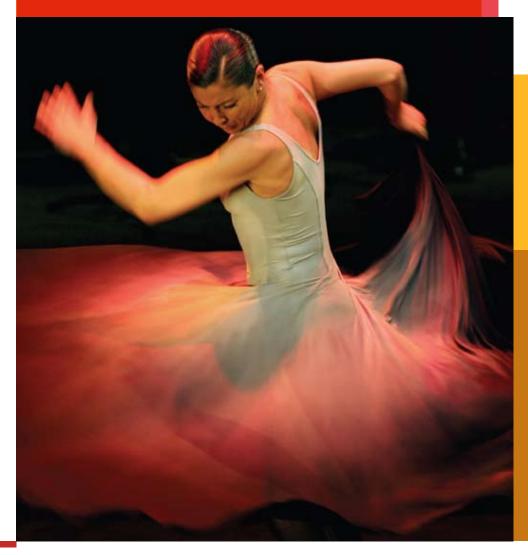
Strong and Steady 2011 Outlook for the Retail and Consumer Products Sector in Asia



Foreword



Carrie Yu China & Asia Pacific Retail and Consumer Leader PwC

Asia was the first region to emerge from the global financial crisis.

Compared with the tepid growth in the US and Europe, the region's economy is buoyant and growth is strong. This shift of the economic centre of gravity is not lost on many global retail and consumer products companies. Entering the Asian market is more than a matter of expanding market reach; it is fundamental to strategic growth.

How are the various countries in the region faring post-recession? Which sectors are more promising? Which sectors provide the most potential? And what does the future hold for retail and consumer goods players in the region?

This report, produced in cooperation with the Economist Intelligence Unit, discusses the outlook for six retail and consumer products sub-sectors in Asia: food and general retail, fashion and apparel, online retailing, fast-moving consumer goods, luxury brands, and durable consumer goods and electronics, with focus particularly on China, Hong Kong, India, Japan and Taiwan.

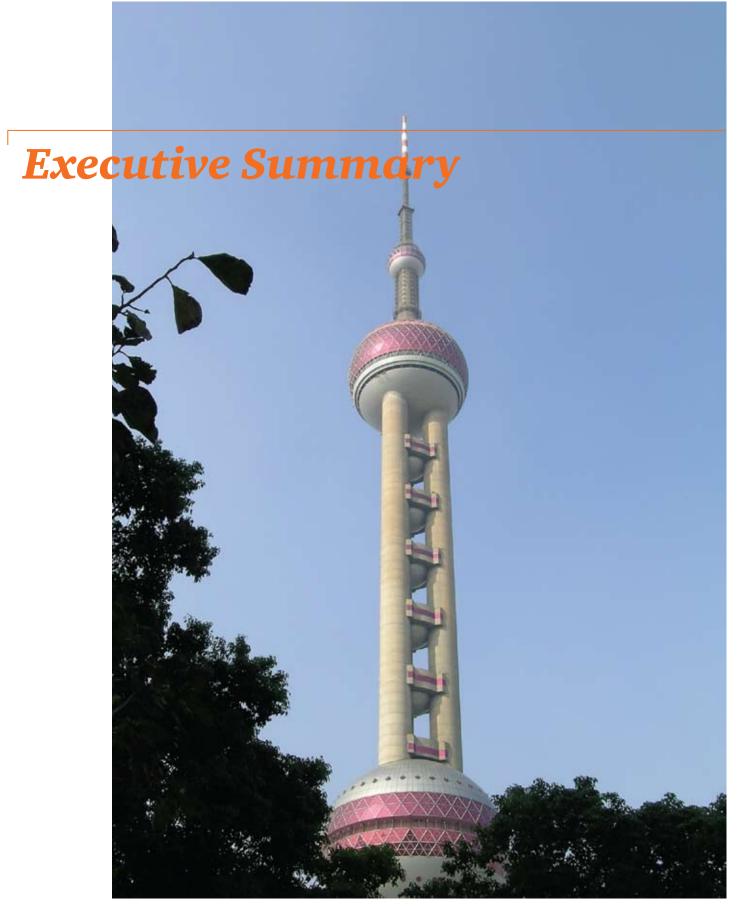
The challenges of operating in Asia are great, but the opportunities outweigh the challenges. Demand is growing across the board and this demand will be encouraged not just by rising incomes, but also by rising access to technology.

Thank you to our colleagues and the Economist Intelligence Unit. We hope this report will help you to gain some insights in capturing the opportunities in the region.

Sincerely,

(anie)

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Since Asia's successful passage through the global financial crisis, multinational retail and consumer products firms have broadened and deepened their interest in the region, and with good reason. Asian markets proved remarkably resilient through the economic downturn and continued healthy growth over the next five years looks almost certain.

Recent entrants to Asian markets are now working to establish and solidify their presence, while market veterans are expanding their operations beyond the most prosperous urban centres and into smaller cities and the countryside. They are keenly focused on China and India, the countries that will drive overall growth in Asia over the next five years. Across most of Asia, the forecast is for steady growth in the mid-single digits. The exception is Japan, where a weak economy and low consumer confidence will severely constrain growth in all but a couple of areas.

This report discusses the outlook for six retail and consumer products sub-sectors in Asia: food and general retail, fashion and apparel, online retailing, fast-moving consumer goods (FMCG), luxury brands, and durable consumer goods and electronics. It focuses, in particular, on China, Hong Kong, India, Japan and Taiwan, and looks at how the industry has fared in 2010, how it is expected to grow through 2014, and opportunities and challenges moving forward.

The main findings of the report are as follows:

Consolidation of operations could be on the cards for some hypermarkets. Multinational retailers such as Wal-Mart, Tesco and Metro will continue to expand their operations in Asia as modern retail outlets continue to rise in popularity. However, there is some evidence that firms may choose to consolidate their operations in the most dynamic markets. Expansion in the attractive Indian market will remain constrained by restrictions on foreign investment.

Demand for fashion and apparel will continue to grow steadily in Asia, bolstered by consumers' increasing appreciation for fashion. Clothing retailers will need to be agile to adapt to buyers' rapidly changing tastes, which are in no doubt being influenced by popular "fast fashion" retailers like UNIQLO and Zara. Fast fashion represents one area of potential growth in an otherwise dismal Japanese market.

Online retailing may be on the brink of staggering growth in China. In the first half of 2010, internet sales in China grew 60% year-on-year over 2009. In Asia generally, the sector remains underdeveloped, but a few successful Asian platforms such as China's Taobao and Japan's Rakuten, seem to have secured winning formulas. Most other Asian countries are lagging behind, however, either due to lower internet penetration or a less developed e-commerce sector.

Fast-moving consumer goods (FMCG) firms face several challenges, not least of which is the rise of private-label goods.

FMCG makers will continue to expand on the back of strong growth, but there are challenges ahead. As they expand into less developed areas, they will run into inadequate infrastructure and distribution networks, and in some cases, high levels of market competition. In addition, less expensive private-label goods offered by large retailers like Wal-Mart and 7-Eleven are gaining in popularity, meaning FMCG players will have to move quickly to build brand loyalty among new urban consumers to prevent their dominance from being undermined by private-label goods.

Sales of luxury goods rebounded strongly in 2010, and all eyes are on China. Many luxury goods companies that entered the Chinese market through joint ventures or franchises are buying back their distribution rights and setting their sights on expansion. Going forward, China will be the most important market in Asia for luxury goods and, one of the most important globally. By contrast, India posted a mere fraction of the luxury sales that China did in 2009, a result of the country's lower level of affluence relative to China's.

Audio-visual equipment and household electronics will be the strongest selling sub-category in the forecast period, and purchases of flat screen televisions will be high. Even in India, where low incomes make comparatively expensive foreign brands less attractive, televisions are the number one priority for electronics purchases, ranking above items such as refrigerators or washing machines.



Key findings:

- The outlook for Asia overall remains positive, with average growth of about 6%.
- Growth will continue to be unevenly distributed, with China driving regional momentum.
- India's annual growth will increase from 3.9% in 2011 to 5.8% in 2014.
- Vietnam will be a rising star, with growth averaging over 10% annually to 2014.

Though developed economies continue to look weak, the worst of the 2008-2009 global financial crisis appears to have passed. Thanks in part to government stimulus programmes, the retail and consumer products sectors globally have seen a return to growth in 2010.1 Although Asia's retail market was not spared the slowdown caused by the financial crisis, the region has rebounded well, particularly relative to Western Europe and North America. Growth has been mainly driven by government incentives that have kept consumers' wallets open in the important Chinese market and elsewhere. As a result of China's retail sales growth of over 16% – which helped offset declines in other important Asian economies such as Japan and India – Asia and Australasia were the only regions outside of the Middle East and North Africa to post real sales growth in 2009 (Figure 1).2

Overall, the outlook for Asia remains positive. Most countries will see a spurt in retail sales growth in 2010 as economies regain strength. The region will continue to average growth of about 6% – or 2-3 percentage points higher than global growth – from 2010-2014. In value terms, retail sales in Asia are expected to reach US\$5.4 trillion in 2010, and grow to more than US\$8.5 trillion in 2014 (Figure 2).

