

ASEAN Research Digest

SPECIAL EDITION

Research Partner:

AT Kearney



RETAIL
+ LIFTING-THE-BARRIERS REPORT



IN THIS ISSUE

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ASEAN NEEDS TO CATCH UP ON RETAIL INNOVATION, REMOVE NTBS AND IMPROVE ACCESS TO TALENT

Lifting-the-Barriers Report 2015: Retail

OVERVIEW



RETAIL



HEALTHCARE



INFRASTRUCTURE



AIR
TRANSPORTATION



FINANCIAL
SERVICES &
CAPITAL MARKETS



TOURISM

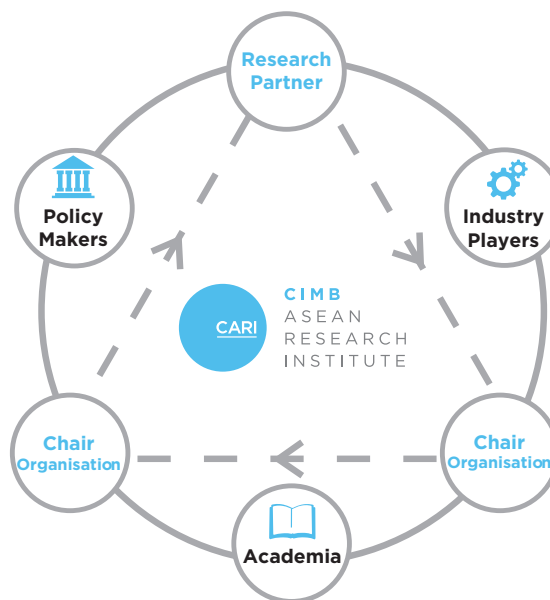
Research objectives:

The CIMB ASEAN Research Institute (CARI) in collaboration with the ASEAN Business Club (ABC) launched the Lifting-The-Barriers Initiative (LTBI) in 2013 as an integrated year long research platform involving core research as well as stakeholder engagement.

The objective was to adopt a vertical approach by means of identifying bottlenecks and barriers hindering free trade of prioritised sectors in the context of the ASEAN Economic Community (AEC).

The LTB Initiative 2015 targets six identified sectors which have pressing relevance to the business landscape in ASEAN and will play a major role in the successful formation of the AEC. The six sectors were Retail, Healthcare, Infrastructure, Air Transportation, Financial Services & Capital Markets and Tourism.

RESEARCH STRUCTURE



Two leading **ASEAN corporations** were selected to champion each sector, providing the direction and experiential insight into their industry. The input from these champions, or chair organisations, were key to understanding the issues faced by industry stakeholders and to develop the recommendations as part of the discourse.

CARI's Research Working Committee and its Strategic Advisors also worked closely with each of the six nominated Research Partners in producing these reports.

The Research Partners were either top management consulting firms or academic institutions who provided the technical knowledge and quantitative analysis required.

METHODOLOGY

The Lifting-The-Barriers Initiative (LTBI) is divided into four phases.

PHASE I

PRELIMINARY RESEARCH

Core research and compilation of qualitative and quantitative input from targeted sectors.

PHASE II

ABC FORUM



LTB Roundtables



Plenary Sessions

PHASE III

LTB REPORTS

The final outcome, a set of white papers, for ASEAN policy makers and community to effect real changes in the region.

PHASE IV

FINDINGS SOCIALISATION

The findings from the LTB reports will be prioritised and presented to various stakeholders including policymakers.



ASEAN NEEDS TO CATCH UP ON RETAIL INNOVATION, REMOVE NTBS AND IMPROVE ACCESS TO TALENT

Title of Study: Lifting the Barriers Report: Retail
By: A.T. Kearney Published by: CARI, May 2015



BACKGROUND

Research objective:

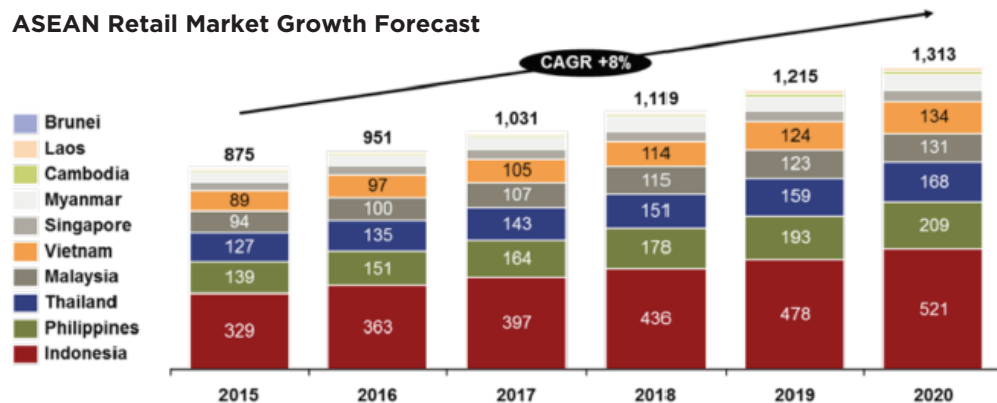
Research objective: To provide an understanding of the landscape of retail innovation opportunities and assess the current status of retail innovation in ASEAN. It specifically highlights potential barriers and the role of key stakeholders in overcoming those, leveraging inputs from the Lifting-The-Barriers Roundtable.

- **Retail innovation** in ASEAN is an opportunity to take the retail industry to the next level, improving the retail experience for consumers, facilitating the emergence of regional players, homogenising the retail space across countries, and helping drive ASEAN markets integration.
- The **main barriers** to the development of retail innovation in ASEAN include low market readiness, cumbersome regulations, low integration of talent, insufficient infrastructure capabilities, and lack of access to financing.

RETAIL INNOVATION LANDSCAPE

- With over 600 million consumers in 10 countries whose collective GDP amounts to about US\$2.4 trillion, ASEAN is today the seventh largest market in the world and is expected to be the fifth largest by 2020.
- The ASEAN retail market is currently worth an estimated US\$875 billion driven by Indonesia (38%), the Philippines (16%) and Thailand (15%).

