A study conducted for the Coca-Cola Retailing Research Council Asia by IBM

RETAILING RESEARCH COUNCIL

Food Retail Formats in Asia

Understanding Format Success

THE COCA-COLA RETAILING RESEARCH COUNCIL ASIA MEMBERSHIP

The CCRRCA and IBM would like to thank ACNielsen for the significant contribution it has made to this study through allowing the use of the information and expert analysis included in it's "2006 Asia Pacific Retail and ShopperTrends" report.

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PREFACE

THE COCA-COLA RETAILING RESEARCH COUNCIL ASIA

The Coca-Cola Retailing Research Council Asia (CCRRCA) is dedicated to the development of a better understanding of the food retailing and allied merchandise distribution business in Asia. The focus of its energies is to identify and then to study selected critical issues and problems and, when appropriate, to present the findings in a suitable forum, so that full advantage of the information can be taken to further develop and enhance the effectiveness of the food retailing distribution business.

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PROJECT BACKGROUND

Across Asia there are several alternative retail formats (see format definitions in box below) competing for shoppers' business and loyalty. Many food retailers are evaluating which of these formats are appropriate for their markets and their organisations.

Against this background, the CCRRCA Membership commissioned a study which would benefit the Asian retail community and enable better decisions on which formats would best serve local shoppers and enhance food retailers' business strategies. The study maps the current Asian food retail format landscape and identifies the drivers and critical elements of successful retail formats. The study also identifies shoppers' perspectives of food retail formats, develops an understanding of how shoppers relate to formats and analyses how they select between alternative food retail formats.

This study is retail consumer-centric and does not consider formats that are not primarily designed to serve the consumer; business to business formats (cash n' carry, wholesale warehouse, etc.) are not included.

The CCRRCA Membership selected IBM Global Business Services to lead the development of this study.

The CCRRCA and IBM Global Business Services explored the available market research across 12 Asian countries. These countries are presented in "country clusters" to facilitate the navigation and extraction of insights across the sampled markets. Shopper insights were developed and derived from in-depth, focused discussions with shoppers in five markets via proprietary research conducted by Research International. Importantly, the project reflects the counsel and insight of the 19 CCRRCA members, and the expertise of the IBM Global Business Services team. The opinions reflected in this study are based on these combined data, shopper insights and expert sources.

THE DEFINITION OF A FOOD RETAIL FORMAT

For the purpose of this study we have defined a "Food Retail Format" as a retail offering that can be segmented based on the different value that it offers to the consumer along three key dimensions – Choice, Service and Price. The three dimensions capture the overall appearance and feel that a retailer presents to its customers. For example hypermarkets are large scale self-service stores that offer a wide range of products to consumers at a low price.

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BACKGROUND

Food Retail Formats in Asia: "Understanding Format Success" was commissioned by Coca-Cola Retailing Research Council Asia (CCRRCA) and carried out by IBM Global Business Services. The report is the culmination of an extensive study of the drivers that give rise to successful food retail formats in Asia and the Pacific.

Shopper insights were developed from in-depth, focussed discussions with shoppers in five markets via proprietary research conducted by Research International. The project reflects the counsel and insight of the 19 CCRRCA members, and the expertise of the IBM Global Business Services team. The opinions reflected in this study are based on these combined data, shopper insights and expert sources.

This research is intended to have strategic importance to food retailers, as they address the needs of their shoppers with existing formats in Asia, or attempt to add value or expand by using new formats. The success factors for formats vary across Asia. Each country brings its own unique set of historical, cultural, economic, and regulatory conditions to bear. Highly specific combinations of market drivers – both demand-side shopper drivers and supply-side business drivers – tend to reward very different food retail formats in different countries.

ASIA'S FOOD RETAIL MARKET

Asia's food retail market is vast and diverse, with many different formats, both modern and traditional. Moreover, the ways in which the food retail market landscape is changing varies tremendously throughout the region. The total number of food retail outlets in Asia grew at a modest 2% in 2005, to over 12.7 million. However, modern retail is growing much faster; in the past five years, modern trade has increased in share by 11 points, and now accounts for 48% of share of trade. Modern trade will command the majority of trade in a few years' time.

Three modern food retail formats begin to emerge as the primary formats across the region: hypermarkets, supermarkets and convenience stores. Although supermarkets have become well entrenched on the Asian landscape (being the first modern retail format to enter most markets), convenience stores and hypermarkets have been leading the outlet expansion race in recent years, and hypermarkets have even become the most significant format in some markets.

Varying market maturities among Asian countries adds to the complexity of store format development. Many countries in the region, however, share common patterns and themes. Underlying these patterns and themes are two key dimensions that impact food retail format success: the needs of shoppers, and the business environment.

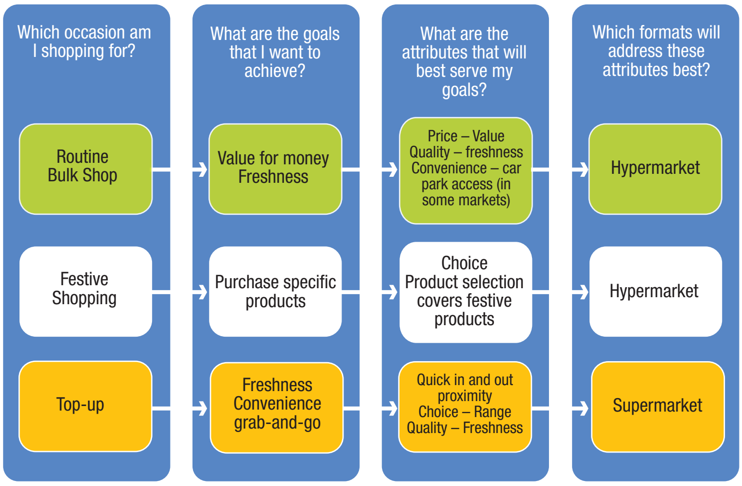
NEEDS OF SHOPPERS

Understanding the needs that drive shoppers' choices can enable retailers to identify new opportunities for formats and to tailor their formats. The study analyzed shoppers to understand what drives their choice of format.

Shopper drivers include demographic considerations – age, household size, home size, car ownership, annual spend on consumer goods, and share of spend on food products – as well as behavioural considerations, such as the ways shoppers commute to shop, and the amount of time they allow themselves – or simply have to spare – in retail stores.

The research uncovered a decision map that shoppers apply – consciously or otherwise – to determine the formats they choose to shop. This decision map helps shoppers make tradeoffs across a range of attributes in line with what formats have to offer. Exhibit E1 below depicts this decision map.

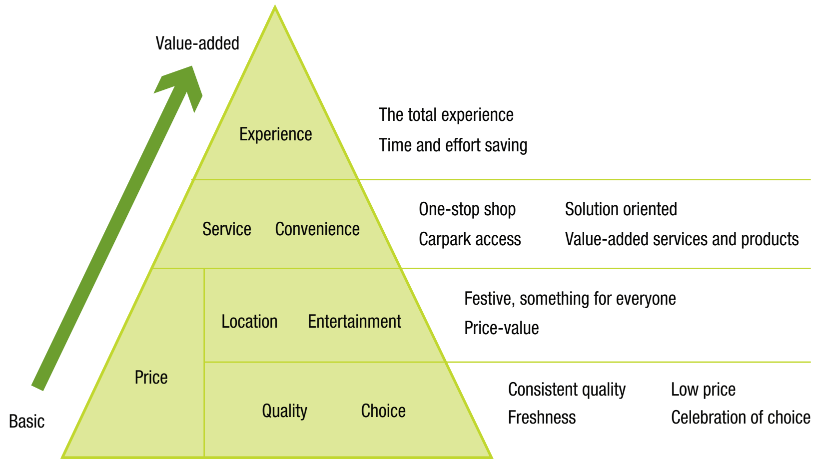
Exhibit E1 The shopper decision map (illustrative)



As shown above, the real success drivers of a format depend upon the ability to deliver against a shopper's need at a specific point in time. Thus, it is the shopper's occasion – the particular event defined by a unique set of requirements – that significantly influences a shopper's choice of format. It is important to note that each of a shopper's various needs is weighted uniquely for each occasion. Therefore, the effectiveness of a specific retail food format depends largely upon the overall value proposition sought after by shoppers for a specific occasion.

A key finding of this study is that these attributes form a hierarchy, or pyramid, that in turn influences shoppers' acceptance of – and preferences for – different retail formats. Exhibit E2 expresses these needs in their implied hierarchy, from "basic" to "value-added".

Exhibit E2 Asian shopper's attribute pyramid



BUSINESS ENVIRONMENT

The business environment can also significantly impact a retailer's ability to develop, operate and compete with certain format offerings in the marketplace. It is the business environment – whether as a set of enablers or inhibitors – that essentially mediates retailer response to shopper needs. The business environment includes the following:

- Cost and availability of real estate
- Regulatory environment
- State of distribution infrastructure
- State of technology

Prevailing real estate costs and the sheer availability of suitable commercial space play a large role in determining the viability of different food retail formats. Low operating costs are essential to support a hypermarket's "value" proposition to the shopper. Hypermarket retailers thus tend to gravitate toward locations with an abundance of modestly priced commercial space.

Regulations increasingly impact the choice and execution of formats by retailers across Asia. In Asia, regulation has largely centred around five dimensions:

- Size of retail outlet
- Extent of foreign investment
- Location of store
- Operating hours
- Product range

While markets are becoming increasingly open to foreign investment and the growth of modern trade, many markets are imposing new restrictions on big-box formats, especially in inner-city areas.

The development of distribution infrastructure is another strong determinant of food retail formats. Hypermarkets are well suited for markets with less-developed infrastructure, as they are typically self-contained with large backroom space, more onsite inventory, and a breadth of range that enables them to have a more "direct from manufacturer" supply chain. A centralized distribution infrastructure system, on the other hand, facilitates the distribution model of relatively smaller delivery lot sizes across multiple locations, as required to serve the smaller format supermarkets in Australia, Singapore and Hong Kong, for example.

The state of communications, technology infrastructure and retailing applications can significantly enable retailers to compete better. New technology is helping retailers do more with the products, stores, and current customers, as well as identify opportunities to expand the shopper base.

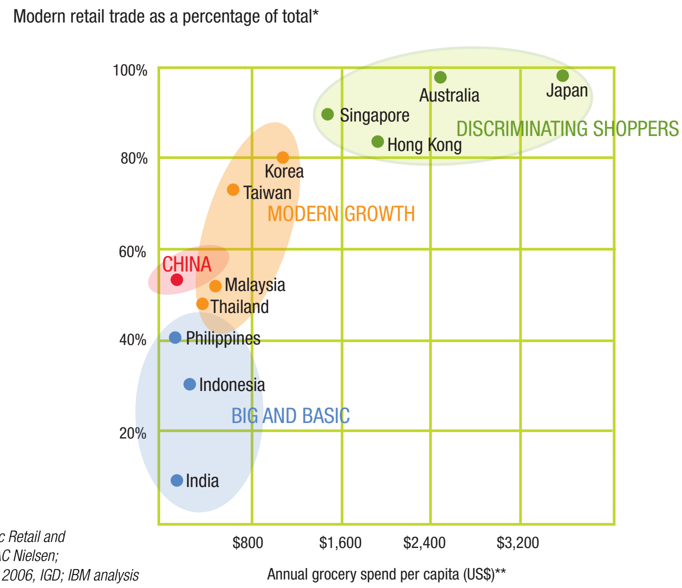
MARKET CLUSTERS

There are similarities among Asia's retail market landscapes as well as among their economic and demographic characteristics. Markets within our study are clustered based upon similarities among shopper occasions and market landscape factors, which combine to make some formats more successful at meeting shopper needs than others. Differences within and across clusters also point to possible evolution paths that a market can take.

The study illustrates a high-level model consisting of four "clusters," each with a common set of drivers (see Exhibit E3):

- **Big and Basic Markets** – India, Indonesia, and the Philippines – where multiple formats co-exist in a developing food retail sector
- **Multi-Format China**, which also accommodates multiple formats and is developing, but at a scale and speed unlike any other market
- **Modern Growth Markets** – Taiwan, Korea, Malaysia and Thailand – where the experiential requirements of shoppers help make hypermarkets significant
- **Discriminating Shopper Markets** – Japan, Australia, Hong Kong and Singapore – are mature markets, where shoppers demand superior service from their retailers, and where supermarkets are significant

Exhibit E3 Asian food retail market clusters



Source:
**2006 Asia Pacific Retail and ShopperTrends, AC Nielsen;*
***Global Retailing 2006, IGD; IBM analysis*

OPPORTUNITIES FOR NEW FORMATS

As economies grow, the number and types of shopping occasions expand, and the retail attributes that shoppers seek consequently multiply. This creates opportunities to develop new and hybrid formats to more effectively address shopper needs. Interestingly, many of these new formats are not complete redesigns, but hybrids of two or more existing formats, or a narrowing in focus of a particular format to suit a particular niche occasion or set of needs:

- Limited-Range Discount Stores
- Mini-Marts
- Compact Hypermarkets
- Specialty Food Stores
- Convenience Plus

CONCLUSION

In the final analysis, occasions drive the Asian shopper's choice of formats and the shoppers' needs are uniquely weighted for each occasion. Like shoppers the world over, Asian shoppers have a hierarchy of attributes ranging from "basic" to "value-added". The ability of a format to cater to the primary attributes for each occasion is the key to its success.

Our evidence suggests that over the next five years, the significant format in each of these markets today is unlikely to be supplanted. In India, China, Indonesia and the Philippines, multiple formats will continue to grow due to the size and untapped potential in these markets. In Thailand, Korea, Malaysia and Taiwan, hypermarkets and convenience stores will continue to be significant and will impact undifferentiated supermarkets adversely. The current state of regulation will require hypermarkets to limit store size, and locate farther away from residential centres. In response, these hypermarkets will need to augment their offering to attract shoppers who might otherwise object to the added inconvenience of longer commute times and smaller store sizes. In the more developed markets of Japan, Singapore, Hong Kong and Australia, supermarkets will continue to be the most significant format. However, alternative formats with distinctive value propositions are likely to find favour. Moreover, consolidation will continue unabated in all markets, as weak competitors succumb to, or get acquired by, stronger players.

The shape of the future format landscape will also depend greatly upon the make-up of the format landscape today, the quality of the execution of format offerings in the market, and the state of regulation. It is also important to note that no evolutionary determinism is implied by the results of our analysis i.e. that markets with multiple formats today like India and China will move to a state like that of the more developed markets and have supermarkets dominate in the future.

A holistic approach to understanding both shopper needs and the business environment is imperative for devising a retail format strategy and for implementing it successfully. The shopping occasions and attributes that this study uncovered are not dissimilar to that of shoppers the world over. There are several formats and hybrids overseas that are targeted at servicing some specific occasions and attributes. These formats have significant potential in Asia provided they continuously evolve in line with the shopper's needs in each market.

Retailers need to understand the shopping occasions that are unique to the shoppers they are trying to serve. They must then develop a value proposition that address these shopping occasions by leveraging the inherent strengths of the format offering they have. Strategies, core competencies and execution are all equally critical for achieving success, regardless of format. Leading retailers have shaped their format offering in line with the key occasions and attributes that they want to “own” taking into account the unique business environment in which they operate. A key finding from this study is that new food retail formats must be invented around the shopping occasions they intend to serve.

CHAPTER ONE

FOOD RETAIL AND THE FORMAT LANDSCAPE IN ASIA

OUTLET GROWTH CONTINUES APACE

There is tremendous change afoot across the Asian food retail landscape, as retailers strive to keep pace with changes in the way people shop for food.