Figure 1

Global: Retail sales growth by volume (% pa)

Region	2007	2008	2009	2010	2011	2012	2013	2014
Asia and Australasia	5.2	4.7	5.6	6.5	6	6.5	6.3	6.6
Economies in transition*	10.5	8.3	-6.2	3.8	4.5	5.2	5.6	5.4
Latin America	5.8	2.2	-1.3	5.2	4	5.1	5.8	6.6
Middle East and North Africa	5.6	1.6	3.7	3.1	3.6	3.2	3.6	4
North America	1.2	-1.3	-4.6	2.1	1.2	1.5	2.7	2.6
Western Europe	0.9	-0.8	-1.9	-0.5	0.2	0.8	1.1	1
World	3.3	1.5	-0.4	3.5	3.2	3.7	4.2	4.4

■ 2010-2014: Forecasts

Source: Economist Intelligence Unit ■ 2007-2009: Estimates

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

Figure 2

Global: Retail sales (in US\$ trillion)

Region	2007	2008	2009	2010	2011	2012	2013	2014
Asia and Australasia	3.78	4.40	4.75	5.40	5.99	6.69	7.54	8.57
Latin America	1.13	1.27	1.19	1.41	1.51	1.62	1.76	1.90
North America	3.77	3.87	3.66	3.83	3.93	4.07	4.29	4.53
Western Europe	2.78	2.97	2.72	2.52	2.46	2.51	2.59	2.74
Source: Economist Intelligence Unit		2009: Estimate			014: Forecast			

Figure 3

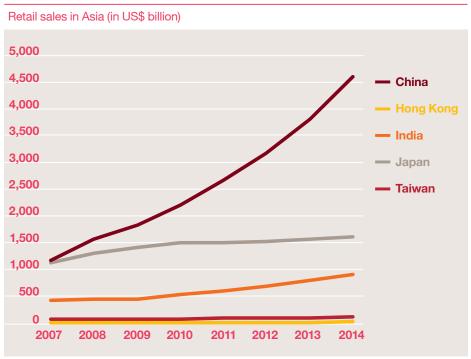
Asia: Retail sales growth by volume (% pa)

Territory	2007	2008	2009	2010	2011	2012	2013	2014
Australia	5.5	0.7	1.4	-0.8	0.2	2.0	2.0	2.0
China	11.4	14.7	16.8	14.8	14.6	12.4	11.6	11.7
Hong Kong	9.0	-0.4	-2.2	5.6	1.3	1.5	2.6	2.4
India	4.6	1.7	3.4	1.5	3.9	5.6	5.6	5.8
Indonesia	11.3	7.8	2.7	4.4	4.2	4.6	4.8	4.8
Japan	-0.2	-0.5	-0.9	1.3	0.8	0.5	0.4	0.4
Malaysia	10.1	7.0	-1.5	2.3	3.3	5.0	3.7	3.8
New Zealand	2.1	-1.7	-1.3	1.3	2.3	2.4	2.5	2.4
Philippines	5.3	3.0	0.9	7.0	3.2	4.3	4.5	4.7
Singapore	7.8	1.2	-2.0	1.6	3.2	2.9	4.4	5.1
South Korea	4.8	0.5	-0.2	0.8	2.0	2.4	2.7	2.2
Taiwan	4.6	0.3	-1.4	9.4	2.3	1.5	0.6	0.6
Thailand	7.5	-2.5	-2.7	3.3	4.8	5.2	5.5	6.1
Vietnam	9.9	3.6	3.9	13.1	10.6	9.2	8.6	9.8
Source: Economist Intelligence Unit	Actual		Estimates	Fo		•••••••••••	••••••	•••••

Growth will continue to be unevenly distributed, with China driving regional momentum, and Japan and Australia - Asia's most developed markets – faring far less well.3 China, Asia's biggest regional retail market and the world's second largest after the United States,4 is expected to realise year-on-year retail sales growth of over 14% in 2010, and growth will remain in the double digits through 2014 (Figure 3). In

value terms, retail sales in China will reach an estimated US\$2.2 trillion in 2010 (more than double the level in 2006) and US\$4.6 trillion by 2014.5 (Figure 4)

Figure 4



Source: Economist Intelligence Unit

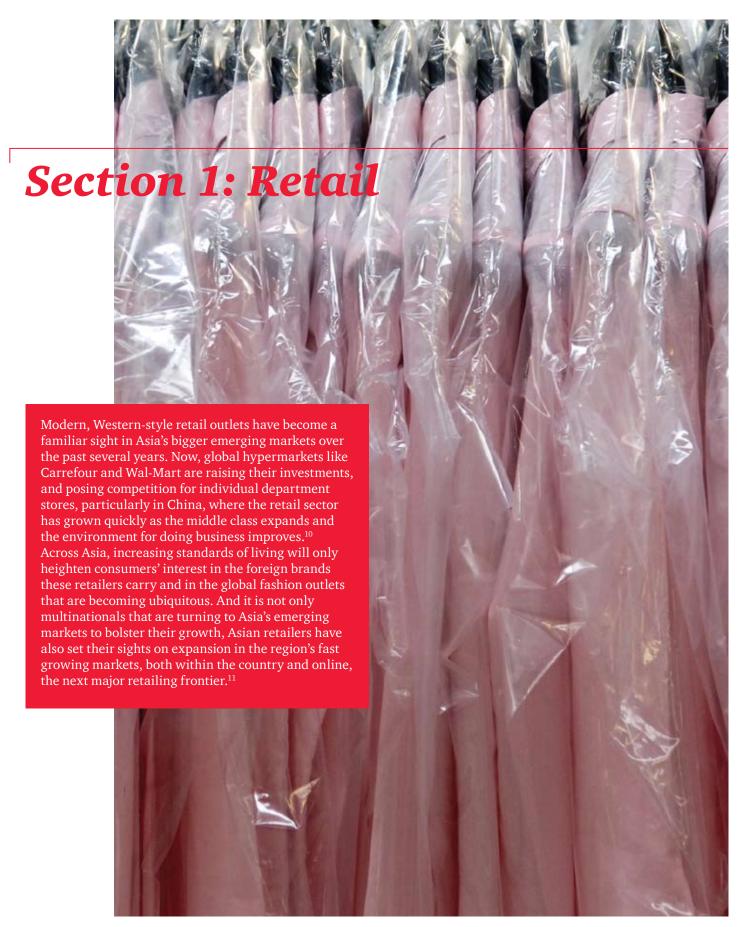
In India, Asia's third-largest retail market after China and Japan, high inflation in 2010 is expected to keep retail sales growth under 2%, but annual growth will increase at an average rate of over 4% in 2010-2014 as incomes rise, urbanisation increases and a variety of new stores, including international brands, open their doors.⁶

Vietnam will be a rising star, with growth averaging over 10% annually to 2014. Growth in Indonesia, Malaysia, the Philippines, Singapore and Thailand is expected average 3%-5% over the forecast period.

Among the less buoyant markets, Japan will see retail sales expand around 1% in 2010, while annual growth will decline progressively to less than half a percent by 2014. Concerns about a weak economy, unemployment and deflation are likely to keep consumer confidence and retail sales low.

Although retail sales in Taiwan are expected to rebound sharply to 9.4% in 2010, growth is expected to resume a steadier average of about 1% annually for the remainder of the forecast period, as high levels of fragmentation and competition constrain companies' pricing power and depress margins.⁸

Retail sales in Hong Kong will also rebound in 2010 with 5.6% growth over 2009. Thereafter, sales will grow at an average of 2% annually, as unemployment – which will remain above 2008 levels through the forecast period – and a slowdown in the growth rate of tourist arrivals from mainland China dampen demand. Growth in South Korea, Australia and New Zealand will be at similar levels.



Food and general retail

Key findings:

- Hypermarket expansion is sweeping across Asia, with China in the lead.
- Foreign firms are expected to undertake aggressive expansion in China, and as road infrastructure develops, this expansion will penetrate further into the third-tier cities.
- The challenges for foreign retailers in entering the Indian market are significant, but industry analysts believe it is a matter of time before the retail sector becomes fully liberalised.
- The beverage and tobacco sector in Asia is expected to grow moderately but China is expected to contribute to half of the world's demand for beer within a decade.
- Branded sports and diet drinks will benefit from the growth of the middle class in India.
- In Hong Kong and Taiwan, consumers will look for healthy food products, including organic foods.
- The ageing of Japan's population is likely to boost the health food sector.