ASEAN Retail Market Growth Forecast



Sources: Planet Retail, Economist Intelligence Unit

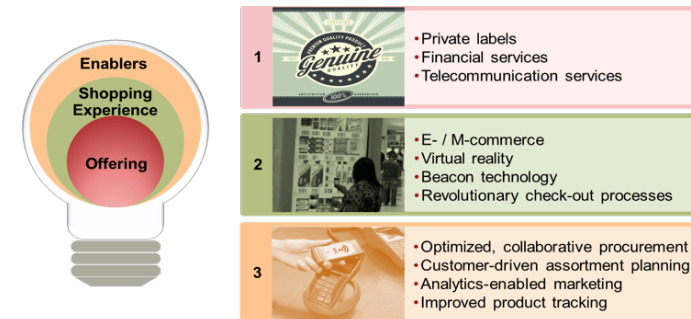
- However, the level of retail development significantly varies between ASEAN members, driven by the ability of key players to innovate.
- Most ASEAN countries have focused on reaching retail modernity over the last years while retail innovation is still in development, with low penetration of new products, services and platforms such as private labels and e-commerce.
- Retail innovation can be grouped into three areas:

I. Offering - all the new products and services launched by retailers

II. Shopping experience - innovation in the consumer interaction space such as e-commerce, virtual reality and beacon technology

III. Enablers - regroups innovation occurring on the back-end and more operational side of the value chain, enabling retailers to improve services, optimise processes and be more cost efficient.

Retail Innovation Landscape



Source: A.T. Kearney

I. OFFERING

- **Product Innovation** - Many retailers have created their own store-label brands, directly competing with the branded products that they were distributing. Those own-store-branded goods really started taking off in the 1990s and have developed from a low-cost & low-quality brand substitute to quality products.
- **Service Innovation** - Retailers have also expanded their offering, getting into new product categories and new services.
 - ▶ Major retailers such as Tesco have expanded their businesses into financial services (Tesco Bank) and telecommunications (Tesco Mobile).



ASEAN NEEDS TO CATCH UP ON RETAIL INNOVATION, REMOVE NTBS AND IMPROVE ACCESS TO TALENT

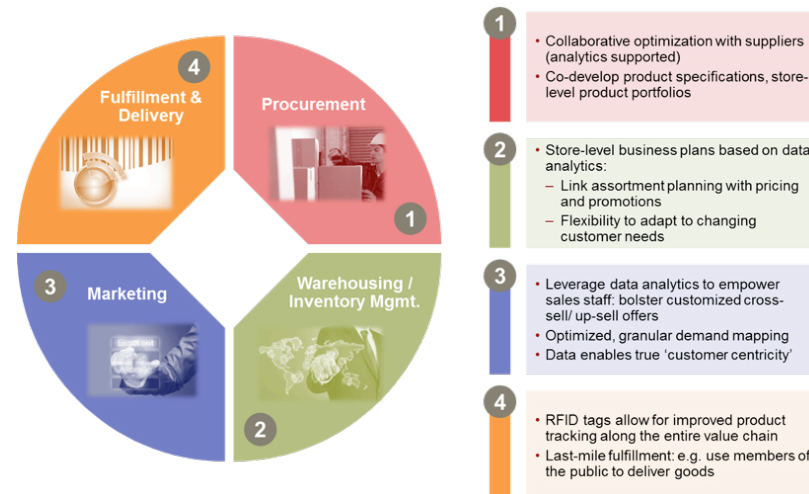
II. SHOPPING EXPERIENCE

- **E-commerce growth** - One of the key retail innovations has been the growth of e-commerce, which has revolutionised not only the retail business but also how fastmoving consumer goods (FMCG) companies develop, market and distribute their products. E-commerce started in the 1990s as an alternative way of reaching customers from the traditional brick-and-mortar store format.
 - ▶ Fuelled by increased digital adoption, e-commerce has grown steadily, making up 6% of the global retail industry in 2014, with US\$ 1.3 trillion.
 - ▶ The global e-commerce market is expected to grow between 13 and 20% per year, reaching US\$2.2 trillion by 2017 and over US\$7 trillion by 2025.
- **Emergence of virtual reality** - More recently, the retail space has seen the emergence of virtual Reality (VR), which provides augmented in-store experiences. Retailers in different fields, ranging from fashion apparel companies to automotive and grocery retailers have launched several initiatives into the virtual reality space, in an effort to merge the physical and digital world. Initiatives include VR stores recreating the in-store experience; VR fitting rooms used by apparel retailers allowing quick and hassle-free fittings; VR mirrors enabling shoppers to e.g. try the look of different makeup.
- **Beacon technology** - Some retailers are also increasingly using the 'beacon technology' which enables them to directly interact with the mobile phones of consumers in store.
- **Revolutionary payment / check-out process** - Speed is one of the most important performance criteria of the payment process and retailers have spent much effort on reducing queuing & check-out times. To that point, self-scanning stations are being increasingly deployed by food retailers and drugstores.
 - ▶ Other innovations are e.g. facial recognition or "Pay-by-selfie".
- **Other shopping experience innovations** - Other innovations include:
 - ▶ Storefront extensions / infinity aisles that display related products, which are not available in-store but can be ordered online and delivered home.
 - ▶ The embedment of social media into a physical store environment such as the real time display of the number of Facebook likes on clothes hangers.

III. ENABLERS

- Significant innovation has also occurred on the operational side of the value chain, enabling retailers to optimise processes and be more cost efficient.
- **Optimised, collaborative procurement** - Retailers increasingly co-create value with their suppliers. This starts right at the beginning of the value chain and leverages capabilities which are unique and inherent to the supplier as well as to the retailer. Combinatorial optimisation accelerates analysis and evaluates complex, interdependent proposals based on specified business constraints. This approach allows retailers to develop targeted, store-level product portfolios, alternate specifications, and targeted incentive / discount / rebate structures.

