores have made their presence felt.

The hypermarket sector is fairly concentrated, with some 900 outlets between a handful of major players, led by foreign giants Carrefour and Wal-Mart. Hypermarkets are mostly located in first tier cities, such as Shanghai, Beijing and Guangzhou, but competition in these cities is intensifying. In fact, the Shanghai grocery retail sector is fast approaching saturation. As a result, many operators are entering second tier cities, including Dalian and Wuhan. Metro is expected to open 12 outlets in 2005, with up to 70 percent of these in secondary cities. Hypermarkets are located mainly in suburban areas, and provide parking facilities. They are expected to retain their 10 percent share of the grocery retailing market over the next few years.<sup>4</sup>

Domestic regional retailers dominate the supermarket sector, which is relatively fragmented, especially in the smaller cities. In first tier cities, supermarkets are up against the hypermarkets, so many of them are focusing on second and third tier cities. With over 10,000 outlets across China, the sector will grow rapidly and gain considerable market share from its current six percent to a forecast 15 percent in the next five to ten years. Baillan Group and its subsidiary Dalian Dashang lead the local charge, with more than 20 percent share of the sector. Carrefour is currently the only major foreign retailer operating in this sector, with its supermarket subsidiary Champion.

<sup>4</sup> AC Nielsen, 2005; IGD, 2005; KPMG analysis, 2005

Although the number of convenience stores has rocketed, growing by over 50 percent in the last year, they are operating in a highly competitive market; for example only one-fifth of Shanghai's 3,500 convenience stores are estimated to be profitable. Again, Chinese retailers dominate, such as Nonggongshan with its Kedi and Alldays chains. Foreign players FamilyMart and Lawson have entered via joint ventures, and the retail giants are also exploring opportunities in this sector, including Carrefour with Dia, and Bailian with Quick.

As the competition heats up, many top players have established operations in several segments, but are usually stronger in one particular sector. For instance, state-owned Bailian, the largest retailer in China, operates hypermarkets, supermarkets and convenience stores, but focuses mainly on the supermarket segment. As the leading foreign player, Carrefour has developed a first mover advantage in many major cities and is aggressively planning to open 12 hypermarkets, 10-15 supermarkets and 600 Dia discount stores by 2007. Wal-Mart has similar ambitions, with plans to open 15 outlets this year and increase its penetration in second tier cities. Other retailers will follow suit.

Meeting the demands of a diverse Chinese consumer base will be the industry's greatest challenge. Consumer preferences are linked to the degree of urbanisation:

- In more developed cities, customers prefer to shop weekly at modern outlets, buying more convenient, valued-added and health products.
- In less developed cities, customers tend to shop for daily staples in traditional wet markets.

Retailers must therefore customise their offering according to local needs.

Chinese consumers are very price sensitive, and low prices have been the easiest way for retailers to gain market share. There is an increasingly affluent and sophisticated population who value convenience and comfort over price, but they are still very much the minority. In the meantime, retailers will continue to focus on price. In the longer term, retailers will need to build brand loyalty in order to maintain margins, and some already offer loyalty discounts and private label products.

Competition has been fierce as domestic and international retailers continue to open more outlets across the country, especially with the relaxation of most investment restrictions on foreign investors in late 2003. Foreign players are able to build on their experience in supply chain, logistics and inventory management, although they may lack local consumer knowledge and relationships with local suppliers and governments.

While significant opportunities for growth clearly exist in grocery retailing, a shortage of well-trained management and high staff turnover are some of the issues to be overcome in the fight for market share.



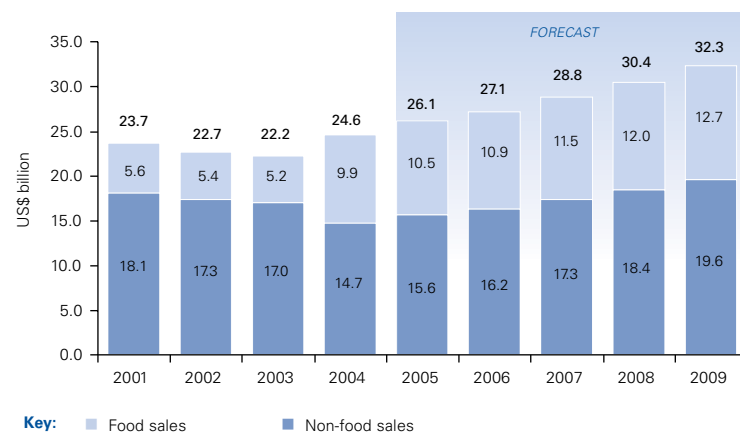
# Hong Kong



The grocery retail market in Hong Kong has weathered several storms in recent years. The Asian economic crisis coincided with the handover from Britain to China in 1997, blighting consumer confidence. The market was hit by concerns over health and food hygiene in 2003 when SARS dealt a severe blow to the economy of this affluent city. Hong Kong and its people have proven resilient, and the economy has bounced back strongly.

The retail industry in Hong Kong is mature and highly developed, dominated by large locally-owned chains. The two key players in grocery retailing, the supermarket chains of ParknShop and Wellcome, are each owned by Hong Kong-based multinational corporations, and foreign operators have yet to take a significant share.

## Retail market size 2001-2009



Source: EIU Hong Kong retail report, 2005

The profile of grocery retailing channels in Hong Kong is unlike that of the other countries featured in this study. Firstly, convenience stores do not operate in the grocery segment, and secondly, hypermarkets are not a viable grocery retail channel in Hong Kong. None of the Western hypermarket operators have successfully entered the market. Carrefour made an attempt in 1996 with four hypermarkets, but subsequently withdrew in 2000. With a geographic spread of just 1,100 square kilometres, land is a scarce resource in Hong Kong, and the rental cost of retail space of suitable size, location and accessibility is astronomical. In addition, car ownership is relatively low at around 20 percent, and consumers prefer to shop frequently for fresh produce, instead of making large weekly shopping trips.

Traditional wet markets are still popular with certain consumer segments, particularly the older generation and suburban dwellers. However, the market share of traditional grocery channels is certainly declining, dropping from 65 percent ten years ago to its current share of 44 percent<sup>5</sup>. The SARS outbreak also contributed to this decline, as supermarkets are perceived as having higher standards of hygiene and quality control.

Consumer expenditure on food is expected to rise, buoyed by PDI growth and a healthy economy, with GDP forecast to grow at over seven percent annually. Hong Kong's consumers are among the most sophisticated in the world and enjoy relatively high income levels. However, as incomes continue to rise and consumers spend more on luxury and non-food items, the proportion of household spending on food is likely to fall. The grocery retail market is valued at US\$9.9 billion<sup>6</sup>, and is forecast to grow at just under five percent annually.

Changes in working habits are driving a shift from traditional to modern retail channels. Hong Kong's population has a strong work ethic, and working hours are getting even longer. The growth in double income families means that women have less time to shop for groceries and other necessities, seeking instead convenience and efficiency, as well as outlets that offer longer opening hours. However, eating out is very popular in Hong Kong, with 19 percent of the household budget spent on meals eaten outside the home, compared to nine percent on groceries.

Supermarkets are successfully meeting these changing demands, and the large chains have a presence in the majority of business, residential and shopping districts across Hong Kong island, Kowloon and the New Territories. Supermarkets are further threatening traditional markets by introducing "wet market" sections offering non-packaged fresh produce. The larger outlets also boast cooked food sections, which mainly target office workers.

Owned by the Dairy Farm group and Hutchison Whampoa, respectively, Wellcome and ParknShop dominate the industry, sharing an estimated 40 percent of the grocery retail market<sup>7</sup>. Wellcome now has 242 outlets and ParknShop has 225, an increase of over 30 percent over the past ten years<sup>8</sup>. Both chains operate

<sup>5</sup> EIU Hong Kong retail report 2005; Hong Kong Census and Statistics Department

<sup>6</sup> EIU Hong Kong retail report, 2005

<sup>7</sup> EIU Hong Kong retail report, 2005

<sup>8</sup> Company websites

a number of superstores, which are up to ten times larger than their standard supermarkets on average. CRC supermarkets, owned by the China Resources group, come a distant third, with 89 stores.

Small and independent supermarket operators are no match for the giant chains. They compete in a different consumer segment, targeting higher income professionals and expatriates. Their outlets are clustered in tourist and business districts, offering mostly luxury and imported products. Japanese-owned chain Citysuper is a self-styled “mega lifestyle specialty store,” and aims to be a one-stop-shop for urban professionals. It has four outlets located in upscale shopping malls on Hong Kong Island and in Kowloon. Other brands present in this segment are single outlets of Hutchison-owned Taste, Gourmet and Great, and Wellcome-operated Oliver’s Delicatessen.