General retail: hypermarkets, supermarkets and convenience stores China is representative of the trend of hypermarket expansion that is occurring across Asia. Such stores represent the largest growth area in retailing in China's big cities.¹² Retailing behemoths Wal-Mart of the US and Carrefour of France have the largest presence in China - with 18013 and 160 outlets14 respectively - and are expected to open between 12 and 20 new stores each year. 15 They have also both been willing to sustain heavy losses to cement their presence in this critical consumer market. However, the closure of Carrefour's Xi'an store in July 2010, a casualty of competition from Wal-Mart, suggests that Carrefour's reputation as the most successful multinational operator in China is under threat.¹⁶ (Indonesia, Singapore, Thailand and Malaysia are also seeing the exit of Carrefour as it moves to consolidate its operations in key markets.)17

Hypermarket operators are also intent on establishing a presence in India's retail market, which remains highly fragmented. Here, modern retail chains account for only 5% of retail sales, compared with 65% in the US, 55% in Malaysia and 10% in China suggesting significant growth potential. Wal-Mart and Metro of Germany have established cash-andcarry stores in India, with Carrefour and Tesco of the UK expected to follow suit, with the latter having entered into partnership with Trent, the retail arm of the Indian diversified conglomerate, the Tata Group.18

The challenges for foreign firms in India are significant. Foreign direct investment is limited to wholesale cash-and-carry operations, or for single-brand retailers, a 51% stake in the operations. Such regulations have precluded significant expansion for foreign companies.¹⁹ Although the Indian government is considering reform proposals, they recommend a "calibrated" opening up of multi-brand retailing to foreign firms.20 Most industry analysts in India believe that it is a matter of time before the retail sector becomes fully liberalised. Japanese retailers are also keen to invest in the multi-branded sector.21 Wal-Mart, which operates its cash-andcarry outlets as a joint venture with India's Bharti Retail, is expected to open hundreds of retail stores should the restrictions be lifted.²² But when that will happen is difficult to predict.

Local operators in India, however, are expanding at a rapid pace. Bharti Retail plans to increase its Easyday supermarket operations to 125 and Easyday hypermarket operations to 13 by the end of 2010 – up from 60 and 6 respectively in June 2010²³ – and will invest more than US\$2 billion to expand its presence across India by 2015.²⁴

Q&A with Long Chen of China Resources Enterprise, Limited

Long ChenCEO, China Resources Enterprise, Limited

China Resources Enterprise (CRE) operates in the retail, beverage, and food processing and distribution markets in China and Hong Kong. CRE has over 2,800 retail outlets in China and Hong Kong, including the supermarkets Vanguard and Suguo, and has 70 breweries across China.

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

For the beverage business, we expect the average growth in the next five years to be 8%. Our goal is to nearly double the average growth rate to reach 15%. For the retail business, we've reached 35% average growth for the past few years largely because we've done quite a few big deals, such as the acquisition of Suguo Supermarket in Jiangsu Province. We expect the industry to grow at 10%-15% in the next five years. Our goal is to grow at 20% on average. To realise this, we will have to focus on steady average growth per store, M&A and opening new stores.

Do you have plans for foreign expansion of your supermarket business?

We don't have any plans for foreign expansion in the next five years. It may sound logical for us to consider other markets, but for us it's a simple cost and return analysis. In China, we see each province as a market comparable in size to a country in, for example, Europe, and maybe with a larger population. If we put the same amount of resources into one market, we will achieve much more growth than if we invest money into other foreign markets.

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

If you look at our overall cost structure, the top three costs are rent, salaries and utilities. So, some of our challenges for the next five years relate to these three factors. Staff salaries are also a major concern. We have over 150,000 workers. A significant increase in salaries will increase our costs. However, we do believe it's now time to provide better salaries. We should improve efficiency and staff productivity rather than relying on low salaries.

For the beer market – where we've had 20% market share – our challenge to growth lies in whether we will be able to retain our market position in China. On the strategy side, retail is still a very fragmented market, so our major challenge is how do we maintain growth and improve our internal management to improve productivity. Lastly, in the long run, whether training enough skilled managers to realise our goal of a 20% growth rate in China is a challenge. You can only grow as fast as you can train your skilled managers.

To what extent is competition increasing in the Asian markets in which you operate? Where is that competition coming from?

The competition is definitely increasing. For the beverage sector, it's much more consolidated, and our main competitors are locals such as Tsingtao and Yanjing, as well as global leaders. For supermarket chains, we see competition coming from foreign-owned supermarket chains, such as RT-Mart (operated by a Taiwanese firm) and Carrefour. We think RT-Mart is more competitive than Carrefour and we've set our eyes on them as we see them as the industry benchmark.

When it comes to supermarkets and convenience stores, China is again seen as an area of major growth, and Asian operators, in particular, are moving to solidify their presence. Although Japanese firms have been slower to recognise the promise of emerging Asian markets, their expansion plans indicate that they are now firmly on board. Asian markets, their expansion plans indicate that they are now firmly on board. Asian markets, their expansion plans indicate that they are now firmly on board. Asian markets, their expansion plans indicate that they are now firmly on board. Asian markets, their expansion plans indicate that they are now firmly on board. And in Japan, where sales have fallen steadily in the past 13 years, and increase expansion in China instead. Chain Korean retailer Lotte Shopping bought a whole stake in Chinese supermarket and hypermarket chain Times Ltd in December 2009 in order to expand its business in China. And a saturated market for convenience stores in Taiwan is behind Taipei-based President Chain Corp's plan to operate 50 7-Eleven convenience stores in Shanghai by the end of 2010 – up from 20 mid-year – and 300 by 2013.

Generally, foreign firms are expected to undertake aggressive expansion in China in the forecast period. As road infrastructure develops over the next decade, expansion will increasingly happen beyond the premier cities and developed second-tier cities and into third-tier cities.²⁹ The Chinese government's interest in developing Chinese companies and brands – and seeing some of these emerge as retail giants – also suggests that it will continue to encourage further consolidation in China's still fragmented market through the forecast period.³⁰

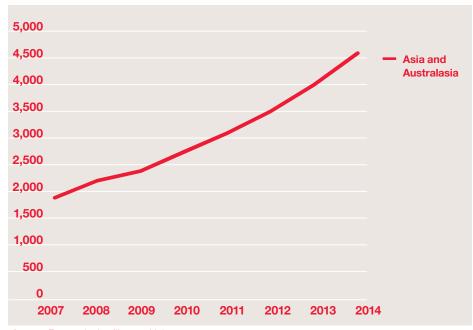
Taiwan and Hong Kong also represent important markets given their openness to foreign investment and relative affluence, but neither offers opportunities for hypermarket nor supermarket growth comparable to China. In Taiwan, high levels of competition and fragmentation are expected to depress margins in the forecast period. ³¹ Also, in both places the number of small, family-run retailers exceeds supermarket and convenience stores by a wide margin. In Hong Kong, two local supermarkets, Wellcome and Park'N Shop, account for about 80% of supermarket sales and they face no viable third competitors at present. ³²

The outlook for Japan is not promising given its 13 straight months of decline in same-store supermarket sales. ³³ Furthermore, limited growth opportunities – owing to factors such as market maturity and planning restrictions that make it difficult to establish large retail sites in cities – will dampen foreign firms' enthusiasm to expand in Japan. ³⁴

Food, beverages and tobacco

Figure 5

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



Source: Economist Intelligence Unit

Although demand in the food, beverage and tobacco sector in Asia is expected to grow at a moderate 3.4% in 2010-2014, in value terms, sales of food are expected to almost double, from US\$2.7 trillion in 2010 to US\$4.6 trillion in 2014 (Figure 5). Demand growth will be strongest in China, where it is predicted to average 5.7% in the forecast period (Figure 6). India will see 3.2% average annual demand growth, and in Hong Kong, demand will be up 3.3% over 2009, but will average a weaker 2.3% annually through 2014. In Japan, demand growth is expected to decline each year through 2014.

Figure 6

Food, beverages & tobacco: Market demand growth (% real change pa)

Territory	2007	2008	2009	2010	2011	2012	2013	2014
China	-0.5	5.2	6.9	6	5.7	5.2	5.6	5.9
Hong Kong	3.6	0.9	-1.5	3.3	2.7	2.2	1.7	1.4
India	3.5	2.8	3.6	1.3	3	3.9	4	3.7
Japan	-1.2	-0.8	-1	2	1.4	1.1	0.8	0.6
Taiwan	0.6	-1.5	0.6	2.6	3.5	2.8	2.1	2.4
Source: Economist Intelligence Unit	2007-2		2009-2014: Forecasts			•		

Unsurprisingly, China represents a huge market for food and beverage products, and foreign firms are responding accordingly. US-based Yum! Brands had more than 3,400 KFC and Pizza Hut restaurants in China in the first quarter of 2010. US coffee chain Starbucks has 700 outlets in China and plans to open 80 shops per year going forward, making China the company's second largest market. Soft-drink giants Coca-Cola³⁵ and PepsiCo are also making major investments on the mainland.