Innovative Enablers across the Retail Value Chain



Source: A.T. Kearney

- **Customer-driven inventory / warehouse management and assortment planning** - To maximise sales, inventory and assortment planning must be integrated into a store-level business plan that is based on customer data analytics.
- **Analytics-enabled marketing & offering customisation** - The rise of the internet and concurrent investment in IT infrastructure has made data available like never before. Data analytics drives relevant insights out of the data and applies the insights to strategies that help organizations create and extract value.
- **Improved product tracking** - With the rise of "the Internet of Things", radiofrequency identification (RFID) technology is gaining increasing importance: the next frontier is end-to-end RFID tagging along the entire value chain from the manufacturer to the consumer.
 - ▶ Other applications include mobile RFID readers that constantly and automatically maintain inventory counts and monitor asset location.
 - ▶ Especially in e-commerce, real-time end-to-end tracking is becoming ever more critical as innovations to fulfil 'the last mile' are deployed.
 - ▶ Deutsche Post DHL has e.g. started the "MyWay" program in Sweden: the company pays members of the public to deliver online goods.
- All of the above new technologies / enablers are reshaping the retail environment at an unprecedented pace. Retailers must therefore stay at the forefront of technological innovations, not only to be competitive in terms of store profitability, but also to deliver a state-of-the-art customer experience.



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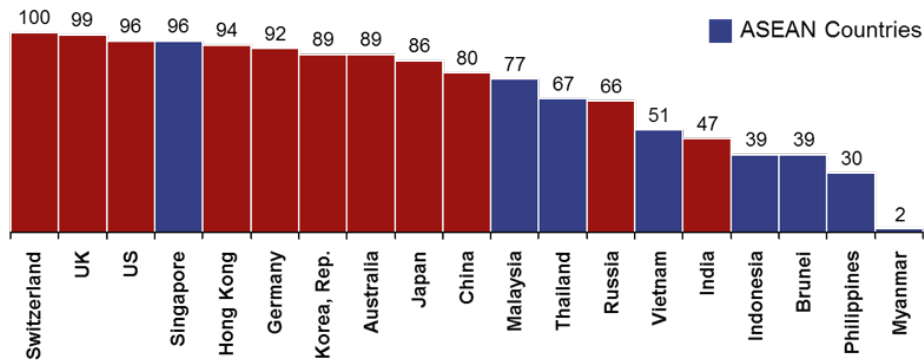
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WHERE IS ASEAN TODAY?

II. SHOPPING EXPERIENCE

- According to the latest Global Innovation Index (GII), ASEAN (except Singapore) appears to overall lag behind when it comes to innovation in general.
- The GI measures 81 innovation drivers including:
 - nation's institutional quality (political / regulatory / business environment),
 - human capital and research (education / R&D),
 - infrastructure quality (including digital infrastructure),
 - market sophistication (access to capital / investment),
 - business sophistication (innovation linkages and absorption),
 - knowledge creation,
 - knowledge linkages / diffusion
 - creative outputs (intangible assets, creative goods and services, online creativity).

Global Innovation Index Score Results
ASEAN vs. Regional / Global Competitors

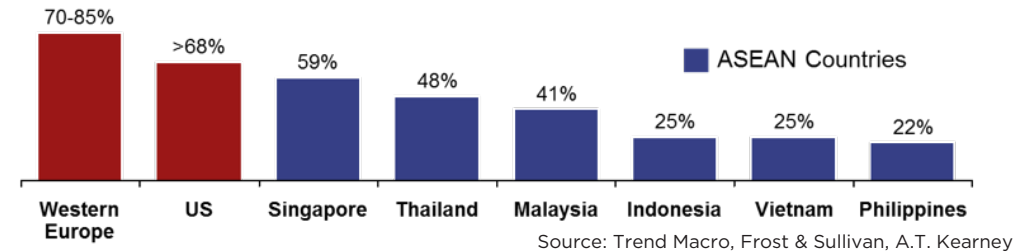


Source: S. Dutta, B. Lanvin, and S. Wunsch-Vincent (eds.): Global Innovation Index 2014. WIPO, Cornell University, INSEAD

- As we zoom into innovation in the retail space, the overall picture is no different.
- Retail innovation in most of ASEAN today is still in the early stages of development. The penetration of new products, services, supply chain enablers, and analytics applications are not at the level observed in more developed markets.

- A key indicator of the status of retail innovation is the penetration of modern trade. Across ASEAN modern trade represents about 50% or less of total retail, except in Singapore where it's about 60%, vs. 70-80% in developed markets.
- Modern retail naturally congregates in the more developed parts of ASEAN and is a direct reflection of the heterogeneity of the region.
 - Mature markets - Markets in Singapore and city centres of the major metropolitan areas such as Bangkok, Jakarta, and Kuala Lumpur, are mature and saturated and the retail environment is highly competitive.
 - Semi-mature - The outskirts of the major metropolitan areas can be defined as 'semi-mature' with still many white spots remaining, retailers having over the past years first and foremost focused on site acquisition.
 - Underdeveloped - Rural areas as well as emerging nations such as Cambodia and Laos constitute a low margin, low cost environment and pose significant logistics challenges to retail operations.

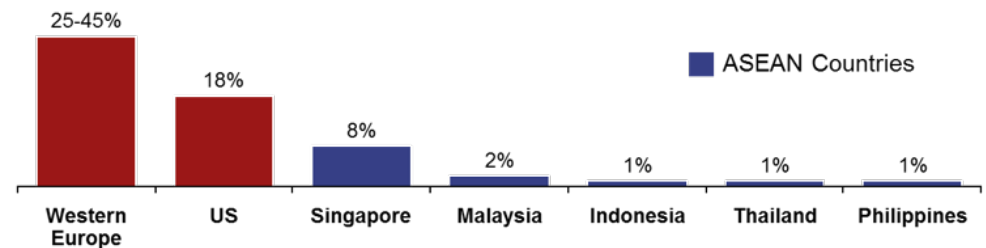
Low Share of Modern Retail
(% of total retail sales, 2014)



ASEAN retailer driven product innovation is low

- Retailer driven product innovation remains relatively low in the region, with **private label penetration in ASEAN accounting for 2% or less** (except Singapore with 8%) vs. **20% to 45% in more developed countries.**

