Inside Retail

ASIAN RETAIL OUTLOOK 2023

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Foreward

RETAILERS THROUGHOUT ASIA ARE NOW EMERGING FROM A tumultuous three years during which they have had to navigate through a major global pandemic, associated border closures, localised lockdowns, trading restrictions and supply-chain disruptions.

This year's Asian Retail Outlook 2023 offers valuable insights into how retailers have fared during the past year and how they see the year ahead. In some areas, like lease negotiations and digital investment, changes have occurred that have allowed companies to be more nimble and better cater to customer needs.

Complementing this year's survey, selected contributors have shared their predictions on the immediate outlook for the Asian retail industry, offering perspectives from backgrounds in retail real estate, finance, technology, fashion, the supply chain and luxury.

Together, the retailers who responded to Inside Retail's online survey and the expert commentators paint a cautiously positive picture of the industry moving forward. All seem inspired by the relaxation of government Covid regulations and share a growing positivity as they identify opportunities amid a return to more 'normal' trading conditions this year.

It is true that all retailers – along with their suppliers and customers – are currently operating in a period of uncertainty, owing to difficult macroeconomic conditions. But during the past three years, they have learned how to adapt and reimagine their offers, leaving them skilled in facing uncertainty, and thus well-placed to tackle the challenges that lie ahead.

At Impact.com we've had the privilege of working with countless brands across the region as they learned how to adapt and innovate in this new normal. Through the power of affiliate and influencer partnerships, retailers such as Sephora, Zalora, Decathlon, and Love, Bonito have driven extraordinary results through this channel and we predict that this will only accelerate in the months to come.

We hope every retailer reading this report will find inspiration and motivation to make 2023 a year of growth and reinvigoration.

Antoine Gross
GM Southeast Asia & India
Impact.com

Industry insights: Executives speak

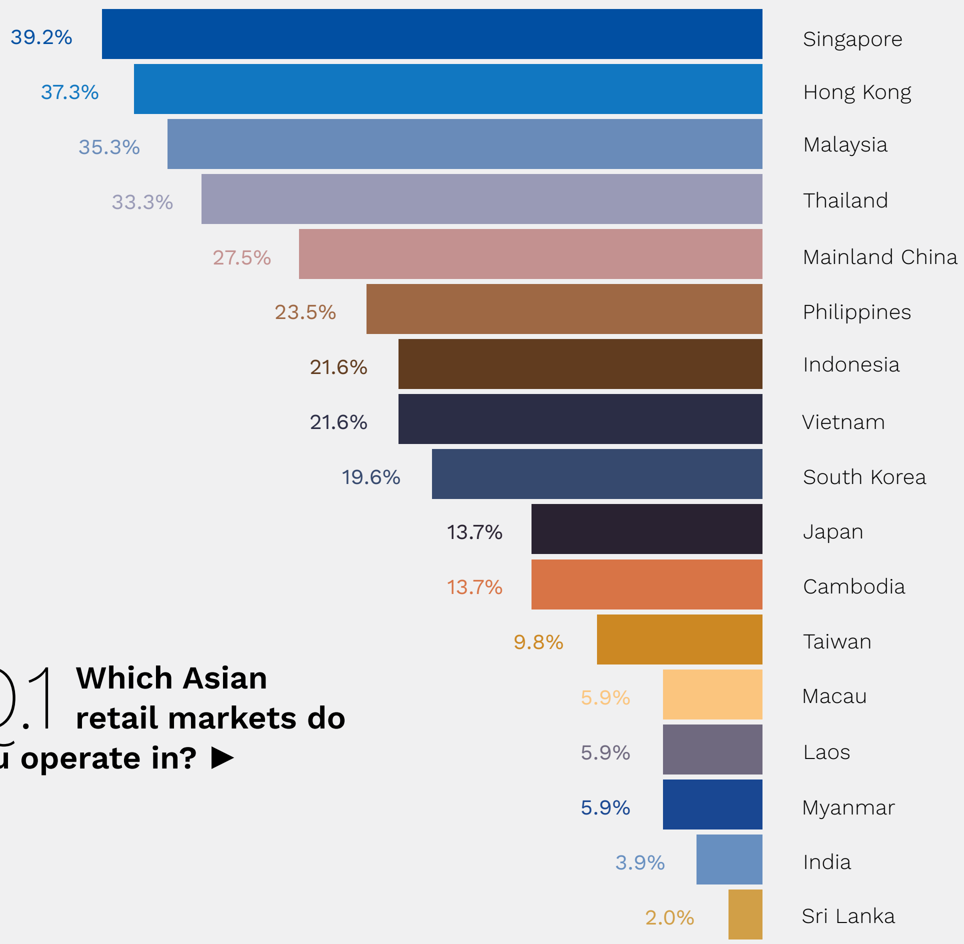
As most of Asia emerges from the tumultuous era of the Covid-19 pandemic, we surveyed executives about the business expectations for the year ahead.

In January, retailers all around Asia breathed a collective sigh of relief when the Chinese Government finally announced a relaxation of Covid-prevention regulations – most significantly, allowing the return of cross-border travel. For almost three long years, retailers in destinations popular with vacationing Chinese mainlanders, such as Hong Kong, Macau, Thailand, Malaysia and Singapore, had to adapt their business models to cater for local consumers or travellers from areas where less strict rules applied.

In this new edition of Asian Retail Outlook, we look at how retailers tracked last year and what they expect during the 12 months to come. It is clear that while the impact of Covid on their business may have waned, new challenges are already appearing on the horizon: further disruptions to the supply chain as a consequence of Russia's invasion of Ukraine, growing fears of global economic obstacles and emerging new shopper dynamics shaped by the Covid era, such as migrating from offline to online.

In this year's survey, C-level and senior managers accounted for 67 per cent of respondents, 24 per cent were in middle management, and 6 per cent in operations. The largest proportion worked for companies with 250 or more employees, but 38 per cent worked for businesses with fewer than 50 employees.

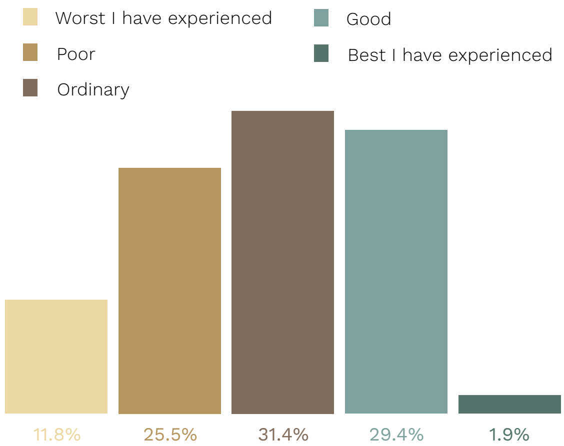
By industry category, the largest group was from the apparel sector (18 per cent), followed by department stores (10 per cent), supermarkets (8 per cent), food and liquor (6 per cent), and furniture and homewares (6 per cent). Suppliers accounted for a further 6 per cent, with the remaining respondents spread across multiple retail business types and categories.



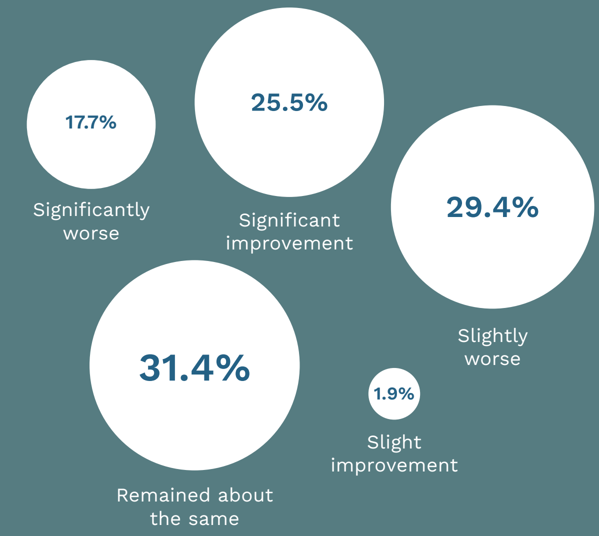
Q.1 Which Asian retail markets do you operate in? ▶

Q.2 How would you describe trading conditions in the past 12 months?

Last year was another tough one for retailers across Asia, with one in four respondents describing trading conditions as poor, 31 per cent calling them “ordinary”, and a further 12 per cent citing the worst they had experienced. On a more positive note, 31 per cent reported “good” or “the best I have experienced”.

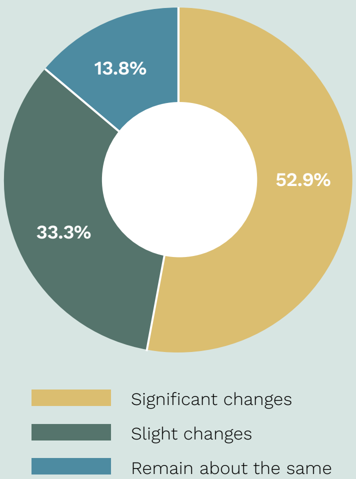


Q.3 How did the last 12 months compare to the previous 12?