Food scares and hygiene concerns continue to dog the industry. Earlier this year, an outbreak of pig-borne bacteria slashed sales of pork, a staple ingredient of Hong Kong cuisine. More recently, grocery retailers, especially wet market stalls, have been hit by revelations of cancer-causing chemicals found in freshwater fish and eel from mainland China. The current concerns over avian flu have not yet affected poultry sales in the territory.

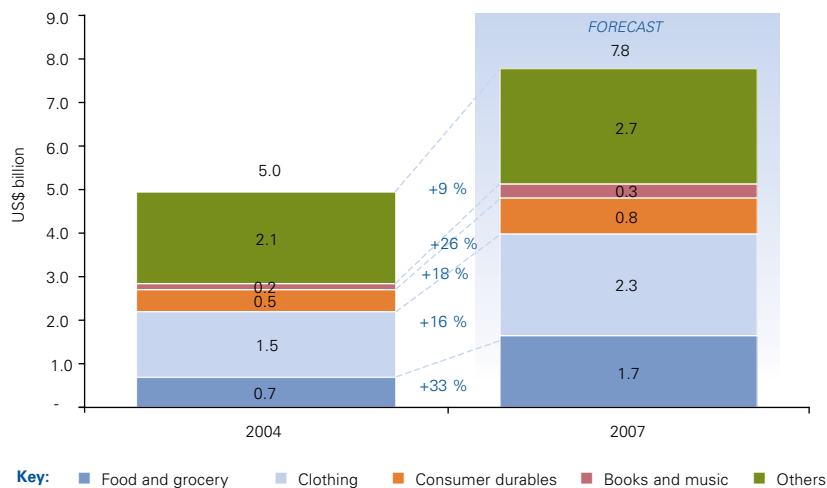
# India



Despite positive market drivers – large population, increasing wealth, consumer spending and economic growth – the Indian retail market is surprisingly underdeveloped. Some 98 percent of the US\$248 billion retail industry still belongs to traditional small independent or family-owned retailers ("kiranas"). The balance comprises a highly fragmented 'organised' market of national, regional and local retailers.

In common with most Asian countries, traditional-style stores in India are steadily losing share to modern format self-service stores: the number of traditional grocery outlets has grown by only two percent since 2001 while organised stores have increased by 18 percent. Despite their advantages – personalised service, accessibility, understanding of customer needs – their limited product range and lack of promotional schemes mean that they will struggle to retain the progressively affluent and sophisticated customers.

## Size and growth of organised retailing 2004 and 2007



Source: Cygnus retail report, May 2004; EIU Viewswire; KPMG analysis, 2005

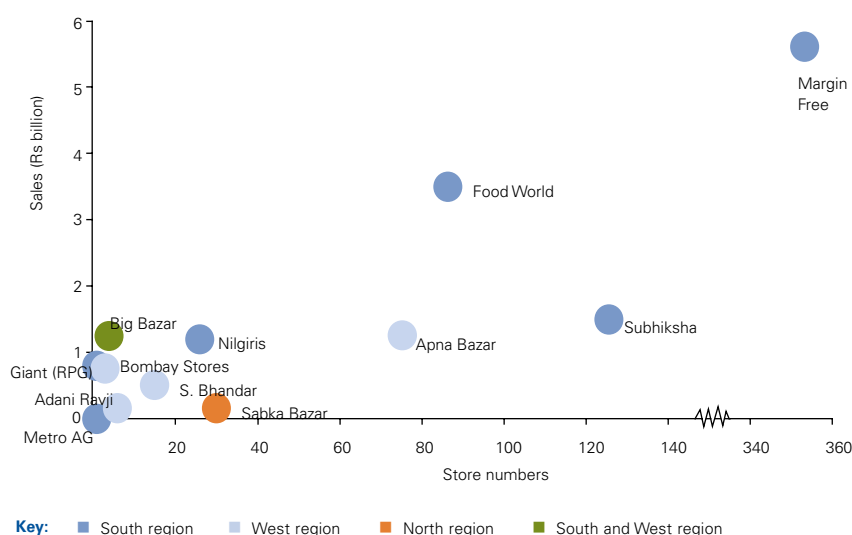




The organised grocery market is forecast to grow at a compound annual rate of 33 percent between 2004 and 2007, the fastest-growing retail segment in India. It presently accounts for around 14 percent of overall organised retailing, and is worth around US\$700 million. A high level of consumer confidence, a strengthening economy, and an increasingly wealthy population will drive this growth, coupled with greater media penetration and awareness among consumers. India's middle class (US\$4,444 – \$22,200 annual income) estimated at 10.8 million households in 2001-02, comprised around 5.7 percent of that year's population and represents the key target consumer segment for retailers. With increasing incomes, the middle class is expected to grow to 12.8 percent of the population by 2009-10.

However, this level of growth is not without problems. Indian grocery retailers already endure razor-thin margins, at about one-third that of their European counterparts. Any new entrants will find there is limited scope to undercut existing players on pricing. Organised grocery retailers face stiff competition from traditional-style grocers, who are clearly still the preferred source for the Indian masses, especially in smaller cities and towns. Traditional stores are mostly owner-operated, and have low property and labour costs.

#### Illustrative competitive positioning of grocery retailers 2005



Source: Fitch Ratings, Business World

Although there is limited brand awareness or loyalty amongst Indian grocery consumers in general, a number of domestic supermarket chains have emerged, including Food World, Shoppers Stop, Pantaloons and Westside. Larger store formats are gaining in popularity, operating on a low cost, low margin, high volume model. Hypermarkets such as Giant, with their out-of-town locations, attract high consumer traffic with volume discounts on non-food as well as food items. Towards the lower end of the market, discount stores including Subhiksha and Margin Free offer low quality grocery products at huge discounts.

The majority of organised players operate at city level, mostly with single stores, with very few national and regional players. National players include Pantaloon Group's Food Bazaar stores, and the RPG-Dairy Farm joint venture stores Food World and Giant. Their outlets are located in larger cities like Mumbai, Bangalore and Hyderabad, where they compete with single-store players such as Haiko, Ratnadeep and Vitan. Trinetra has stores across Hyderabad and the Andhra Pradesh region, while Subhiksha stores are mainly located in Chennai and the rest of Tamil Nadu.

There are significant opportunities in this fragmented market for domestic and international operators to establish a brand with a regional or national presence. But without more consolidated power, modern retailers currently lack efficiency in sourcing, supply chain management, infrastructure and technology systems.

There has been a distinct lack of incentive for foreign players to enter the Indian retailing market. Foreign entities suffer higher tax rates than domestic companies, and there are specific limitations on foreign direct investment in the grocery retail sector. To date, foreign retailers have largely developed a presence in India through franchising arrangements or local manufacturing operations.

However, this may be set to change as the government is expected to relax some of the restrictions on foreign direct investment (FDI) in the coming years. India has also gradually liberalised its trade restrictions in line with its WTO commitments – at their peak in 1991, import duties were as high as 300 percent; these have been reduced to a maximum of 15 percent in 2005.

New foreign entrants will threaten domestic players, but their entry is likely to benefit the market overall by stimulating growth and competition in the sector. They will also bring in valuable experience and skills in supply chain and inventory management, technology and sourcing.

# Indonesia



Despite positive economic indicators, the Indonesian retail market has faced significant challenges in recent years. Since the Asian economic crisis in 1997, GDP and other consumer indices have grown steadily. Interest rates have been stable, and improved access to consumer credit and financial products have supported the retail market. On the downside, the retail industry has had a couple of difficult years following natural and other disasters – the Bali bombings, SARS, the Asian tsunami – that have dented consumer confidence. Current issues include the bird flu outbreak, a weaker rupiah, fuel shortages and rising fuel prices, in addition to the ever-present political ups and downs.

The highly-fragmented Indonesian grocery market is valued at US\$50 billion, dominated by traditional retailers, including wet markets, roadside stalls and independent grocers<sup>9</sup>. While their numbers are shrinking, they still comprise 99 percent of total grocery retail outlets<sup>10</sup>. In rural areas, traditional retailers will continue to play a significant role as customer loyalty is high. Here, the price pressure is much lower and so far there are few attractive opportunities for modern retailers.