Asia's market landscape is far from homogenous, with markets ranging from developed economies – with world-leading business practices and sophisticated consumer tastes – to fast-expanding, emerging markets with double-digit economic growth. This contrast is clearly visible when looking at the growth rates in retail sales in 2005 (China – 7%, India – 21%, Indonesia – 18%, Thailand – 11%, Taiwan – 2%, Australia – 4%)[1].

Asia's food retail market is equally vast and diverse, with many different formats, both modern and traditional, available. Moreover, the ways in which the food retail market landscape is changing varies tremendously throughout the region. Over the past few years, the food retail sector in Asia has undergone a transformation that has seen the introduction and proliferation of modern food retail formats: supermarkets, hypermarkets and convenience stores (see box below). Food retailers continue to invest in new stores across the region: total food retail outlets in Asia grew 2% in 2005, to over 12.7 million[1]. Modern retail is growing even faster: in the past five years modern trade has increased share from traditional retail by 11 share points (see Exhibit 1). With a net increase of over 12,000 self-service outlets[1] over the previous year, at a growth rate of 6%, modern trade accounted for 48% of Asian fast-moving consumer goods (FMCG) packaged food retail sales in 2005. Modern trade will account for the majority of trade in a few years' time. A transformation that took the U.S. market more than half a century to complete will take place in Asia's food retail markets in less than 20 years.

FORMAT DEFINITIONS

- **Hypermarkets** – A combination of a general merchandise store and the supermarket with over 30,000 square feet in total selling area and approximately 25,000 items. Hypermarkets offer an expanded selection of non-food items, including health and beauty products and general merchandise at low prices. Typically between a third to two-thirds of the mix in a hypermarket is from "food"
- **Supermarkets** – A predominantly self-service format offering a full line of groceries, meat, and produce with between 5,000 to 30,000 square feet of total selling area. These stores typically carry approximately 15,000 items and frequently offer a service deli and a bakery. Typically close to two-thirds of the mix in supermarkets is from "food"
- **Convenience Stores** –These are small self-service retail outlets with less than 3,000 square feet in total selling area and fewer than 5,000 items. These stores typically feature ease of access, late-night hours, and a limited line of merchandise, including staple groceries, snacks and sometimes gasoline. Convenience stores charge above-average prices compared to supermarkets

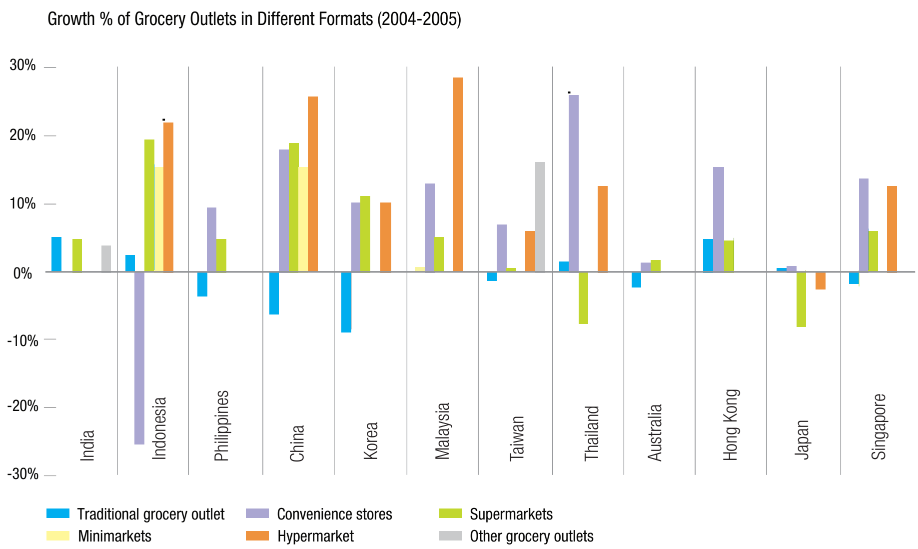
Exhibit 1 Share of trade in Asia (excluding Japan)

Source: 2006 Asia Pacific Retail and ShopperTrends, AC Nielsen

ASIA: HETEROGENEOUS MARKETS, SINGULARLY DYNAMIC

Our review of industry data found that while modern food retail formats have established themselves across Asia, no single format had uniform significance across the entire region. The growth of different formats varies significantly across the region (see Exhibit 2).

Exhibit 2 Annual growth of food retail outlets by format, 2004-2005



Source: 2006 Asia Pacific Retail and ShopperTrends, AC Nielsen
Note: Hypermarkets include GMS in Japan

Yet, while centuries-old traditional food vendors, wet markets, and new formats coexist to differing degrees in each Asian market, there is a clear trend in the growth of modern retail at the expense of traditional retail across Asia.

DEFINITION OF MODERN AND TRADITIONAL RETAIL

For the purpose of this research, we have made a distinction between modern and traditional retail across three key dimensions – how the shopper is served, whether it is independent or part of a chain of stores and what is the ownership structure. Modern retail stores are self-service offerings that typically are part of a chain of stores and belong to an organisation that has a corporate structure. Traditional retail stores (so-called “mom and pop” stores) on the other hand are typically family-owned, small over-the-counter stores that are independent in nature.

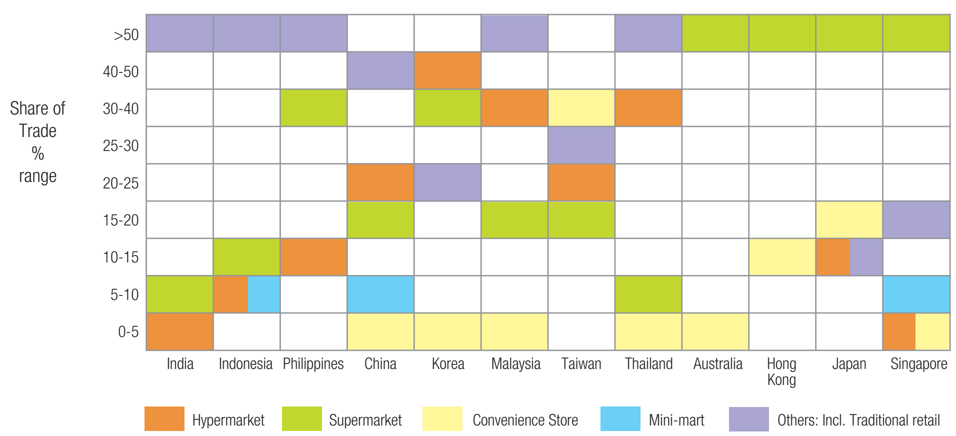
The Philippines is one market that bucks this trend, showing a growth in traditional food retail and decline in modern food retail over 2004-2005. Markets like India and Indonesia have shown growth in outlet numbers across both modern retail and traditional retail.

However, generally speaking, three modern food retail formats are beginning to emerge as the primary formats across the region: hypermarkets, supermarkets and convenience stores. As shown in Exhibit 3, although supermarkets have become well-ingrained across Asia’s landscape (supermarkets were the first modern retail format to enter most markets), convenience stores and hypermarkets have been leading the outlet expansion race in recent years and hypermarkets have even become the significant format in some markets.

Despite this variance, analysis done for this report shows that the format landscapes among certain Asian economies are beginning to evolve in similar patterns.

Exhibit 3 Food retail format landscape in modern trade in Asia

Format share of trade in Asian markets



*Source: IBM Anaylsis**
**cross-checked against 2006 Asia Pacific Retail and ShopperTrends-AC Nielsen, Planet Retail*

For many of Asia's growing emerging markets, format proliferation is seen largely across the board, as new markets and market segments open up and industry participants rush in to address them. Indonesia's 22% growth in hypermarket outlets typifies this expansion, and speaks of a fairly consistent trend across emerging Asia to meet the needs of dynamic consumer markets through the convenience, value and choice of hypermarkets.

Other emerging markets also show massive outlet growth but, by the same token, experience more rapid conversion to modern formats. China is the clear standout here; the number of modern food retail outlets rose nearly 16% between 2004 and 2005 (including growth of 26% for hypermarkets, 19% for supermarkets and 18% for convenience stores)[1], thanks to the proliferation of formats in this swiftly modernizing economy.

In moderately more developed food retail markets – those in Korea, Taiwan, Thailand and Malaysia – changes in the market are equally significant if somewhat different. In these markets, total outlet growth was stagnant, or even contracted, but all saw a pointed shift in market share in favor of hypermarkets and convenience stores, often at the "traditional" supermarket's expense. Such was the case in Thailand, where the supermarket installed base contracted 8% in 2005, while convenience stores and hypermarkets grew 26% and 13%, respectively[1], in an overall flat outlet market.

This polarization is seen in Asia's richest and most developed markets, as well. On one end of the spectrum, convenience stores expand in neighborhoods and business districts to tap into busy consumers' most pressing shopping needs; the archetypically busy cities of Hong Kong and Singapore saw their convenience store installed base rise 14% and 15%[1] respectively. Australia and Japan have both seen consolidation among food retailers, along with fragmentation of the format landscape, as organizations attempt to focus on specific shopping occasions and respond to specialised needs in different contexts with different types of stores.

KEY MESSAGES

- Across Asia, modern retail continues to grow its share of food retailing, led by the three most well-known and pervasive formats: supermarkets, hypermarkets and convenience stores
- In the most underdeveloped and rapidly expanding of the region's markets all three formats are expanding and building significant share of market
- In markets with more moderate growth, competition for shoppers among formats is seeing a shift from supermarkets to hypermarkets, particularly where the supermarket offer is not substantially differentiated, and where convenience stores are expanding to meet shopping needs not serviced by hypermarkets
- In more mature, lower-growth markets, more specialised formats have begun to emerge that target key shopper segments and specific occasions

CHAPTER TWO

SHOPPERS AND FORMATS

TWO KEY DIMENSIONS INFLUENCE FORMAT SUCCESS

Varying market maturities among Asian countries make the issue of store format development a complex one. Many countries in the region however, share common patterns and themes. Underlying these patterns and themes are two key dimensions that impact food retail format success: the needs of shoppers, and the business environment.

The business environment comprises a country's distribution infrastructure, its real estate market, its regulatory environments, and other factors that impact a retailer's choice and operation of formats in a country. A retailer's ability to influence the environment in which it operates is limited, compared to what that same retailer can do to meet shopper needs.These environmental factors, and their impact on format success, will be discussed further in the next chapter.

UNDERSTANDING WHAT DRIVES A SHOPPER'S CHOICE OF FORMATS

Understanding the needs that drive shoppers' choices can enable retailers to identify new opportunities for formats and tailor their format offer helping them to avoid spending time, money and resources on efforts that have little meaning or value for consumers. To this end – the study analyzed shoppers to understand what drives their format choices.

Shopper drivers include demographic considerations – age, household size, home size, car ownership, annual spend on consumer goods and share of spend on food products – as well as behavioural considerations, such as the ways shoppers commute to shop, and the amount of time they allow themselves – or simply have to spare – in the shop.

Our study uncovered that Asian shoppers have certain "likes" and "dislikes" about specific aspects of each of the major modern retail formats under consideration. These preference sets, in turn, define when each format is appropriate (see Exhibit 4).

Exhibit 4 Shopper likes and dislikes by format

	HYPERMARKETS	SUPERMARKETS	CONVENIENCE STORES
LIKES	• Space • Choice • Value • Range • Exploration	• Reliable • Acceptable variety • High quality • Fixed prices • Convenience: – Location – Time – Effort – Choices	• 24 hours operation for urgent needs • Daily necessities in small packages • Quick free services for utilities • Quicker introduction of newer items • Prepare your own snacks (microwave oven, etc)
DISLIKES	• Large and overwhelming • Budgets goes awry • Not for urgent needs • Choice overshadows convenience	• Limited choice • Limited product line up • Higher priced as compared to hypermarkets	• Very limited choice • No price advantage • Limited fresh food • Frequently change items

UNDERSTANDING SHOPPERS AND FORMATS

The study began with a series of focus group-driven investigations into the needs and habits of shoppers in Asia in relation to formats. This was aimed at addressing the following questions:

- **How do consumers use different formats, and how do they feel about them?**
- **What is the language that shoppers use to identify formats?**
- **How do they make their shopping decisions between formats?**
- **Which formats do shoppers use for each different shopping occasion?**

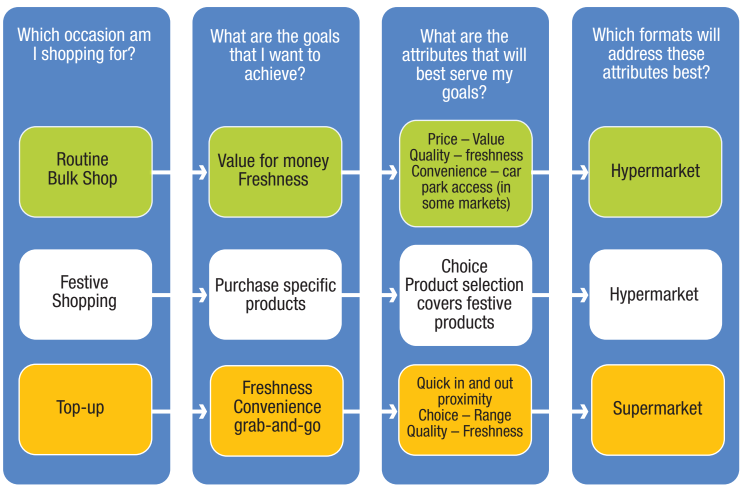
The focus groups involved a total of 80 shoppers across five markets in Asia (China, India, Japan, Taiwan and Thailand) to uncover shopper insights on the key needs and motivations behind using different retail formats. It also involved a creative ideation process to explore new ideas and concepts about products, services and formats that create relevant disruptions and enhance the appeal and thereby the success of the different retail formats. These creative ideation sessions were held in India and Singapore, and involved 24 shoppers in all.

These focus groups were supported by a series of discussions with retail industry leaders working across Asia. IBM's network of global industry practitioners was also leveraged in this project to provide additional perspective on food formats.

INSIDE THE MIND OF THE SHOPPER

The research we undertook uncovered a decision map that shoppers use to determine which formats they choose to shop in. This decision map helps them make tradeoffs across a range of attributes associated with different retail formats. Exhibit 5 depicts this decision map.

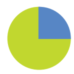
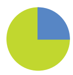
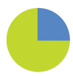
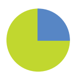
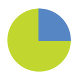
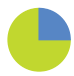
Exhibit 5 The shopper decision map (illustrative)



NEEDS ARE DEFINED BY OCCASIONS —AND OCCASIONS DRIVE FORMAT CHOICE

As shown above, it is the "why" that is the key: the real drivers of format's success depend upon its ability to deliver against a shopper's need at a specific point in time. Thus, it is the shopper's occasion – the particular event defined by a unique set of requirements – that significantly influences a shopper's choice of format. In addition, the specific attributes that shoppers seek while shopping for food vary, depending upon on the occasion. Each format has its own particular set of strengths and weaknesses in catering to each of these specific occasions. The following table defines the seven core occasions cited by shopper respondents, and the suitability of different formats in addressing them (see Exhibit 6).