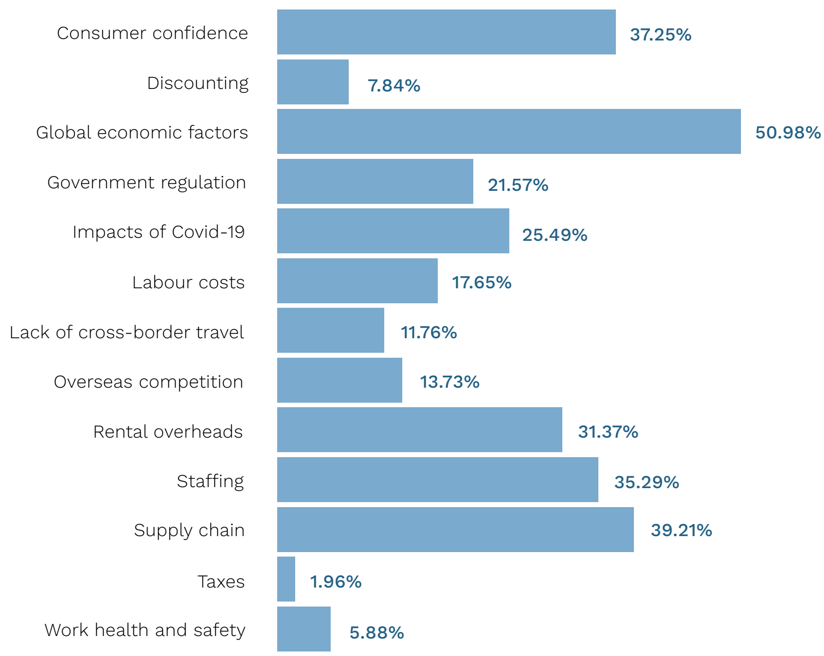
While around 30 per cent of respondents considered last year’s trading significantly or slightly worse than in the previous year, a higher proportion (49 per cent) said it was slightly or significantly better and the remainder – 21.6 per cent – said it was about the same.

Q.4 In the year ahead, how do you expect trading conditions to change?



Responding retailers appear positive about this year’s opportunities, with a resounding 86 per cent expecting a significant or slight improvement in trading conditions. This might well be influenced by the positive news from China that tourists may resume cross-border travel.

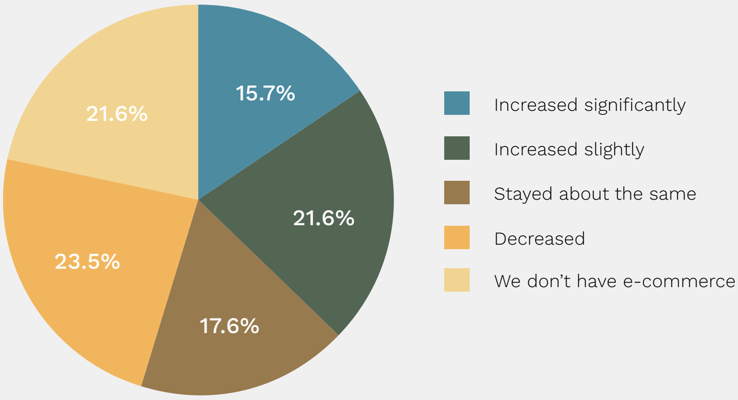
Q.5 What are the biggest challenges facing retailers right now?



A year ago, 80 per cent of respondents to our survey cited the impact of Covid-19 as the biggest challenge their businesses faced looking ahead. But this year, that number is down to just one in four, with 51 per cent citing global economic factors and 39 per cent supply-chain issues. Staffing, cited by 35 per cent, also rated highly, as did consumer confidence (37 per cent) and rental overheads (31 per cent). Respondents could nominate up to three challenges.

Q.6 How has your revenue from e-commerce changed in the past 12 months?

As consumers returned to physical stores to shop last year, a higher number of retailers than usual reported a decline in online sales – 15.7 per cent compared with just 9 per cent a year prior. Conversely, the number to note an increase was down from 59 per cent in 2021 to 41 per cent last year.



Q.7 What percentage of your total revenue comes from your e-commerce channel?

29.4%
Less than 25 per cent

27.5%
Less than 5 per cent

23.5%
We don't have e-commerce

13.7%
Less than 10 per cent

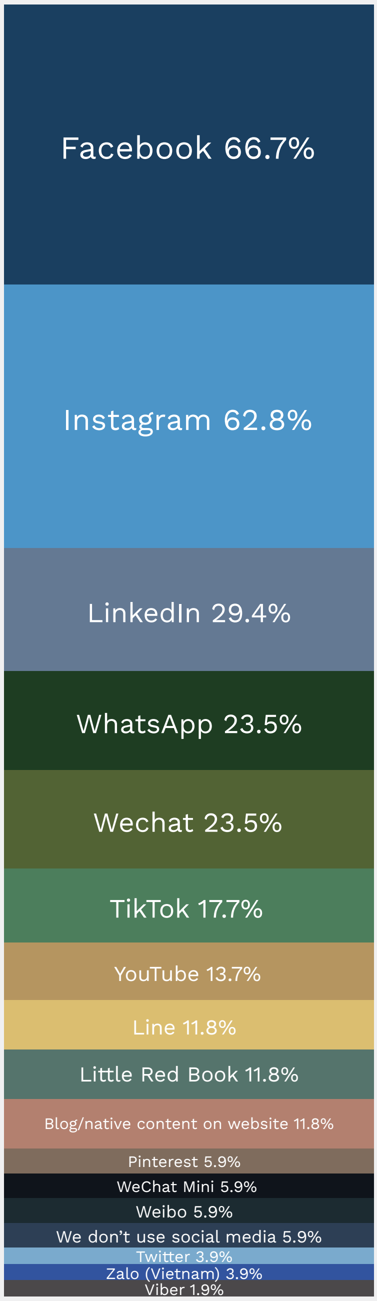
3.9%
Less than 100 per cent

2.0%
Less than 50 per cent

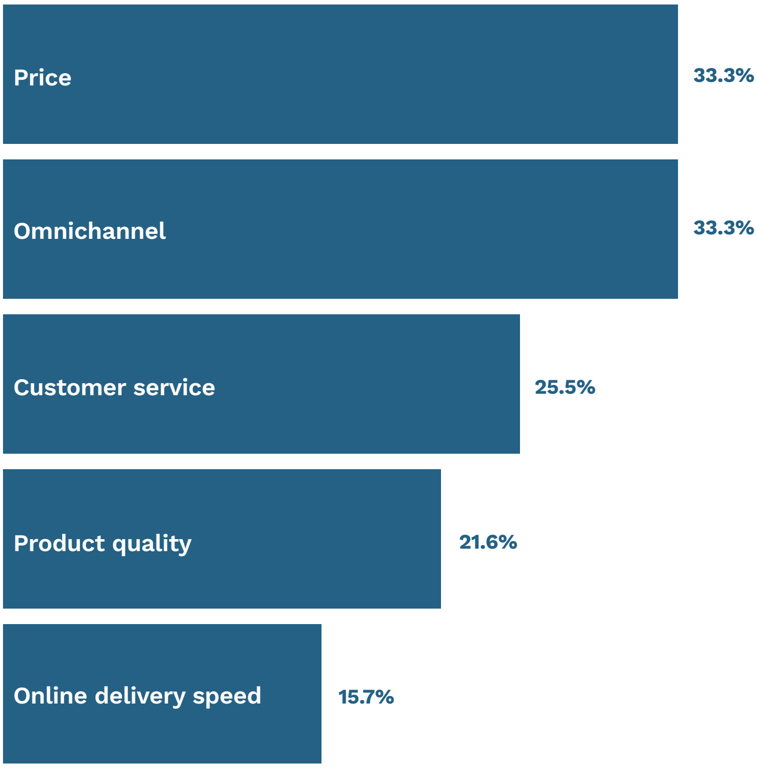
0%
Less than 75 per cent

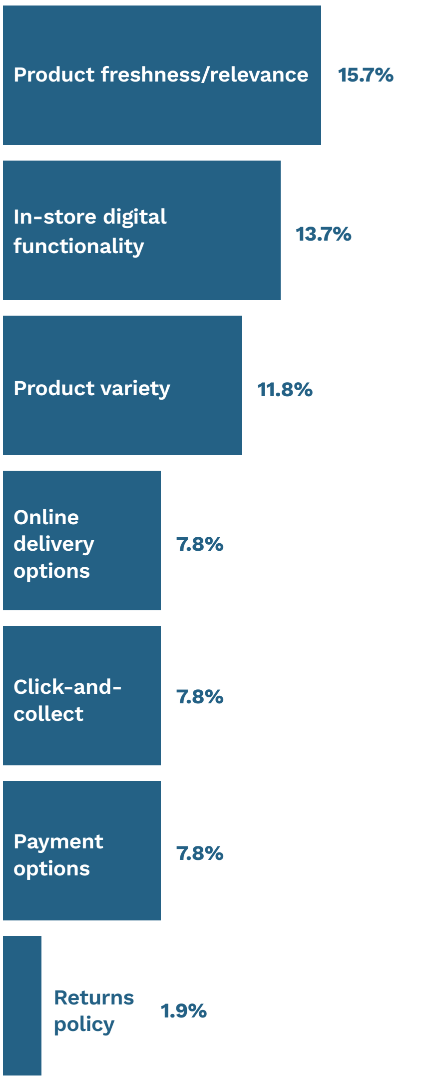
Most of our respondents are still heavily reliant on physical stores for revenue, with about 72 per cent saying less than 50 per cent of their revenue comes from online, and 41 per cent citing less than 10 per cent. Almost one-quarter of retailers said they had no online offer.