The brewery sector also presents immense potential. Global brewers see China as the most significant opportunity in the world in the medium-term, as attested to by a spate of M&A activities (Hangzhou Qiandaohu Brewery was bought by Kirin of Japan, SABMiller of the UK increased its stake in Blue Sword via its Chinese joint venture and Carlsberg of Denmark increased its stake in Chongqing Brewery). Although beer consumption per head is low compared with some of its neighbours, the sheer size of the Chinese population makes it the world's largest market for beer by volume: almost half of the beer consumed in Asia is done so in China, and within a decade, half of the world's demand for beer is expected to come from China.

Trends in the sector will be similar in India, where beer, processed foods, fast food and coffee will be strong sellers in the forecast period. Groceries account for two-thirds of India's total retail sales (a function of the predominantly poor population) and were a principal driver of growth in 2009. However, as average incomes rise, the proportion of income spent on food is expected to decline.³⁸ Already, branded sports and diet drinks are benefitting from the growth of the middle class, and carbonated drinks are becoming more popular as innovations to packaging increase their affordability. Alcohol, particularly spirits and whisky, will also see a rise in sales in the forecast period as lower tariffs and higher disposable incomes facilitate increased aspiration buying.³⁹

In the more mature markets of Hong Kong and Taiwan, consumers will be looking for food products considered to be healthy, including organic foods, and shying away from foods perceived to be unhealthy, such as fast food. In both places, wine consumption is rising rapidly, and it is actually overtaking beer consumption in Hong Kong. Hong Kong's alcohol sector got a major boost in 2008 when duties on wine and beer were abolished and the territory has become a major trading centre for fine wines. The sale of spirits, however, is expected to remain weak due to a 100% tariff.

Japan is the world's third-largest food market after the US and China, but deflationary pressures in the sector and intense market competition have curtailed sales growth. Expenditure on food in local currency terms is forecast to rise by only 0.9% annually in 2010-14.⁴³ However, in the medium term, the ageing of Japan's population is likely to give a boost to the health food sector. Japan is the second largest market for health food after the US, and firms in this space that are successful are positioned to reap large profits. Given rising concerns about the quality of Japanese tap water, mineral water is another area of potential growth, and so a number of leading beverage firms, including Kirin, are increasing their mineral water production capacity.⁴⁴

Fashion and apparel

Key findings:

- The clothing market demand in Asia and Australasia is expected to surpass the demand in Western Europe in 2010.
- Confidence in the Chinese market among global fashion retailers is high.
- Asian players such as South Korea, Japan and Hong Kong also have keen interest in China.
- Hong Kong will continue to be an important market for international brands to showcase their products to Chinese consumers.
- The Indian apparel market is relatively untapped across all categories.
- Moderately priced fast fashion is doing well in Japan despite the generally weak demand growth.

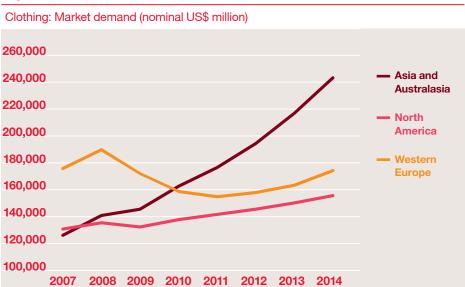
The Asian market for fashion and apparel is expected to perform well in 2010, posting demand growth of almost 5% over 2009 (Figure 7) and surpassing demand in Western Europe (Figure 8). The sector will continue to experience healthy average annual demand growth of about 5% through 2014.

Figure 7
Clothing: Market demand growth (% real change pa)

Territory	2007	2008	2009	2010	2011	2012	2013	2014
Asia and Australasia	0.1	3.1	2	4.9	4.7	5.2	5.4	5.4
China	-3.5	9.9	11.6	10.9	10.8	10.3	10.9	11.4
Hong Kong	1.9	2.7	-2.4	3.8	3.4	3.1	2.9	2.1
India	0	0.9	3.7	6.1	7.6	8.4	8.3	8
Japan	-1.2	-1.1	-1.6	1.6	1.2	1	0.9	0.8
Taiwan	1	-0.9	1	3.9	4.8	4.2	3.4	3.8

Source: Economist Intelligence Unit 2007-2009: Estimates 2010-2014: Forecasts

Figure 8



Source: Economist Intelligence Unit

Figure 9

Clothing: Market demand (nominal US\$ million)

Territory	2007	2008	2009	2010	2011	2012	2013	2014
China	25,721	33,011	38,141	44,386	52,869	61,928	74,771	90,596
Hong Kong	36,767	38,885	37,567	39,579	40,928	42,573	44,804	46,999
India	5,131	5,261	5,217	6,288	7,012	8,003	9,137	10,436
Japan	20,130	22,777	24,228	25,398	25,631	26,000	26,548	27,292
Taiwan	3,290	3,470	3,292	3,773	4,037	4,331	4,616	4,922
Source: Economist I			■ 2007-2009: Est			4: Forecasts	••••••	•••••••••••••••••••••••••••••••••••••••

As in other sectors, growth will be driven by Asia's biggest fashion and apparel market, China, where demand is poised to double from an estimated US\$44 billion in 2010 to US\$90 billion in 2014 (Figure 9).45 Confidence in the Chinese market among global fashion retailers is high. American casual clothing retailer Gap opened its first four stores in Beijing and Shanghai in 2010 and plans to launch online shopping throughout China before the end of the year.46 Swedish retailer Hennes & Mauritz aims to open around 240 of its fast fashion H&M outlets in China in 2010.47 Spain's Inditex, the world's largest clothing retailer and parent company of Zara,

cites China as its most important

market, and is expanding faster in Asia than in any other region.⁴⁸ Another important trend and sign of opportunity is that global retailers with an established presence – such as Burberry, Armani, Adidas and Nike – are moving beyond affluent tier one cities and into hundreds of smaller ones.⁴⁹

Among Asian players, interest in China also runs high. South Korean department store retailer Lotte is planning to enter the Chinese market with its first wholly-owned store in Tianjin in 2011 and expects to have 20 department stores in China by 2018. 50 UNIQLO, a rapidly-growing Japanese fast fashion brand, aims to expand from its current 54 shops in China to 1,000 by 2020, 51 and Hong Kongbased Esprit, which has stores in 150 Chinese cities, plans to expand to more than 450. 52

Hong Kong, which is estimated to reach US\$39 billion in demand in 2010 and grow steadily thereafter, will continue to be an important clothing market for international brands, many of which use the territory as a base to introduce their wares to visitors from the mainland.⁵³

The Indian apparel market is significantly smaller than these two Asian strongholds. Nonetheless, clothing sales have been moving steadily upward in recent years, bolstered by a growing youth market and an increasing interest in Western fashions.⁵⁴ The Indian apparel market is relatively untapped across all categories (for example, maternity, children, plus-size, fitness etc). Zara opened its first two stores in Mumbai and Delhi in 2010,55 and Chinese retailer Yishion plans to have 100 points of sale throughout India by 2013.56 Here, the market will rebound strongly in 2010, growing by 6% over 2009 and averaging almost 8% annual volume growth in 2010-2014.57



Taiwan's market (estimated to be US\$3.8 billion in 2010) is smaller yet, but it too will rebound from weak demand growth in 2009 with 3.9% growth in 2010. It is expected to post average annual increases of about 4% demand growth from 2010-2014.58

The picture in Japan is less encouraging. Outside of food and beverage, clothing sales will remain the most important category of retail sales during the forecast period,⁵⁹ but demand growth will be weak, averaging 1% in 2010-2014. One area for optimism is moderately priced fast fashion, which is doing well, and retailers such as Topshop and Forever 21 continue to expand. And online retailing, discussed in the next section, is booming.⁶⁰ As a consumer segment, single working women in their twenties also present potential opportunities. Many live with their

parents and have high disposable incomes and a willingness to spend. And given that Japanese women are delaying marriage into their late twenties, this market will continue to be strong amidst weakening markets elsewhere.⁶¹

Online retailing

Key findings:

- Online commerce will be the next major area for retail growth in Asia.
- Japan is ahead of its Asian peers, with the innovative e-retailer Rakuten, positioning itself for global expansion.
- Chinese online retailers are poised for massive growth but online retailing is still underdeveloped, particularly in terms of transaction security and credit card use.
- Online transactions with mobile phones are expected to rise, led by tech-savvy consumers in South Korea and Japan.