Exhibit 6 Shopper occasion and format suitability

Occasion	Goals to achieve	Attributes Desired – Reasons for Choice	Rating of Format-to-Occasion Suitability		
			Hypermarkets	Supermarkets	Convenience Stores
Routine Bulk Shop	• Value for money Freshness	• Choice – product selection, bulk packs • Price – Value • Quality – freshness • Convenience – Car park access (in some markets)			
Top-up	• Freshness • Convenience/ grab-and-go	• Convenience – quick in and out • Choice – Range • Quality – Freshness			
Kill boredom/ entertainment	• Alleviate boredom • Stimulate senses • Finding new products	• Choice – Product range for "Discovery, Impulse purchase, Something for everyone			
Satisfy sudden craving	• Purchase desired item	• Location – proximity • Convenience – quick in and out, Products in line of sight • Choice – Single size serving			
Sudden emergencies/ Unexpected visitors	• Purchase needed item	• Location – proximity • Convenience – Quick in and out, Products in line of sight			
Festive Shopping	• Purchase specific product	• Choice – product selection – covers festive products			
Special Meals/ Entertaining	• Purchase desired products	• Service • High quality • Choice Product selection, Special needs (organic, vegan)			

 Most suitable  Least suitable

THE ASIAN SHOPPER'S HIERARCHY OF ATTRIBUTES

It is important to note that each of a shopper's various needs is weighted uniquely for each occasion. Therefore, the effectiveness of a specific retail food format depends largely upon the overall value proposition sought after by shoppers for a specific occasion. A key finding of this study is that these attributes form a hierarchy (or pyramid) that, in turn, influences shoppers' acceptance of – and preferences for – different retail formats.

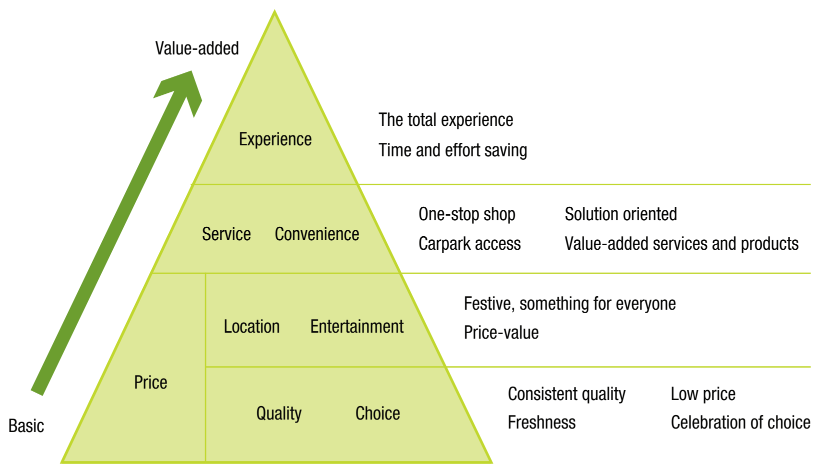
THE ASIAN SHOPPER'S ATTRIBUTE PYRAMID

Includes the following:

- **Experience** – the overall shopping experience
- **Service** – customer service, assistance before, during and after purchase
- **Convenience** – time and effort efficiency
- **Price** – low price, value
- **Location** – proximity and access
- **Quality** – degree of excellence
- **Entertainment** – excitement, festiveness, "something for everyone"
- **Choice** – product selection

Exhibit 7 below expresses these needs in their implied hierarchy, from "basic" to "value-added". Choice, for example, is a "basic" attribute involving product selection in-store; convenience, on the other hand, is a "value-added" attribute, concerned with saving time and effort.

Exhibit 7 Asian shopper's attribute pyramid

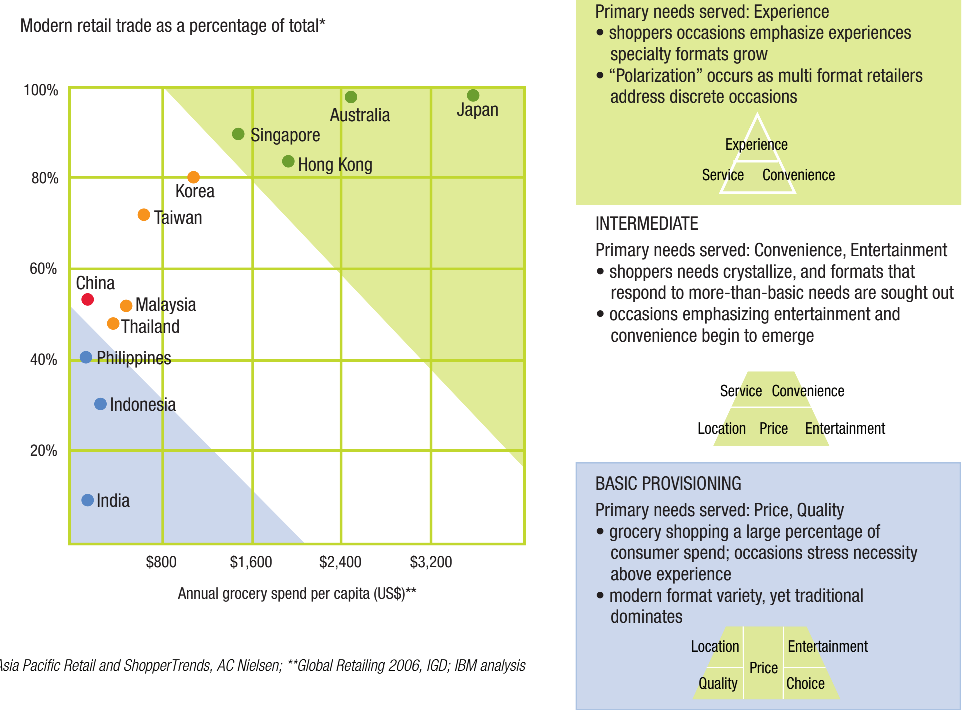


Different food retail formats offer all of these attributes, albeit in varying degrees. Each attribute often connotes something different in different markets. For example, as uncovered in the shopper study, price often connotes "low price" in developing markets, while in more developed markets it conveys a more generalized "value" concept that a format may deliver. Furthermore, the attributes in the pyramid are inclusive – not exclusive – in nature. In other words, while some secondary attributes may rank higher among shoppers' priorities, more primary attributes may continue to influence shoppers' choices of retail formats. In selecting between different formats, therefore, shoppers make intuitive trade-offs that are influenced by the occasion that the shopper is shopping for. To succeed, retailers need to build format differentiation in the "relevant" attributes for the markets in which they compete.

As you move from markets that are low to high in their share of modern retail, secondary attributes, positioned higher on the pyramid, increase in importance (see Exhibit 8). Successful retailers have shaped their format offerings in line with the key occasions and attributes that they want to own. The key is to distinguish one's format from others via a few select attributes that are relevant for the shopping occasions in each market.

By taking the attribute pyramid and juxtaposing it with the country matrix of modern trade penetration and shopper spend, one can identify "format fields," into which various markets that share similar market dynamics fit.

Exhibit 8 Format field country matrix



*Source: *2006 Asia Pacific Retail and ShopperTrends, AC Nielsen; **Global Retailing 2006, IGD; IBM analysis*

For example, this research revealed that supermarkets tend to suffer when they attempt to offer the attributes more intrinsic to the hypermarket format; the supermarket's operating model inherently prevents it from achieving hypermarket levels for price and choice. Only by changing the game can a retailer move up or down the pyramid to better accommodate shopper insights.

Tops Supermarkets in Thailand is a case in point where the chain has reshaped its offering in line with developments in modern retail and changes in shopper needs (See box below).

Thus, while shopper occasions are unique to the shopper, the number of occasions and the relative frequency of each type of occasion correlates with, and varies by, both the demographic makeup of the economy and the environmental and cultural factors that make up each country's retail economy. In broad terms, this means that each Asian market's personality will have an overarching influence on the composition of its shopper's "occasion portfolio". Shoppers with less disposable income typically have fewer occasions within their portfolio, on account of the limited amount of money to go around. Further, the attributes that they seek tend toward the lower, primary, levels of the pyramid, since price, quality and access are important issues in these markets (see Exhibit 8). However, it is important to note that large markets, such as China and India in particular, will contain one set of shoppers who look for price and quality and another set that is focused on the service and experiential aspects, due to the differences in income distribution in these countries. The average income and spends in these countries mask the "true" spending power in some consumer segments. For example in India, where 800 million people earn US$2 a day or less, there are 70,000 high net worth individuals, people with net financial assets of over US$1million[2]. The number of millionaires in India has grown by 19.3% over 2004-2005[3].

THAILAND – TOPS SUPERMARKETS

The growth of hypermarkets on the one hand and convenience stores on the other has put the squeeze on supermarkets in Thailand. In urban Thailand, regular supermarket users dropped by 13 percent in 2005 compared to 2004[1]. Tops Supermarkets, though, expanded the number of stores from 71 to 85[1] during the same period.

Tops Supermarkets responded to the competitive onslaught by creating "The Central Food Hall," its concept for differentiating itself, addressing secondary attributes, and appealing to discerning shoppers.

The Food Hall was created as a new kind of "food experience" store. It caters to an audience of 80% local residents and 20% expatriates. It offers an array of fine foods and wines from around the world – many of which are brand-new to the region's retail environment. It also offers a range of top-quality local produce, and captures the feel of a bustling market, with all its multi-sensory experiences. The layout encourages shoppers to walk through vibrant displays of fresh food; watch fishmongers, talk to wine experts; smell freshly baking bread; and satisfy their taste buds at a range of fresh food and drink counters.

One of the features of the new store is an area called The Street, in the heart of the Fresh Food zone. Here, shoppers can enjoy authentic Thai street food cooked on the spot, preparing popular local dishes with western standards of hygiene. Product quality is important at the Food Hall, and it is the first store in Thailand to earn the Golden "Q" award, presented by Thailand's Agriculture and Cooperatives Ministry in recognition of the quality of food products from its sources to the warehouse and the store shelves. Central Food Hall has added services like valet parking, free home delivery, carrying purchases to the customer's car or taxi, free gift wrapping and chef consultation as part of its Blue Ribbon Service which make shopping there more enjoyable than competing stores.

References: Retail Asia Online, www.centralfoodhall.com, www.fitch.com, www.siamfuture.com, The Bangkok Post

KEY MESSAGES

- Occasions drive the shopper's choice of formats. The ability of a format to cater to the specific needs of Asian shoppers in each of the seven occasions is the key to its success. Each of a shopper's various needs is weighted uniquely for each occasion, and shoppers seek formats that fit most closely that weighted need. Different occasions with competing needs (eg. convenience and wide choice) pose dilemmas for retailers
- Like shoppers the world over, the Asian shopper has a hierarchy of attributes ranging from primary to "value-added" secondary and tertiary. This hierarchy is expressed in each occasion, but the ability of a shopper to address needs at the value-added end of the pyramid is determined by the intertwined demographic and economic contexts, as well as by the available format offerings, in that market
- To succeed, retailers need to build format differentiation by embracing a few select attributes that are relevant for the shopping occasions in each market

CHAPTER THREE

THE BUSINESS ENVIRONMENT AND ITS INFLUENCE ON FORMATS

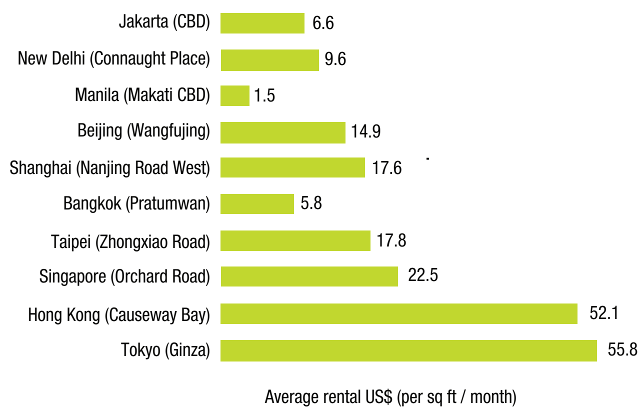
The business environment can significantly impact the retailer's ability to develop, operate and compete with certain format offerings in the marketplace. It is the business environment – whether as an enabler or as an inhibitor – that essentially mediates retailer response to shopper needs. The business environment includes the following:

- Cost and availability of real estate
- Regulatory environment
- State of distribution infrastructure
- State of technology

THE COST AND AVAILABILITY OF REAL ESTATE

Prevailing real estate costs and the sheer availability of suitable commercial space play a large role in determining the viability of different food retail formats. Low operating costs are essential to support a hypermarket's "value" proposition to the shopper. Hypermarket retailers therefore tend to gravitate toward locations with an abundance of modestly priced commercial space. The relatively high rentals in markets like Tokyo and Hong Kong has impacted the entry and performance of larger formats (see Exhibit 9). Korea is witnessing a trend towards compact hypermarkets which is driven not only by regulatory requirements but also by the higher costs of real estate. Smaller formats like convenience stores, on the other hand, can more effectively compensate for higher commercial rents through higher product prices on account of longer hours of operation and closer proximity to customers.

Exhibit 9 Prime retail rentals in Asian cities



Source: CB Richard Ellis Asian Retail Property Review Q4 – 2006

However, the cost of real estate is only part of the picture; availability is the other key component. In most of Asia's big cities, availability is also an issue. This is driven both by their dense populations and by property owners' natural propensity to maximise returns on their investments; in these situations, food retail stores often cannot compete with other, higher-value specialty retailers. While property owners often covet food retail stores as anchor tenants to drive traffic in the less-developed markets, this does not necessarily hold for denser markets like Hong Kong, Tokyo or Sydney. These factors have a significant impact on retailers' choice of formats, which now need to be based not only on commercial considerations but also on availability constraints.

REGULATORY ENVIRONMENT

Regulations constitute a growing influence on the choice and execution of formats by retailers across Asia (see Exhibit 10). In Asia, regulation has largely centred around five dimensions:

- Size of retail outlet
- Extent of foreign investment
- Location of store
- Operating hours
- Product range

Exhibit 10 Food retail regulatory environment today

Australia	• Various zoning and land usage regulations at the local council level
China	• Unrestricted foreign investment in retailing since Nov 2005 • Big box formats prohibited in central areas of Beijing and Shanghai • Ban on opening of new hypermarkets within two miles of existing hypermarkets
India	• Foreign investment >50% restricted to wholesaling and 'single brand' retailing • Zoning requirements restrict where food retails outlets can be opened • No format specific laws yet
Japan	• No significant regulatory constraints other than local zoning laws
Malaysia	• MYR50 million minimim required capital to open new hypermarket • Applications to build new markets required 2 years in advance of construction • New hypermarkets prohibited within 3.5 kilometer radius of a housing area of a city centre • Hypermarket must be free-standing, i.e. not attached to any other building complex
Philippines	• Foreigners investing in existing retails stores limited to 60% equity stake for intial 2 years • Minimum requirements for locally – manufactured products
Singapore	• No restriction on foreign investments • No significant format specific restrictions (apart from zoning laws)

References – IBM Research, IBM Country Subject Matter Expert interviews, Government websites

Retail regulation is closely linked to the political climate in each market, due to the high visibility of regulatory impacts on food retail. This is an area that is thus difficult for retailers to plan around. In most instances, retailers have to react and comply with the regulations in each market. These regulations impact the ability of retailers to open and manage certain formats. (See below.)