Q.8 Which are the most effective social media channels your retail business uses?



Meta's platforms continue to be the most popular social media and online channels that retailers use to market to consumers, with two in three using Facebook and almost as many on Instagram. Perhaps surprisingly, business-focused LinkedIn was the third most popular, at 29 per cent. None of the respondents uses Clubhouse or Snapchat. ►

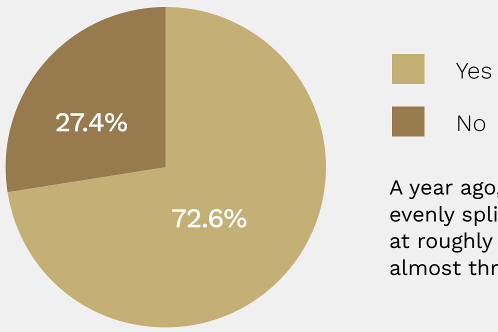




Q.9 What areas do you think consumer expectations will increase the most in over the next 12 months?

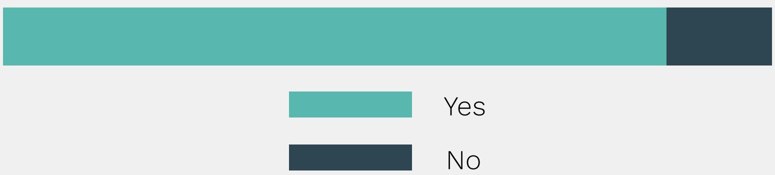
With freight rates rising and inflation predictions shaping the business sentiment across the region, it came as no surprise that price was selected as one of the two most significant areas where consumers will be looking for retailers to step up this year. Equally unsurprising is that retailers expect consumers to provide an omnichannel shopping solution – a merger of the online and offline experience. Notably, in last year's survey, the most-nominated area was online delivery speed, chosen by 37.9 per cent.

Q.10 Have you made any changes to your business operations due to the Omicron strain?



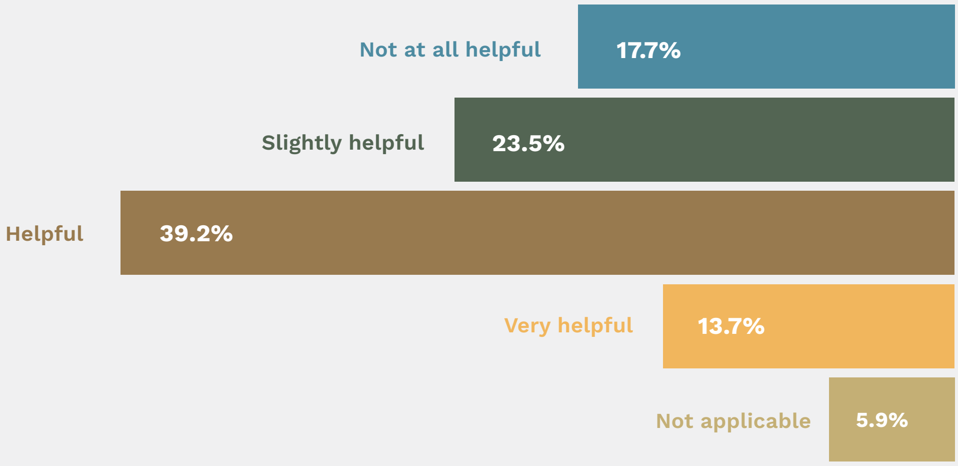
A year ago, respondents were evenly split on this question at roughly 50/50. This year, almost three-quarters said yes.

Q.11 Have you actively encouraged your staff to get vaccinated?



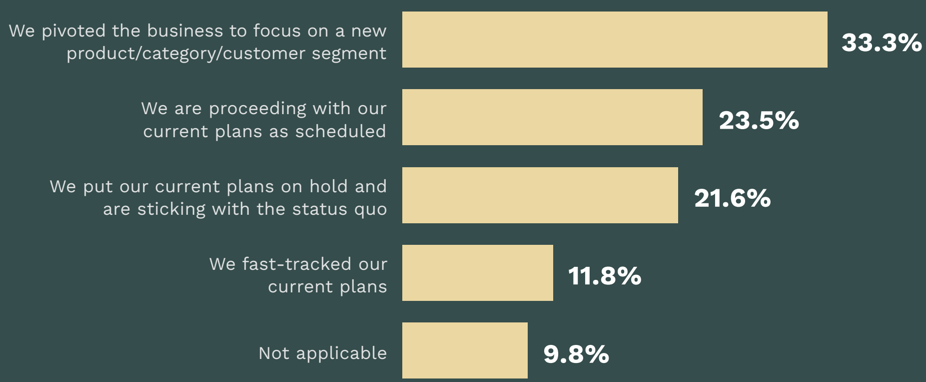
As with a year ago, an overwhelming majority of respondents said they had actively encouraged all staff to get the jab. Two years ago, that ratio was closer to 50 per cent.

Q.12 How helpful was the government's economic response to businesses impacted by coronavirus?



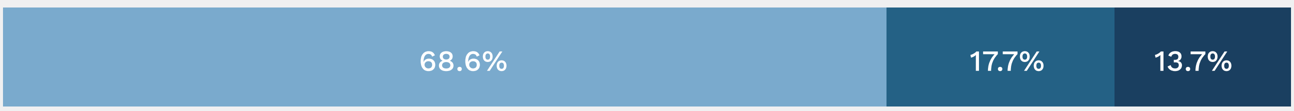
Once again, retailers have given the thumbs-up to government assistance during the Covid crisis, with 76 per cent of respondents positive, just 18 per cent saying there was insufficient help and the balance saying the question is not applicable.

Q.13 How have your business plans changed due to coronavirus?



The past three years of pandemic-driven tumult have been taxing for all retailers, but as our survey shows, they have largely responded positively. One-third said they pivoted their business to focus on new products, categories or customer segments, and almost a quarter said they fast-tracked existing plans.

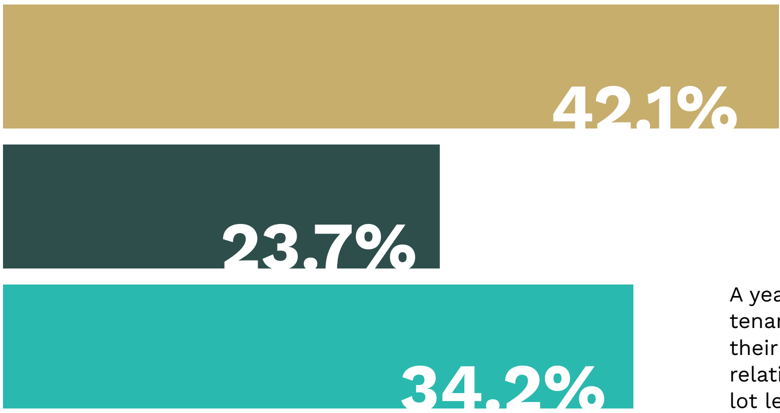
Q.14 As a result of coronavirus, have you invested more in your digital business?



- Yes
- No
- We don't have a digital side to the business

A large majority of businesses are investing further into their digital activities, no doubt reflecting the increased demands from consumers to be able to shop online in an era when access to stores has often been restricted for months at a time. Now that Covid's impact has waned, it will be intriguing to see in next year's survey if digital investment is maintained at current levels. ▶

Q.15 If you have a physical store network, have you consolidated it as a result of the pandemic?



Yes, we've consolidated
No, we've kept it the same
No, we've added stores

A year on from last year's study, it seems more retail tenants are now enjoying relaxed relationships with their landlords. This time around, 53 per cent said relations were strained – still more than half, but a lot less than the 70 per cent of 2021.

Q.16 Do you think relationships between landlords and retailers are more strained as a result of coronavirus?