Online commerce represents the next major area for retail growth in Asia. In Japan, e-commerce lags behind the West, but the Japanese are nevertheless out in front of most of their Asian peers in this field. Retail sales in Japan have declined about 1% annually for the past decade, but e-commerce revenues have expanded by about 17% every year since 2005, and are expected to grow at nearly 10% annually through 2015.62 Japanese consumers may be staying at home in an effort to save money in uncertain economic times, but they also spend more time shopping on their computers.

Q&A with Christophe Bezu of Adidas

Christophe Bezu

President and Managing Director, Greater China, and Chief e-Commerce Officer, Adidas Group

Germany-based Adidas has had a presence in Asia for 20 years, and today, about one-quarter of its global revenues come from the region. China, where Adidas currently has about 5,400 points of sale, represents its second largest market by volume and, its largest market by contribution.

What are your most important markets in Asia?

China is the most important, meaning it is the most important strategically, now and for the future. India is important, but it's still not as sizeable as China, Japan and South Korea, so we look at India more over the mid-term. That is not to say India is not a battlefield, but in terms of developing the group globally, China is the key.

What challenges to doing business do you anticipate in Asia over the near term?

Consumers here save much more. The youth is also still shaping [its sense of self], and so the consumer mind changes faster here. China is shaping its own local brands, its own local tastes, and when you have 500 million Chinese internet consumers, it's clear that they will change consumption patterns.

How much have you seen consumer tastes change in Asia?

Tastes are changing drastically. Vertical brands and fast fashion have had an impact on our industry. The Chinese consumer is better educated about fashion. So our offerings have moved in a different direction from ten years ago, and we have to reinforce the inspiration around the brand.

What opportunities do you see for Adidas in Asia in the near future?

We have massive opportunities. First, in China in the lower tier cities. We have not really attacked those cities, and we definitely have leverage there with the consumers that the local brands don't have. Second, expanding our product categories, for example, doing a better job on badminton, which is not part of our current focus. Then there's segmentation. You have the silver population — the ageing population — in China, Japan and South Korea.

What kind of an online presence do you have in Asia?

In August [2010] we opened an Adidas shop on Taobao.com with incredible results. We're now talking with a key partner in Japan and in January-February 2011 we will launch a site in South Korea. Once we have completed restructuring our European and US websites, we will develop our own platform for Asia.

Did your Taobao launch meet your expectations?

We've had extremely good results. We had a three-day promotional launch at the time of the opening in August and the results exceeded our expectations. We expect that this will be a profitable channel and that we will reach a critical mass of consumers.

Other than a focus on restructuring your US and European platforms, are there other factors that have prevented you from entering the e-commerce marketplace in China (or other Asian countries) until now?

First is the maturity of the market. Even now, we expect it to still yield a fairly low income. There is also a high level of counterfeits [on the internet in Asia]. And we needed to have a strategy to work together with our retail partner to maximise opportunities for both sides.

What are the particular challenges of e-retail/e-commerce in Asia?

In Asia, we have several models. So there are three different focuses on three different models. First, e-retail: in Korea, online stock is available in shops and consumers make purchases online and then pick up goods from a shop. Japan has m-commerce (mobile commerce or the ability to shop using a mobile device), which is a different platform. In China, for example, what we have with Taobao is a marketplace. The website is independent and we manage our sales through an outsourced online retailer. So the process of establishing an online presence in Asia can be quite complex.

One Japanese e-retailer, Rakuten, dominates the sector. It has pursued a "shopping mall" strategy, allowing retailers to set up digital shop fronts, providing hosting services, broking their advertising and processing their payments. Of Japan's 90 million internet users, a staggering two-thirds use Rakuten, and the company handles nearly one-third of all online retailing transactions. Rakuten is positioning itself for global expansion, starting with China. In January 2010, it established e-retail site RakuBai as a joint venture with Baidu, the biggest Chinese language search engine. RakuBai executives expect 100 million consumers to shop on the website over the next three years. 64

Chinese online retailers are also poised for massive growth. Taobao, China's largest online retail marketplace, announced in August that it handled 97% more transactions in the first half of 2010 than a year earlier, with household goods accounting for the most transactions. Goldman Sachs estimated the company's 2009 revenue would reach US\$200 million. Taobao is also intent on expansion, and with Yahoo Japan it has recently launched platforms that allow merchants in China to access Japan's e-retail platforms and vice-versa.

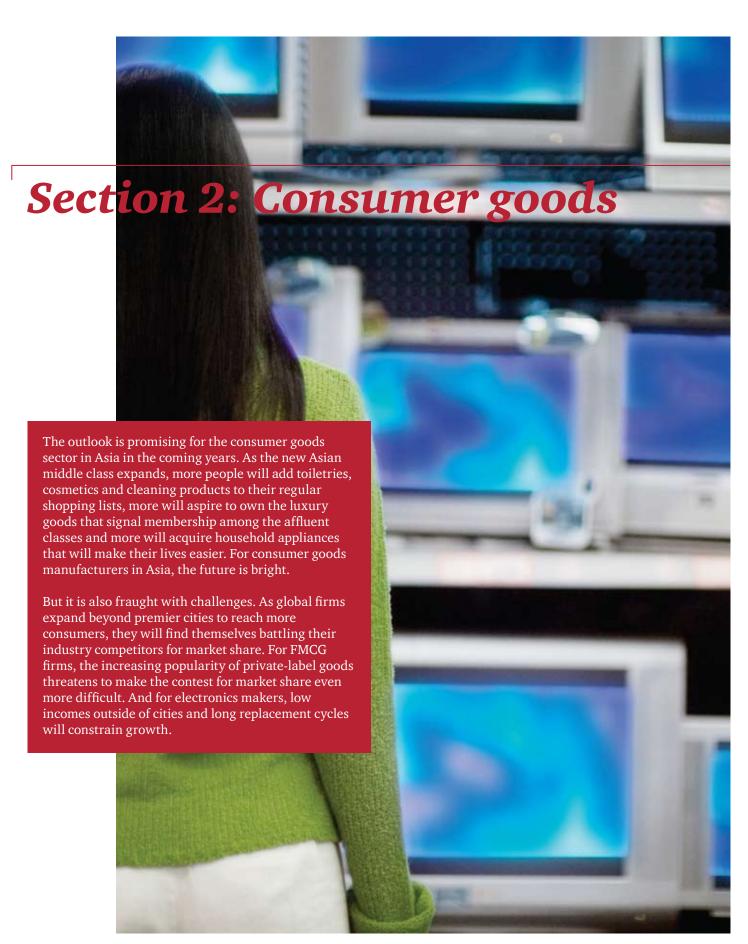
Indeed, online shopping in China seems set to skyrocket. About one-third of China's 420 million internet users now shop online.⁶⁷ In the first half of 2010, internet sales in China reached 60% year-on-year growth, according to the China e-Business Research Center.⁶⁸ Online transactions (which include b2b, b2c and c2c⁶⁹) were valued at RMB2.25 trillion (US\$331 billion), compared with RMB3.6 trillion for all of 2009.

However, the sector in China is still underdeveloped, particularly when it comes to transaction security and credit-card use, which is not commonplace. Taobao has gotten around the problem of low credit-card usage in China by using an online payment system that "serves as an escrow service, holding user payments until they receive their products and are completely satisfied." Those sites that require credit cards are at a disadvantage in a second way: credit card companies charge 5-10% of transaction values in fees, which hikes the cost of shopping on the internet.

Nonetheless, online shopping is growing quickly. According to the China Internet Network Information Centre, in July 2010, 33.8% of China's online population made purchases via the Internet, up from 28.1% in January. Online shopping will also be aided by the increasing use of mobile phones to complete transactions. IT research firm Gartner estimated that half a billion mobile transactions took place in Asia in 2009, led by tech-savvy consumers in South Korea and Japan. Page 18.1% of China Page 18.1% o

In Hong Kong, online shopping is well established, and local and foreign retailers are expected to expand their use of online commerce in the forecast period. Hong Kong shoppers generally prefer a hands-on shopping experience, and here e-commerce is likely to grow more slowly than in other parts of Asia.⁷³ In Taiwan, an easing of regulations has led to a boom in online sales, which now account for more than 10% of the retail market and are predicted to continue double-digit annual growth through the forecast period.⁷⁴

In India, online sales represent a very small but steadily rising proportion of private consumption owing to low PC penetration (both by regional and global standards), antiquated telecommunications technology, a lack of retailing websites, low credit card usage and online security concerns. Some companies have taken note of the e-retailing opportunities presented by upper-income earners with PCs and credit cards but they offer mostly low-value products like tickets, gifts, books, CDs and DVDs.⁷⁵



Fast-moving consumer goods

Key findings:

- The rise of the middle class in Asia, particularly in China and India, brings along a rise in consumption of household goods.
- Across Asia, the sector presents great opportunity for FMCG manufacturers.
- In China, domestic manufacturers are stealing a march on multinationals in areas such as detergents, while foreign companies retain dominance in sub-sectors such as cosmetics.
- In India, the market is expanding across every sector, but the battle for market share among established global players will be an ongoing one.