BOXING OUT BIG-BOXES

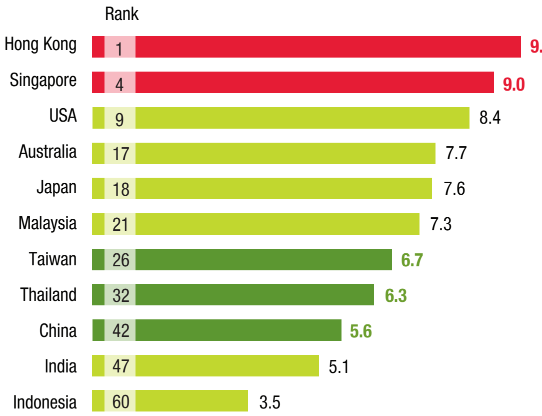
So-called "big-box" formats have come under increasing scrutiny across Asia. Now banned in central areas of Beijing and Shanghai, new hypermarkets have also been prohibited from opening within two miles of an existing hypermarket by China's State Administration for Industry and Commerce. Thailand's government moderates its retail landscape in part through a law that prohibits the construction of large retail stores (those over 1000 square metres) within 15 kilometres from commercial town centres outside of Bangkok. Malaysia's government has issued a five-year moratorium on the construction of hypermarkets in key urban centres. Furthermore, by law, hypermarkets in Malaysia must be free-standing (eg. not part of a mall), and must not be located within a radius of 3.5 km of a housing area or city centre. Malaysia's laws subject supermarkets over 2,000 square metres in size to restrictions similar to those imposed upon hypermarkets; such stores must demonstrate that they address a catchment population of at least 250,000, as well as heed strict limits on their hours of operation.

While such regulatory boundaries may not necessarily undermine the business case for hypermarkets, they must be considered in the overall format strategy nonetheless. Relegated to the outer perimeters of population centres, hypermarkets would do well to find novel ways to make shoppers' commutes worthwhile. Denied the convenience and broad appeal of mall locations, free-standing hypermarkets might need to strive for a true one-stop shopping experience, in order to lure shoppers into their doors. Finally, given the focus on establishments of certain size, retailers may also opt simply to adapt their hypermarket approaches to smaller quarters, thereby accommodating (or even bypassing) some of these regulatory burdens.

DEVELOPMENT OF DISTRIBUTION INFRASTRUCTURE

The nature of infrastructure required for hypermarkets is more self-contained. Hypermarkets have greater backroom space, and hence more on-site inventory, in addition to a breadth of range and a scale that enables them to streamline their supply chains. This makes the hypermarket a format of choice for retailers in markets with relatively inefficient distribution infrastructures. An advanced distribution infrastructure setup, on the other hand, facilitates the direct distribution model of relatively smaller delivery lot sizes across multiple locations. This improves the supply chain efficiencies and benefits necessary to operate a supermarket format. This can be seen in markets like Australia, Singapore and Hong Kong, where the relatively more developed distribution infrastructure supports the supermarket format offering (see Exhibit 11).

Exhibit 11 Distribution infrastructure efficiency rating by country



Source: IMD World Competitiveness Yearbook 2006
The bars in the above chart highlight the score attributed to each of the countries in the IMD World Competitiveness Yearbook while the figure in the bars indicate the relative ranks of the various countries rated in that study

STATE OF TECHNOLOGY

The state of communications, information technology infrastructure and retailing applications can also provide retailers with considerable competitive advantage.

New technologies are enabling retailers to manage larger and more complex businesses through networked infrastructures, as well as to optimise demand and supply chain activities through sophisticated software applications. They are helping retailers do more with the products, stores, and customers they already have, and identify opportunities for expanding their shopper bases. Sophisticated information management, data mining and analytical tools have helped retailers build relationships with their customers by recognizing and appealing to their individual qualities, instead of aggregating them based upon their similarities.

Retailers are delivering experience-based differentiation by leveraging technology to tailor consumer experiences. They are using digital in-store media, self service and multi-channel solutions to drive differentiation in-store. The advancements in pricing and merchandising optimization tools are further enhancing the competitiveness of retailers. Point-of-sale solutions, warehouse management, inventory management, and order management and fulfillment application today offer tremendous opportunity to improve operational efficiency.

THE IMPACT OF TECHNOLOGY ON FORMATS

Formats have been able to differentiate their in-store offers and enhance their responsiveness to shoppers by leveraging appropriate technologies. Convenience stores in Japan provide a good example of this (see below).

CONVENIENCE STORES (KONBINIS) IN JAPAN

Convenience stores in Japan provide a good example of how the strategic application of technologies can significantly enhance a format's competitiveness in the marketplace. They have used technology to leverage their strength – high-traffic store locations – and minimise their weaknesses – limited space and product selection.

By enabling e-shopping through online multimedia terminals in their stores, the convenience store has expanded its product and services offering to include travel-related services, music CDs, ticket sales, books, and rental car reservation services without adding to in-store inventory requirements. The stores then serve as payment and distribution centres for the orders upon their arrival, and thus leverage their "high traffic, prime" locations.

High traffic and the high turns of inventory in a convenience store necessitate a replenishment system that is in tune with business needs. It requires that individual stores make several product mix and inventory level decisions daily. To facilitate this, 7-Eleven uses a satellite-based ordering system that includes detailed weather information—so that managers know to order more cold noodles on hot days, or more fresh produce on rainy days, to accommodate customers who must postpone a trip to the grocery store. The system helps store managers to understand shopper purchase patterns at a granular level, so as to allow for a varied range in their "foods-to-go" in line with their shopper base. In Hokkaido, for example, bento boxes with local scallops and sea urchin are more popular than in Sendai.

The retail information systems for convenience stores in Japan provide the infrastructure for a highly integrated, highly distributed demand-chain environment. Any interruption in the flow of information to the system can directly impede a store's product selection, the supply chain efficiency and thereby the bottom line. Compounding the situation is the array of devices that the retail information system must support – credit and debit card scanners, point-of-sale systems, cheque scanners, devices for printing money orders and capturing signatures, sales through the online channel, and even handheld devices used by store clerks to reorder products for the restock. In addition, around-the-clock store activity places unusual demands on the information systems in place. In this environment, the adoption of appropriate technologies has significantly helped Konbinis respond well to their shopper base.

References[4] : Time Asia, Japan Society, AsiaWeek,IBM Analysis

KEY MESSAGES

- The cost and availability of real estate, the regulatory environment, the state of distribution infrastructure, and technology can enable or impede a retailer's ability to open and operate different formats effectively. These business environment factors have had a significant impact on the way formats have evolved to date
- Market-specific challenges and opportunities require retailers to modify and adapt formats in order to maximise their stores' value to serve relevant shopper occasions
- A holistic approach to understanding both shopper needs and the business environment is important for devising a retail format strategy and for implementing it successfully

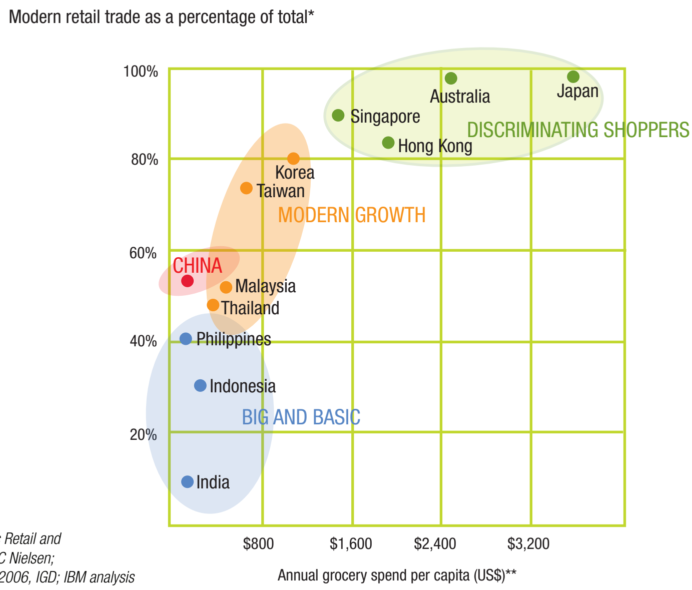
CHAPTER FOUR

COUNTRIES, CLUSTERS AND SIGNIFICANT FORMATS

As stated earlier, no one format has been uniformly successful across Asia; Nevertheless, established format trends can be observed across the region. As noted in Chapter Two, these format trends are linked to the strategic responses retailers make as they try to meet the needs of shoppers and the occasions for which they shop. The degree of variance in the number and types of occasions depends in large part upon the economic state of the country; retailers in more "mature" economies have to cater to more "value-added" shopper needs.

There are similarities among some of Asia's markets, both in terms of their economic and demographic characteristics, and their food retail market landscapes. This report identifies four market clusters in Asia (see Exhibit 12), each of which is characterized by a common set of shopper occasions and market landscape factors and, as a result, a common set of formats which are more successful at meeting shopper needs than others. The concept of clusters helps to apply an understanding of the dynamics of one market to another, as well as to also point to possible evolution paths that a market could take.

Exhibit 12 Asian food retail market clusters



Source:
*2006 Asia Pacific Retail and ShopperTrends, AC Nielsen;
**Global Retailing 2006, IGD; IBM analysis

Conclusions drawn for one market may not apply to another market, since the absolute variances across markets are wide: from markets like India, with US$178 in annual household spend on grocery[5] and a very low proportion of modern retail (11%)[1], to Japan, with US$3,560 in annual household grocery spend[5] and a completely modern retail environment (100%)[1]. However these conclusions will apply broadly across markets within a cluster.

In clusters that are less economically mature (such as 1 and 2, defined below) multiple formats capture significant shares of the market. In the relatively more mature markets of cluster 3, where shopper needs have progressed beyond the primary attributes, the hypermarket is significant. In cluster 4, where sophisticated consumers in mature economies seek out selection, quality and convenience, supermarkets constitute the significant format offering. Each cluster was studied in detail to understand the formats that are significant and to develop an outlook for the future.

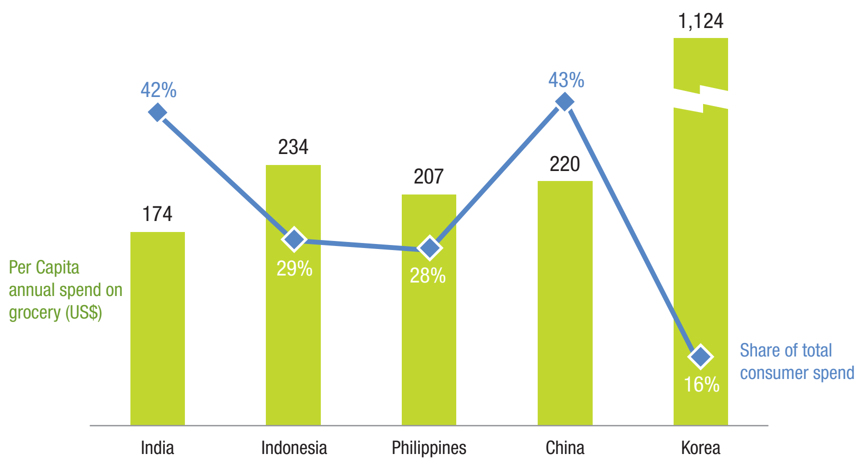
CLUSTER 1: BIG AND BASIC INDIA, INDONESIA, PHILIPPINES

SIGNIFICANT FORMATS AND MAJOR DRIVERS

The sheer size of the market makes India stand out in this cluster, however the three countries in this cluster are quite similar in most other aspects. Traditional retail dominates the market and has significantly higher share than the Asian average of 48%. Multiple formats co-exist in this cluster, with no clear significance for any particular format. Each of the formats offers specific advantages and disadvantages, but the overall size of the opportunity and the presence of multiple demographic segments – each with unique needs and preferences – bestows advantages to hypermarkets, supermarkets and mini-marts.

In the big and basic cluster, hypermarkets enjoy some advantages. Modern retail is a new experience to most of these shoppers, and the range and choice of products available in a hypermarket provides an exciting introduction to modern retail for them. Among shoppers in these markets, the per-capita annual spend on food is comparatively (see comparison with Korea) small, and forms a sizeable share of total retail spend (see Exhibit 13). This dynamic results in a heightened sensitivity to price. For this reason, these shoppers seek options that can save them money (i.e., shoppers have a deal orientation). Formats that can offer low prices and wide choice will be at an advantage, provided they meet the primary requirement of delivering quality.

Exhibit 13 Per capita annual spend on grocery (US$)



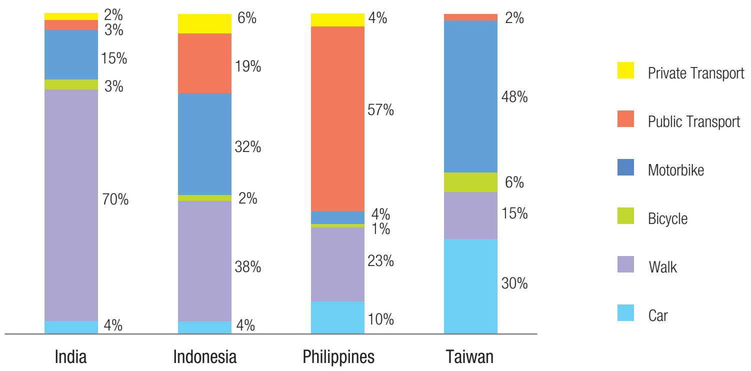
Note: The per capita annual spend on grocery (US$) plotted along with the share of total consumer spend that it forms
Source: Global Retailing 2006, IGD

Retailers in this cluster prefer to invest in big-box formats as a way to minimise up-front investments in logistics and IT infrastructure, given the underdeveloped nature of the distribution infrastructures in these countries. On a worldwide basis, India, the Philippines and Indonesia rank 47th, 57th and 60th, respectively, in distribution infrastructure development, according to the IMD World Competitiveness Yearbook. Given these markets' limited experience with modern retail, shoppers' concerns centre upon celebrating the choice and range of products (including hard goods, textiles and food) available through modern retail channels. This focus clearly gives larger formats an edge.

Shopping frequency remains high in countries in this cluster; a majority of shoppers shop daily. Limits on household storage space – 59% of households in Indonesia and the Philippines are 1-2 rooms in size[6] – mean small shopping basket sizes.

Retailers in the big and basic cluster tend to locate stores – including hypermarkets, for the time being – in relatively densely populated areas, close to their shoppers. As most shoppers walk or take public transportation to do their shopping, locating close to population centres assumes strategic import (see Exhibit 14). A comparison with Taiwan shows up this difference starkly.

Exhibit 14 How shoppers commute to shop



Source: 2006 Asia Pacific and ShopperTrends, AC Nielsen

Because of this, retailers often opt for supermarket formats, which neighbourhood settings tend to accommodate better. Even small formats, such as mini-marts, bring advantages that appeal to some segments.

Traditional retail remains strong in this cluster, and personal relationships can often offer competitive differentiators; some retailers even extend credit to their customers as a personal service. The cost of operations in these countries tends toward the lower end of the spectrum. Smaller retailers have embraced modernisation as a means of heading off new competition in the neighbourhood. The surge of the mini-marts in Indonesia is an example of this phenomenon.

A MINI-MART SURGE IN INDONESIA

In the period from 2004 to 2005, a 15% growth in mini-mart numbers gave this format a 10% share of Indonesia's food retail market. Today, 62% of Indonesian shoppers visit mini-marts as part of their shopping experience, and 17% do most of their spending in these stores.

The appeal of these mini-marts lies in the combination of neighbourhood convenience with low prices for everyday essentials.