53%
Yes

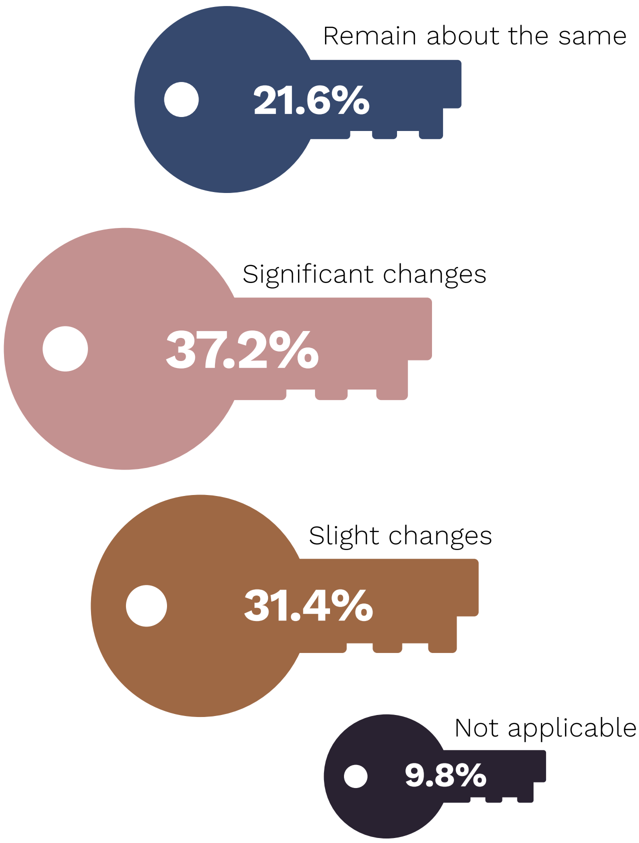
33.3%
No

13.7%
Not applicable

A year on from last year's study, it seems more retail tenants are now enjoying relaxed relationships with their landlords. This time around, 53 per cent said relations were strained – still more than half, but a lot less than the 70 per cent of 2021.

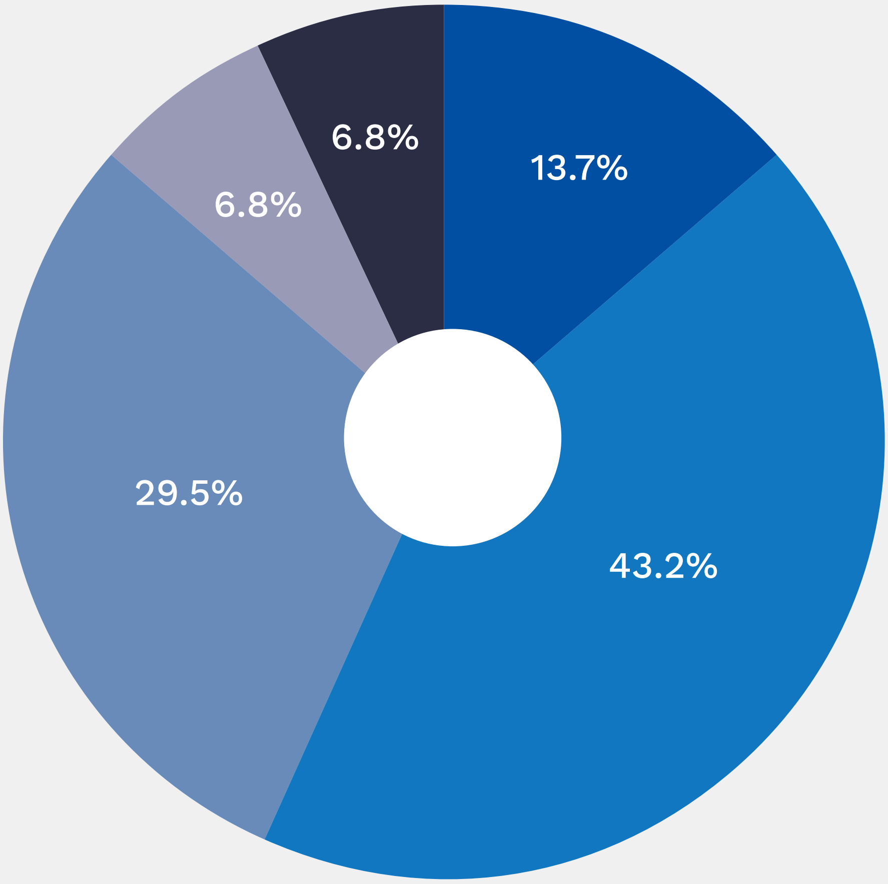
Q.17 How do you expect leasing terms to change next year?

While landlord-tenant relations might be sweeter now than a year ago, most retailers – more than two-thirds – expect at least some change in leasing terms this year. This would reflect broader willingness by landlords to negotiate lease agreements, along with a significant willingness to discuss turnover-based rental arrangements.



Q.18 Were landlords more willing to renegotiate lease agreements this year?

About 43 per cent of retailers responding to our survey said that landlords were more willing to renegotiate lease agreements last year – much on par with the result of our 2021 survey.



Q.19 Have you negotiated a change to turnover-based rents?

While retailers last year appeared to be less successful in negotiating turnover-based rents than in the preceding year, still about one-third said they were able to do it. It is possible that a revival in mall footfall has made shopping centre landlords a little less flexible. ■

Yes
29.4%

No
43.1%

Not applicable
27.5%

Six retail trends to watch in 2023

Retailers and brands across China's Greater Bay Area are discovering that many shopping habits that changed during the pandemic are enduring in the 'New Normal' environment.

By Willi Sun

A DEEP-DIVE SURVEY OF RETAILERS AND CONSUMERS ACROSS CHINA'S GREATER Bay Area offers insights into key industry trends playing out across the broader Asian market during the year ahead.

As consumers across Hong Kong (SAR) and Chinese Mainland cities within the Greater Bay Area (GBA) continue to adjust to life nearly three years since the onset of the Covid-19 pandemic, online shoppers' expectations have grown to expect more services, more convenience and more payment options – without a price premium to match. At the same time, consumers expect retailers to be more respectful of the environment and adopt ESG values that align with their own.

Here are six trends to watch identified by our recently released 'Retail Recharged' survey of 2065 consumers and 342 senior retail industry executives in the GBA (excluding Macau SAR) co-sponsored by GS1 Hong Kong and HSBC.

Consumers are more confident shopping digitally, with Gen Z leading the adoption of immersive technologies

An overwhelming majority of consumers surveyed feel comfortable and confident about using new technologies to search, compare and purchase goods. In addition, younger generations – especially Gen Z – expect brands to use artificial intelligence (AI) Augmented Reality (AR) and other new technologies to enhance the customer experience and enable greater connection with brands. In particular, Chinese Mainland GBA consumers are increasingly interested in the opportunities the metaverse may offer in terms of connecting with brands, with 45 per cent polled saying they would use the medium to view or virtually try on products prior to purchase.

Purpose-driven consumers are expecting greater commitment from brands on sustainability, but want to be incentivised to make sustainable purchasing decisions

A majority of consumers surveyed said they wanted evidence that brands were acting to reduce their climate impact. However, consumers also want to be incentivised to make more sustainable purchasing decisions through discounts and other rewards. Furthermore, 81 per cent of Chinese Mainland GBA respondents and 69 per cent of Hong Kong respondents said they would be interested in being rewarded for making a more sustainable purchase.

Trust in KOLs is falling as consumers pay more attention to friends, family members and brands' own websites
Consumers are becoming wary of product endorsements by Key Opinion Leaders (KOLs), live-streaming celebrities and bloggers – and user-generated reviews and product ratings. This is particularly evident among Hong Kong consumers surveyed, where trust in live streamers and bloggers is down from 34 per cent in our 2021 survey to 28 per cent last year, and is now the least relied-upon source of product information. This change is creating opportunities for brands and retailers to tailor their loyalty programs to encourage their customers to share purchasing decisions on social media and encourage referrals to family and friends.

Trust in data security is a growing concern – and challenge – for retail businesses, who are ramping up their search for talent to help manage data
As incidences of data hacking and ransomware become more prevalent across Asia-Pacific, consumers in most markets are becoming more concerned about the security of their data.

Consumers surveyed told us that while their trust in retailers' promotional information is important in driving top-line sales, they also care about how their data is being protected. Our corporate survey reflected that these concerns are mutual, with data security identified as the leading challenge retailers are currently facing. Roughly one in three respondents identified data security as the top challenge their organisation faces.

Consumers are less willing to pay a premium for added-value services - but they expect greater convenience, especially for delivery
As more consumers become more experienced with shopping online – and gain more experience with multiple retailers and marketplaces – their service expectations are growing. Consumers told us they want multiple delivery options including at home, at work, to lockers and to third-party collection points, such as convenience stores.

At the same time, their willingness to pay for added services or convenience is waning. The most-cited service consumers said they are willing to pay a surcharge for is expedited delivery – but only 48 per cent of respondents in Chinese Mainland GBA cities and 43 per cent of Hong Kong consumers say they are willing to do so.