Modern-format stores are making inroads into traditional retailers' territory. The number of modern retail outlets grew nearly four-fold between 2002 and 2003, albeit from a very small base. The added complexity in this market is the immense geographical spread of the Indonesian archipelago and significant range between the levels of wealth among consumers. Modern retailers are mostly concentrated within the island of Java which, despite representing only seven percent of its land mass, houses around 60 percent of Indonesia's 225 million population. Indonesia's wealthier consumers are clustered in the densely-populated capital Jakarta, where the GDP per head is over three times the nationwide figure.<sup>11</sup>

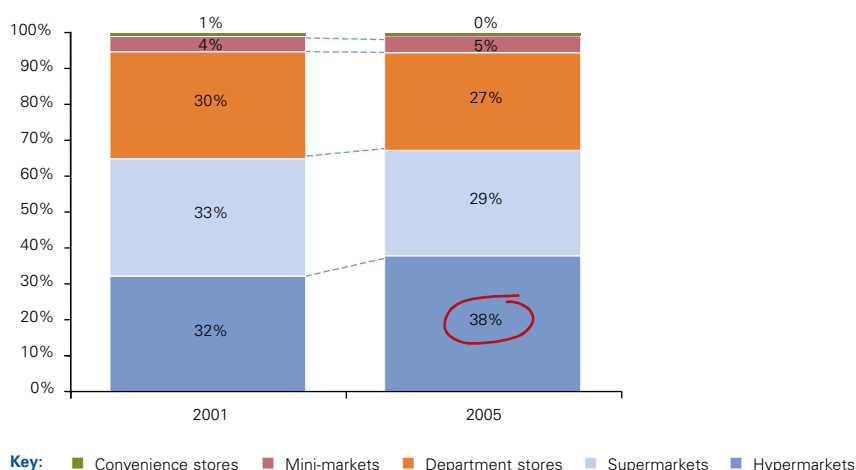
Middle- and upper-income consumers will continue to drive the growth of modern retailers. They are increasingly brand-conscious, demanding higher levels of service and quality, and shopping is becoming more of a recreational activity in

<sup>9</sup> AC Nielsen, "Insight Asia Pacific 97," January 2004 and Stat-USA Market, General retail services research reports

<sup>10</sup> AC Nielsen in the News, 'Small grocers in Asia surviving onslaught of retail chains', 16 June 2004

<sup>11</sup> EIU Indonesia retail report, 2005

Market shares of modern retailers by format 2001 and 2005



Source: Indonesian commercial newsletter No. 394, "Retail business grows 8%", 31 August 2004

the larger cities. Demand for processed foods and dairy products is still low but growing, particularly in urban areas, driven by changing lifestyles as people work longer hours and seek greater convenience. This is coupled with greater health consciousness, although the demand for foods with added value – vitamins, minerals, fibre – outstrips those containing a lower content of unhealthy substances. These consumers tend to shop on a weekly basis, whereas the Indonesian masses visit their local wet market or grocer almost daily.

There is intense price competition between all grocery retail channels in urban areas due to a high concentration of outlets. Hypermarkets are vying with supermarkets for market share, and both are competing with traditional wet markets. In the attempt to gain market share, key players have invested heavily in advertising, as well as on rebates and promotional programmes. As a result, the average selling price of fast-moving consumer goods among modern retailers fell by three percent in 2004; in the same period, average prices of goods from traditional retailers increased by 1.3 percent.<sup>12</sup>

Hypermarkets are becoming a shopping destination for higher-income consumers. The number of hypermarkets grew from just 24 in 2000 to 67 in 2005 in the wake of lifted restrictions on foreign retailers, and is expected to further increase to 150 by 2009, which equates to one store per 1.4 million people. This compares to a ratio of 1:500,000 in Thailand, indicating that there is significant market capacity for such expansion. Carrefour has led the charge since entering the Indonesian market in 1998, and now has 15 outlets in five cities. To avoid direct competition, domestic retailer Hero has located its 10 Giant hypermarkets outside of Jakarta and other large cities. Dutch operator Makro mainly targets small businesses buying in bulk from its 12 stores under a membership system.

Supermarkets successfully target city-dwellers, with domestic retailers Matahari and Hero leading the way. There are around 400 supermarket outlets in Indonesia, with 44 percent of these clustered in Jakarta<sup>13</sup>. Matahari is the largest

<sup>12</sup> Press, "The Giants that grow stronger," 19 December 2004

<sup>13</sup> Data Consult No. 356, 28 January 2003



retailer in Indonesia, operating department stores and supermarkets across 35 cities. It has recently entered the hypermarket segment with the launch of its “hypermarts” (compact hypermarkets), which it hopes will drive sales growth by 34 percent over the next five years. Capitalising on the growing brand-awareness of Indonesian consumers, Matahari has launched a range of private label products alongside other domestic and international brands.

Mini-markets are filling the niche in demand for everyday convenience in terms of location and product choice. They make up the balance of the modern grocery market, with some 1,750 outlets in residential and business districts<sup>14</sup>. The majority of these are run under franchise, owned by domestic retailers Indomarco and Alfa, which opened some 300 new outlets over 2003 and 2004. Hero Group’s Starmart outlets are found mainly in apartment and office buildings.

Few foreign operators have successfully established a foothold in Indonesian grocery retailing. FDI in Indonesia is a minefield of red tape, and all new store openings are subject to a myriad of regulations. Foreign investors establishing large-scale retail operations are required to do so in co-operation with domestic companies. For example, Carrefour’s hypermarkets are a 70-30 joint venture with consumer products distributor Tigaraksa Satria. Although many restrictions on FDI have been lifted since the 1997-98 economic crisis, the outlook for foreign retailers is not about to improve substantially. Proposed new legislation on retailing may prevent modern retailers from entering certain districts and provinces in order to protect traditional markets and encourage small businesses to develop.

Modern retailers are set to be courted by new shopping malls and trade centres currently in development. These will provide space for new modern outlets, where big-name supermarkets and department stores will be key anchor tenants, which are critical to attracting other tenants and visitor traffic.

While steady growth is forecast for the grocery sector, retailers will face various challenges over the next few years. The key players are making ambitious plans to expand, in anticipation of strong demand over the next few years. They will, however, feel the pinch as a result of higher fuel prices impacting on electricity and other supply costs. Continuing economic recovery, expected PDI growth and an untapped market outside Jakarta are expected to continue driving future growth.

<sup>14</sup> Press, “Minimarkets will grow significantly in 2005”, 15 December 2004

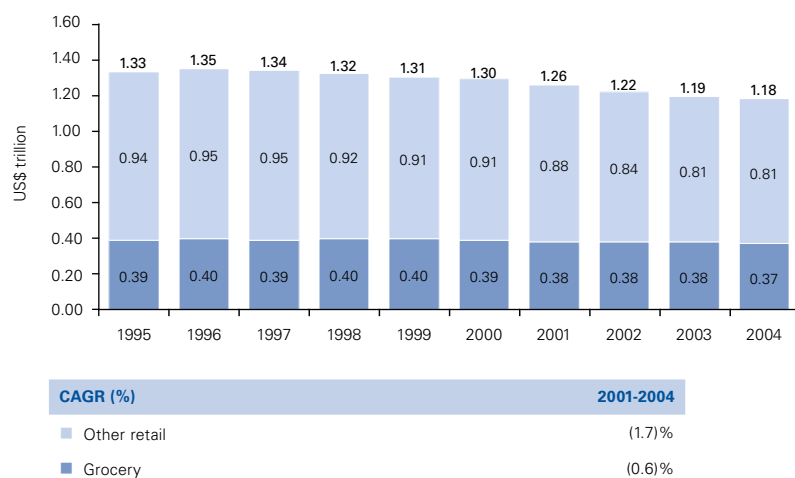
# Japan



Valued at US\$370 billion, Japanese grocery retail is a mature market – the world's second largest after the US<sup>15</sup>. In fact, Japan's grocery sales per capita is the highest in the world, at over US\$3,300<sup>16</sup> a year.

The impressive statistics mask a troubled retail market. In 2004 the grocery retail market slipped by 1.2 percent due to a combination of economic and demographic factors<sup>17</sup>. The Japanese economy has been in the doldrums since the bubble burst in the early 1990s, followed by consumer price deflation in subsequent years. Population growth has been flat in recent years, providing little opportunity for volume growth in the retail market.

## Retail market size 1995-2004



Source: Ministry of Economy, Trade and Industry

<sup>15</sup> IGD "Global Retailing 2003"

<sup>16</sup> IGD "Global Retailing 2003"

<sup>17</sup> Ministry of Economy, Trade and Industry



Consumer confidence has never fully recovered since the economic downturn. Although demand for staple food and household items has remained flat, some have switched from branded luxury products to more affordable private labels. Having said that, Japanese consumers are still very brand conscious, and penetration of private label products is low. The market has also suffered from a series of food safety scares, including an outbreak of Bovine Spongiform Encephalopathy (BSE) in Japanese cows, mislabelling of product origin, and use of non-approved additives in packaged foods.

Japanese consumption patterns have changed along with the demographic shift and lifestyle variations. With birth rates declining and a rapidly ageing population – 25 percent<sup>18</sup> of Japanese are over 60, with another 15 percent<sup>19</sup> set to reach 60 in the next decade – demand for health products and fortified foods is growing. Healthy options such as reduced salt and sugar, and low fat alternatives are extremely popular even though they are more expensive than standard products. High levels of unemployment have spurred migration to city areas where there are more work options, the upshot being increased demand for Japanese-style fresh prepared and convenience foods. These are readily available at convenience stores and food halls in department stores. Western cuisines have yet to be widely embraced by the Japanese masses.