References: 2006 Asia Pacific Retail and ShopperTrends, ACNielsen

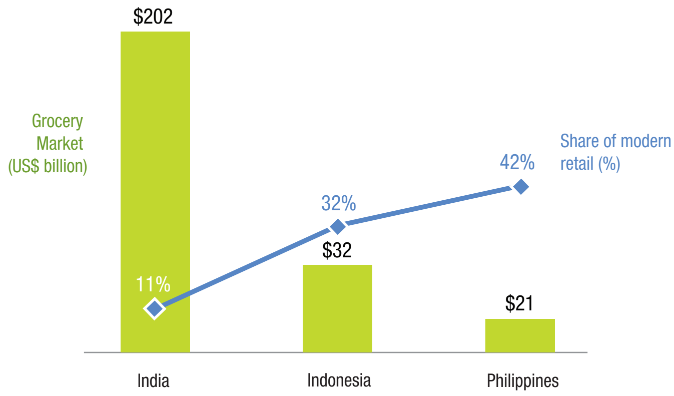
While convenience stores provide the closest alternative to mini-marts among current modern formats, price-positioning remains a challenge. As a result, few shoppers surveyed – 14% in the Philippines and 1% in Indonesia[1] – claimed that they used a convenience store very often. Further, differences in customers' experiences have necessitated retailers to rethink their approach to co-location of convenience stores with fuel stations in markets like India. See "The Convenience Store-Petrol Station Connection in India," below.

THE CONVENIENCE STORE-PETROL STATION CONNECTION IN INDIA

When the convenience-store-within-the-petrol-station was first introduced in India, it faced many obstacles. Refuelling in India is a high-pressure transaction because of the long queues of impatient drivers in their cars and taxis. This is further intensified by the fact that drivers feel the need to monitor the filling quantity and quality throughout the transaction. Moreover, the current process involves simply paying the gas attendant; there is no need to go into the convenience store. Absent the imperative even to leave the car, impulse shopping in such convenience stores is therefore unlikely. Convenience stores co-located with petrol station have thus met with limited success. This is changing now, however, with petrol stations retooling their payment processes with a view toward driving traffic into the store.

There are several drivers that have led to the co-existence of multiple formats in these markets. As seen in the chart below, the size of the markets, coupled with low penetration of modern trade, indicate high potential for modern trade in this cluster (see Exhibit 15). While the size of the opportunity is smaller in the Philippines and Indonesia than in India, they have modern food retail segments that are more developed, and further along the learning curve, than in India.

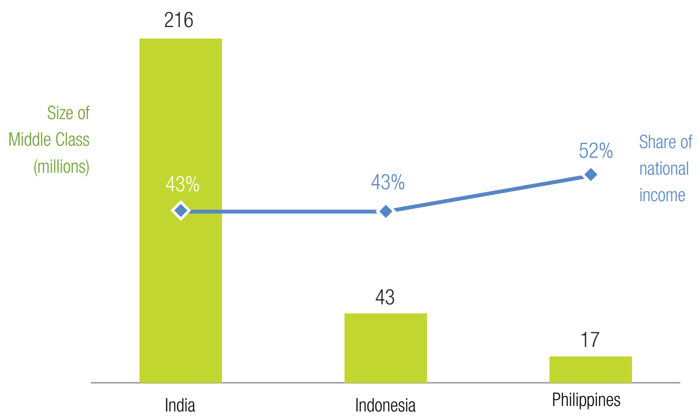
Exhibit 15 Grocery market (US$B) vs. share of modern retail



Source: Global Retailing 2006, IGD, 2006 Asia Pacific Retail and ShopperTrends, AC Nielsen

Large "middle-class" populations with growing personal disposable incomes imply that sub-segments within these populations will be sufficiently large for different formats to target (see Exhibit 16). While the sizes of the middle class segments in Indonesia and Philippines are much smaller than in India, they are nevertheless significant, being equal to or larger than the entire population of markets like Malaysia or Taiwan.

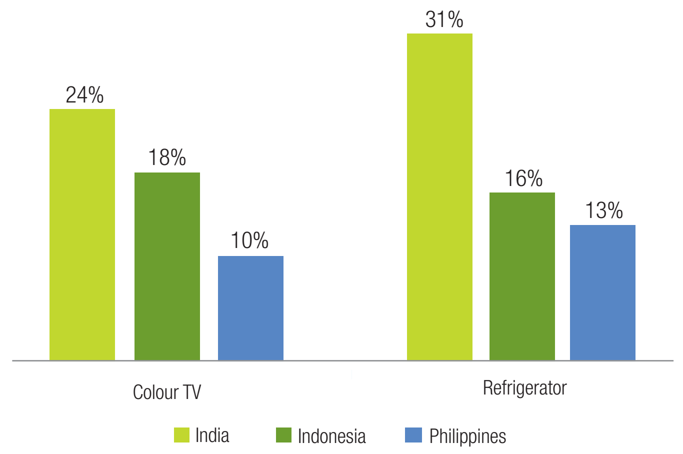
Exhibit 16 Size of middle class (millions) vs. share of national income



Source: Strategic focus retailing in India Feb 2006, Retail Forward

Increased ownership of household durables like colour TV and refrigerators are good indicators of increasing disposable income in developing markets (see Exhibit 17) and data indicates that while this growth is not uniform across all three markets it is not insignificant in any of them.

Exhibit 17 Increase in ownership of household durables per 100 households (from 1999 to 2004)



Source: Consumer Asia 2006, Euromonitor International

MULTIPLE FORMATS WILL CONTINUE TO CO-EXIST

The size of these markets, coupled with the growth of modern retail, imply that multiple formats will continue to co-exist in the foreseeable future. Hypermarkets and supermarkets will likely continue to operate and grow successfully, given the shopper drivers discussed. As these markets evolve, more experienced shoppers will seek out convenience (location, ease of shopping / check-outs) and there will be a growing opportunity for neighbourhood supermarkets that offer shoppers both value and convenience. Concurrently, more shoppers will graduate to the middle-class mainstream, and rely more heavily upon modern retail as their primary shopping format. Hypermarkets will be a preferred format as shoppers continue to prioritize wide choice and low price over convenience. Hypermarkets will also continue to be a significant source of procurement for traditional retail stores until alternative formats targeted at this segment grow in number. Convenience stores will continue to face challenges from traditional retail / mini-marts and will meet with a greater chance of success when located in areas with higher traffic and affluence.

CLUSTER 2: MULTI-FORMAT – CHINA

SIGNIFICANT FORMATS AND MAJOR DRIVERS

Most of the shopper demographics in China resemble those in Cluster 1. What sets multi-format China apart is the extent of modern retail presence, the pace of change in the regulatory environment and the relatively advanced nature of industry practices in the food retail sector. China has gotten off to a head-start compared to the markets in Cluster 1, and has an established modern food retail sector. The significant number of foreign retailers present has also helped the market climb a steep learning curve, and helped establish a critical mass for further investments. This has had an impact on the current shape of the food retail trade and the outlook for the future.

Here again, multiple formats co-exist with no clear significance for any single format. Each of the formats has specific advantages and disadvantages, but the overall size of the opportunity and the presence of multiple demographic segments with unique needs and preferences provide hypermarkets, supermarkets and smaller convenience-oriented formats with significant advantages.

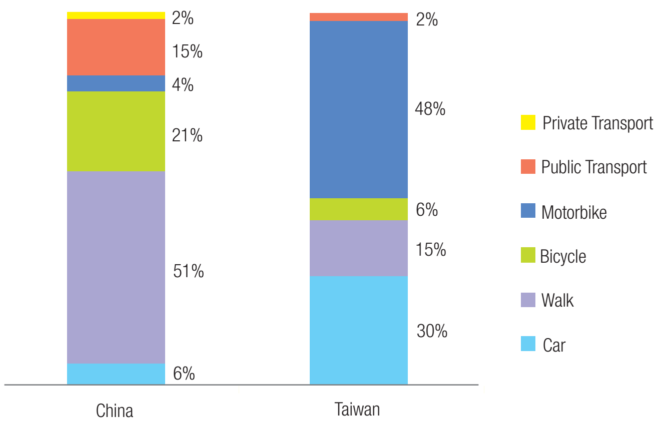
The China market favours the hypermarket format in many respects. China shoppers are deal-oriented, with per-capita spend on food low in dollar terms but sizeable as a percentage of total retail spend (see Exhibit 12).

Global retailers also favour big-box formats in this market, as a means to accommodate the country's underdeveloped distribution infrastructure with minimal up-front investments in logistics and IT infrastructure.

As with the markets of Cluster 1, shoppers in China focus on celebrating the choice and range of products made available through the hypermarket format. Hypermarkets have begun to adapt to China-specific settings, such as locating in multi-level buildings in urban locations, providing customers with smaller shopping carts and shuttle-bus access, and offering a mix of 70% food products, 30% non-food products in line with their needs.

Supermarkets on the other hand, appeal to frequent-shopper segments, which have several small shopping baskets and value the convenience of shopping in neighbourhood locations. Shoppers in China shop frequently – 65% of them shop daily[7] – and buy in small quantities. High shopping frequency is typical of markets with small houses and limited storage space. Approximately 58% of households in China live in dwellings with 1-2 rooms and have an average of 3.5 household members[6]. (see contrast with Taiwan discussed later in this chapter) (see Exhibit 18).

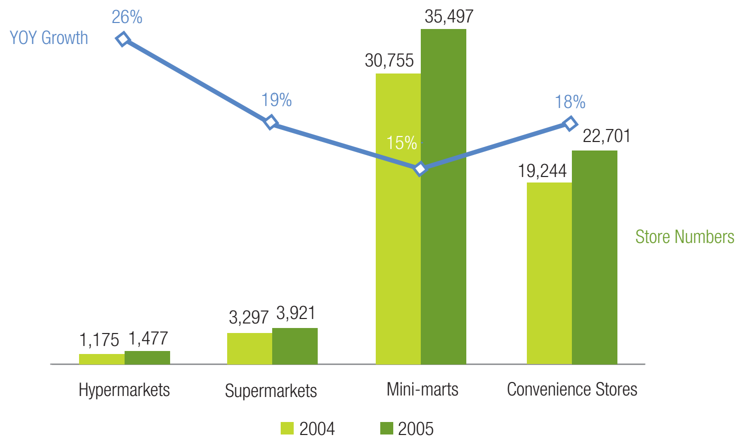
Exhibit 18 How shoppers commute to shop



Source: 2006 Asia Pacific Retail and ShopperTrends, AC Nielsen

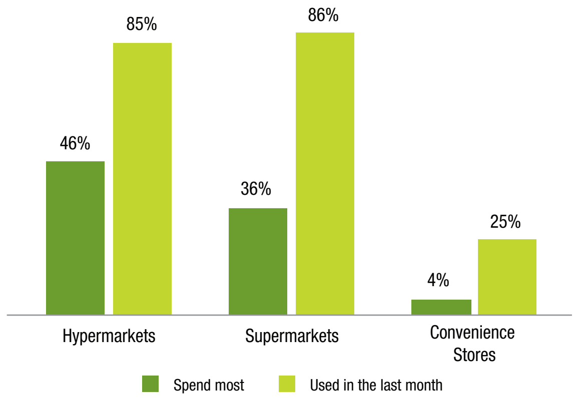
Both mini-marts and convenience stores also enjoy a strong presence in China, where shoppers value the ability to shop in or near their own neighbourhoods. That convenience stores can hold their own against the less expensive mini-marts reveals that some shoppers will, in certain circumstances, pay a premium for location convenience (see Exhibits 19 and 20).

Exhibit 19 Growth in stores by format, 2004-2005



Source: 2006 Asia Pacific Retail and ShopperTrends, AC Nielsen

Exhibit 20 Shopper spending and recent usage by format, 2005



Source: 2006 Asia Pacific Retail and ShopperTrends, AC Nielsen

In short, retailers in China are trying to support many different format strategies in China – perhaps because there are so many different markets in China to address. In its 4th quarter 2006 edition, the Beijing-based China Economic Quarterly posits that a "Consuming China" market exists within a larger "Surviving China," a much poorer nation. Modern retailers should then concentrate on "Consuming China," which primarily consists of 150 million people in the middle class who are concentrated in areas around Shanghai, Shenzhen/Guangzhou, and Beijing – comparable to a "single" market with similarity in their needs and shopping behaviour.

CHINA'S OUTLOOK

The size of the market, coupled with the limited share of modern retail, provides opportunities for all such experiments with formats, even as it places a premium on retailers to develop a highly localised understanding of shopper drivers. The size of the market, coupled with the growth of modern retail, implies that all formats – hypermarkets, supermarkets, mini-marts and convenience-stores will continue to operate successfully well into the future.

CLUSTER 3: MODERN GROWTH KOREA, MALAYSIA, TAIWAN, THAILAND

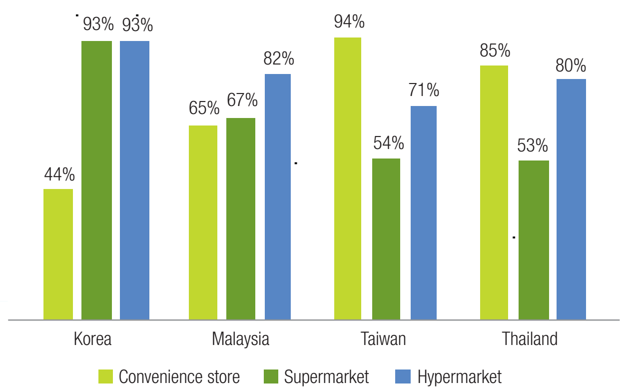
SIGNIFICANT FORMATS

Hypermarkets are the most significant format in Modern Growth countries. Shoppers here tend to have more experience with modern retail formats and seek one-stop shopping opportunities with advantageous price-value equations. This plays to the advantages of the hypermarket format which, thanks to its intrinsic consolidation of the supply chain infrastructure, enjoys lower overheads and the ability to cross-subsidise categories through broad product range and high scalability. Hypermarkets can thus offer the attractive pricing which shoppers in Modern Growth markets look for at their primary food retail stores.

Shoppers in Modern Growth countries tend to shop at convenience stores and traditional food retail businesses for "top-ups" of food staples and for impulse purchases. More recently, Modern Growth has seen growth in the convenience store format, with most markets experiencing growth in convenience store numbers in excess of 10% between 2004 and 2005[1].

In Thailand, hypermarkets and convenience stores are putting the squeeze on supermarkets, whose growth is lagging in comparison. The number of supermarket outlets declined by 8% in 2005 as compared to 2004, while hypermarkets and convenience stores grew by 13% and 26% respectively[1], and their usage is similar to more developed economies in the cluster (see Exhibit 21). Some supermarket chains, though, have continued to grow by strategically differentiating their format offering. (See case study on Tops Supermarkets on page 21, above.)

Exhibit 21 Shopper usage of format in past month



Source: 2006 Asia Pacific Retail and ShopperTrends, AC Nielsen

For the other countries in this cluster, hypermarkets and convenience stores are witnessing growth at rates significantly higher than that of the supermarket. An example is Korea, where convenience stores have grown faster than the other two formats (see Exhibit 22).

Korea provides an example of how retailing formats have used key turning points in the economy, and corresponding changes in shoppers' hierarchy of attributes, to position and augment their offering to stay relevant.