Confidence in digital payments continues to rise, with growing interest in embedded finance options
Our research suggests that the use of digital payments continues to accelerate. Of the Chinese Mainland GBA respondents surveyed, 76 per cent said they felt more comfortable using digital payments along with 68 per cent of Hong Kong respondents.

The results also suggest growing consumer interest in a number of different embedded finance options. For example, In Chinese Mainland GBA cities, 70 per cent of respondents said they'd purchased goods using Buy Now Pay Later, including 57 per cent within the past year and planning to continue. Hong Kong consumers polled are also expressing interest, with 31 per cent of respondents saying they had used BNPL during the past year and a further 20 per cent said they were aware of it and intended to use it in the future. ■

Willi Sun is head of advisory, consumer & retail, at KPMG China.

Three key trends in retail strategy for 2023

As the post-pandemic new normal continues to emerge, stores will continue to evolve, Web3 will become more prominent, and sustainability will become an even larger focus.

By Saskia Fairfull

THE FASHION INDUSTRY HAS BEEN A LEADER IN ADOPTING NEW technologies and circular-economy initiatives in recent years. Heritage and luxury brands such as Burberry, Gucci, and Tommy Hilfiger have sought new channels to engage a youthful audience. During the pandemic, direct-to-consumer e-commerce brands took centre stage, including popular Australian activewear brand LSKD. And Nike and Adidas entered the metaverse at full speed.

Throughout 2022, there were numerous headlines indicating a monumental shift in innovation across retail and that customers were keen to get back to physical shops while retaining the convenience of hybrid shopping. As a new normal emerged, so did successful e-commerce brands, creating a presence in our local shopping precincts. During the year, LSKD opened three physical stores – at Chadstone, Loganholme and Chermside.

But the most referred to 'I' word of late is inflation. It is at the front of everyone's minds, as we are in an incredibly uncertain economic environment. The situation puts immense pressure on supply chains, businesses, society, and personal disposable incomes.

Yet consumer demand is not wavering and fashion trend cycles are shorter than ever due to social media, fast fashion, and technology. This is forcing brands to evaluate their business models and get resourceful with their marketing budgets to stay competitive.

In the recent State of Fashion 2023 report by The Business of Fashion and McKinsey & Co, findings highlight that brands are moving to alternative channels that could generate better return on investment. And for the year ahead, these brands need to pay attention and set future-focused strategies.

Here are three areas of strategy that will be prominent for leading retailers around the world over the next 12 months.

> “Mass-market brands are also investing in the take-back schemes.”

The store is media

Doug Stephens' book Reengineering Retail was published in 2017. Known as The Retail Prophet, Stephens included a section called The Store is Media. He writes that “physical experiences are more memorable and measurable than any other form of media.” Stephens implores retailers to look at their physical store differently, and to switch from a single distribution channel to establishing experiential media channels.

The concept of the store as media is expanded upon with the reimagining of retail media networks. Third-party businesses pay to advertise on prominent e-commerce sites or at the point of sale as a way of reaching relevant audiences.

This occurs during critical parts of the shopping journey as customers are in discovery mode and potentially ready to purchase.

The estimated value of digital advertising that retail media networks sold in the US in 2022 will amount to US$40 billion ($58 billion), Forrester Research data shows. That is a considerable figure in retail, and it is likely to increase, as Google is set to phase out third-party cookies on Chrome by 2024, which makes first-party data even more valuable to retailers.

In terms of media-focused stores, there is a move towards designing mixed-use spaces to host events and nurture communities, as well as gallery-like retail to showcase a highly curated assortment of products to order in-store and have shipped to your home. These focus on delivering highly localised experiences specific to a demographic and provide a solid platform for collaborative retail media networks among brands, online, and in-store.

Web3 retail

Speaking of nurturing community, Web3 technology is community-centered and designed to power the creator economy. As for its application in retail, the next evolution of the internet is set to completely transform the industry. In some instances that has started already.

Web3 technology creates a shift to open and equal networks with greater transparency across authentication and proof of ownership. It works through decentralisation using blockchain technology and token-based economics.

Luxury fashion brands have embraced Web3 in their own unique way, through non-fungible tokens (NFTs). Burberry collaborated with blockchain digital game Blankos Block Party to create Burberry-themed in-game characters. Louis Vuitton embedded 30 NFTs into its own-branded mini-game Louis the Game; and Dolce & Gabbana auctioned a nine-piece digital and physical collection that sold for close to US$6 million in 2021.

These companies made global news and aren't the only ones that have dabbled in NFTs. However, the bigger untapped opportunity here is leveraging Web3 technology for enhanced loyalty programs, verifying authenticity and provenance, digital collectables, immersive experiences, cross-platform functionality, and broader integration with internet of things (IoT) devices.

Some brands have recognised how this works for them, offering branded experiences that bounce between digital and physical environments. One example is NFT studio RTFKT, which Nike acquired in December 2021. RTFKT recently released an NFT that owners could redeem for a physical hoodie, then use their smartphone to activate an augmented reality experience when wearing it by pointing the camera at a QR code.

Another NFT brand, Deadfellaz, collaborated with Wrangler on a pair of jeans that include a near-field communication chip that directs the wearer to a digital experience via the browser on their smartphone. The digital to physical aspect, and vice versa, will be among the biggest strategies to change retail, and urge our community of fashion retailers to start working on their Web3 strategy.

Resale, recycle, upcycle

Waste and consumption remain significant concerns in fashion, with many brands launching internal circular processes and sustainable initiatives to reduce their environmental impact and provide a channel where their customers can move unwanted clothing conveniently.

Resale is one of the fastest-growing markets and in ThredUp's 2022 Resale report, it's predicted that apparel resale will reach an estimated US$218 billion by 2026. With such a steep increase coming, a need has opened up for management tools such as Resale-as-a-service. This enables retailers to participate in the resale economy by adding a widget to their product pages that lets customers conveniently move their unwanted item directly to a resale marketplace when they're ready.

Another option gaining popularity in fashion is upcycling pieces into refreshed garments. Sports apparel brand Champion has partnered with Reborn – a sub brand of HoMie Clothing – to send large portions of faulty and returned Champion clothing to Reborn, which are repurposed into one-of-a-kind pieces. Such an arrangement provides an avenue for large brands to divert returned and faulty items from going to landfill.

Mass-market brands are also investing in take-back schemes. These allow customers to hand in their unwanted items to be reintroduced back into the brand's manufacturing process. However, there is some work to be done in this area to ensure transparency and legitimate positive impact as a result. It is difficult to know for sure what happens to your clothes when they become part of a take-back initiative.

Textile waste is a major issue, as millions of clothing items end up in landfills. Also helping to reduce this number are textile-recycling centres, which can break down a variety of items and make them into new materials for use in other products.

Brisbane-based company BlockTexx recently opened its facility in Loganholme and uses proprietary technology to separate polyester and cotton materials, along with artificial intelligence to determine the composition of fabrics and fibres.

There are a multitude of technologies and experiences that amplify product discoverability, deliver real-time connections, and provide avenues for circular consumption. The interesting path forward will be about layering these strategies to suit your retail model and customers. By defining future-focused business pillars, associated strategies and implementation methods, retailers can provide the type of adaptable framework required for the next era of retail. ■

Saskia Fairfull is a founding member of the Independent Fashion Advisory Board.

Retail real estate outlook: Optimism grows despite rising costs

Expansion of physical shops is on the cards for the year ahead, but retailers are still cautious, survey shows.

By Vivek Kaul of CBRE

REAL SENTIMENT HAS TURNED POSITIVE ACROSS MOST OF THE ASIA-PACIFIC retail market as the Covid-19 pandemic's impact has waned and business momentum has recovered.

Half of the respondents to CBRE's 2023 Asia Pacific Flash Survey reported that sales during the second half of the year surpassed pre-pandemic levels. However, most mainland Chinese respondents said the opposite due to pandemic restrictions, which remained in force at the time of the survey.

Looking ahead to this year, 72 per cent said they are positive about their sales outlook. Optimism in most markets is being driven by a rebound in international tourism throughout the region. However, with rapid rate hikes and economic volatility having dented confidence in recent months, consumers are set to adopt a more cautious attitude towards spending on big-ticket items.

Offline shopping recovers

While e-commerce is undoubtedly here to stay, shoppers are returning to bricks-and-mortar stores in greater numbers as the pandemic eases.

The return to working in the office has spurred an increase in footfall in CBD areas – a trend observed across Asia. Almost half of the retailers polled believe a portion of online spending will shift back to physical retail.

Although retailers are divided on whether footfall will return to pre-pandemic levels, CBRE believes retail foot traffic will improve further now that mainland China has lifted its zero-Covid strategy – a move that occurred after the survey was conducted.

Cost inflation to remain a challenge

Although inflation in the Asia Pacific region is forecast to ease this year, most retailers expect operational costs to continue to rise.

Low unemployment will push up wage growth and production costs. For online retailers, the rising expense of new customer acquisition and logistics will erode margins.