Figure 10

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

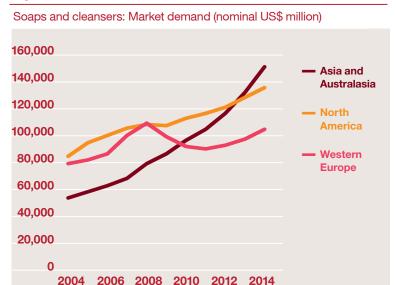
Territory	2007	2008	2009	2010	2011	2012	2013	2014
Asia and Australasia	4.3	4.4	7	6.3	5.3	6.8	7.2	7.5
China	2.9	13.6	20	9.2	10.1	12.9	14.2	14.6
Hong Kong	6.8	3.9	5.7	6.5	5.4	5	3.6	3.6
India	8.3	9.9	11.1	8.5	9	10	10.1	9.7
Japan	3	-0.8	1.8	3.6	1.9	1.7	1.6	1.4
Taiwan	3.4	-0.4	3	7.2	6.1	5.3	4.2	4.6

Source: Economist Intelligence Unit 2007-2009: Estimates 2010-2014: Forecasts

The rise of the middle class in Asia, particularly in China and India, has brought with it a rise in consumption of household goods, including cleaning products, cosmetics and toiletries. Across Asia, demand for soaps and cleansers jumped in 2009, with growth of 20% in China over 2008 (Figure 10). Demand will grow more slowly in China and India in 2010, but both countries are expected to post healthy year-on-year growth in the forecast period, averaging 12% in China and 9.5% in India.

Japan and Taiwan will also see a boost in 2010, with 3.6% and 7.2% gains respectively. Taiwan is expected to continue to show respectable annual growth of an average rate of 5.5% through 2014, but Japan's average will be 2%. Demand growth in Hong Kong is not expected to meet pre-crisis levels in the forecast period, but it will average 4.8% a year through 2014, bolstered by Chinese tourism. Around 80% of tourists from the mainland cite cosmetics or skincare products among the top three types of items that they purchase in Hong Kong.⁷⁶

Figure 11



Source: Economist Intelligence Unit

Clearly, across Asia this is a sector that presents great opportunity for FMCG manufacturers. French skincare retailer L'Occitane raised US\$708 million at its Hong Kong initial public share offering in May 2010, the first for a French company on the Hong Kong stock exchange. L'Occitane intends to double its branch network in China and increase its Japanese stores, currently at 72, by 50% in the next five years. Japan is the company's largest market, and China its fastest growing. In 2009, 36% of its revenues came from Asia.⁷⁷

In China, domestic manufacturers have pulled out in front of multinationals in areas such as detergents, but foreign companies have retained their dominance in subsectors like shampoo and cosmetics. French cosmetics group L'Oreal has said that China's market for men's skincare products rose 27% in 2008 and rose at a rate of 40% in 2010, five-times the rate of women's products. Shiseido, Japan's biggest cosmetics maker, has said that its sales in China have doubled over the past five years.

It is also no wonder that foreign investment in China keeps mounting. US-based FMCG giant Procter & Gamble will invest at least US\$1 billion over the next five years to strengthen its manufacturing and R&D capabilities. In cooperation with the Chinese government, the firm has initiated a project called "10,000 Villages", which is designed to create distribution networks for household products in rural areas, a project that will surely assist it in adding new customers.81 (Procter & Gamble has set a goal of adding 1 billion new customers worldwide by 2015 in emerging markets.82)

In India, as the market expands across every sector, 83 the expansion of foreign companies like US-based Kraft continues apace. 84 But the battle for market share among the established global players like Unilever and Colgate-Palmolive will be an ongoing one. Procter & Gamble has been fighting a pitched battle with Hindustan Unilever in the detergent market for years. 85

Q&A with Luca Parodi of Perfetti Van Melle

Luca Parodi

Vice President and Chief Operating Officer, and Head of the business unit for Asia Pacific, Perfetti Van Melle

Perfetti Van Melle is the world's 3rd largest confectionery group and its brands include Mentos and Chupa Chups. China is Perfetti's largest market by volume in the world.

What kind of revenue growth are you expecting in Asia for Perfetti Van Melle?

Asia Pacific represents around 25% of the group's revenue. Adding India and the rest of South Asia takes this ratio to one-third. Five years ago the revenue generated was less than half of today's figure. I'm definitely bullish on Asia and I would expect that growth will continue – even if at a slower pace – over the next five years.

What opportunities do you see in Asia for the growth of your business?

We started doing business in Asia almost 20 years ago. So we're not new, but there's a lot still to do. We're focusing still on distribution, on reaching more remote places like third-tier cities in China where I believe there are huge opportunities for consumer goods.

What kind of challenges do you anticipate?

In rural areas of developing markets, we face a challenge from the available infrastructure, especially regarding logistics and distribution. Having large manufacturing units today, we also have challenges from blue-collar workers, especially in China. Availability of the workforce has changed and that has an impact on our business. As a result, we are automating our processes and production lines to improve efficiency and to avoid too high a dependence on labour availability. We have also made large investments in automation to rely less on manual labour.

What trends do you foresee impacting your industry?

The development of organised trade in Asia is a key development for our industry. In developing markets, organised trade is evolving fast, small stores are decreasing in importance and a large number of hypermarkets/ supermarkets and convenience stores are taking a much larger importance in the retail outlook in Asia. Small independent chains are consolidating into bigger chains, gaining contractual power. Trade will continue to develop in this direction and will highly influence the way our business will grow.

Turf battles will be a significant challenge for multinational retailers in Asia, and the stakes will be made even higher by the increasing popularity of private-label goods. Large retailers are increasingly stocking private-label products that offer an attractive alternative to branded ones, and that earn 50-60% higher margins for retailers than branded goods. ⁸⁶ If FMCG manufacturers are unable to build brand loyalty among aspiring consumers who are moving to the cities before they begin shopping in modern outlets, they risk losing tens of millions of future customers. Most new consumers would opt for a reliable, inexpensive private-label product from a retailer they trust over an expensive branded product they are not familiar with, ⁸⁷ and this could represent a lost opportunity of critical proportions.

Consultancy Datamonitor predicts that the share of FMCG private labels in Indian retail will grow from 7% to 12% in the next two years. 88 In Japan, Metro AG of Germany and Tesco have added hundreds of private-label goods to their shelves at prices 20% cheaper than comparable branded Japanese products. 89 Seven & i Holdings has done the same, adding private-label wines, canned foods and coffee beans to its ubiquitous convenience stores in Japan and the US. 90

Luxury brands

Key findings:

- China is the world's second largest luxury goods market and is expected to take the top position by 2015.
- Consumers in China's secondtier cities have both the buying power and interest in luxury brands.
- But the challenges in China are also considerable in terms of sales staff and competition.
- Indian consumers prefer to shop for luxury brands outside India for the higher-end experience.
- The outlook for Japan is not promising, but luxury goods remain an important longterm growth market in Taiwan and Japan.