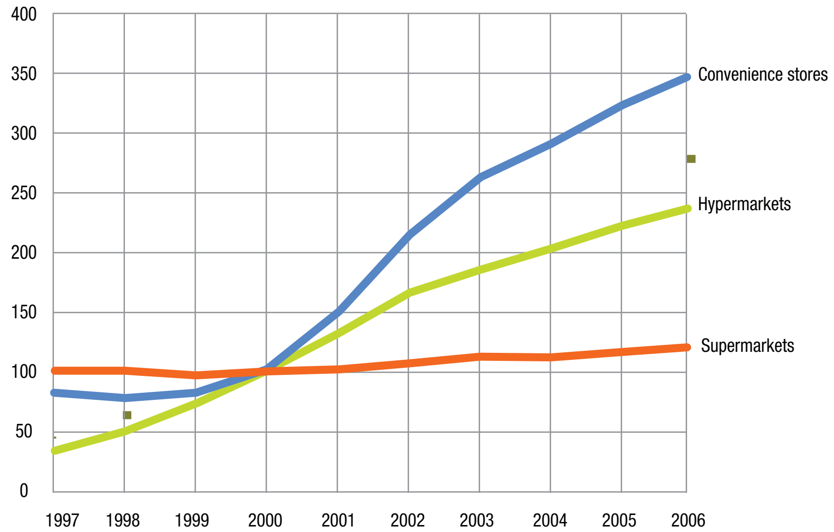
HYPERMARKET GROWTH IN KOREA

When the financial crisis that hit Asia in 1997 caused a steep decline in disposable income, Korean consumers, eager to save on spending across the board, shifted rapidly from supermarkets (and department stores) to hypermarkets (see Exhibit 22). As a result, hypermarkets now claim the lion's share of Korea's food business, with 54% of shoppers reporting that they spend most of their food budgets at hypermarkets, as compared to 35% who report spending most at supermarkets[1]

To a large extent, hypermarkets continue to retain these shoppers, and continue to grow by offering high-quality, fresh food and a number of services (eg. haircutting) to stay "relevant" to shoppers. Hypermarkets now offer a festive atmosphere and a high-quality ambience, good parking facilities (most shoppers are car-borne) and aggressive loyalty programs.

Exhibit 22 Growth of formats in Korea

Index: Year 2000 = 100



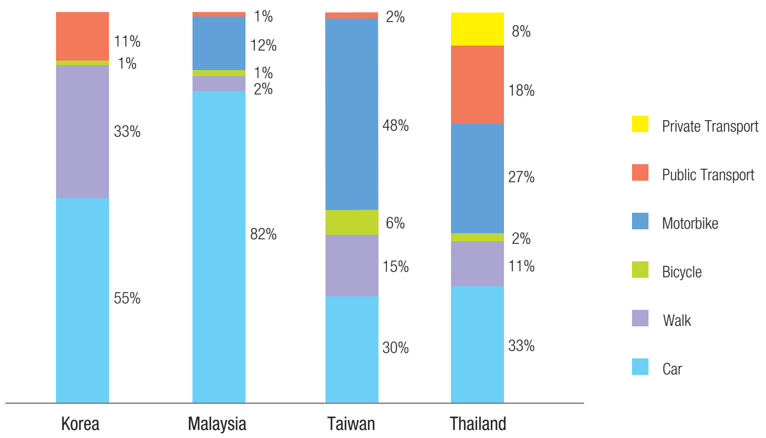
Note: Revenues for each of the formats indexed to values in 2000 and compared.
Source: Ministry of Statistics, South Korea (website)

MAJOR DRIVERS

Many shoppers in the Modern Growths prefer to buy food and non-food items at a single location (Malaysia – 71%, Korea – 43%)[7]. They also tend to seek out hypermarkets that provide exciting and festive destinations for the entire family. Hypermarkets are the primary significant format to address these drivers. Therefore, the hypermarket format services well the occasions and attributes that are of high importance to shoppers in this cluster of countries.

Modern Growth shoppers typically frequent hypermarkets 3 to 4 times per month, mostly on weekend trips, where the whole family participates and where there is something for everybody. Car (and motorbike) borne shopping is more common in Modern Growth markets than in markets of Cluster 1 and Cluster 2 (see Exhibit 23). Such private transport ownership helps shoppers overcome issues with location and accessibility that are typical drawbacks of hypermarkets.

Exhibit 23 How shoppers commute to shop



Source: 2006 Asia Pacific Retail and ShopperTrends, AC Nielsen

POLARIZATION BEGINS IN THE MODERN GROWTHS

In the future, hypermarkets will continue to be the significant format, but convenience stores will gain prominence as, like their more developed-market peers, shoppers in the Modern Growth cluster have more clearly articulated occasions to shop. This will not supplant the importance of hypermarkets, however; a growth trend in double-income households in these markets will result in a time-pressured shopper who will rely on convenience stores or other formats increasingly for top-ups and impulse purchases.

Under these circumstances, supermarkets will need to strive to build differentiation in a market where hypermarkets have done a particularly good job of minimizing the “inconvenience” in terms of access to the shopper. For largely the same effort (an additional 15 minutes drive), a shopper can get to a hypermarket and enjoy an extended range to shop from. With an increase in restrictions on the location and size of hypermarkets in some of these markets, hypermarkets will have to provide greater incentive to entice shoppers to take on the added commute distances and incremental inconvenience.

CLUSTER 4: DISCRIMINATING SHOPPERS AUSTRALIA, HONG KONG, JAPAN, SINGAPORE

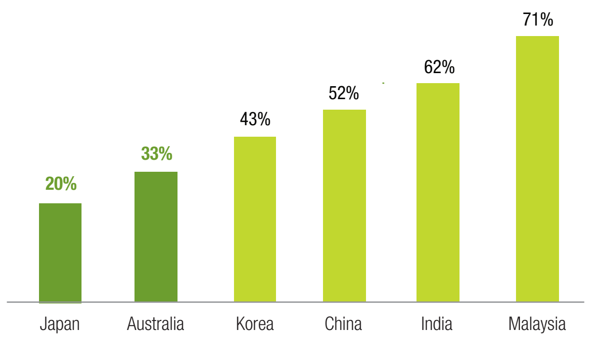
SIGNIFICANT FORMATS AND MAJOR DRIVERS

The supermarket format is the most significant format in Discriminating Shopper markets.

It is important to note that supermarkets were indeed the first modern food format experience for shoppers in these markets. Supermarkets have continued to stay relevant to the needs of the shoppers in these markets which explains why they are still ‘preferred’ by shoppers in this cluster.

Shoppers in these markets do not typically buy food and non-food products at the same store as can be seen from the comparison with markets in the other three clusters (see Exhibit 24).

Exhibit 24 Shopper preference for non-food offerings in grocery stores

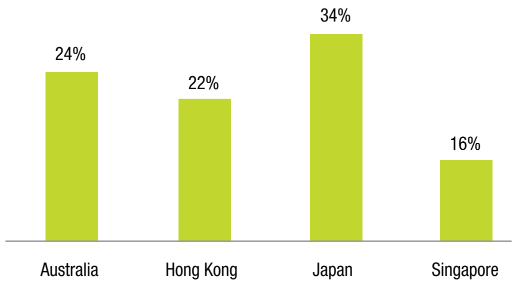


Source: Strategic Focus Retailing in India Feb 2006, Retail Forward

Another important factor to note especially in Singapore is the fact that specialty retailers (category killers in electronics) were present before the launch of hypermarkets. This has made the ‘electronics’ offering in Hypermarkets less attractive than in markets where specialty retail is not as developed.

The ageing profile of shoppers in these markets (see Exhibit 25) also means that convenience and proximity are becoming increasingly important which plays to the strengths of supermarkets which can be located in neighbourhoods.

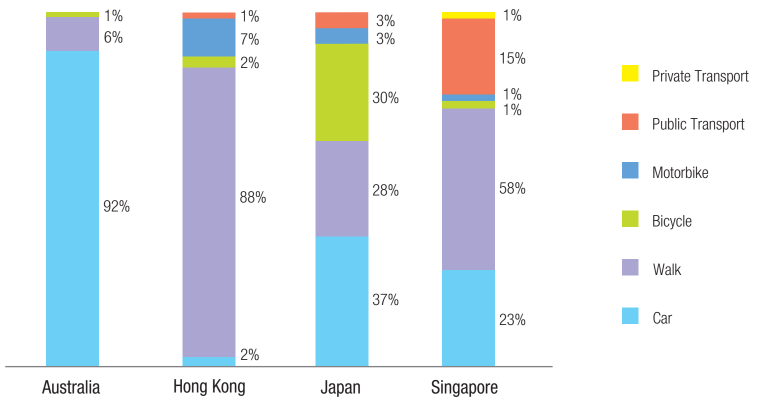
Exhibit 25 Percentage of population aged more than 55 years



Source: UN Population database

Shoppers in these markets seek convenient locations for their relatively frequent excursions for fresh food. In Singapore and Hong Kong, this means a store within walking distance or close to public transportation, since these markets are densely populated and "vertical" in nature. Shoppers in Australia, on the other hand, are car borne, and tend more to seek out stores in their own suburbs. Japan exhibits characteristics like Hong Kong, Singapore and Australia, as shoppers drive, walk or cycle to shop (see Exhibit 26). This clearly implies that supermarkets that are located in residential neighbourhoods have an advantage over other formats.

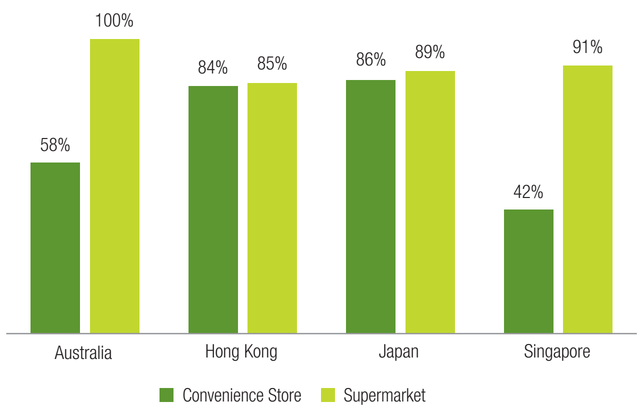
Exhibit 26 How shoppers commute to shop



Source: 2006 Asia Pacific and ShopperTrends, AC Nielsen

Shoppers in these markets tend to be frequent shoppers by habit – 38% of shoppers in both Australia and Japan report that they shop daily[7] – and thus want to minimise the time and effort required to do their shopping. These shoppers seek out convenience in their transactions; as a consequence, convenience ranks high on their pyramid of attributes, and stores that can offer such convenience enjoy a competitive advantage over those that cannot. In this context, it is interesting to note the high usage of convenience stores across these markets, which points to significant potential for this format (see Exhibit 27).

Exhibit 27 Shoppers' usage of format in past month



Source: 2006 Asia Pacific Retail and ShopperTrends, AC Nielsen

MULTI-FORMAT STRATEGIES FOR MULTI-OCCASION SHOPPERS

Supermarkets will continue to be the significant format over the next 5-10 years, as demographics, industry structures and shopper needs remain stable. Supermarkets' current entrenched position will provides significant advantage relative to alternative offers. In addition, other retail formats that offer convenience and proximity (eg. convenience stores) will also enjoy opportunities to succeed. One of the challenges for this cluster as evidenced in the west, is that increasing disposable incomes will not necessarily translate into increased spending on food as the discretionary income gets channeled away to leisure, travel and entertainment as opposed to grocery shopping. Hence there will always be room to compete on some of the more basic attributes in these markets. Other alternative formats that have a distinct value proposition also stand to succeed in this environment. Aldi (see box on page 45 below) provides an example of how alternative formats can make inroads into a relatively developed food retail environment with a distinct value proposition.

KEY MESSAGES

- Different economic conditions give rise to distinct "clusters" across Asia – groupings of countries with similar food retail market environments, and with consumers with similar occasions and needs
- **Cluster 1: India, Indonesia, Philippines** – Modern trade has low penetration in these markets, but the potential for all formats to succeed remains significant, due to the large market sizes, sizeable middle class segments, and growing disposable income. To address these conditions, retailers need to address the "basic" needs for a larger but less affluent demographic, which spends a large fraction of their total retail spend on food, and which still relies heavily on traditional trade to serve these needs
- **Cluster 2: China** – Very similar to Cluster 1 but different in the rate of change experienced. Cluster 2 is in reality an agglomeration of many markets, with the core market enjoying rapid economic growth and experiencing rapid changes. It is marked by the coexistence of multiple formats, with hypermarkets and supermarkets enjoying many of the same advantages they enjoy in Cluster 1. A rapidly growing affluent class that value convenience is also creating opportunities for convenience stores
- **Cluster 3: Korea, Malaysia, Taiwan and Thailand** – These markets have more developed modern retail, and shoppers are predisposed to use modern retail There are winners and losers in these markets; hypermarkets meet shopper needs for price-value, one-stop shopping and entertainment, while convenience stores meet shopper needs for urgency and proximity. As a result, shoppers have begun to polarise around these two formats, and supermarkets have come under increasing pressure
- **Cluster 4: Australia, Japan, Hong Kong and Singapore** – Supermarkets are the significant format. Discerning shoppers are looking for selection, high quality, convenience, proximity and ease of shopping, with a focus on attributes near the top of the pyramid; the supermarket format is well-positioned to meet these needs for a range of shopping occasions

CHAPTER FIVE

OPPORTUNITIES ABOUND

As economies grow, and the number and types of shopping occasions multiply, so do the attributes that shoppers seek out in their food retail stores. Out of this gradual shift in demand has arisen opportunities for new and hybrid formats.

While existing modern retail formats can capably provide many of these emerging attributes, the increasing specificity of shopper nonetheless creates opportunities for retailers devise and implement new formats in various markets across Asia. These new formats can help retailers meet shoppers' needs for high value and specialised occasions within the same outlet. As most of these formats have limited presence in Asia, we use examples from outside Asia as well as within the region, to provide an understanding of format strategies that may be useful in serving the Asian consumer's future needs. Interestingly, many of these new formats constitute hybrids of two or more existing formats, rather than complete redesigns of food stores. Such hybrids emerge from a strategic drive to narrow the focus of existing formats, either to better service a particular niche occasion or a well-defined set of needs. The formats identified are:

- Limited-Range Discount Stores
- Mini-Marts
- Compact Hypermarkets
- Specialty Food Stores
- Convenience Plus

LIMITED RANGE DISCOUNT STORES

This format, known as LRDS, consists of "no-frills" stores, with edited selections and small, easy-to-shop and easy-to-access configurations, to give shoppers a convenient low-priced option to conventional big-box formats. The focus on delivering value to the shopper necessitates that LRDS have low operating overheads. Critical success factors for LRDS include small staffs, low rental and marketing costs, high inventory turns, tight management of the supply chain, a judicious editing of range, a strategic balance between private and branded goods, and a merchandising model that reinforces the in-store "low price" value proposition.(see Aldi case study on page 45, below). Store sizes for LRDS range from 300 to 1,000 square metres.

Limited Range Discount Stores arose as a means to address a shift from the established "good-better-best" mindset to a newer, "good enough" paradigm, wherein shoppers bring preconceived expectations of quality for select product categories. Retailers' ability to turn out "good enough" product that surpasses shopper expectations for quality, fashion, features and value has contributed to this mindset shift.

While the LRDS proposition was conceived to cater to people with lower disposable incomes, the proposition is now being targeted at a broader shopper base with the assumption that everyone, regardless of income level, loves a bargain. Leading big-box operators in Asia have ingrained in the value-oriented consumer an expectation that household basics and regularly replenishable products should be available at everyday low prices, making it acceptable to hunt for bargains. This has created a cultural shift, and has lifted the stigma attached to discount shopping. This format primarily addresses the Routine Bulk shopping occasion.

Furthermore, a new generation of Limited Range Discount Stores overseas have successfully created a "Thrill of the Hunt" atmosphere that makes these stores fun to shop. LRDS are likely to hold maximum appeal to shoppers in Clusters 1 and 2. However, even Clusters 3 and 4 will have segments of shoppers who enjoy shopping in these stores.

MINI-MARTS

Mini-marts are low-priced neighbourhood stores with a limited range of fresh food, dry groceries and household products, all displayed in a modern self-service format. There are several markets in Asia where a significant proportion of shoppers walk or use public transport; this makes neighbourhood convenience important. This, added to the unsuitability of large format stores for everyday shopping, is the reason why this format holds potential in Asia. This need is partly served today by the traditional trade. Store sizes range from 100 to 300 square metres. Unlike convenience store, mini-marts do not have a range of food on-the-go, confection, tobacco or news offerings.