Penetration of Private Label Products in Retail
(% of total retail sales, 2014)





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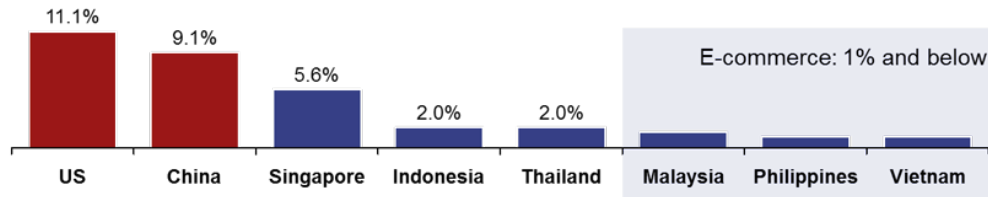
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- As modern retail markets in the region mature, private label penetration has not accelerated at the expected pace.
- A recent study from Nielsen confirmed the strong brand loyalty of ASEAN shoppers: especially the lower income segments believe that it is worth to pay a premium for brand names as they fear losing money if they try a new brand.

ASEAN's E- /M-Commerce is growing fast but still underdeveloped

- E-commerce remains underdeveloped in the region, representing 2% or less of total retail sales in 2014 (excluding Singapore at 5.6%).

E-Commerce Sales as % of Total Retail Sales (2014)



Source: A.T. Kearney

- However, the recent growth over the past year confirms that ASEAN will be one of the world's fastest growing markets for e-commerce in the next few years.
 - The authors estimated an annual growth of about 25 percent or more across the region driven by favourable demographics, improved digital infrastructure, increased adoption of social media, and improving offerings.
- Importantly, cross-channel integration has started to develop, with ASEAN ecommerce players entering the offline world.
 - For example: Zalora has been opening pop-up stores next to established offline retailers (e.g. Zara) in Singapore, aMalaysia and Vietnam to give customers the opportunity to 'touch and feel' the actual products.
 - Zalora also partners with 7-Eleven in a unique way, with the stores serving as pick-up points for Zalora.
 - Bricks-and-mortar stores are likewise investing in multi-channel offering in order to stay competitive - this trend is relatively developed in Indonesia, Thailand and the Philippines, where the growing number of online shoppers have prompted retail brands to offer innovative services such as online gift registries or in-store pickup or delivery services.
- In conclusion, ASEAN is overall lagging behind in terms of retail innovation but the potential is there, should some key barriers be lifted.



KEY FINDINGS

- The Lifting-The-Barriers Retail Roundtable at the 2015 ASEAN Business Club Forum highlighted four specific barriers to innovation in retail in the region:
 - Significant non-tariff barriers persist that impede trade flows and dampen innovation - divergent national labelling and food safety regulations are most critical.
 - Talent shortage stifles innovation and increases labour cost.
 - Trade efficiency remains low with an underdeveloped transport infrastructure.
 - Finally an immature networking culture and a focus on the shortterm has hampered the development of an innovation-based ecosystem.

Key Barriers to Innovation in Retail

1	Prevalence of Non-Tariff Barriers		<ul style="list-style-type: none">Different domestic regulations co-existPublic-private sector cooperation is limited
2	Talent Shortage / Skills Mismatch		<ul style="list-style-type: none">Mobility of skilled people and talent sometimes restrictedLimited innovation culture: traditional curricula do not focus on entrepreneurialismRegulations for setting up and operating retail organization are often inconsistent
3	Low Trade Efficiency		<ul style="list-style-type: none">Transport infrastructure remains underdevelopedCross-border payment eco-system remains weak
4	Limited Integration of Retail Innovators		<ul style="list-style-type: none">Retail culture tends to be hierarchical dampening bottom-up idea generationMargin pressure being addressed by focusing on short-term promotionsNetworking culture is relatively immature

Source: A.T. Kearney

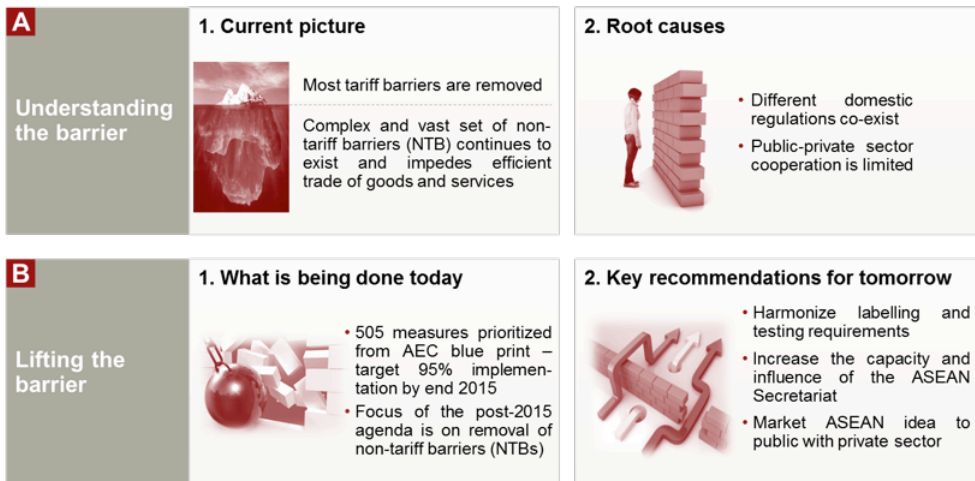
- The Lifting-The-Barriers Roundtable highlighted four specific actions that ASEAN should consider to overcome those barriers:
 - Reduce non-tariff barriers for new products**
 - harmonising labelling & testing requirements
 - increasing the capacity and influence of the ASEAN secretariat
 - Improve access to talent with the capability to drive innovation**
 - encouraging the inclusion of the retail sector into the design and delivery of vocational training
 - harmonising the recognition of certificates across ASEAN
 - Improve trade efficiency to ease the flow of new products and services across countries**
 - driving the implementation of the ASEAN Single Window
 - harmonising the payment eco-system
 - Drive integration of Retail Innovators**
 - establishing a regional network of government agencies promoting innovation
 - fostering collaboration between innovation incubators and retailers.