Macroeconomic issues such as currency fluctuation and supply-chain disruption ranked relatively low among the list of retailers' main concerns.

Real-estate portfolios: Robust expansion ahead

CBRE's leasing sentiment surveys have tracked stronger expansionary sentiment among retailers since mid-last year. Looking ahead to this year, more than 70 per cent of retailers are planning to expand, with 15 per cent intending to 'right-size'.

Our survey uncovered a distinct variation in sentiment across different retail categories. Expansionary sentiment is being driven by the general fashion sector, and entertainment and other services trades, which were hit hard by pandemic restrictions and consolidated store networks over the past two years.

In contrast, retailers in sporting goods and food and beverage (F&B) are planning to consolidate after expanding aggressively in recent years.

Retailers prefer to expand in familiar markets

Expansion will remain conservative in 2023, as retailers seek to manage recession and inflation-related risks.

Most respondents expressed a preference for existing markets, with only one-third planning to enter a new location. Upgrading store networks (and in the process capitalising on lower rents) is another key priority.

Other areas of focus include lease renegotiation or restructuring amid growing demand for the inclusion and expansion of force majeure clauses after the pandemic, and a shift to a turnover rent model amid what is still a tenant-favoured market.

Mainland China tops cross-border expansion list

Retailers remain cautious about extending their overseas footprints, with only 30 per cent of respondents seeking cross-border expansion this year, well below the 50 per cent recorded in the 2021 survey.

Mainland China's Tier I cities, Hong Kong SAR and Singapore ranked as the top three preferred destinations for cross-border expansion. Southeast Asia, Japan and the Pacific will benefit from the ongoing tourism recovery, with the imminent return of mainland Chinese tourists set to provide a major boost.

Solid appetite for more and better retail spaces

New set up and expansion will become more prominent in 2023, strengthening their status as the major drivers of leasing demand. Compared with 2021's survey, fewer retailers intend to trade down in terms of store location or shop size.

While most F&B retailers are planning to open stand-alone shops, non-F&B trades are displaying a stronger preference for flagship stores and pop-ups.

Prime assets remain most popular

A strong flight to quality continues to prompt retailers to seek premium retail spaces in city centres and along prime high streets. While decentralised properties will also continue to attract interest, CBRE expects assets in prime locations to outperform this year.

Secondary high streets in city centres logged the strongest uptick in retailers' interest in this year's survey. As vacant units in prime locations are gradually absorbed and rents stabilise, some especially cost-sensitive retailers may seek opportunities to add new stores in secondary locations.

Retailers want landlords to assist with fit-out costs

One factor that may slow retailer expansion is the rising cost of store fit-outs. Nearly 60 per cent of respondents said that fit-out costs had risen by 10 per cent from pre-pandemic levels.

With the retail market yet to fully recover, most retailers are asking landlords to provide more incentives or other contributions to offset growing fit-out costs.

While 45 per cent of respondents plan to keep their fit-out budget unchanged this year, the survey noted a distinct split in preferences between trades. Almost half of F&B retailers intend to cut fit-out budgets this year, while 36 per cent of non-F&B retailers expect to spend more.

CBRE's recommended retail strategy for 2023

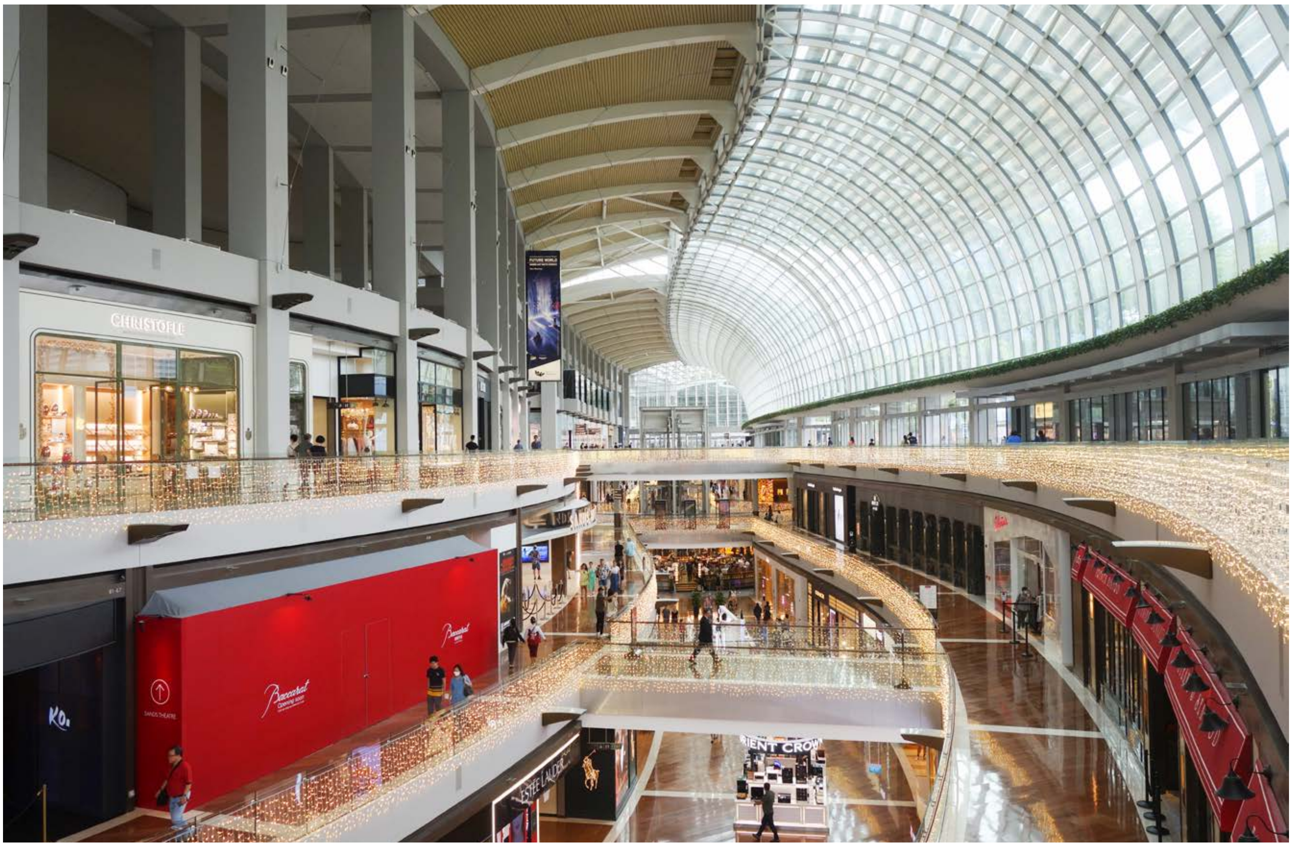
After analysing the responses to the survey, the CBRE team has three primary recommendations for retailers heading into the new year:

Pursue expansion cautiously: We recommend retailers focus expansion on markets where they already have a presence and prioritise leases in shopping centres with a proven track record. Moving to core locations where rents are still below pre-pandemic locations should be prioritised.

Target markets with rebound potential: Mainland China and Hong Kong SAR are forecast to enjoy the strongest sales rebound, after finally lifting pandemic-related policies. Japan and Southeast Asian destinations that will benefit from the recovery of leisure travel will also outperform.

Ensure costs are kept under control: Operating costs will escalate further this year, but at a slower pace. Retail rents will return to growth, with the strongest rental rebound expected in Hong Kong SAR. Retailers should persuade landlords to be more open towards providing rent-free periods and fit-out incentives to mitigate higher fit-out costs.

Vivek Kaul is head of retail, advisory & transaction services, Asia, at CBRE.



The supply chain crisis may be easing, but challenges endure

Why country-level incentives and market stability are critical to global sourcing decisions.

By Anson Bailey

ASIA PACIFIC HAS LONG BEEN AN ENGINE OF GLOBAL PROSPERITY, driven by its network of industrial supply chains. After more than two years of acting in crisis mode due to the Covid-19 pandemic, brands, retailers, and manufacturers are now starting to focus beyond the short term. Despite easing pandemic restrictions, a range of supply chain disruptions continues, including international freight, continued trade tensions, political instability in key sourcing markets, and increasing shortages of materials – as well as catastrophic global events from fires to floods.

Two patterns are dramatically changing the region's sourcing landscape, according to a new report from Pacific Basin Economic Council (PBEC), Monash University Malaysia and KPMG, which studied 132 companies that shifted or considered shifting their supply chain destinations across 13 jurisdictions over a five year period from 2018-2022, comprising 232 relocations.

Firstly, Asian economies are becoming markets in their own right as their incomes rise.

Secondly, companies' ability to deliver products digitally has shifted the principal driver of regional growth from manufacturing to services.

Multiple markets, multiple motivations
The study found that much of the relocated supply chain distribution has remained in Asia (71 per cent), with 55 per cent centred in Southeast Asia. Vietnam

received the highest number of company inflows, with India showing perhaps the greatest potential for future sourcing patterns to emerge.