Neighbourhood locations and better range and quality than traditional retail stores are critical factors for success in the mini-mart format. Operational features include limited backroom space and the frequent replenishment of fresh produce and household essentials. The low-price positioning of the mini-mart requires low staff costs, low marketing costs, high inventory turns and a high percentage of cash sales. As with traditional retail stores, personal relationships with neighbourhood shoppers are important. This format is best suited to serving the top-up and emergency occasions.

The best opportunities for mini-marts will be in the markets of Clusters 1 and 2, where traditional retail enjoys a very significant share of food retailing.

ALDI IN AUSTRALIA

Food Retailer Aldi has made inroads into the competitive Australian market and is looking for new sites in Australia with a view to doubling its presence to 200 stores by 2008[8].

In 2006, Aldi Australia had a 6% market share in New South Wales and a 4% share in Victoria[8]. The secret of Aldi's success in Australia and overseas lies in its unique approach to four key areas that are fundamental to the LRDS operating model, and which lend it a competitive advantage:

- **Assortment:** Aldi acts as a category-killer in core grocery lines. Close to 50% of its store turnover and SKU mix is from packaged grocery. It offers a tightly controlled selection of 600 to 1000 items, with an emphasis on low prices that are 10 to 20% cheaper than those in neighbourhood supermarkets. Low-priced, high-quality private label is central to its strategy. Private labels account for almost 90% of sales
- **Logistics:** Aldi's low-cost logistics operational system typically functions on close to 12% gross margin and 2% net margin. Aldi warehouses and delivers 100% of its own items, including milk and bread. It has a world-class logistics system, wherein 90% of product by volume is directly cross-docked at the warehouse without entering inventory. Stores turn over their inventory weekly
- **Overheads:** Aldi operates on a true net-cost basis and requires no additional trade spending of any kind, no slotting fees, promotional discounts, volume allowances etc. It keeps its site occupancy cost low by buying store sites and having basic store fit-outs. The stores do not require in-store sales representatives, marketing or merchandising support. Stores employ between 4 to 6 full-time staffers, and the store manager works six days, writes up orders and operates a checkout
- **Long investment horizon:** The private ownership structure enables a long investment horizon and patient capital

References[9] – Food Business Review online, DSN Retailing Today, BusinessWeek Online, Retail Forward

COMPACT HYPERMARKETS

Compact hypermarkets are smaller in size than hypermarkets, and have a reduced range and reduced assortment in each category, making them easier to shop in. This format addresses many of the real estate and regulatory constraints faced by big-box formats, while retaining many of the advantages of hypermarkets. The offering brings together the strengths of both hypermarkets and supermarkets in terms of choice, excitement, entertainment, along with easier navigation and convenient location. Compact hypermarkets also exclude categories dominated by specialist retailers (so-called "category killers"). Store sizes for a compact hypermarket range from 2000 to 6000 square metres. This format best addresses the "bulk routine", and the "top-up shop" occasions.

Critical success factors for this format include strict editing of range to excite shoppers within a more confined space, low staffing, occupancy and marketing costs, and high inventory turns, with a view to financing through negative working capital.

Driven primarily by high real estate costs, scarcity of large store spaces, and increasingly restrictive regulatory environments, compact hypermarkets could be an alternative format for retailers in Cluster 3 and Cluster 4, with some targeted opportunities in Cluster 2 as well.

SPECIALTY FOOD STORES

These are upscale stores offering fresh items, large produce sections, a greater selection of natural, organic, gourmet, health and prepared foods, and high levels of service. These stores typically have footprints ranging between 200 and 500 square metres.

Success in this format depends upon aligning elements in the retail mix – from procurement, safety and handling processes to merchandising and customer service – with an image of the store as an authority on food and nutrition. The depth of range in a specialty food store results in lower inventory turns, which requires offsetting by higher margins. A "value-added" orientation and upscale positioning enable these stores to price at a premium.

Creating an emotional connection with customers in the course of shopping can become a key means of differentiation for all but the most time-sensitive shopping occasions. Highly personalised service, unique product ranges, stimulating atmosphere, and imaginative merchandising all allow customers to invest themselves emotionally in the experience, thus staying longer, and often spending more. Shoppers in such segments will also seek out specialty retailers; they will walk or drive farther to find such formats. A good example of a retailer that has engaged its customers at the emotional level is the U.S. grocer Whole Foods Market (see below).

WHOLE FOODS MARKET

Whole Foods Market has succeeded in transforming a boring chore into an exciting one, and increased its sales dramatically in the process.

Whole Foods Market, the U.S. organic groceries chain, works on the premise that shopping for groceries should be fun. It sells a huge array of organic groceries and clothing in an environment that is designed to appeal to all the senses. There are several different sections that are arranged like themed attractions. For instance in Candy Island, customers can dip fresh strawberries in a chocolate fountain while in Lamar Street Greens, they can sit among the organic produce eating hand-picked salads. Classical music plays in the background and the produce is illuminated with lighting of the quality used in art galleries.

The Whole Foods Market recipe has proved successful; for the 52 weeks ended September 24, 2006, sales increased 19% to US$5.6 billion[10].

References: Driving successful shopping occasions through deeper insight - IBM Institute for Business Value

Specialty food stores are well-positioned to meet the value-add needs of shoppers in Cluster 4. In Clusters 1, 2 and 3, the specialty food store format can target the segment of shoppers with larger disposable incomes.

CONVENIENCE PLUS

These are neighbourhood shops, stocking mainly food, everyday essentials and food-to-go, with an emphasis on higher-margin products, to counterbalance their intrinsic lack of scale and other value-added elements. These stores stand to do well in markets with busier lifestyles, an ageing population, more numerous snacking occasions and smaller households. Markets with high-frequency shopping also hold promise for the convenience plus store. These stores are typically 200 to 800 square metres in size. Their range includes food, food-to-go, private-brand grocery, meal solutions, fresh produce, baked goods and everyday essentials. This format also includes confection, tobacco and news offerings. The format offer is targeted at "top-up", "kill boredom", "satisfy sudden craving" and "emergency" occasions.

The effective management of image – associating the format with quality, fresh and convenient basics – and the management of the supply chain for perishables with limited back room space, hold the keys to success with this format.

Tesco Express has successfully brought together the convenience of the corner store with a limited range of everyday food and household essentials, in a formula that has proved to successful around the world. (See case study below).

TESCO EXPRESS = SUCCESS

Tesco's small-store format, Tesco Express, has proven successful not just in Britain, but around the world. Today, Tesco Express has 830 Express stores in Britain, Thailand, Japan, Korea, Malaysia, Turkey and Ireland. Express stores – those with a floor space of up to 3,000 square feet – offer customers a range of around 7,000 lines, including fresh produce, wines and spirits, and in-store bakeries. The food offer in-store differs depending on shopper preferences in each country; in Thailand, for example, bestsellers include chicken livers and chicken feet, as well as a 200 baht bucket of food and toiletries for customers seeking traditional gifts for Buddhist monks. Compared to traditional convenience stores, these mini supermarkets are somewhat larger in size, and far superior in choice, especially with regard to chilled products, fruits and vegetables. Extensive chilled cabinets stocked with Tesco-ready meals are another feature that distinguishes Tesco Express stores from traditional convenience stores. The company aims to make neighbourhood shopping easier and more "complete," in line with their shoppers' needs.

References[11] : The London Sunday times, Tesco, CNN Money.com, Food and Drink Europe, Private Label Magazine

The convenience plus format is likely to address the needs of shoppers in Cluster 3 and Cluster 4 by providing a convergence of convenience, freshness and range. This format will also find favour in China, where convenience stores are gaining acceptance.

Exhibit 28 New Formats – snapshot

	Limited Range Discount Store	Mini Marts	Compact Hypermarket	Convenience Plus	Speciality Food Stores
SIZE	300 – 1000 square metres	100 – 300 square metres	2,000 – 6,000 square metres depending on range and economics of real estate – multi-level	200 – 800 square metres	200 – 500 square metres
PRICE	Low, simple and limited price points, discount on key categories	Match or better traditional retail price - Target shopper more likely to pay for convenience with loyalty than higher price	Pricing similar to hypermarkets – low price – discounts / special deals – Everyday low prices	Premium to supermarket by approximately 10% to 15%	Price image – upscale, premium
RANGE	Edited range, limited depth, private label	Limited range of daily requirements, household essentials Including limited fresh and packaged grocery	All relevant hypermarket categories, tightly ranged assortment with 60:40 food to non-food mix	Range includes food, food-to-go, private brand grocery, meal solutions, fresh produce, baked goods, confection tobacco and news and everyday essentials. Expanded service offering	Wide range of high quality natural, organic, healthy prepared meal solutions, gourmet and/or health foods
IMAGE	A store that delivers very good value on daily household essentials	Clean, hygienic, affordable and a friendly neighbourhood store with limited range and better quality than traditional retail	A one stop shop with a range narrower than that of a hypermarket that offers good value	A quick convenient stop for everyday essentials and foods-to-go	A premium store that is the authority on food and nutrition
LOCATION	Inexpensive real estate in / low rents in second and third tier shopping centres	Located in residential areas	Where unconstrained by regulations, close to shoppers. Access by public transport, parking space for car borne shoppers is important	Busy city centre districts and small shopping precincts in residential areas, and on petrol station forecourts	Located in affluent areas where better quality, the philosophy behind natural produce is likely to be backed by willingness to pay a premium

Each of the formats described above is best suited to fulfilling specific shopping occasions, in line with the inherent features of their offering. For example, the Limited Range Discount Store (LRDS) is best suited for low-priced, efficient stock-ups while the specialty food store can cater to the special meals and entertainment occasions via its high-quality, broad range, personalized service and multi-sensorial experience (see Exhibit 29).

Exhibit 29 Shopper occasion and format suitability

Occasions	Goals to achieve	Attributes Desired – Reasons for Choice	LRDS	Mini Marts	Compact Hyper markets	Speciality Food Stores	Conven ience Plus
			Most suitable	Least suitable	D for developed markets		
Routine Bulk Shop	• Value for money • Freshness	• Choice – product selection, bulk packs • Price – Value • Quality – freshness • Convenience – Car park access (in some markets)				D	
Top-up	• Freshness • Convenience/ grab-and-go	• Convenience – quick in and out • Choice – Range • Quality – Freshness				D	
Kill boredom/ entertainment	• Alleviate boredom • Stimulate senses • Finding new products	• Choice – Product range for "Discovery", Impulse purchase, Something for everyone					
Satisfy sudden craving	• Purchase desired item	• Location – proximity • Convenience – quick in and out, Products in line of sight • Choice – Single size serving					
Sudden emergencies/ Unexpected visitors	• Purchase needed item	• Location – proximity • Convenience – Quick in and out, Products in line of sight					
Special Meals/ Entertaining	• Purchase desired products against the menu	• Service • High quality • Choice Product selection, Special needs (organic, vegan)					

KEY MESSAGES

- Shopping occasions and attributes in Asia are not dissimilar to that of shoppers overseas. Globally, there are several formats that are targeted at specific occasions and attributes. These formats hold potential in Asia and can expand their presence in Asia, provided they evolve their offering in line with shopper's needs
- None of these formats depart radically from the existing staple modern formats. In fact, most quite plainly constitute variations on the existing themes of the hypermarket, supermarket and convenience store formats
- Food retailers in Asia must understand that, to introduce new formats, they must tailor the format offering to the occasions that they intend to serve

CHAPTER SIX

CONCLUSIONS

Across Asia, modern retail continues to grow its share of food retailing, led by the three most well-known and pervasive formats: supermarkets, hypermarkets and convenience stores. In the rapidly growing, yet still underdeveloped markets of India, China, Indonesia and the Philippines, all three of these formats have witnessed growth, as a function of experimentation by retailers eager to differentiate their offerings and better meet their shoppers' needs. In a second set of markets – Thailand, Malaysia, Korea and Taiwan – modern trade continues to make inroads, albeit at a slower pace compared to the first set of markets, with some formats growing at the expense of others. The region's most developed markets – Japan, Hong Kong, Singapore and Australia – are dominated by one or two pervasive formats; as a result, only a few specialized formats have an established presence that target key shopper segments and occasions.

The key determinants of the shape of the future format landscape include the format landscape that exists currently, the quality of its execution in the market, and the state of regulation. Indeed, no evolutionary determinism is implied by the results of our analysis; multi-format markets will not necessarily evolve into those dominated by either hypermarkets or supermarkets. Moreover, consolidation will continue unabated in all markets, regardless of format significance, as weak competitors succumb to, or get acquired by, stronger players.

In the final analysis, occasions drive the Asian shopper's choice of formats; shoppers' needs are uniquely weighted for each occasion. As with shoppers the world over, Asian shoppers have a hierarchy of attributes ranging from "basic" to "value-added". Retailers need to understand the shopping occasions that are unique to the shoppers they are trying to serve. They must recognize the inherent strengths of the format offering they have, and develop a value proposition that addresses both. Strategies, core competencies and execution are all equally critical for achieving success, regardless of format. The ability of a format to cater to the primary attributes for each occasion is the key to its success.

The cost and availability of real estate, industry regulation, the state of distribution infrastructure and technology can enable or impede a retailer's ability to own, develop and operate different formats effectively. It is these business environment factors that have influenced the way formats have evolved to date across Asia. These challenges and opportunities are market-specific, and retailers need to modify and adapt formats to accommodate local market issues, and maximise their ability to service shopper occasions.

Our evidence suggests that over the next five years, the significant format in each of these markets today is unlikely to be supplanted. In India, China, Indonesia and the Philippines, multiple formats will continue to grow, buoyed by the size and untapped potential in these markets. In Thailand, Korea, Malaysia and Taiwan, undifferentiated supermarkets will likely be impacted adversely. The current state of regulation will require hypermarkets to augment their offering to maintain their appeal with shoppers, who will soon face the added inconvenience of longer commute times and smaller store sizes. Alternative formats with distinctive value propositions are likely to find favour in the more developed markets of Japan, Singapore, Hong Kong and Australia.

A holistic approach to understanding both shopper needs and the business environment is imperative for devising a retail format strategy and implementing it successfully. The shopping occasions and attributes that this study uncovered share a great deal with those of shoppers the world over. There are several formats and hybrids that have emerged overseas, each targeted at servicing specific occasions and attributes. These formats have significant potential in Asia, provided they evolve continuously, in line with shoppers' needs in each market.

Leading retailers have shaped their format offering in line with the key occasions and attributes that they want to "own," taking into account the unique business environment in which they operate. Ultimately, food retailers must understand that to introduce new formats they need to tailor their offerings around the occasions they serve.