Both domestic and foreign retailers have had a bumpy ride, and the fallout has been inevitable. In the last five years, some big-name Japanese department stores, including Sogo and Seibu, have failed or been forced to restructure.

Foreign players have moved in to fill the shoes of ailing domestic retailers in the general merchandise store (GMS) segment, by setting up their own stores (as in the case of Carrefour) or in alliance with a domestic player (as Wal-Mart and Tesco have done). However, foreign retailers have struggled to make headway in a difficult market, compounded by their failure to fully adapt to local habits. Carrefour subsequently withdrew from Japan in March 2005. Wal-Mart entered in 2002 with the acquisition of Seiyu, the fourth largest GMS, but has yet to make significant gains in market share.

The hypermarket format has failed to unseat supermarkets and department stores in Japan. This is because Japanese people place a premium on freshness and quality of food items, hence prefer to shop several times a week, rather than bulk buying on a weekly basis. Market polarisation is creeping in, with department store food halls offering high price, high quality foods, and supermarkets selling low priced, standard food products. Discount stores are gradually introducing fresh food products to increase the frequency of customer visits, but they, along with convenience stores, are considered to be at the lower end of the market.

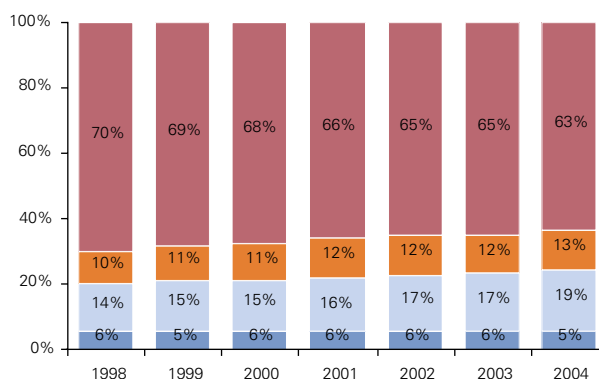
The reign of small and independent businesses is under threat. Collectively, they command 63 percent of the grocery retail market, coming down from a 70 percent share in 1998<sup>20</sup>. They have historically enjoyed the protection of the Large Scale Retail Store Law, which places heavy restrictions on large retailers,

<sup>18</sup> EIU Japan report, 2005

<sup>19</sup> EIU Japan report, 2005

<sup>20</sup> Ministry of Economy, Trade and Industry; KPMG analysis

## Retail sales composition change 1998-2004



% movement		1998-2004
Other		(6.5)
CVS		2.5
Supermarkets		4.2
Department stores		(0.2)

Source: Ministry of Economy, Trade and Industry; KPMG analysis

such as trading hours and floor space. This law has been progressively relaxed since the 1990s, and has been replaced by the Large Scale Retail Store Location Law which removed a number of restrictions. Even so, small retailers continue to dominate, albeit with a slight decline in market share.

The only grocery retail channel to have increased its market share in recent years has been convenience stores, with sales growing by three percent in 2004.<sup>21</sup> They meet Japanese consumers' preference for making a number of shopping trips each week, and have widened their range of services to include cash machines, bill-paying facilities, delivery services and other added-value services. This is a concentrated segment, with the top four players accounting for 68 percent of store numbers and 81 percent of total sales<sup>22</sup>. 7-Eleven dominates: at some US\$23 billion, its annual sales are the equivalent to the combined turnover of the number two and three players, Lawson and Family Mart<sup>23</sup>.

Supermarkets and GMS account for about 19 percent<sup>24</sup> of grocery sales. There are no nationwide supermarket chains in Japan: the largest supermarkets operate regionally, led by Life and Maruetsu. An increasing number are open 24 hours, competing directly with convenience stores. Even so, Japanese supermarkets are dwarfed by the likes of 7-Eleven, as they post an annual turnover of under US\$4 billion each<sup>25</sup>.

<sup>21</sup> Japan Franchise Association

<sup>22</sup> Japan Franchise Association; Companies' annual reports; KPMG analysis

<sup>23</sup> Companies' annual reports; KPMG analysis

<sup>24</sup> Ministry of Economy, Trade and Industry; KPMG analysis

<sup>25</sup> Companies' annual reports; KPMG analysis



Aeon, Ito-Yokado and Daiei dominate the GMS segment. They have increased their market by opening new stores, while sales at existing stores have been flat. Aeon is Japan's largest retailer, with a presence in several segments, including its Maxvalu supermarket chain and Ministop convenience stores, as well as pharmacy, clothing and other retail.

Things may be looking up for retailers in the medium term. The economy is expected to recover in 2006, with consumption per capita set to grow at some two percent annually up to 2010<sup>26</sup>. Japan is a nation of early adopters, and consumers have been quick to embrace online shopping and mobile commerce. These provide opportunities for existing retailers to expand their sales channels and market share, but also bring the potential threat of new clicks-and-mortar entrants.

Then again, with population numbers set to shrink gradually, and continuing price-sensitivity among consumers, the fight for market share between players and channels will intensify. Casualties are inevitable; consolidation is a strong possibility, especially among small retailers.

---

<sup>26</sup> Japan Centre for Economic Research, "Medium term economic forecast"

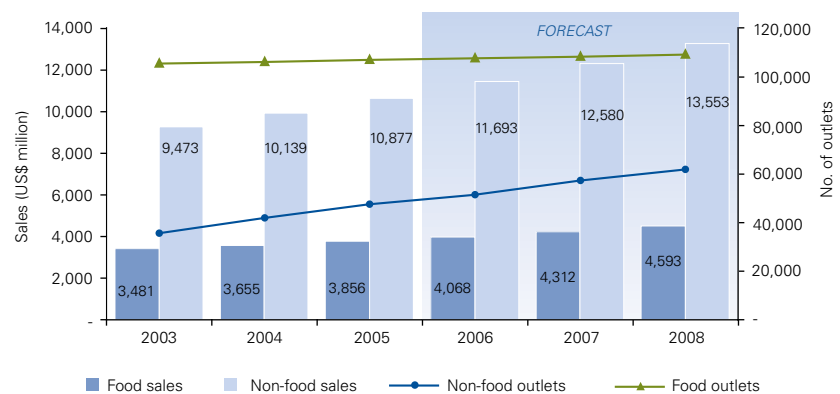
# Malaysia



In Malaysia's relentless drive towards economic and social development, the only casualties would appear to be independent and traditional operators. The grocery retail market is reported to be worth around US\$9.8 billion in 2004 as compared to US\$7.6 billion in 1999<sup>27</sup>. Large domestic and multinational retailers have entered the fray with relative success, boosted by increasing urbanisation and Westernisation, and the growing demand for convenience.

Restrictions imposed on foreign-owned retailers have not prevented their spread into major cities. The Malaysian government is keen to see greater development across the board, and has set ambitious targets, including promoting the use of technology; foreign retailers have brought in valuable experience in this area.

## Food vs non-food retailers 2003-2008



Source: New Straits Times, "Truly Giant", 1 July 2005

<sup>27</sup> USDA Foreign Agricultural Service, GAIN Report - Malaysia Exporter Guide Annual 2005



The disparity between urban and rural dwellers is stark. Urban consumers have much higher disposable incomes, and tend to prefer the relative comfort and convenience of shopping in modern grocery outlets. Wet markets and traditional grocery shops are holding on to customers in rural areas and small towns, but are losing ground in larger towns and cities.

Geography also dictates the profile of grocery and general retail channels. Modern outlets are clustered in cities and towns in Peninsular Malaysia, including Kuala Lumpur, Penang and Johor Baru. The more affluent and developed states in the Peninsula contain some 80 percent of the population, and are around six times more densely populated than the East Malaysian states of Sabah and Sarawak.

Consumer behaviour and tastes are influenced by a curious blend of traditional or religious beliefs and growing Westernisation. There are three distinct ethnic groups in Malaysia – Malays, Chinese and Indians. Each has particular dietary preferences; for instance, the Malays, who are predominantly Muslim and make up 61 percent of the population, tend to shop at outlets which offer halal options. The ethnic groups are unevenly distributed, and each race is predominant in different states or towns. There is increasing adoption of Western culture, led by younger urban consumers, as more Malaysians aspire to middle-class status.