While increases in tariffs were mentioned as a key reason for sourcing moves, they only represented 23% of the reasons given, accompanied by the uncertainty created by geopolitical factors (23 per cent). Indeed, an equal portion of companies decided to move their capacity based on incentives and to more stable supply chain settings of the receiving market (25 per cent).

Supply-side risks regarding access to sustainable materials and general raw materials were the highest-ranked concerns among business leaders. Meanwhile, transportation costs, delivery reliability, supplier capacity, and the financial stability of suppliers were key concerns in moving capacity or entering a new country for the first time.

Further, many capacity moves were to multiple markets (44 per cent), highlighting the increased complexity of observed sourcing patterns and the further fragmentation of global supply chains. Mainland China's mature manufacturing infrastructure, the report noted, often means that more than one alternative sourcing destination is often needed to meet the demands of capacity moves.

Another notable trend was that existing entrant factory moves (53 per cent) were more prevalent than new entrant factory moves (31 per cent). A smaller number of companies decided to reshore some of their capacity (16 per cent), the main reason being to take advantage of existing capacity and be close to final markets. The data also reveals how these moves affect labour headcount for the receiving market. The reasons behind these moves and specific trends may significantly impact supply chain decisions for other manufacturers.

Effective risk management is vital

As this data reflects, business leaders' decisions made in the past five years, as well as decisions being made in the coming 10 years, are dramatically changing the supply chain and sourcing landscape in Asia Pacific.

As companies redesign their sourcing strategies and plan relocation to other markets, they must consider associated third-party risks pertaining to stable governance, tariffs, tax regimes, adequate infrastructure, access to market, availability of skilled labour, sanctions, environmental-related concerns, local issues, cyber-attacks, and unethical sourcing.

Bribery and corruption also remain areas of major concern in some emerging markets. Companies must also ensure detailed investigation and due diligence work before choosing alternative suppliers/regions to relocate their manufacturing units.

Post-Covid-19, the world is seeing dramatically altered supply chain structures. Fundamentally, manufacturing and supply chains are becoming more localised, directly impacting companies' operations, costs and sourcing. As such, supply chains will need to adopt more robust planning in anticipation of future pandemics and other global events and incorporate better sustainability and resilience into their systems.

Striving towards open and transparent global data standards will not only enhance cross-border trade aspects during the pandemic recovery phase but will also build much-needed preparedness into border processes and supply chains to help ensure future resilience. ■

Anson Bailey is head of consumer & retail at KPMG Asia Pacific.

Five tech predictions for 2023 and beyond

The next wave of innovators and inventors are already building solutions to re-forest the planet, keep our youth active and reimagine the supply chain from the warehouse to delivery. Here's how tech is set to change the world this year...

By Dr Werner Vogels, CTO at Amazon

HUMANS TODAY HAVE MORE ACCESS TO DATA FROM WEARABLES, MEDICAL devices, environmental sensors, video capture and other connected devices than at any point in the past.

By combining these with cloud technologies – like computer vision, machine learning and simulation – we are starting to get a glimpse of where that powerful blend of information and application can take us.

As access to advanced technology becomes even more ubiquitous – as every facet of life becomes data we can analyse – we will see a torrent of innovation, and this will proliferate in 2023.

Here are five predictions for tech in the next year and beyond:

Prediction 1: Simulated worlds will reinvent the way we experiment

Spatial computing. Simulation. Digital twins. These technologies have been slowly maturing for years, but the everyday impact has been limited. This is quickly changing, and this year, the cloud will make these technologies more accessible, enabling a new class of use cases unbound by physical constraints.

Simulations are used to build better race cars, predict the weather, and model the stock market. While the problems that simulations can solve are significant, the difficulty of building and running simulations is a barrier for everyday use cases. Companies are constrained by the need for high-powered hardware and a specialised workforce. Take a fluid dynamics simulation for a jet wing or race car as an example, where it may take up to 150 terabytes of data just to simulate one second of a real-world scenario. However, this is quickly changing, with technologies like the recently launched AWS SimSpace Weaver, the first of many simulation technologies that will pave the way for a future where nearly anything in our world can – and eventually will be – simulated. Simulations will help us make better decisions about the roadways we construct, the ways we organise our warehouses, and the ways we respond to disasters. They can allow us to peer into the future to see the impacts of our efforts by running numerous 'what-if' scenarios so we get answers to questions without having to wait and see what the impact might be many years down the line.

Another area where I'm seeing a rapid uptick in innovation is spatial computing. Companies are already building specialised hardware and using cloud technologies to capture and create 3D models of nearly any environment. Doing this with just a mobile device will soon be

> “Veo has created a broadcast-like experience of viewers for amateur sports.”

a reality. This democratisation will inspire a wave of innovations in the architecture, construction, commercial real estate and retail industries. Just as video did on the internet, spatial computing will rapidly advance in the coming years to a point where 3D objects and environments are as easy to create and consume as your favourite short-form social media videos are today.

Static 2D product images on the internet will become a thing of the past, replaced by 3D models that you can pick up, rotate and place in your living room as seamlessly as you can see them in a web browser today. But expect more to emerge from these models, such that their intrinsic features can be simulated in your virtual home. A virtual lamp will not only be placed on the floor of your living room – you will be able to turn it on and off, watch how the ambient light interacts with your virtual furniture in real time, and understand the impact it has on your energy consumption. All of this before ever pushing a ‘buy now’ button.

With the increasing integration of digital technologies into our physical world, simulation becomes more important, to ensure that spatial computing technologies have the right impact. This will lead to a virtuous cycle of once-disparate technologies being used in parallel by businesses and consumers alike. The cloud, through its massive scale and accessibility, will drive this next era.

Prediction 2: The supply-chain transformation

The adoption of technologies such as computer vision and deep learning this year will propel the supply chain forward. Driverless fleets, autonomous warehouse management, and simulations are just a few of the optimisations that will lead to a new era in smart logistics and the global supply chain.

Something that I’ve reflected on regularly over the past few years is the fragility of the global supply chain. We are reminded of this daily: late deliveries, unavailable products, and empty shelves. While Amazon has fine-tuned its supply chains with innovations like digital freight matching and delivery stations, many companies have continued to struggle with logistical challenges. This is about to change.

It will start with the manufacturing of goods themselves. Internet of Things (IoT) sensors in factories will proliferate, and machine learning will be used not only to predict failures in machines and equipment, but also to prevent them. Less downtime means consistent production. Shipping those products across the globe is a whole other challenge. Digital freight networks powered by the cloud will traverse countries, even oceans, providing real-time data that will allow carriers to optimise with the most efficient shipping routes and change course in response to inevitable events, such as equipment failures and weather disruptions. Think of it as having real-time insights about the current state and arrival time of goods, but at every level of the supply chain.

These freight networks will set the stage for the first cross-country autonomous truck shipments. The impact will be felt immediately in countries like the US, which is experiencing a shortage of about 80,000 drivers. Through spatial computation, edge computing, and simulation, autonomous trucking is set to have a massive impact on our global supply chain. Why? A human driver can spend only so long behind the wheel before becoming distracted, tired and potentially dangerous. And this is before we consider each country’s specific health and safety regulations. This means that fresh fruits being shipped from Southern California can only hope to make it as far as Dallas, Texas, before they begin to deteriorate. However, an autonomous truck can be on the road for 24 hours. There are no mandated breaks, and the technology never gets tired, impatient or distracted. Products get where they need to go faster, safer and more efficiently.

At local warehouses, robotic picking, order sorting and automated packing will become more commonplace. We will continue to see this trend evolve, with new innovations in robotics that use artificial intelligence, computer vision and precision handling of individual products in a company’s inventory. Autonomous robotics will also begin to play a bigger role in warehousing. Imagine being able to augment a forklift operator, who spends a good portion of time simply searching for products, with a real-time digital twin of the inventory, one that is constantly kept up to date using autonomous flying inventory drones.

The key to transforming the supply chain is using technology to optimise each step along a product’s journey. Starting this year, we will see an acceleration in the development of smart factories, smart equipment, and smart shipping that does just that. Each will play a role in improving worker safety, optimising inventory management, reducing maintenance costs, and streamlining production processes. The supply chain of the future is digital.

Prediction 3: Cloud technologies will redefine sports as we know them

Like music and video, sport will become data streams that we can analyse. The insights these data sets will unlock in the coming years will transform the entire sports industry and redefine what it means to play – and experience – every game.

Sport is part of the human fabric. It transcends time, cultures and physical borders. Until now, broadcast television has had the biggest impact on the evolution of professional sports, paving the way for what is today a US$500 billion industry. The next game-changing technology advancements are on the horizon. In the coming years, every facet of every sport will undergo a digital transformation, and this will happen at every level of play, from youth basketball to professional cricket.