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APPENDIX A
Country Cluster Summaries
Source: 2006 Asia Pacific Retail and ShopperTrends, ACNielsen

Cluster One

Country	Format	2004	2005	Growth
INDIA	**TOTAL OUTLETS**	**6,471,965**	**6,786,276**	**5%**
	Traditional Grocery Outlets	5,665,639	5,948,053	5%
	Convenience Stores			
	Supermarkets	2,390	2,506	5%
	Minimarkets			
	Superstores			
	Hypermarkets			
	Warehouse Club			
	Department Stores			
	General Merchandise Stores			
	Other Grocery Outlets	803,936	835,717	4%

Country	Format	2004	2005	Growth
INDONESIA	**TOTAL OUTLETS**	**1,752,393**	**1,795,725**	**2%**
	Traditional Grocery Outlets	1,745,589	1,787,897	2%
	Convenience Stores	154	115	-25%
	Supermarkets	956	1,141	19%
	Minimarkets	5,604	6,465	15%
	Superstores			
	Hypermarkets	68	83	22%
	Warehouse Club	22	24	9%
	Department Stores			
	General Merchandise Stores			
	Other Grocery Outlets			

Country	Format	2004	2005	Growth
PHILIPPINES	**TOTAL OUTLETS**	**594,564**	**572,552**	**-4%**
	Traditional Grocery Outlets	591,749	569,642	-4%
	Convenience Stores	1,238	1,355	9%
	Supermarkets	1,061	1,112	5%
	Minimarkets			
	Superstores			
	Hypermarkets			
	Warehouse Club	31	18	-42%
	Department Stores	485	425	-12%
	General Merchandise Stores			
	Other Grocery Outlets			

APPENDIX A
Country Cluster Summaries

Cluster Two

Country	Format	2004	2005	Growth
CHINA	**TOTAL OUTLETS**	**2,852,346**	**2,686,656**	**-6%**
	Traditional Grocery Outlets	2,797,875	2,623,060	-6%
	Convenience Stores	19,244	22,701	18%
	Supermarkets	3,297	3,921	19%
	Minimarkets	30,755	35,497	15%
	Superstores			
	Hypermarkets	1,175	1,477	26%
	Warehouse Club			
	Department Stores			
	General Merchandise Stores			
	Other Grocery Outlets			

Cluster Three

Country	Format	2004	2005	Growth
KOREA	**TOTAL OUTLETS**	**99,832**	**96,510**	**-3%**
	Traditional Grocery Outlets	71,969	65,634	-9%
	Convenience Stores	8,956	9,867	10%
	Supermarkets	18,660	20,737	11%
	Minimarkets			
	Superstores			
	Hypermarkets	242	267	10%
	Warehouse Club	5	5	0%
	Department Stores			
	General Merchandise Stores			
	Other Grocery Outlets			

Country	Format	2004	2005	Growth
MALAYSIA	**TOTAL OUTLETS**	**28,019**	**28,414**	**1%**
	Traditional Grocery Outlets	25,586	25,693	0%
	Convenience Stores	1,939	2,194	13%
	Supermarkets	451	474	5%
	Minimarkets			
	Superstores			
	Hypermarkets	35	45	29%
	Warehouse Club	8	8	0%
	Department Stores			
	General Merchandise Stores			
	Other Grocery Outlets			

APPENDIX A
Country Cluster Summaries

Cluster Three (cont.)

Country	Format	2004	2005	Growth
TAIWAN	**TOTAL OUTLETS**	**29,496**	**29,889**	**1%**
	Traditional Grocery Outlets	19,769	19,529	-1%
	Convenience Stores	8,058	8,628	7%
	Supermarkets	1,233	1,236	0%
	Minimarkets			
	Superstores			
	Hypermarkets	100	106	6%
	Warehouse Club			
	Department Stores			
	General Merchandise Stores			
	Other Grocery Outlets	336	390	16%

Country	Format	2004	2005	Growth
THAILAND	**TOTAL OUTLETS**	**282,889**	**288,333**	**2%**
	Traditional Grocery Outlets	278,278	282,705	2%
	Convenience Stores	3,988	5,026	26%
	Supermarkets	474	438	-8%
	Minimarkets			
	Superstores			
	Hypermarkets	120	135	13%
	Warehouse Club	29	29	0%
	Department Stores			
	General Merchandise Stores			
	Other Grocery Outlets			

Cluster Four

Country	Format	2004	2005	Growth
AUSTRALIA	**TOTAL OUTLETS**	**24,075**	**23,825**	**-1%**
	Traditional Grocery Outlets	16,690	16,312	-2%
	Convenience Stores	2,224	2,255	1%
	Supermarkets	5,159	5,256	2%
	Minimarkets			
	Superstores			
	Hypermarkets	2	2	0%
	Warehouse Club			
	Department Stores			
	General Merchandise Stores			
	Other Grocery Outlets			

APPENDIX A
Country Cluster Summaries

Cluster Four (cont.)

Country	Format	2004	2005	Growth
HONG KONG	**TOTAL OUTLETS**	**3,702**	**3,971**	**7%**
	Traditional Grocery Outlets	2,151	2,253	5%
	Convenience Stores	815	940	15%
	Supermarkets	659	689	5%
	Minimarkets			
	Superstores	77	89	16%
	Hypermarkets			
	Warehouse Club			
	Department Stores			
	General Merchandise Stores			
	Other Grocery Outlets			

Country	Format	2004	2005	Growth
JAPAN	**TOTAL OUTLETS**	**140,940**	**137,292**	**-3%**
	Traditional Grocery Outlets	47,227	47,299	0%
	Convenience Stores	42,947	43,294	1%
	Supermarkets	49,116	45,097	-8%
	Minimarkets			
	Superstores			
	Hypermarkets			
	Warehouse Club			
	Department Stores			
	General Merchandise Stores	1,650	1,602	-3%
	Other Grocery Outlets			

Country	Format	2004	2005	Growth
SINGAPORE	**TOTAL OUTLETS**	**3,219**	**3,256**	**1%**
	Traditional Grocery Outlets	1,933	1,886	-2%
	Convenience Stores	507	577	14%
	Supermarkets	216	229	6%
	Minimarkets	555	555	0%
	Superstores			
	Hypermarkets	8	9	13%
	Warehouse Club			
	Department Stores			
	General Merchandise Stores			
	Other Grocery Outlets			

APPENDIX B
Leading Practices by Format

Exhibit 06

Hypermarkets are introducing products and services that strengthen their 'one-stop shop' proposition and reduce the 'inconvenience' in terms of access

Range	• Full service fresh meats, products, seafood, Limited Organic and Health Foods Expanded selection in fresh and grocery with multiple price-points, variety and choice. Localized product baskets • Local and imported products • Depends on location, demographic and store size
Loyalty Program	• Loyalty Card – bonus points system • Loyalty programs – reward loyal shoppers, data to generate shopper insight • Continuity program to collect stamp to redeem free household related products
Value	• Promotions/Coupons • High Low promotion, discount with selected credit cards • Bi-weekly promotion • Different pack sizes, multiple price points, larger selection of private label, tiered offering • Reinforce value proposition in-store, 'Pay the difference', in-store displays and messaging
Location	• Close to main street (or avenue) in metro and city in malls and main thoroughfares, residential areas • Open daily 07.30 -23.30, in some cases 24x7 • On multiple floors to manage real estate costs
Services	• Free Delivery within x kilometers • Hair salons. Expanded health and beauty sections with dedicated areas to relax/get a massage. Sampling and demonstrations • Dining options
Entertainment	• Cooking Demo, New products sample, big stack display • Play Ground (for kids) – Display is connected with promotion (Seasonal/bi-weekly) • Mass displays, special product/sampling demonstrations, redemption counters, in-store advertising and promotions • Attractive displays. Hawking and bargaining built into the experience • New products every week. Demonstration of musical instruments, toys, etc
Convenience	• Meal solution. Home delivery for big electronics items • Small quantity check out – Self check out (Trial) • Variety of prepared foods, ready to cook, ready to eat • Shuttle buses to enhance access, home delivery and assembly of big items • Special events/sampling/free tasting/education for wine club members to improve customer unit purchase
Tech / Others	• Greater focus on fresh food • Big Variety at low price • To create increasing value for customers to earn their lifetime loyalty • Use of enabling technologies, training and development of staff

APPENDIX B
Leading Practices by Format

Exhibit 07

Deep shopper insight and constant revival to meet evolving shopper needs and wide range of quality fresh and prepared foods give supermarkets a competitive edge compared to other formats.

Range	• Limited Organic and Health Foods • Local & imported products • Depends on location, demographics of catchment area and store size • Wide range of fresh food, premium deli selection, selection of ready to eat foods, organic/ health food • Targeted non-food range • High on-shelf availability • Tiered private label offering
Loyalty Program	• Loyalty Card – bonus points system • Co-brand card with designated bank • Loyalty programs – reward loyal shoppers, data to generate shopper insight • Continuity program to collect stamp to redeem free household related products
Value	• High Low promotion • Discount with selected credit cards • Price Offs, bundling, family packs, raffles, continuity programs
Location	• Located in key cities, in malls and main thoroughfares, residential areas • Open daily 07:30–23:30, in some cases 24x7
Services	• Free delivery service after a set amount of purchases per single trip • Shoe repair and laundry, depending upon store size • Bakeoff/food court/variety shops • Service counters for pharmacy, dry cleaning, lottery, news agency • In-store catalogue shopping, product/usage information • Value-added shopper solutions – health solutions, solutions for special diets (e.g. sugar-free, gluten-free, lactose-free), party planning • Cooking demonstrations, sampling and advice • Branded personal finance, home phone, broadband
Entertainment	• Cooking demonstrations and new products sampling • Mass displays, special product/sampling demonstrations, redemption counters, in-store advertising & promotions • Special events/sampling/free tasting/education for wine club members to improve customer unit purchase
Convenience	• Home Delivery • On-line shopping. Variety of prepared foods, ready to cook, ready to eat. • Provide comprehensive ready to eat (frozen pack) category. • Pre-order for most festive related products, i.e. Xmas turkey, Chinese new year re-union dinner (meal solution), etc • Separate convenience shopping counter • High speed check-outs
Tech / Others	• Fresh food, quality and good location portfolios • The focus is on a neighborhood fresh offer, quick and high quality supply chain management to reinforce fresh replenishment over hypermarket and wet market and greater range than convenience stores • Interactive (multimedia) Point of Sales system

APPENDIX B
Leading Practices by Format

Exhibit 08

The relentless pursuit of understanding shoppers and constantly executing in line with this insight is what has set the leaders apart in the Convenience store format. 70% of product lines are replaced every year as part of 'Self-Reformation'.

Range	• Total SKUs – about 1,600 Localised products – 30%, Organic/health foods – 10% • Depends on location, demographics of catchment area and store size • Investment in technology to drive fact based real-time decision making on range • Something new – Exclusive supplier tie-ups • Limited Space – Expanding range by using online shopping
Loyalty Program	• Continuity program – Collect stamps on purchases to redeem for household products • Loyalty card – bonus/reward points collection and redemption
Value	• Monthly Value Added Promotions
Location	• Strategic locations – CBD, Hospitals, Residential, G-stores, Resort, MRT, petrol stations, high street • Open 24x7
Services	• Bill payments, Top up Service – E-cards, ATM, E-cards sales, Internet card top-up
Convenience	• Ready to eat meals, combo meals, frozen food, box lunches, instant noodles, fresh localized meal solutions • High speed checkout, debit card & cash card payment • 'One stop shop' for errands – Top up cards, bill payment, banking services, ticketing for concerts, travel arrangements through online kiosks, photocopying, fax services, flowers, festival food trays, pick up location for online book stores
Tech / Others	• EPoS/Reordering/Data Warehousing/Sales Analysis • Electronic Refill System – ERS includes the top-up of mobile air time and internet packages • Constant review of range and service. Regular business process review • Required to change stocks quickly but lack of space – Computerized continuous replenishment systems

APPENDIX C
Improvement Opportunities: Existing Formats Need Gap Analysis

NEED GAP	ISSUES AND SOLUTIONS	NEEDS ARTICULATED
Solve a Problem	Solutions to this Need Gap address scenarios, that arise both from decisions made by retailers, and those that arise from the shoppers' own situations. Shoppers state that they want a store that understands their lifestyles, their needs and concerns. This need-gap includes the ability to address multiple everyday chores like bill payment, odd jobs such as alterations, shoe mending and simplifying meal preparation and the concern around healthy food options.	"I worry that I might be giving my family too much pre-cooked or preserved food, because I feel too tired to prepare and cook a full meal when I get back from work." "I have many errands to run that take a lot of time. These include buying groceries, paying bills, sending mails etc. All of these are in different locations and I need to make multiple trips to get the jobs done. It's tiring and time consuming." "Too often I wander around a poorly laid out store and exit empty-handed, because I don't know what to get to solve my problems. I need help and advice at the stores especially for quick fix jobs and emergencies."
Speed It Up	Solutions here create a time-efficient experience for everyday essentials, and address the frustration and anxiety that some shoppers feel when waiting in slow-moving checkout queues.	"There are some things that I need every day and I dislike walking through the entire store to look for these simple and everyday requirements." "After completing my grocery shopping, I dislike the long wait at the checkout counters."
Help Me Find It, Help Me Choose	Pertains to difficulties experienced by shoppers when they try to locate particular products or compare similar products.	"I find it difficult to find products in store and find it difficult to compare and select products because I don't have the information I need."
Come To Me	Retailers which have a sophisticated understanding about what shoppers want and need, surpassing that even of shoppers themselves, can develop solutions readily for shoppers with this need.	"My expectations are evolving rapidly and I want a store that pre-empts and adapts to what I want, is there when I want it and where I want it."
Make It Easy	Solutions for this address the difficulty in buying items in large quantities when doing so restricts shoppers' ability to move around a store.	"I dislike having to cart around a fully laden shopping trolley around the store, squeezing through narrow aisles."
Enhance The Experience	Increasingly, shoppers are looking for an exciting, customised shopping experience.	"I want to enjoy my shopping experience and feel like a valued customer by having customised products and services offered to me." "I find that grocery shopping is increasingly a boring and bland experience. There is no excitement and nothing new or exciting to look forward to."

APPENDIX D
Concepts Tested in Concept Clinics

NEED GAP	CONCEPT	APPLICATION
Speed It Up	**S Class Trolley:** The new RFID enabled S Class trolleys have been designed to address the issue of long checkout queues. The trolleys have a built in RFID scanner. As you shop all RFID tagged products are automatically scanned and the information is fed directly into the billing system.	Mid- to Large-Format Stores
Solve A Problem	**Jack Of All Trades:** A utility desk with an SOS corner near the entrance of the supermarket which has staff trained in skillsets such as plumbing or first aid, who can advise on emergencies.	Mid- to Large-Format Stores
	Convenience Store "Plus": A store where hassle free services for important errands—paying bills, mailing packages and letters—are offered in addition to purchasing daily necessities.	Small Format Stores
	Tiffin Market: A special island of food products designed as an extension of the store's own kitchen, adding value by simplifying meal preparation without the loss of control over taste or quality of ingredients.	Mid- to Large-Format Stores
Help Me Find It, Help Me Choose	**I-Station:** A self-service station providing on-demand product and location information for shoppers, helping them make better informed purchase decisions in a time-efficient manner.	Mid- to Large-Format Stores
Come To Me	**Store on Wheels:** An air conditioned bus that visits neighbourhoods at pre-assigned times during the day: residential neighbourhoods in the morning, for breakfast and staple needs, and schools and offices in the afternoon, offering simple ready to eat meals.	
Make It Easy	**Store within a Store:** A convenience store within the supermarket or Hypermarket, carrying a wide range of daily necessities and an exclusive check out billing counter.	Mid- to Large-Format Stores
	The Hands Free Store: A new store that is designed around a conveyor belt that makes it easier to pick up and send things to the billing counter. Customers simply pick up a set of personalised, pre-coded tags that are pre coded with colours, to tag bags of shopping before placing them on the carousel for billing by the time shopping is finished, and packed into recyclable portable bags.	Large Format Stores
Enhance The Experience	**The Oasis of Calm:** A new concept in customising shopping experiences and making every shopping trip personalised and memorable. Designed like a bar and located at the centre of the beverages section of the store, shoppers can relax after their shopping and have personal attendants provide information, diversions and services, such as recipes, wine tasting, and food sampling.	Mid- to Large-Format Stores