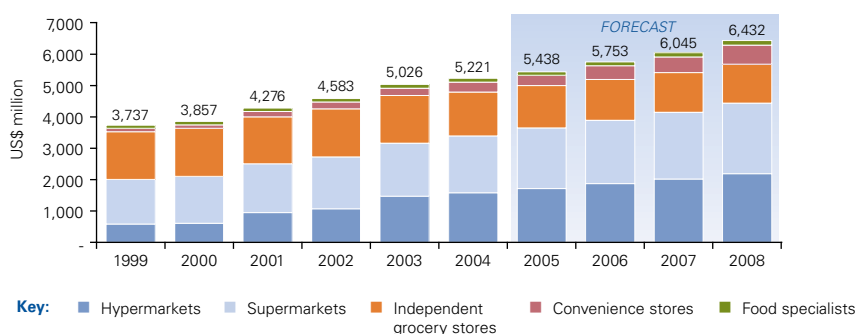
This diversity means that it is difficult for retailers to cater to all tastes and requirements, and no one retailer commands a large share of the market. In addition, there is competition stemming from the widespread availability of cheap cooked food in Western-style cafes, traditional coffee shops and food courts. These fulfil the demand for convenience and speed among the young working population.

The grocery industry is hence highly fragmented, with the top seven players sharing just over a quarter of the market. Hypermarkets are popular for the wide range and value for money that they offer. The total number of grocery retail outlets is forecast to grow steadily, as is their average size, influenced by the advent of hypermarkets. Independent grocers and small neighbourhood provision stores are expected to lose ground to supermarkets and convenience stores as they continue to proliferate in urban areas.

Hong Kong's Dairy Farm is the market leader, taking an eight percent share with its 12 hypermarkets and 42 supermarkets under the Giant brand. Carrefour is providing stiff competition for Giant, with seven hypermarkets and plans to launch up to six new outlets in the next two years. Hot at Carrefour's heels is UK's Tesco in a joint venture with domestic group Sime Darby. Tesco already operates eight stores and has plans to open up to 20 new stores over the next five years. Domestic retailer The Store Corporation operates 36 supermarkets and two hypermarkets<sup>28</sup> in Peninsular state capitals, and is breaking into the East Malaysian market.

<sup>28</sup> Company website

## Food retail sales by format 1999-2008



Source: Euromonitor Malaysian report

The double-digit growth seen by hypermarkets in their early years is set to decelerate sharply, as they become a more established feature of the retailing landscape. Growth in this segment will also be impeded by curbs imposed by the Malaysian government, designed to protect smaller domestic companies. In early 2004, a five-year freeze was imposed on new hypermarket outlets in and around three major cities<sup>29</sup>. In addition, the expansion of foreign players may be hampered by proposals to extend the already stringent requirements on domestic joint ownership and minimum investment thresholds. Even so, the hypermarket segment is forecast to grow at over eight percent annually to 2008.

Supermarkets are a long-standing feature of grocery retailing in Malaysia, located mainly in residential areas of Kuala Lumpur and the larger state capitals. Foreign companies are not currently permitted to operate in this segment. Supermarkets make up 52 percent of the grocery retailing market, and are expected to maintain this share over the next few years.

As the fastest-growing retail segment, convenience stores are bucking the trend towards larger format stores. Many are operated in alliance with the large petrol station chains, including Shell and BP, where they effectively meet consumers' needs in a nation where car ownership is relatively high. Malaysia's leading convenience store operator, Convenience Shopping Sdn. Bhd., is adding 40 new stores to its portfolio in 2005, and intends to open as many as 20 new stores a month going forward. They already operate some 300 7-Eleven outlets<sup>30</sup> across the country. The segment is projected to grow at over 17 percent annually to 2008.

Macroeconomic and consumer indicators suggest a bright future for the grocery retail industry. Malaysia's GDP is forecast to grow in excess of nine percent annually up to 2010, supported by a strong average PDI, which should rise by at least six percent per annum over the same period. The population, especially ethnic Malays, is growing steadily, increasing by 2.7 percent to 26.3 million in 2005. The population is relatively young, with one third aged under 15, and 63 percent between 15 and 64.

<sup>29</sup> Ministry of Domestic Trade & Consumers

<sup>30</sup> Company website

The highly-educated younger generation is providing impetus for growth in the specialist store segment. These smaller format outlets are emerging in more affluent business and residential areas, fulfilling the demand for niche or specialist products. Growing health-consciousness among urban Malaysians means that they are willing to pay a premium for perceived health benefits, such as low cholesterol and high fibre alternatives. This is supported by the government's recent "healthy lifestyle" campaign, which promotes products without preservatives and other additives.

The value of imported consumer food products was US\$0.6 billion<sup>31</sup> in 2004, and the unpegging of the currency may influence Malaysians' shopping preferences. Malaysia has recently dropped its 3.80 ringgit peg to the US dollar, moving instead to a managed floating exchange rate with reference to a basket of foreign currencies. The value of the ringgit has appreciated, making imports cheaper. Assuming retailers pass on the resulting lower costs to consumers, this may stimulate demand for imported goods.

<sup>31</sup> USDA Foreign Agricultural Service, GAIN Report - Malaysia Exporter Guide Annual 2005

# Singapore



Grocery retailing in Singapore is more akin to Western countries: a mature market with modern retailers taking the lion's share, with limited growth opportunities owing to a stable population.

One of the most affluent nations in Asia, the city-state presents a small but mature retail environment. With the population expected to increase from 4.2 million to just 4.4 million by 2009, overall volume growth will be low. Yet, the growing affluence of Singaporeans is reflected in the forecast growth in household consumption per head at around six percent annually. Rising incomes and busier lifestyles have also influenced shopping and product preferences. The majority of Singaporeans prefer to shop in modern retail outlets, seeking convenience and packaged foods in addition to high quality basic food products.

The industry has experienced a couple of setbacks in recent years; the 1997 Asian economic crisis and SARS in 2003 negatively impacted consumer confidence. Following the recession of 1997-98, the government assisted in the economic recovery through cost-cutting, economic liberalisation and counter-cyclical measures, and also initiatives such as skills development and workforce redeployment programs. Consumer confidence has broadly recovered, the PDI per capita of US\$13,844 in 2004 has just exceeded the pre-1997 Asian crisis figure of US\$13,608<sup>32</sup>.

Retail consumption, along with the economy, has also largely recovered. The grocery retail market, valued at some US\$3.8 billion in 2003<sup>33</sup>, proved more resilient than retailers in general. Rises in property prices, along with a relatively stable economic outlook, have made Singaporeans feel better off and hence more willing to spend.

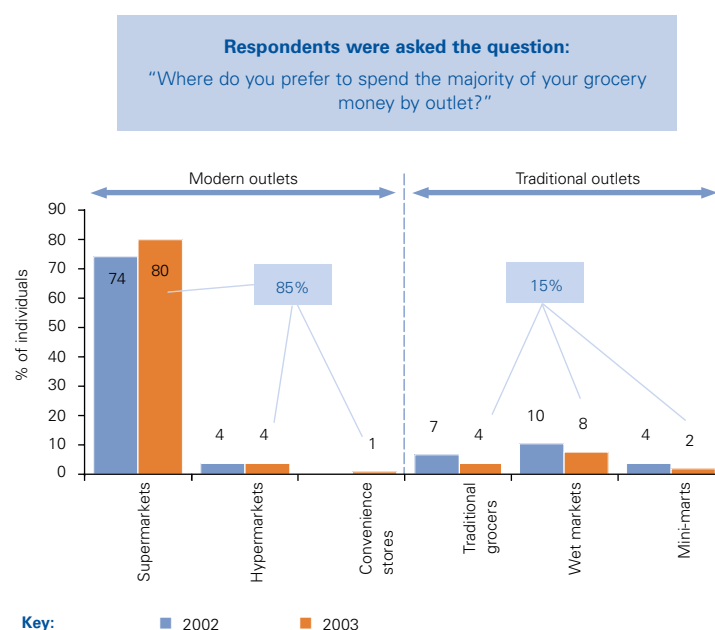
<sup>32</sup> EIU Singapore retail report, 2005

<sup>33</sup> The Straits Times "Modern shops winning in war for grocery," 4 June 2004





### Grocery spending by format 2002-2003



Source: AC Nielsen's 2003 Shopper trends study

The supremacy of modern grocery outlets is set to rise further. Singaporean consumers have embraced modern retail outlets for their air-conditioned comfort, hygiene and user-friendly layouts. They already make up around 70 percent in value of the grocery retail market, with the balance going to traditional outlets including wet markets and provision shops. Some 85 percent of Singapore households interviewed by AC Nielsen in 2003 preferred to spend the bulk of their grocery budget in modern outlets, compared to 78 percent in 2002.

The market share of traditional retailers continues to be eroded by their modern counterparts. Although traditional outlets are considered to have fresher produce and a more personal service, they provide a limited product selection and a less comfortable shopping environment. The proportion of households spending the bulk of their grocery money at traditional grocery shops and wet markets continues to fall, from 22 percent in 2002 to 14 percent in 2003<sup>34</sup>.