Companies like Veo are leading this charge, making use of cloud technologies like machine learning, computer vision and stream processing to narrow the digital divide between amateur and professional athletes. Veo has created a broadcast-like experience for viewers of amateur sports. It has also built a deep neural network that allows it to create highlights from video streams automatically. This makes it easy for players, coaches and recruiters to find key plays, improve tactics and share all of that in ways that simply weren’t possible before. As technologies like Veo become more widely used across all levels of all sport, imagine what comes next.

Top leagues, like the Bundesliga and the NFL, have started using video streams, wearables, IoT sensors and more for real-time analytics and insights. Looking ahead, these capabilities will continue to advance, and the technologies will become an omnipresent force in nearly every sport, at every level. Imagine a scenario where a coach can use computer vision and biometric data that is analysed in the cloud in real time to pull a player before they cramp or

Dr Werner Vogels

concede a goal, replacing them with the most well-rested teammate, something now quantifiable. This simultaneously improves player safety and increases the game's competitiveness. At this point, the sports themselves will truly start to become a data stream that we can analyse and make decisions on in real time; player hydration, ball movement, field saturation – all of it, aggregated, and richer than anything we see today. And with more data comes further innovation. In the not-so-distant future, we will reach a point where teams are running constant 'what-if' simulations during every game, enabling them to better predict the impact of their decisions in the moment. Technology itself will become the competitive foundation for professional sports.

Whether in person or on a screen, the fan experience will also change. Stadiums will rapidly adopt some of the innovations we've seen in industries like retail, such as Amazon Go stores, where the use of computer vision, sensor fusion and deep learning will enable ticketless entry and grab-and-go purchasing. We will also start to see the next generation of data overlays and real-time insights that go down to the player level, augmenting the game and bringing sports closer to what we expect in the most visually informative video games today.

The world of sport is on the verge of the biggest revolution it has ever seen, and cloud technologies are at the centre of this change.

Prediction 4: A surge of innovation in smart energy

Energy-storing surface materials. Decentralised grids. Smart consumption technologies. This year, we will see rapid development on a global scale that improves the way we produce, store and consume energy.

We are in the midst of another energy crisis. Rising costs and unreliable access to energy are global problems – they impact everyone. While this isn't the first time that we have faced an energy crisis, several maturing technologies are beginning to converge, and together they will enable us to address this like never before.

The environment produces more than enough renewable energy. The challenge is in storage and on-demand delivery to the systems that need to consume that energy. Amazon is doing work in this space. Take, for example, the 150 megawatt battery storage system in Arizona that's providing clean, reliable energy to our facilities in that area. Other companies across the globe are also quickly innovating in this space. The cloud is enabling materials research science for novel use cases, such as integrating energy storage into the structure of the objects they aim to power. Imagine a shipping vessel where the sides of the ship are the batteries that power it on its journey. This is just the tip of the iceberg – no pun intended. We are also starting to see breakthroughs in long-duration storage, like molten salt, stacked blocks and fuel cells.

Another area is the decentralisation of energy. With uncertainty around energy availability, some communities are turning to microgrids. I like to think of microgrids as community gardens – but for energy. Community members use these to sustain themselves, reducing their reliance on traditional energy companies and their ageing infrastructure. In my neighbourhood, we have a small microgrid, where solar is collected and shared among tenants. As we continue to see energy challenges amplified by geopolitical events and climate fluctuations, microgrids will become a viable solution for many communities around the world, and cloud technologies will play a role in enabling this. Data from solar panels, wind farms, geothermal power and hydroelectric power will be streamed, stored, monitored, enriched and analysed in the cloud. Machine learning will be used to analyse all energy data to predict usage spikes and prevent outages by redistributing energy with a household level of granularity.

We will also see IoT-based smart consumption devices take off across the globe in the coming year. This will lead to innovations arising from the new observability capabilities that these devices provide for homes and businesses. Imagine the energy savings we can get by retrofitting historic buildings with energy-saving technologies.

In the next few years, we will see a rapid convergence of all types of smart energy technologies, as we have finally met the threshold where our technology solutions can address our crisis. While this may not have the immediate impact that we all wish it would, together these technologies will fundamentally and forever change the way that we create, store and consume energy.

Prediction 5: Custom silicon goes mainstream

Use of purpose-built chips will rapidly increase in 2023. As a result, the pace of innovation will accelerate, as workloads take advantage of hardware optimisations that maximise performance while lowering energy consumption and reducing costs.

Custom silicon and specialised hardware have been gaining traction quickly in the consumer technology industry. Everything from our laptops to our cellphones to our wearable devices is making significant leaps in performance through the fabrication and adoption of custom silicon. While adoption has been quick in the consumer space, the same hasn't been true for business applications and systems, where software and hardware traditionally have longer refresh cycles. This will change quickly in the coming years, however, as the accessibility and adoption of custom silicon takes hold.

Cost savings and performance benefits will lead to more experimentation, more innovation, more adoption, and eventually more custom silicon for other specific workloads. It's another virtuous cycle. Alan Kay once said: "People who are really serious about software should make their own hardware." And in the coming year, people who are really serious about software will really begin to take advantage of all that custom silicon has to offer. ■

Dr Werner Vogels is the chief technology officer at Amazon, where he is responsible for driving the company's customer-centric technology vision. He describes himself as "an engineer, architect, scientist, programmer, troublemaker, executive, revisionist, investor, mentor, adviser, analyst, academic, sales guy, entrepreneur, data analyst, system administrator, product owner, evangelist, debater, father, musician and biker".

In the luxury sector, all eyes are on China

High-end global brands are optimistic that long-locked-down Mainland Chinese consumers will spark a spending rebound in the year ahead.

By Mimosa Spencer

THE WORLD'S LUXURY INDUSTRY IS SHIFTING ITS FOCUS BACK TO CHINA, hoping that the country's high-end spenders will once again splurge on designer goods after Beijing relaxed its Covid-19 curbs following three long years.

Quarterly results from LVMH and Europe's other luxury goods companies this month will offer glimpses of the toll of last year's Covid-related disruptions in China, even as the companies roll out pricey new collections tied to the Year of the Rabbit.

The world's largest luxury retailers, including LVMH, Richemont, Hermès and Kering are expected to report a deceleration in sales growth over the quarter to December 2022, as the post-pandemic splurge on designer fashions was beginning to ease in the US and Europe.

The industry's showing in China will highlight the hit from lockdowns and the subsequent exit from a zero-Covid policy, which has spurred a surge of infections in the home of the world's second-largest economy. Luxury spending by Chinese nationals had dipped from 33 per cent of the global personal luxury goods market in 2019 to as little as 17 per cent last year, estimates from consultancy Bain show.

"We do believe they will come back to the luxury sector in a heavy way, to catch up on what they couldn't do in 2022," said Caroline Reyl, head of premium brands at Pictet Asset Management, referring to Chinese consumers.

Swiss luxury group Richemont may have missed market estimates after sales in China plunged by a quarter, with many stores operating reduced hours or closing temporarily. And Burberry's like-for-like sales growth slowed sharply to 1 per cent in the quarter to the end of December, after a 23 per cent fall in Mainland China.

Rising expectations

Hope for good results abounds. Burberry said it was optimistic consumers in China would start spending again and Richemont said it saw a "strong retail rebound" in China in the run-up to Chinese New Year, adding to rising expectations for the months ahead.

China is forecast to become the luxury industry's biggest market by 2025. The luxury sector is among the largest expected winners from China's loosening of restrictions that kept shoppers out of stores for months, with shares at LVMH, Europe's most valuable listed company, worth about US$433.1 billion and Hermès recently hitting historic highs.

Although the Chinese are expected to resume travelling within Asia initially, Europe is a region that particularly stands to benefit from a return of Chinese tourists. Reyl believes Chinese shoppers may begin to come back to Europe in a noticeable way at the end of the second quarter or during the second half of this year.

Swatch this space

Swatch Group, the maker of high-end Omega, Tissot and Longines timepieces, was one of the first luxury companies to reveal its quarterly results this season – on January 24. It expressed a positive outlook for the China market's recovery from the Covid-19 fallout and the return of Chinese tourists abroad.

The company reported that sales growth in China during the first three weeks of this January had already exceeded the high levels seen in January last year.

"Group management anticipates strong sales growth in 2023 in all regions and segments," the world's biggest watchmaker stated, noting that consumption had quickly recovered in Hong Kong and Macau, as well as China, after pandemic restrictions were lifted.

"In addition, lifting of travel restrictions in China will revitalise sales in tourist destinations. The sales growth in January in China reinforces the Group's expectation to aim for a record year in 2023," the company stated.

Last year's sales decline at Swatch was unsurprising, given the Chinese market situation, Kepler Cheuvreux analyst Jon Cox explained, noting it has more exposure to China than any other European consumer company. But those struggles didn't stop a bold forecast for the year ahead.

Three months from now, retailers across Asia will be able to tell if the optimism of luxury brands was justified. ■

Paris-based Mimosa Spencer is the luxury correspondent for Reuters. Additional reporting by John Revill.