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1. Reduce non-tariff barriers for new products



A. Understanding the barrier – i. Current picture

- Most tariff barriers have been successfully reduced since the 1992 CEPT 2 scheme, but tariffs are only ‘the tip of the iceberg’.
- Reducing non-tariff barriers (NTBs) could really help step-up product innovation and can be considered as the next frontier in ASEAN integration.
- The task is not easy as NTBs originate from local legislation and touch the very core of a country’s sovereignty and are therefore unlikely to disappear completely in the near-term, but minimising and harmonising NTBs is a key to unlock innovation and growth in the retail sector and beyond.
 - ▶ Domestic regulations governing e.g. testing and food safety are key barriers to innovation in retail in ASEAN.
 - ▶ Other NTBs that affect the retail sector include inconsistent labelling requirements across member states (e.g. language / nutritional information for food products), or inconsistent regulations on obtaining a license to operate.

A. Understanding the barrier – ii. Root causes

Domestic regulations

- Complex regulations lead to inefficiencies and issues of transparency, predictability, and consistency in interpretation of rules and regulations remain.
 - ▶ For example: Acceptance of certificates of origin - with testing requirements not harmonised across ASEAN, certificates of origin are often not accepted by the importing country and further inspection is triggered. This causes a delay in goods forwarding as cargo is being held in customs.

Limited public-private cooperation

- Legislation can have a direct and positive impact on the business environment. However, there are hardly any regional private sector feedback loops institutionalised that would feed into the legislative process. Most policies are conceived by civil servants without inclusion of private sector know-how and are therefore not always optimum.

B. Lifting the barrier - i. What is being done today?

Prioritised measures for AEC implementation.

- 505 high-impact measures from the AEC blueprint were prioritised for fasttracking, addressing matters related to tariffs, investments, services, air transport, financial services, customs procedures and standards.
- Measures that are more complex in nature and include the 10th services package, single self-certification scheme, as well as the ASEAN Single Window.
- Barriers to trade in services and investment have been further reduced and the trade facilitation environment improved.
- However, a significant layer of non-tariff barriers remains.

Focus of post-2015 agenda on non-tariff barriers.

- A key focus of the post-2015 agenda is therefore on addressing non-tariff barriers and the ASEAN Secretariat has for example launched a program for direct filing of non-tariff barrier cases.
 - ▶ By May 2015 only 69 cases had been reported and 45 were subsequently resolved, showing both a lack of trust in the authority and capacity of the Secretariat in the region and limited visibility the business community has in the work of the Secretariat.
- To operationalize the reduction of NTBs and track progress, the ASEAN Trade Facilitation Joint Consultative Committee that started work in 2008 has been reinstated after a period of inactivity.
- National Trade Repositories (NTRs) have been put in place to strengthen the institutional arrangements and management of the regional economic integration process.
- Further, the “NTM Work Program” has been launched – the program collects data on non-tariff measures and links with the WTO.
 - ▶ As part of this program, AMS have agreed to eliminate some NTBs, but a majority of NTBs identified are defended by individual members as legitimate and not as a barrier.
 - ▶ Malaysia is currently leading the way and has institutionalised private sector feedback loops with industry representatives participating in joint legislative workshops.
 - ▶ On the ASEAN-level, ‘Project Pathfinder’ has been launched to roll out this model across the region.



ASEAN NEEDS TO CATCH UP ON RETAIL INNOVATION, REMOVE NTBS AND IMPROVE ACCESS TO TALENT

B. Lifting the barrier - i. What is being done today?

Harmonise labelling and testing requirements.

- For the further development of the retail sector in ASEAN, two priority NTBs stand out: complex and non-transparent labelling requirements as well as repetitive testing of products in each member state, which impacts speed to market and increase cost for manufacturers and retailers.
- Harmonising testing requirements would drive efficiency and accelerating new product development and launch.
- With regards to language requirements, specifying which components need to be in local language (e.g. nutritional facts) and harmonising requirements across ASEAN would greatly reduce SKU complexity and cost, speed and cost at the manufacturer and retailer level.

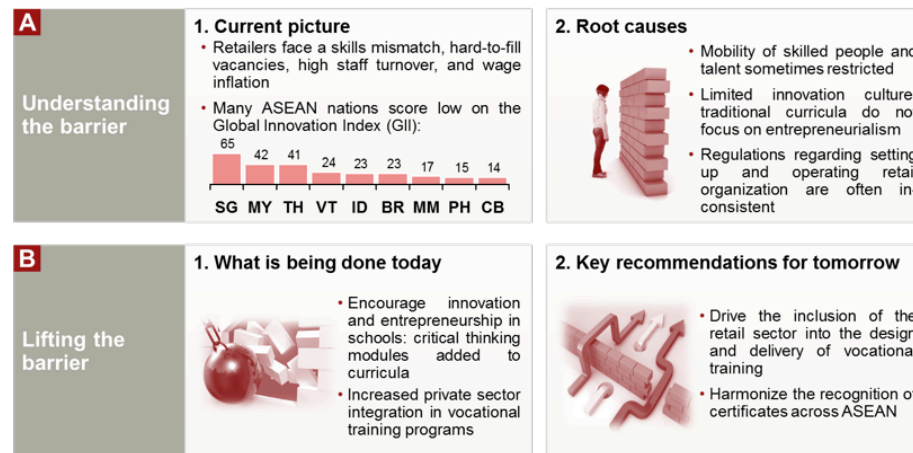
Scale up leadership capacity of the ASEAN Secretariat.

- The leadership capacity of the ASEAN Secretariat has to be further scaled up as strong regional leadership is required to drive integration.
- To strengthen the institutional capacity of the Secretariat, we would recommend to set up special divisions that deal with sector specific issues such as retail or financial services or transportation.
- To eliminate NTBs, concerted regional decision making is required, reliance on self-notification and voluntary removal by member countries having proven to be ineffective.

Scale up leadership capacity of the ASEAN Secretariat.