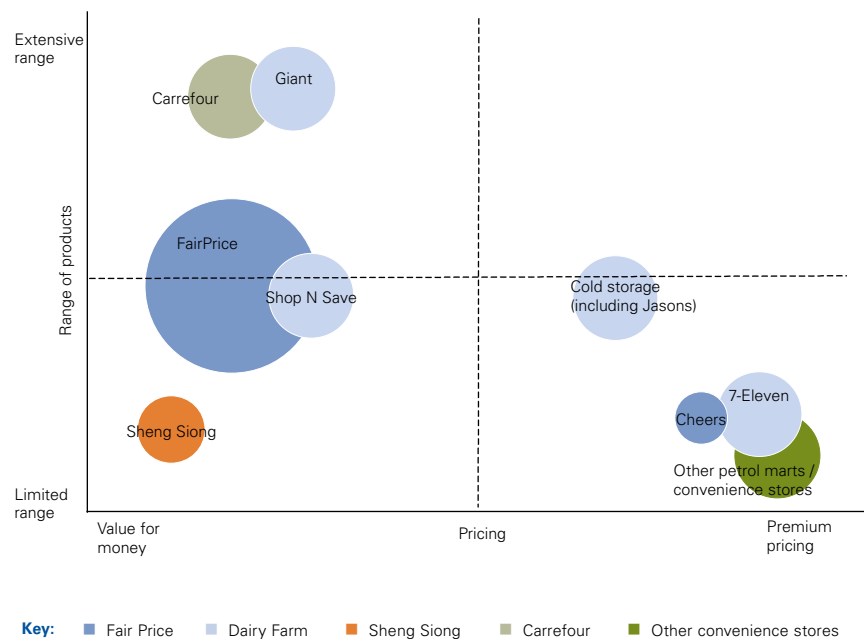
With around 200 outlets across Singapore, supermarkets are by far the preferred channel for grocery shopping. The segment is dominated by two major players – Singapore's NTUC FairPrice Co-operative and the Dairy Farm Group of Hong Kong.

FairPrice operates a network of 79 supermarkets across Singapore<sup>35</sup>, targeting the low-to-middle income masses who live in residential estates known as the heartlands. The co-operative makes much of its efforts to keep prices low on basic products for the benefit of the less well-off.

<sup>34</sup> AC Nielsen survey conducted between September to November 2003

<sup>35</sup> The Straits Times "NTUC FairPrice's full-year income rises 24% to \$96m," 27 August 2004

### Illustrative competitive positioning of grocery retailers 2005



Sources: KPMG analysis and company websites

Dairy Farm Group's stable of brands in Singapore includes Cold Storage and Shop N Save supermarkets, Giant hypermarkets and 7-Eleven convenience stores. Dairy Farm targets consumers across the spectrum with its massive product range and geographical coverage. The Cold Storage brand dates back to the early 1900s when it catered exclusively to the colonial inhabitants, and was the first retailer to offer imported frozen meats. Dairy Farm acquired 35 Shop N Save outlets in 2003<sup>36</sup> to exert its dominance as co-leader alongside FairPrice in the supermarket sector. Cold Storage targets middle- to upper-income consumers in more affluent neighbourhoods and is popular with the growing expatriate population, while Shop N Save outlets are located in the heartlands, providing a value for money proposition.

Coming a distant third in the supermarket segment, domestic player Sheng Siong specifically targets lower income groups. It operates 15 no-frills concept supermarkets in secondary retail locations in the heartlands<sup>37</sup>. Whereas the larger supermarket chains source their products from suppliers all over the world, Sheng Siong focuses on cheaper products from China and the ASEAN region.

Singaporeans visit a supermarket eight times a month on average, but visit hypermarkets only twice a month<sup>38</sup>. This is partly due to the fact that supermarkets are very widespread in Singapore. With the limited landmass, there are few suitable sites for hypermarkets, hence they presently account for only

<sup>36</sup> Dairy Farm annual report FY 2004

<sup>37</sup> MediaCorp Today "Neighbourhood shops still feel the gloom," 10 January 2005

<sup>38</sup> AC Nielsen survey conducted between September and November 2003

four percent of the market. Carrefour made its Singaporean debut in 1997 and added a second outlet in 2003. Both of Carrefour's hypermarkets are located in central shopping districts, while Giant's seven hypermarkets are located mostly in heartland estates.

While supermarkets and hypermarkets are perceived to provide value for money, convenience stores have won over Singapore's increasingly busy consumers with their convenient locations. In 1999 FairPrice forayed into the convenience store segment with its Cheers brand, in competition with Dairy Farm's 7-Eleven outlets. More recently in September 2005, FairPrice upped the ante by expanding its convenience format in alliance with ExxonMobil, Singapore's largest network of petrol stations, operating XpressMart outlets at all 77 Esso and Mobil service stations<sup>39</sup>. Shell also operates its own Select convenience outlets at 75 service stations.

The major supermarket chains have also developed online retail portals, supported by an IT-literate and internet-savvy population. This channel sits well with increasingly cash-rich time-poor consumers. At the moment, although online purchases are predominantly non-grocery related (39 percent ticketing, 31 percent books/magazines and 30 percent travel related), the average on-line dollar spent per online shopper increased from US\$198 in 2003 to US\$317 in 2004, while the proportion of online shoppers in relation to internet users increased from 20 percent in 2003 to 30 percent in 2004<sup>40</sup>.

The increasingly affluent and cosmopolitan population will bring further opportunities for grocery retailers. Niche areas such as fortified foods, organic produce and functional foods have flourished in recent years as consumers seek healthier alternatives.

<sup>39</sup> Press release "ExxonMobil and NTUC FairPrice announce rollout of service station retail alliance to all Esso and Mobil service stations," 13 September 2005

<sup>40</sup> IDA Singapore "Singapore, where IT works"

# South Korea

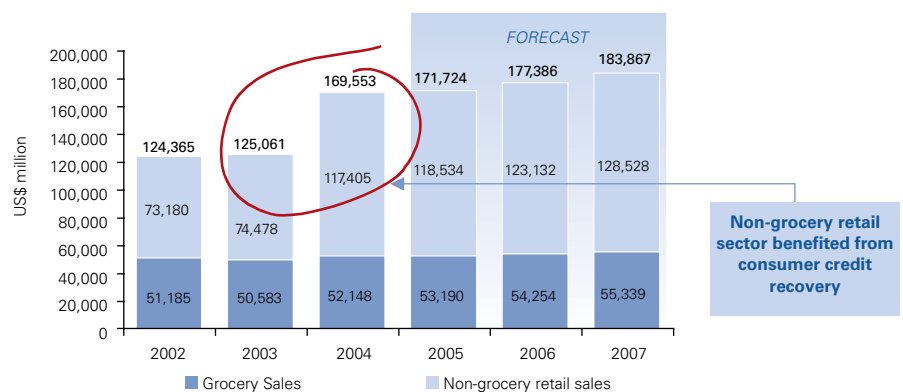


Valued at over US\$52 billion, the South Korean grocery retail market is one of the largest in Asia, and represents 30 percent of the overall retail market<sup>41</sup>. Seoul is the center of a large and dynamic retail market set to become increasingly congested. Almost half of the population of some 48.5 million reside within a 40 kilometre radius of the capital, representing some 70 percent of the nation's purchasing power.

Grocery retailing is not expected to grow as quickly as retailing in general, which is likely to achieve rates of four to five percent annually, in line with GDP and average wage growth rates. A two percent growth rate is probably a more realistic forecast for grocery retailing, as population numbers will remain relatively stable, and a greater proportion of incomes will shift towards leisure, luxury goods and services.

One of the grocery segments to benefit from the increase in PDI is luxury and health foods. The "well-being" trend among South Korea's affluent and well-educated consumers is driving demand for more expensive organic products

## Retail revenue 2002-2007



Source: Datamonitor: Food Retail in South Korea 2005; KPMG analysis

<sup>41</sup> Datamonitor: Food Retail in South Korea 2005; KPMG analysis



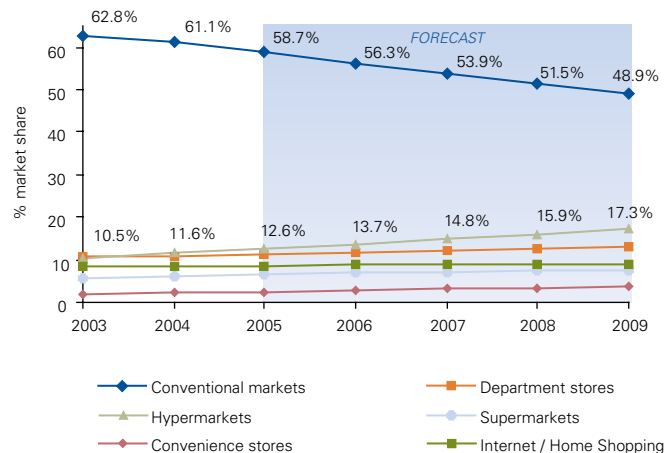
and healthy alternatives. Consumer tastes are becoming more cosmopolitan, reflected in the greater acceptance of imported Western-style foods.