Spending on luxury goods fell predictably in 2009 as the global economy slowed, but in 2010 spending is back in a big way. Swatch (whose brands include Blancpain and Breguet watches) saw first-half sales jump 22%, and Hermès International saw a 27% jump in the second quarter (and a 57% jump in Asia excluding Japan, where sales gained 10%91). LVMH, the world's biggest luxury goods group, said its profits soared by 53% in the first half of 2010.92 Luxury group Richemont, whose brands include Cartier and Montblanc, saw its sales in Asia rise 51% year-on-year from March to August.93

Luxury sales in China accounted for US\$9.6 billion in 2009, or 27.5% of the global market, making it the world's second largest luxury goods market. By 2015, this figure could reach \$14.5 billion, putting China in top place.⁹⁴

Recent research has also concluded that China's high-income households have more money than suggested by official estimates. Research by the China Reform Commission professor Wang Xiaolu, commissioned by Credit Suisse, found that, on average, urban household income in mainland China was RMB32,150 (US\$4,746), or 90% higher than official estimates of RMB16,880.95

The prospect of huge potential returns has convinced many luxury retailers that entered the Chinese market through joint venture partners and re-sellers in the past decade to re-take control of their brands. Burberry, Longchamp and Polo Ralph Lauren are among the companies buying back their stores or distribution rights from Chinese partners.⁹⁶

Expansion is also a priority, and global luxury players, like Swissbased Bally, are expected to move into China's second- and third-tier cities, aided by development of high-end shopping malls across the country.97 Of Gucci's expansion budget, 60% has been earmarked for China.98 Although China's largest cities in coastal areas are the main sales base for most luxury goods makers, they also house only 5% of China's population.99 Over 100 second-tier cities have populations over 1 million people, and consumers in these cities have both the buying power of their tier-one peers and an interest in luxury brands. The China Association of Branding Strategy estimates 250 million people in China can now afford to buy luxury goods. 100

The opportunities are enormous, but as in other sectors, the challenges can be considerable. Shiny new shopping malls notwithstanding, at present there is a dearth of high-end retail space, few well-trained sales staff and rising competition.¹⁰¹

Emerging Chinese luxury brands trying to get a foothold in this competitive market, like haberdasher Trands, will face the formidable task of competing with established Western luxury houses whose cachet comes from their exclusive, foreign provenance. 102

Q&A with Damien Dernoncourt of John Hardy

Damien Dernoncourt CEO, John Hardy

After successfully building its brand in the US and Europe, Bali-based luxury jewellery house John Hardy is now carefully expanding its presence in Asia, adding its newest store in Jakarta, Indonesia as a first step.

Although John Hardy is a luxury brand that was created in Asia and is produced in Asia, it is predominantly in US and European markets. Do you have plans to expand further into Asian markets?

We are really working on building the first really Asian luxury brand. We're strong in the US and North America for historical reasons. Our founder is Canadian and the business grew so much in the US [in the 1980s] that it took most of the resources of the company at the time.

When the financial crisis arrived, I decided to focus on our core business, which is women's jewellery in the US. Now we're re-developing, finalising a permanent store [in Hong Kong], and we are going to open a store in Jakarta. We're very happy with that because the heart of the company is in Indonesia.

We plan to expand slowly because I think there's not one Asian market. Even in China you can say there are two or three different markets.

One of the values John Hardy espouses as a company is sustainable luxury. What is sustainable luxury, and how does it impact the expansion of the company?

Sustainable luxury is a global approach for the business, and it's twofold: the environment and the people. It's very basic. With people: the more you give, the more you receive. If you give 15% or 20% more than the market [wage], bonuses, family medical coverage, a good lunch, your direct cost of labour increases, but your people really feel you care. We're on a mission to make beautiful jewellery and develop our brand, but we're also on a mission to demonstrate that the more you invest in your people, the better the return for the shareholder.

The other part is the environment. We're planting a lot of bamboo, all of our buildings in Bali are made from sustainable materials...we're making sure not to consume more than what can be produced. We're trying to be greener every day. But the social aspect is a big opportunity. You can see what's happening in China in the last six months and to a certain extent in Indonesia, and I think it's something that people should focus on. Taking care of your employees will help everyone.

What are the particular challenges of operating in Asia?

We don't want to be the largest in the world, we want to be very strong where we develop, and for that you need local knowledge, and for local knowledge, you need local partners. Indonesia is a country we know well because we've been operating out of Bali since 1975, but we don't think we know it well enough to be successful by ourselves. Local knowledge is the most important element.

In India, the picture is quite different. In 2009, luxury spending in the world's second most-populous country was less than one-tenth of that in China, according to Bernstein Research. Indian consumers are shopping in luxury stores but they are doing so outside of India, where the experience of buying luxury goods is more high-end. In India, stores selling luxury goods often share sidewalk space with street vendors.

The outlook is not promising in Japan either, where consultancy Bain & Company predicts luxury goods sales will shrink 3% in 2010. While recently relaxed visa requirements for Chinese tourists are likely to give a boost to luxury retailers in Japan, and affluence and discernment among Japanese consumers will ensure Japan remains an important market, the long-term prospect for growth is muted. 104

Luxury goods remain an important long-term growth market in Taiwan. 105 And in Hong Kong, the jewellery, watches and gift segment is expected to continue its strong growth in line with the expected number of visitors for 2010-14. 106

Durable consumer goods and electronics

Key findings:

- Across Asia, the outlook for the sector is positive, with a projected average annual growth of 6%.
- China, India and Hong Kong will drive growth in Asia in the appliance and houseware segment.
- Government subsidies for rural households in China to buy household appliances will give a boost in sales.
- Sales of audio-visual equipment are forecast to have particularly strong levels of growth across the region.
- Mobile phone sales will also present growth opportunities, with China being the world's largest market in volume terms.
- China and India represent huge potential markets for PCs.

Across Asia, sales of durable consumer goods and electronics grew in 2010 and almost all countries saw a jump in demand. The outlook for 2010-2014 is equally positive, with demand projected to grow by an average of 6% annually. In 2010, sales of durable consumer goods got a boost in China thanks to government subsidies for rural households to buy household appliances.¹⁰⁷ China spent RMB30.7 billion (US\$4.5 billion) to promote rural sales of home appliances, cars and motorcycles,108 resulting in a surge in sales value in the first half of 2010. Purchases of air-conditioners grew 39% over 2009.109

A main beneficiary of the government subsidies was Haier, the leading Chinese appliance maker, whose sales in rural areas rose by more than 30% in 2009. Haier executives say that the rural incentives programme led the company to change its model, creating products that were customised to meet the needs of rural users, and to develop a network through which it could distribute and sell its products throughout China. The company is

aiming for another 30% increase in rural sales in 2010. 110

Suning, China's biggest electronics retailer, also did well on the back of the rural appliance incentive programme, attributing its 23% year-on-year growth, which it announced in August 2010, to the programme. Suning is also continuing its expansion into China's third- and fourth-tier cities, opening stores in 31 new cities, and is aiming to take 25% of market share in Hong Kong in the next three years by opening 30 outlets there.

Figure 12

Electrical appliances and houseware: Market demand (% real change pa)

Territory	2007	2008	2009	2010	2011	2012	2013	2014
Asia and Australasia	5.3	3.3	2.7	5.5	5.8	6	6.4	6.6
China	6.4	11.8	13.9	12.9	12.7	12.3	12.8	13.3
Hong Kong	8.7	3.7	-6.1	8.3	10.1	6.7	6.6	5.6
India	7.9	3.7	4.8	7.3	9.2	9.9	9.8	9.4
Japan	2.5	-0.7	-2	1.7	1.3	1.1	1	1
Taiwan	1.5	0.3	2.2	4.1	5.7	5	4.3	4.5

Source: Economist Intelligence Unit

2007-2009: Estimates

2010-2014: Forecasts

China, India and Hong Kong will drive growth in Asia in the appliance and houseware segment in 2010. Sales in China are expected to grow 12.9% over 2009, those in India by 7.3% and Hong Kong by 8.3% (representing a sharp rebound from a market contraction in 2009). Year-on-year growth in Hong Kong is expected to slow in the forecast period to 5.6% in 2014, but China and India will continue to see growth at 2010 levels or above. Prices in Hong Kong are strongly affected by currency movements, and the renminbi's appreciation will raise prices of consumer and white goods, most of which are supplied by China, leading to a rise in sales values that exceeds growth in volumes.113

In India, consumers opt to buy televisions before refrigerators, washing machines or air conditioners, and in 2009, the number of televisions in use far exceeded that of white goods, an indicator of the growing importance of entertainment in India. But this also suggests scope for a rise in the sales of white goods. 114

Figure 13

Asia:	Te	levis	sion	set	s (stoc	ck	per	1,0	000) p	op)
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Territory	2007	2008	2009	2010	2011	2012	2013	2014
China	504	542	582	626	671	719	769	823
India	113	120	127	137	150	164	179	195
Japan	671	668	684	702	705	702	698	695

Most consumer durables sold in India are also manufactured there. Low incomes mean that cost is the primary determinant of consumer goods sales, and the production base for budget models is well developed. Premium products, however, are generally imported and incur a 35% import tax. Foreign firms with a significant presence include Whirlpool, Electrolux, Bosch-Siemens, Samsung and LG Electronics (which has the largest market share for refrigerators, washing machines and microwave ovens).115 Sales during festivals and the Diwali season are especially lucrative for consumer durables and electronics firms; many generate approximately 30% of their sales during this peak season.

Compared with China, India and Hong Kong, at an annual average of 4.7% from 2010-2014, growth in Taiwan will be more moderate. In Japan, year-on-year growth is only expected to average about 1% in the forecast period.