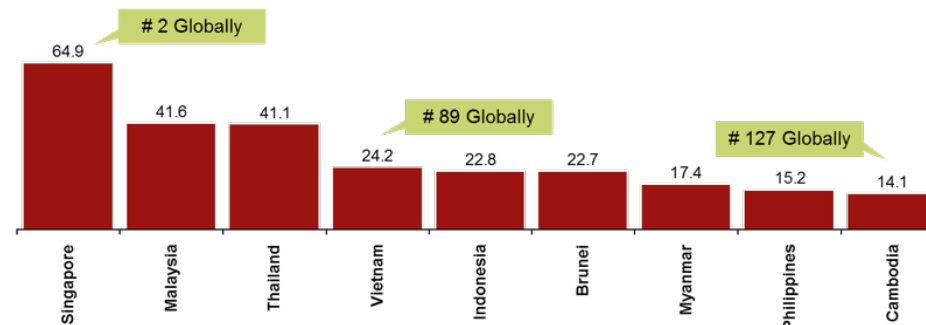
- For the ASEAN community to move forward, the people of the region need to feel a sense of common ASEAN citizenship and be more connected to one another.
- Only this type of mindset will drive more people to engage in shaping ASEAN and thereby highlighting to a greater degree the issues and pain points.
- Non-tariff barriers would then become more visible more quickly and public pressure to address these issues will increase. Ultimately this “public push” will lead to faster reduction of NTBs and harmonisation of regulations across the region.
- Today’s ASEAN is still a concept that only the elite is familiar with and therefore campaigns for ASEAN awareness must be stepped up.
- Engaging the private sector to a greater degree would help promoting the ASEAN identity, and the retail sector is uniquely positioned as retail reaches literally every person in ASEAN.

2. Improve access to talent



A. Understanding the barrier - i. Current picture

- One of the key drivers of innovation is the quality of a nation's human capital.
- The Global Innovation Index (GII) made the ‘Human Factor in Innovation’ the guiding theme of its 2014 report, but many ASEAN nations score low on education and R&D parameters measured by the GII.



Source: Cornell University, INSEAD, and WIPO (2014): The Global Innovation Index 2014: The Human Factor in Innovation

- The International Labor Organization (ILO) finds that skills mismatches and labour shortages are an overarching issue in ASEAN.
- Gaps highlighted most often are soft skills: time management, problem solving, creative thinking and interpersonal communication. A lack of English language proficiency and computer / technical skills are also pointed out.
- Some of the consequences are hard-to-fill vacancies, high staff turnover and wage inflation.



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A. Understanding the barrier - i. Current picture

Restrictions on mobility of skilled people and talent.

- Availability of talent is a problem in retail as it is across sectors in ASEAN, partly due to limited flexibility in labour markets.
- Progress on labour mobility through the ASEAN Framework Agreement on Services (AFAS) has been relatively slow.
 - ▶ One example of limited flexibility is the “full time employment “ rule in the retail space in some ASEAN countries.

Limited innovation culture (education system).

- Most ASEAN economies are merit-based societies, where creative thinking based classes have traditionally not been part of school curricula, fostering an environment that possibly dampens creativity and entrepreneurialism.
- Academic excellence is important but is no longer a guarantee for success in today's interconnected business environment.

Inconsistent regulations regarding set-up and operations of retail organisations.

- Another barrier is around the inconsistency of requirements with regards to setting up retail organisations across ASEAN.
- Malaysia limits foreign ownership to 70 percent while in Thailand there is no restriction on foreign ownership – however, the applicant must have a total capital over THB100 million (US\$ \$3 million) and total capital per store over THB20 million. A license is required for commercial presence while a retail specific license is not required, and if the minimum capital requirement is not met, a special license is necessary.

B. Lifting the barrier - i. What is being done today?

Encourage innovation and entrepreneurship in schools.

- Many programs have been put in place to encourage innovation at schools.
 - ▶ As part of Singapore's 10-year Infocomm master plan, the FutureSchools@Singapore program was launched which strives to develop schools into peaks of excellence following an ability-driven education paradigm and encourages innovation and enterprise at school. It is jointly run by the Ministry of Education and IDA.

Public-private sector cooperation on vocational training.

- ASEAN recognises the need of vocational training and has together with the Regional Cooperation Platform (RCP) launched programs to address vocational education reform.
- The group appreciates the disconnect between what traditional public education institutions offer and what today's increasingly knowledge-based and interconnected job market requires.

B. Lifting the barrier - ii. Key recommendations

Drive integrated approach to vocational training.

- While we recognise that there is no short-term program that will elevate an entire nation's human capital, we specifically argue for closer cooperation on vocational training between retailers and the public sector. More broadly, we argue for policies to be implemented that foster an innovation ecosystem.
- Human capital development should be pursued using a holistic approach that encompasses education systems, economic development policies and programs, and the private sector to drive effective outcomes.
- Best practice demonstrates indeed that skill sets required in today's work environment can be achieved if employers are actively involved in a dialogue with educators. Stand-alone trainings by companies in isolation of a country's education system are not as effective as their reach is limited.
- Curriculum should incorporate employability skills, including entrepreneurship and high order thinking skills for innovation by placing greater emphasis on creativity, innovation and the role of R&D throughout the system.



Improve recognition of professional qualifications across ASEAN.

- There have been several attempts by various organizations to develop an ASEAN Regional Qualification Framework. However, until today, national qualification frameworks mostly prevail.
- To move forward, there is a need to identify major obstacles including reaching a mutual understanding between the “sending” and the “receiving” countries and identifying key players for setting up a taskforce. Also here, we recommend strong integration of the private sector and collaboration within and across ministries, and educators.