Over the last two decades there has been a marked shift in the profile of the retail industry. In the early 1990s the majority of retailers were still domestically owned, with vast numbers of small businesses. Since the Asian economic crisis, consumers have been more frugal, especially in buying staple food items, resulting in the proliferation of hypermarkets and discounters. Progressive market liberalisation has allowed modern retailers to invade the territory of conventional markets and independent family-owned stores.

The numbers illustrate the trend towards consolidation in the retail industry. In 1996, there were 28 hypermarket outlets and 706,000 small retailers employing no more than four people<sup>42</sup>. By the end of 2004, there were 275 hypermarkets and 626,000 small retailers<sup>43</sup>. Department store and supermarket numbers have also declined.

Demographic trends and changing lifestyles have steered these changes. Improvements in domestic transportation infrastructure, rising car ownership rates and a higher proportion of working women have boosted the popularity of larger format stores. Many now buy in bulk and shop less frequently. While lower-income consumers continue to be price-driven, middle- to high-income Koreans seek a comfortable shopping environment and wide product range. Hypermarkets are able to fulfil these demands.

#### Grocery market share by format 2003-2009



Source: IGD; KPMG analysis

<sup>42</sup> Korea Chamber of Commerce and Industry, 2005; KPMG analysis

<sup>43</sup> Korea Chamber of Commerce and Industry, 2005

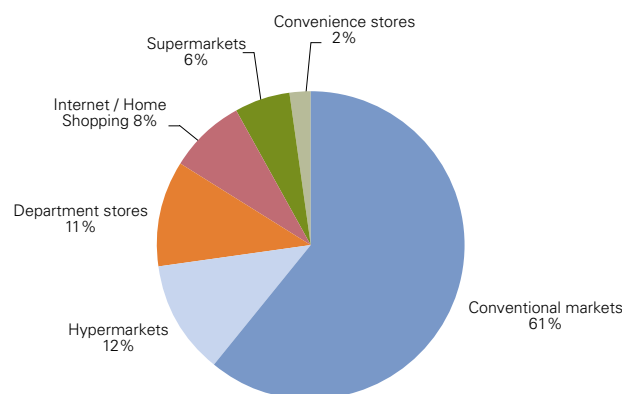
For the time being, traditional markets and stores continue to represent the majority of grocery sales in South Korea. Their current market share of 61 percent is expected to decline steadily as consumer tastes and shopping habits continue to change.

While foreign operators have a considerable presence in the hypermarket segment, they have failed to unseat the domestic market leader, E-mart. One of the reasons for this is that the foreign players have not fully adapted to the characteristics of the local market. Consumers still prefer local cuisine over Western-style foods, some of which are subject to punitive tariffs designed to protect the local food industry.

A subsidiary of Shinsegae, South Korea's largest retail group, E-mart generates US\$5.7 billion in sales – more than the combined sales of the three foreign players – through its 78 hypermarkets, and commands a market share in excess of 30 percent. E-mart's massive scale has enabled it to develop a private label series of products, which now accounts for up to 20 percent of its revenues. Not content to rest on its laurels, E-mart is well-positioned for further expansion, and is contemplating aggressive growth in store numbers over the next three years<sup>44</sup>.

The entry of foreign players has intensified competition in grocery and general retailing, and placed downward pressure on prices. Tesco entered the South Korean market in 1999 through a partnership with Samsung. It operates 38 Samsung Tesco Home Plus stores, and acquired 12 stores from Aram Mart in early 2005. South Korea is Carrefour's second-largest market in Asia behind China. Carrefour has lost momentum after its initial lead as the first foreign hypermarket operator to enter the scene in 1996. It has set in motion an accelerated expansion plan, which includes opening 70 to 80 new outlets over the next three years, to add to its existing 27 stores<sup>45</sup>. Wal-Mart is focusing on improving quality in its 16 stores, and is considering the development of new store formats suitable for urban areas. Costco, another US player, targets the wholesale discount market.

#### Grocery market share by format 2004



Source: IGD Country Presentation Korea 2005; KPMG analysis 2005

<sup>44</sup> IGD Country Presentation Korea 2005

<sup>45</sup> IGD Country Presentation Korea 2005



Unable to compete on price, department stores have lost significant ground to the hypermarkets and discounters. The leading department stores – Lotte, Shinsegae and Hyundai – all have large food halls catering mainly to higher-end customers with luxury and imported products. They have been forced to innovate in the face of their dwindling market share, introducing promotional gimmicks such as discount sales in the morning. Lotte Department Stores are part of the Lotte conglomerate, which also operates Lotte Mart discount stores and the Lemon supermarket chain.

Convenience stores have mushroomed in city centres, and are expected to maintain their impressive growth track, largely at the expense of traditional small retailers. With 80 percent of the population living in towns or cities, convenience stores meet the needs of busy urban dwellers. Key players in this segment – Family Mart, GS 25 and 7-Eleven – are targeting younger consumers by increasing their range of fast-food items and providing other value-added services. Jumping on the bandwagon is Tesco, which is developing its Super Express convenience stores.

Another channel with much potential is online retailing, benefiting from the widespread use of credit cards and growing number of double income and single person households. Add to that the highest internet broadband penetration in the world and the channel is set to flourish in the coming years.

# Thailand



It's a battle between old and new in Thailand's thriving retail market. For now, the traditional sector is holding its own – but for how long?

Thailand's grocery retail market is the second-fastest growing in Asia Pacific, after China. With a population of 65 million set to grow at one percent annually, and GDP growth forecast at 4-5 percent in 2006-07<sup>46</sup>, Thailand provides further potential for modern grocery retailers.

Grocery retailing enjoys a strong position in Thailand, having recovered steadily since the 1997 Asian economic crisis. In 2003 the proportion of retail sales made up by grocery sales stood at 60 percent, valued at US\$29 billion. Nearly 78 percent of Thailand's 380,000 retail outlets are grocery retailers.

The heady growth rates seen immediately post-1997 have gone, but the overall retail market has still expanded by some ten percent annually on average in recent years. Although some commentators predict the grocery retail market will double in size by 2009, the proportion of household income spent on groceries is expected to fall as discretionary spending increases along with consumer wealth.

Demand for processed and packaged foods from modern outlets is rising, at the expense of fresh unprocessed foods from traditional markets. This follows the familiar pattern that comes with greater acceptance of Western lifestyles. Food safety and nutrition are also increasingly important, as consumers become more health-conscious.

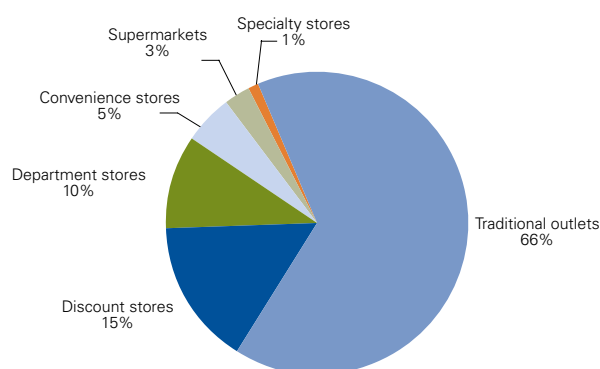
However, market conditions in the short term are likely to deteriorate. Consumer confidence has been hit by a slowing economy, unrest in Southern provinces, the threat of an avian flu outbreak, high oil prices and rising interest rates.

Modern format channels in Thailand consist of supermarkets, hypermarkets or discount stores, and convenience stores. Traditional outlets include independent shops, wet markets and individual stalls. Modern outlets are mostly clustered in and around Bangkok, where the PDI is almost double the national average.

<sup>46</sup> EIU Thailand retail report, 2005



Retail market share by format 2002



Source: Bank of Thailand

Consumers have embraced hypermarkets with fervour. With their enormous buying power and economies of scale, these giants fulfil the desire of Thailand's price-sensitive masses for wide product ranges and reasonable levels of quality at low prices – all in a comfortable and convenient shopping environment. The segment is shared by four foreign retailers – Tesco, Big C, Carrefour and Makro – who, with the exception of Carrefour, have entered Thailand in alliance with local operators.

Tesco Lotus is Thailand's largest retailer, with a nearly 13 percent share of the overall retail market. It operates 51 hypermarkets, 17 superstores and 47 convenience stores, with over 60 percent of its revenues coming from grocery and fresh foods<sup>47</sup>. Big C and Carrefour have 39 and 18 outlets, respectively, and Siam Makro targets the wholesale market with its 24 stores.