In Taiwan, the market for many goods, washing machines included, has reached maturity. Sales of televisions, however, have picked up as consumers adopt flat-screen models. Despite the high penetration rate for personal computers and mobile phones, sales of these items continue to grow due to their replacement cycle.¹¹⁶

Figure 14

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

Territory	2007	2008	2009	2010	2011	2012	2013	2014
Asia and Australasia	5.4	4.2	4.6	6.6	6.2	6.7	7.1	7.4
China	37.6	13.4	15.1	14.4	14.2	13.6	14.3	14.8
Hong Kong	12.9	4.3	0.8	6	5.6	5.2	5.3	5.3
India	12.4	10.1	11.2	8.9	10.3	11	10.9	10.5
Japan	-7.3	-0.5	0.8	2.9	1.5	1.4	1.3	1.2
Taiwan	-0.6	0.5	2.2	5.2	6.3	5.5	4.7	4.9

Source: Economist Intelligence Unit 2007-2009: Estimates 2010-2014: Forecasts

Sales of audio-visual equipment are forecast to see particularly strong levels of growth across the region, averaging almost 7% demand growth in Asia through 2014, and 14% growth in China alone. India will also be an attractive market, with 10% average annual growth predicted from 2010–2014.

Mobile phone sales will also present growth opportunities. China's market for mobile phones is the world's largest in volume terms, 117 and in India mobile phone manufacturing is growing at a faster rate than anywhere else, with Nokia dominating the

market. And unlike Taiwan, China and India represent huge potential markets for PCs. In China, expanding broadband service and rising numbers of internet users will boost PC sales. Apple opened its second store in China, in Shanghai, in July 2010, and plans to build 25 more by 2012. In India, in 2009, there were only 47 PCs for every 1,000 people, which points to huge market potential for sales in the next five years.



Figure 15 Retail sales growth by volume (% pa)								
Indonesia	11.3	7.8	2.7	4.4	4.2	4.6	4.8	4.8
South Korea	4.8	0.5	-0.2	0.8	2.0	2.4	2.7	2.2
Malaysia	10.1	7.0	-1.5	2.3	3.3	5.0	3.7	3.8
Singapore	7.8	1.2	-2.0	1.6	3.2	2.9	4.4	5.1
Thailand	7.5	-2.5	-2.7	3.3	4.8	5.2	5.5	6.1
Vietnam	9.9	3.6	3.9	13.1	10.6	9.2	8.6	9.8

Estimates

Actual

Other regional economies including Indonesia, Malaysia, Singapore, South Korea, Thailand and Vietnam, are performing well on the back of fiscal stimulus, the recovery in global trade, demand from China, in particular, for raw materials and capital inflows. 120

Source: Economist Intelligence Unit

Retail sales in Indonesia are expected to grow 4.6% annually during the forecast period, encouraged by strong economic growth and increasing disposable income. Modern retailing, particularly in the form of minimarts, is expanding at a rapid pace. But the traditional sector is expected to retain primacy, particularly outside of urban areas where poor infrastructure and low stocks of quality produce make sourcing difficult. Modern retail outlets account for only 30% of total retail sales, and 90% of Indonesians make regular visits to wet markets. As incomes increase, the popularity of modern retail outlets is expected to grow.

Foreign firms entering the highlyfragmented Indonesian market face a gauntlet of regulations, including a minimum capital investment of US\$100,000 excluding land and buildings. Local governments may also block the construction of a modern retail outlet if it is deemed unneeded or disruptive to existing

Indonesia

■ Forecasts

traditional markets, a situation that threatens to make the operating environment less transparent and subject to manipulation. Foreign firms are also required to operate stores of more than 1,200 sq metres of floor space (or, for department stores, of more than 2,000), which effectively excludes them from the rapidly growing convenience store format.

In the capital, Jakarta, shopping malls are springing up at a rapid clip and shopping is being embraced as a leisure activity. Factory outlet stores have become popular, particularly among youth attracted to branded goods, and here prices may be as much as 50% lower than in conventional stores. Although sales of relatively low-cost staple goods will dominate the market over the next five years, high levels of income inequality mean that there is also a potential market for higher-cost luxury items.121

Malaysia, considered to be among the most developed of the world's emerging markets, will see growth of 3.6% annually through the forecast period, which is considerably more moderate than pre-crisis levels. However, the economic recovery is expected to boost retail sales values to US\$54 billion in 2010 from US\$48 billion in 2009.

The hypermarket and shopping mall trend has taken firm root in Malaysia in recent years, although online retailing is still nascent as a result of low broadband penetration. In the cities, access to the internet is widely available via internet cafes, but PC penetration remains low among the poor and outside of urban areas.¹²²

Malaysia

Singapore, one of the most affluent nations in Asia, is expected to see retail sales growth move up from 2010 to 2011 and average 3.4% from 2010–2014. If the economy continues to regain strength, retail sales will accelerate but the recovery could be undermined by the phasing out of stimulus measures that bolstered household incomes in 2010.

Singapore

Singapore is home to one of Asia's most developed retail sectors, with an abundance of large department stores and shopping centres across the island. Department stores account for around 20% of total retail sales, and supermarkets and hypermarkets are increasingly drawing customers away from traditional wet markets. The extensive presence of foreign retailers testifies to Singapore's openness to foreign investment, but the further growth of supermarkets and hypermarkets has been constrained by the amount of available land in Singapore despite continued market fragmentation.

Sales growth in South Korea will be weak in 2010, reaching less than one percentage point, though growth will average upwards of 2% through 2014. Nonetheless, South Korea is home to one of Asia's most dynamic and largest retail markets – ranking fourth in US dollar terms behind Japan, China and India – and a relatively wealthy population.

As is happening in much of Asia, the nature of South Korea's retail market is shifting from smaller outlets to hypermarkets, which offer a one-stop shopping experience consumers are starting to seek. The sector, nonetheless, remains dominated by the small outlets that account for 70% of total retailing.

Online retailing has also done well in South Korea, with the number of online shops and product diversity increasing significantly in recent years. South Korea has the highest internet penetration rate in the world and a dynamic communication services industry, which accounts for its status as one of Asia's fastest growing online retail markets.¹²³

South Korea

Thailand is expected to post retail sales growth of 3.3% in 2010, and annual growth is expected to reach 5% in 2010-2014. Lackluster retail sales in 2008 and 2009 corresponded both with the global economic downturn and a contraction in personal disposable income per head of about 1% in 2009. Serious political instability has also taken its toll: the death of 25 people during the violence between anti-government protesters and security forces in the main shopping district in Bangkok will depress retail sales in the latter half of 2010. And the turmoil may have destroyed foreign confidence, particularly that of hypermarkets, in the Thai economy. Foreign investment is critical to the development of the sector.¹²⁴

Discount retailers are expected to prevail as long as disposable incomes remain under pressure. But looking forward, economic recovery will boost demand among more affluent consumers for desirable brands, boutiques and shopping malls. Online retail will remain nascent given low internet penetration in Thailand.¹²⁵

Thailand

Outside of China, Vietnam will be Asia's star retail performer. In 2010, retail sales growth is expected to jump 13% from 2009 and average 10% annually through 2014. Although the retail sector is small in comparison with its neighbours, it has grown quickly along with the expanding domestic economy, propelled by rising urban incomes and private sector growth. Retail sales remained high even through the economic slowdown in 2009.¹²⁶

The outlook for the retail sector in the medium to long-term continues to be promising, thanks to rising disposable income, a growing middle class and heightened demand for consumer goods. However, as urban incomes are significantly higher than rural, opportunities for more up-market consumer goods will remain limited to the cities, where less than 30% of Vietnam's population lives. Most Vietnamese will continue to be highly price-sensitive during the forecast period.

Although the domestic retail sector is fragmented and still developing, the government closely controls foreign entry into the market to protect domestic firms from competition, which is unlikely to change in the short-term. Traditional retailing will remain dominant in rural areas in the forecast period.

<u>Vietnam</u>



For many multinational companies in the retail and consumer products sector, entering the Asian market is more than a matter of expanding market reach – it is fundamental to strategic growth. In some ways, the "emerging markets" moniker obscures the fact that many Asian economies – China in particular – are already among the world's most important markets, and they promise some of the few global opportunities for long-term growth.

Global companies that did not set up shop in Asia 15 years ago are now determined to get in on the action, and although they may be late to the game, they are making it more competitive than ever. The challenges of operating in Asia are great, to be sure: huge, diversified markets, weak infrastructure in places, opaque and shifting regulations just to name a few. But the opportunities outweigh the challenges. Demand is growing across the board, from inexpensive fast-moving consumer goods to exclusive luxury items. And this demand will be encouraged not just by rising incomes, but also by rising access to technology, as consumers log on to online shopping sites in increasing numbers or turn to shopping applications on their mobile phones to buy the latest thing to strike their fancy.

As the Asian market becomes a global one, the Asian consumer will too, and one can be sure that her preferences will shape the consumer goods and retailing sectors for many years to come.

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