ASEAN NEEDS TO CATCH UP ON RETAIL INNOVATION, REMOVE NTBS AND IMPROVE ACCESS TO TALENT

3. Improve trade efficiency

A Understanding the barrier	1. Current picture <ul style="list-style-type: none">• Retailers struggle with frequent supply chain disruptions that cause stock-outs and translate into revenue loss• 1st tier cities across ASEAN are well connected. Access to 2nd and 3rd tier cities, however, is inefficient and costly• Sector heavily relies on local providers for last mile delivery – limited accountability	2. Root causes  <ul style="list-style-type: none">• Customs processes remain inefficient• Transport infrastructure remains underdeveloped• Cross-border payment ecosystem remains weak
	B Lifting the barrier	1. What is being done today  <ul style="list-style-type: none">• Trade facilitation improved through the ASEAN Single Window• Transport agreements signed and partially implemented• Major infrastructure projects are underway

A. Understanding the barrier - i. Current picture

- The burdensome and slow intra-ASEAN customs procedures are one of ASEAN's main trade efficiency challenges.
 - ▶ Cross-border trade flows are often slowed down due to goods being held long time in queue for inspection.
- Weak land transportation infrastructure is the second most important issue impacting trade efficiency, especially outside the main urban areas.
 - ▶ This drives up delivery costs and cycle times and often leads to supply chain disruptions, which translate into revenue loss.
 - ▶ Minimising stock-outs has therefore become a key focus area for retailers, leaving less focus on innovation.

A. Understanding the barrier - ii. Root causes

Inefficient customs.

- Multiple uncoordinated customs offices and sometimes arbitrary independent rulings by local customs offices leads to low confidence and inefficiency.
- One reason for stock-outs / supply chain disruptions is that goods are held in customs for a much longer time than budgeted by the trade partners.
- Time consuming documentation and inspection requirements and varied classifications of goods lead to inefficient clearance processes.

Underdeveloped transport infrastructure.

- Transport infrastructure still remains underdeveloped in the region, but several projects are well underway to enhance the network.
- The lack of efficient and cost effective transportation links and associated infrastructure means it is only profitable for retailers to invest in first or second tier cities – significantly reducing market reach and dampening economic growth.

Weak cross-border payment ecosystem.

- A major barrier to e-commerce in ASEAN is the underdeveloped payment ecosystem, especially when it comes to cross-border transactions.
- With many innovations linked to the concept of omni-channel retailing, an inefficient payment system limits innovation.

B. Lifting the barrier - i. What is being done today?

Trade facilitation: the ASEAN Single Window.

- The ASEAN Single Window (ASW) has been created to address customs and administrative procedures that act as obstacles to the free flow of goods.

Transport agreements signed.

- Intra-ASEAN connectivity has been enhanced through the implementation of transport-related agreements focused on the ASEAN highway network, establishment of efficient and integrated inland waterways, and the implementation of the Singapore-Kunming (SKRL) rail-link.

Infrastructure upgrading projects.

- Many projects are underway that address the region's logistics bottlenecks.
 - ▶ Indonesia has increased spending on infrastructure investments by 63% and launched several initiatives aimed at reducing overall logistics cost as a percentage of GDP from 23% to 18% by 2020.
 - ▶ 60 new airports are planned across Indonesia by 2030, a move that is expected to significantly reduce delivery times to Tier 2 and 3 cities.

B. Lifting the barrier - ii. Key recommendations

Prioritise implementation of ASEAN Single Window.

- The ASEAN Single Window is expected to solve logistics challenges, especially difficulties with customs clearances.
 - ▶ The ASW is a network of "National Single Windows" (NSW) – the level of readiness of the individual NSWs is therefore crucial for the full implementation of the ASEAN Single Window.
 - ▶ The ASW is still work in progress as the implementation has been slowed down by individual AMS priorities and NSW progress.
- We should therefore contemplate the idea of complementing the current structure of NSWs with a strong supra-national supervisory body that tracks implementation and can overrule domestic protectionist agendas.




Harmonise payment eco-system.

- Developing common financial instruments, standards, procedures, and payment infrastructure enables economies of scale and would reduce the overall cost to the ASEAN economy of moving capital around the region.
- Improved cross-border payments will support trade flows and dissemination of innovative solutions and directly improve the efficiency of supply chains.
- Complementary institutions / policy measures can dock to this frame like the creation of a regional cyber security or dispute resolution facility.



ASEAN NEEDS TO CATCH UP ON RETAIL INNOVATION, REMOVE NTBS AND IMPROVE ACCESS TO TALENT

4. Promote integration of 'Retail Innovators'

A Understanding the barrier	1. Current picture <ul style="list-style-type: none"> Innovation is only starting to become a focus area for retailers in the region as the sector matures Data analytics are not leveraged to the full extent possible Exposure of ASEAN retailers to 'retail innovators' is relatively low Retailers' appetite for innovation is low 	2. Root causes  <ul style="list-style-type: none"> Retail culture tends to be hierarchical and short-term focused dampening bottom-up idea generation Networking culture is relatively immature
B Lifting the barrier	1. What is being done today  <ul style="list-style-type: none"> Government agency support is being expanded (e.g. Singapore) Regional networking facilitated by the ASEAN Retail Chains & Franchise Federation (ARFF) 	2. Key recommendations for tomorrow  <ul style="list-style-type: none"> Establish a regional network of government agencies promoting innovation Foster collaboration between innovation incubators and innovators

A. Understanding the barrier - i. Current picture

- The traditional owner-driven culture, coupled with a focus on short-term gains in a low margin environment, has led to low technology adoption so far.
 - ▶ This manifests in the low exploitation of data analytics and deployment of sophisticated targeted marketing.
- As the Omni-channel concept is becoming more prominent, ASEAN retailers should design and implement a comprehensive Omni-channel strategy of which technology and innovation are crucial components.
- Exposure of ASEAN retailers to retail innovators is relatively low due to the lack of avenues to interact with innovators. More could be done to further drive retailers' appetite for innovation through coordinating efforts amongst smaller retailers, and building partnerships with international retailers.
 - ▶ Singapore developed the Retail Innovation Centre for Enterprises (RICE) in 2014, which aims to educate retailers by providing information as "one-stop service" on the latest technological solutions.

A. Understanding the barrier - ii. Root causes

Retail culture in ASEAN / short-term mindset.

- Retailers' organizational structures in ASEAN tend to be rather hierarchical and often dampen bottom-up idea generation.
- Margin pressure has largely been addressed by focusing on short-term promotions at the expense of building long-term and innovation-based plans.
- Retailers have often prioritised the expansion into new sites and countries to deliver against growth targets.
 - ▶ The trend is still ongoing with retailers increasingly setting up shops in Vietnam and now also Myanmar.