Another successful modern retail channel is the convenience store. The segment has grown rapidly from just over 2,000 outlets in 2002 to an estimated 3,700 outlets by mid-2004. CP 7-Eleven leads with 3,250 outlets, and is planning to open a further 400 outlets, as well as a US\$25 million distribution centre, in 2005. Two-thirds of 7-Eleven outlets are owned by CP Group, a Thai conglomerate, with the remainder operated under franchise. CP Group is also a local partner of Tesco Lotus and Makro hypermarkets.

Supermarkets are slowly being squeezed by hypermarkets and convenience stores, unable to compete on price. Supermarkets have operated in Thailand for over 30 years; the majority are standalone stores, eclipsed by the domestic Tops chain (wholly-owned by Thai conglomerate The Central Group since buying out its partner, Dutch retailer Ahold) which takes a 62 percent share of total supermarket revenues. In 2004 Central acquired the Food Lion chain and there are now 70 Tops outlets across Thailand. Other leading players in this segment are Thai-owned Foodland and Villa, and Jusco, owned by Japanese group Aeon.

<sup>47</sup> Siam Future Development, 11 August 2004

Traditional retailers are fighting hard to retain market share. They mostly operate out of shop-houses, usually on a cash basis, and have limited stock lines and warehousing space. The traditional segment is still in the majority with 66 percent of the grocery retail market. The government is in the process of trying to assist the traditional shops to become more competitive with their foreign rivals, through the establishment of an organisation to help improve logistics, financing and training.

Traditional retailers were dealt a severe blow when modern format stores entered the scene, as foreign operators introduced discount warehouse and hypermarket concepts over the last decade. Unable to compete on many fronts, their chorus of resentment found a sympathetic political ear, and the highly restrictive Retail Business Act was introduced. However, it was abandoned in 2002, only to be replaced by new regulations designed to bar large retail stores from town centres in most provinces with the exception of Bangkok. The additional criteria and approval process has greatly increased the complexity and cost of opening new outlets.

The backlash against large stores has influenced the development of major players, as well as the profile of retail outlets. Smaller scale stores have emerged in response to the restrictive zoning regulations which have limited the areas available for larger format stores. This development may also be a reaction to the success of convenience stores in Thailand. Tesco Lotus has launched the smaller format Talad Lotus stores, and Carrefour is considering new mid-sized outlets which are a combination of supermarkets and convenience stores<sup>48</sup>. Big C is opening its first “mini” Big C outlet in Bangkok, targeting more affluent consumers with its luxury range of products.

<sup>48</sup> Bangkok Post, 11 March 2005

# Conclusion



**George Svinos**

I trust you have found our findings on grocery retailing in Asia Pacific informative and that it has provided you with a valuable insight into the changing trends and conditions within the sector in this region.

World attention is on Asia, with China and India forecast to grow over the next 10 years into the world's number one and number three economies, respectively. The rapid growth and expansion of the region clearly provides global retailers with the opportunity to grow their size and influence. The market penetration of established retailers varies dramatically from country to country, with the top ten retailers in the country controlling some 57 percent of the retail market in Australia, compared with four percent in China and less than one percent in India. Asian retailing currently supports a diverse retail format with convenience stores, supermarkets, hypermarkets and department stores having a fairly even share of the retail market between them.

What is apparent is that significant opportunities for growth abound across the region, and whether this arises from consolidation amongst smaller players in key markets, or from acquisition and/or entry into the market by multinationals, this will provide greater choice for consumers in the future. For all participants, both existing and new entrants, it is clear that being able to interpret the changing needs of the consumers, and tailoring your service for the intricacies of the market, is paramount to future growth.

The growth in other services provided by grocery retailers elsewhere in the world may also influence the Asian economy in the foreseeable future, among which is the introduction of financial services and banking products, and telephony products, as part of the suite of products and services provided to today's customer. The ability of grocery retailers to leverage this opportunity and further develop a loyal customer base will, to a large extent, depend on their ability to develop relationships with companies in other sectors.

The Asian region also presents a range of interesting challenges to organisations wishing to enter or grow in the grocery retail market, whether this be due to the strength of the duopoly in Australia of Coles Myer and Woolworths, or to the different regional influences in mainland China, or to the prevailing strength of traditional wet markets in Thailand. In all the grocery retailing sector is set to undergo significant change in the next few years as the region continues to mature and grow.

KPMG's specialists in Consumer Markets and Strategic & Commercial Intelligence are always available to meet your needs. Should you need to contact a KPMG professional please refer to the key contacts listed in this report.

## **George Svinos**

Head of Retail, Asia Pacific  
KPMG in Australia  
+61 (3) 9288 6128  
[george.svinos@kpmg.com.au](mailto:george.svinos@kpmg.com.au)

# Key contacts

## Strategic & Commercial Intelligence contacts

### Australia

Ajay Rawal  
Executive Director  
+61 (2) 9335 8784  
ajayrawal@kpmg.com.au

### Penny Craven

Senior Manager  
+61 (2) 9455 9172  
pennycraven@kpmg.com.au

### China

Thomas Stanley  
Partner  
+86 (21) 6288 3051  
thomas.stanley@kpmg.com.cn

### Hong Kong

Richard Ahmad Bates  
Senior Manager  
+852 3121 9816  
richard.ahmadbates@kpmg.com.hk

### India

Sandeep Dhupia  
Executive Director  
+91 (124) 254 9191  
sdhupia@in.kpmg.com

### Indonesia

David East  
Director  
+62 (21) 574 0877  
deast@siddharta.co.id

### Japan

Thomas Whitson  
Partner  
+81 (3) 5218 6789  
thomas.whitson@jp.kpmg.com

### Malaysia

Chewyin Mok  
Partner  
+60(3) 2095 3388  
cymok@kpmg.com.my

### Singapore

Diana Koh  
Partner  
+65 6213 2519  
dianakoh@kpmg.com.sg

### South Korea

Jin Man Kim  
Director  
+82 (2) 2112 0786  
jinmankim@kr.kpmg.com

### Thailand

Piyanuch Nitikasetrsoonthorn  
Partner  
+66 2 677 2770  
piyanuch@kpmg.com

### Vietnam

Warrick Cleine  
Managing Partner  
+84 8 8219266  
warrickcleine@kpmg.com.vn

## ASPAC Consumer Markets contacts

### George Svinos

Head of Retail  
Asia Pacific  
+61(3) 9288 6128  
george.svinos@kpmg.com.au

### Nick Debnam

Head of Consumer Markets  
Asia Pacific  
China and Hong Kong SAR  
+852 2978 8283  
nick.debnam@kpmg.com.hk

### Anson Bailey

Director, Business Development  
China and Hong Kong SAR  
+852 2978 8969  
anson.bailey@kpmg.com.hk

## Global Consumer Markets contacts

### Neil Austin

Global Chair  
KPMG LLP (U.K.)  
+44 (0) 20 7311 8805  
neil.austin@kpmg.co.uk

### Mark Twine

Global Executive  
KPMG LLP (U.K.)  
+44 (0) 20 7311 3873  
mark.twine@kpmg.co.uk

### Fiona Sheridan

Global Senior Marketing Manager  
KPMG LLP (U.K.)  
+44 (0) 20 7782 2676  
fiona.sheridan@kpmg.co.uk





## Contact us

### Australia

10 Shelley Street  
Sydney NSW 2000  
Australia

### China

50th Floor, Plaza 66  
1266 Nanjing West Road  
Shanghai 200040  
China

### Hong Kong

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

### India

KPMG House  
Kamala Mills Compound  
448, Senapati Bapat Marg  
Lower Parel  
Mumbai 400 013  
India

### Indonesia

35th Floor WISMA GKBI  
28, Jl. Jenderal Sudirman  
10210 Jakarta  
Indonesia

### Japan

Marunouchi Trust Tower North  
8-1 Marunouchi 1-chome  
Chiyoda-ku  
Tokyo 100-0005  
Japan

### Malaysia

Wisma KPMG  
Jalan Dungun  
Damansara Heights  
50490 Kuala Lumpur  
Malaysia

### Singapore

16 Raffles Quay #22-00  
Hong Leong Building  
Singapore 048581  
Singapore

### Republic of Korea

10th Floor, Star Tower  
737 Yeoksam Dong  
KangNam-gu  
Seoul 135-984  
Republic of Korea

### Thailand

48th Floor, Empire Tower  
195 South Sathorn Road  
Yannawa, Sathorn  
Bangkok 10120  
Thailand

### Vietnam

10th Floor, Sun Wah Tower  
115 Nguyen Hue Street  
Ho Chi Minh 848  
Vietnam

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2006 KPMG, a Hong Kong partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in Hong Kong.

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Publication date: First reprint in October 2006