Immature networking culture.

- Many retail associations and networking platforms exist at the national levels and increasingly at the ASEAN level, but there is low participation from the sector.
- A key reason lies into the immature networking culture. The competitive environment has been characterised by taking and gaining market share rather than differentiation and development of unique selling positions.
- With the market moving Omni-channel, supply and distribution chain partnerships are expected to become the new norm and government institutions can act as trade-facilitators in this regard.

B. Lifting the barrier - i. What is being done today?

Government agency support.

- As mentioned above, the Singapore Institute of Retail Studies (SIRS) has established the "Retail Innovation Centre for Enterprise" (RICE) to seed innovation and technology adoption to help retailers increase their productivity through automation and technology and overcome the manpower crunch.
- RICE is not an academic research institute but an innovation centre focused on showcasing the latest innovation to the retail sector and on helping the sector with applying technology to increase productivity.

ASEAN Retail Chains & Franchise Federation (ARFF).

- With the vision to "make ASEAN the world class tourism & shopping paradise," the ASEAN Retail-chains & Franchise Federation (ARFF) was established in 2008 to champion the promotion and development of trade within the 10 ASEAN countries + 6 countries - China, Japan, Korea, India, Australia, New Zealand.
- It falls under the auspices of ASEAN Business Advisory Council which is mandated by the leaders in the region as the official ASEAN linkage.
- Its objectives are to provide private sector feedback and guidance to boost efforts towards economic integration, and to identify priority areas for consideration by the ASEAN leaders.

B. Lifting the barrier - ii. Key recommendations

Establish a regional network of government agencies promoting innovation.

- Centres, similar to Singapore's RICE centre, should be set up across the region to create greater awareness and educate retailers on the latest retail technologies.
- SMEs would especially benefit from this as they are most resource-constrained.
- This coupled with a grants scheme will allow retailers to access consultancy services and deploy innovative technology solutions more quickly.
 - ▶ Singapore has set up the "iSPRINT" program that provides funding for a list of packaged ICT solutions and pay-per-use applications.
 - ▶ Another government initiative is called "Spring - Enabling Enterprise" which issues "Innovation & Capability Vouchers" to encourage SMEs to take their first step towards capability development.



ASEAN NEEDS TO CATCH UP ON RETAIL INNOVATION, REMOVE NTBS AND IMPROVE ACCESS TO TALENT

- At the ASEAN level, we recommend a concerted effort to establish a network of incubators / trade facilitation agencies that increase awareness and ease access to technology.
- Further, grant schemes targeted particularly at SMEs will accelerate the diffusion of innovative technology and solutions across the region.

Foster collaboration between innovation incubators and innovators.

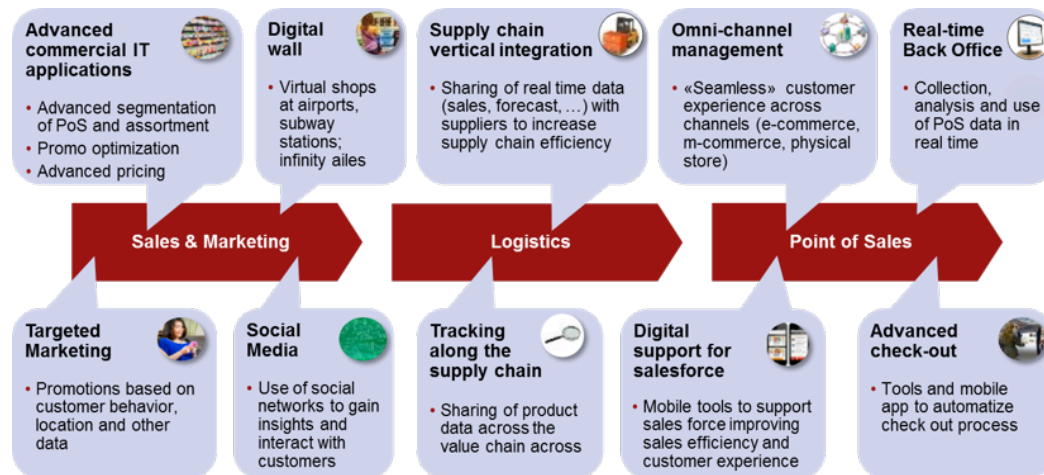
- Differences in culture, market dynamics, history and relationships can translate into massive variations in the way a company should market, distribute, price and, in general, function in different markets.
- Although the objective of the ASEAN Economic Community is to create an economic and trading region, ASEAN will remain a collection of vastly different cultures, histories, politics, markets, tastes, products and people.
- Developing new relationships and leveraging existing ones will help accessing local knowledge in order to understand threats and opportunities.
- Promoting regional retail associations and facilitating networking will build capabilities and foster the diffusion of innovation.

CONCLUSIONS

A GREAT OPPORTUNITY FOR ASEAN

- Retail is quickly moving towards an omni-channel structure and sustainable growth for the sector in the region is dependent on strategies that market new products & services.
- Creating a seamless and unique shopping experience both offline & online whilst smartly leveraging innovative enablers across the value chain will be critical and requires innovative capabilities across the organization.
- Deploying e.g. advanced IT applications to optimise assortments based on incremental demand or to optimise promotion activities based on scenario analysis requires sophisticated skill sets.
- Tracking products along the supply chain not only requires the implementation of RFID technology but a new collaborative way of working between suppliers and retailers.

Summary - Top Innovations Transforming the Retail Sector



- This new wealth of technologies and the available amount of 'big data' is a great advantage, but it requires intelligent uses to address familiar challenges such as managing shrink and out-of-stocks.
- Innovation is not only important but has become an imperative for all the players in the sector who want to remain competitive.
- Finally, lifting the barriers that we have identified constitutes a great opportunity not only for the retail sector but for ASEAN as a whole. It will indeed contribute to GDP growth, foster AEC integration beyond the economic aspect and boost employment.

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