

# Credit Suisse: Omnichannel commerce set to take off amid greater internet penetration and changes in consumer behaviors

Singapore, March 26, 2021 – **ASEAN e-commerce is set to accelerate with greater internet and mobile penetration and emergence of new shopping behaviors post pandemic, resulting in multiple opportunities for omnichannel commerce. Digital consumers in ASEAN will be spending thrice as much in 2025, according to Credit Suisse analysts presenting at the 24<sup>th</sup> Credit Suisse Asian Investment Conference, the most exclusive leadership gathering in the Asia-Pacific region for influential ideas and actionable advice.**

Among the main drivers of the rise in the ASEAN e-commerce sector is the presence of shopping portals as well as a burgeoning middle class with disposable income, resulting in an increase in consumer spending. The region's young population and rising internet penetration rate, with about 300 million online adults in Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam alone, also contributed to the popularity of e-commerce.

**Varun Ahuja**, Asia Telecoms and Internet Securities Research Analyst at Credit Suisse, said: "ASEAN is highly attractive for e-commerce, with the proliferation of ubiquitous internet and with mobile adoption rates expected to almost double between 2019 and 2030. Consumers will be connected 24/7 and will demand convenience through easy access to multiple sales channels. We expect a growth in omnichannel commerce, where consumers can enjoy a unified user experience across a seller's offline and online channels, be it the e-commerce website, the mobile application or the brick-and-mortar store."

Consumers are adapting their behaviors to take advantage of new opportunities available in purchasing online. Although retail consumption is rapidly moving online, Credit Suisse believes that brick-and-mortar channels are here to stay as they remain important for consumer interaction. Retailers and shopping center players are likely to focus on experiential and activity-based shopping in an effort to draw consumers away from their screens and into malls. As at May 2020, 78% of Asia-Pacific consumers are already omnichannel shoppers.

**Hazel Tanedo**, Philippines Consumer Securities Research Analyst at Credit Suisse, said: "In ASEAN's increasingly competitive e-commerce space, businesses are shifting from the retail-centric model to engagement-centric models, in order to maximize consumer touchpoints, including those on social media, which now plays a critical role in consumers' purchasing decisions. Businesses are looking to better understand and target customers, by using Big Data and advanced analytics to establish visibility on consumer shopping history, recent online searches, and overall preferences."

Singapore and Malaysia generate one-third of total online retail sales in the region, even though they only account for 8 per cent of the region's population. Though the Singapore e-commerce market is more mature and the Malaysia market is more dynamic, e-commerce is still at a very early stage in Indonesia, the Philippines, Thailand, and Vietnam, and remains an important reservoir of growth for the region.

As the digital retail market ecosystem is still in its infancy, competition remains local but can potentially go beyond borders as the ecosystem matures.

### **Indonesia: Lifestyle habits pose challenge to e-commerce growth**

Indonesia has seen a dramatic increase in e-commerce sales during the pandemic, with e-commerce sales surging by 54% year-on-year in one year<sup>a</sup>. People spent more time online during and after the Covid-19 lockdowns, and Credit Suisse believes that some of the behavioral changes are likely to be permanent as well, with 93% of new users estimated to continue using digital services post pandemic.

While the structural growth of e-commerce is undeniable, some challenges remain. High logistics cost, consumers' preference for interactions with sales employees, and lifestyle habits, such as family activities in the malls, will largely remain unchanged after the pandemic, driving consumers to purchase offline.

### **Malaysia: Shoppers prioritize value for money**

Following the commencement of the first Covid-19 Movement Control Order (MCO) lockdown, there has been a clear trend in rising online sales, with 33% of the population stocking up for the MCOs through online shopping. Brick-and-mortar minimarkets saw a 19% rise in sales in June 2020, as consumers patronized close-proximity stores for groceries. Consumers were also noted to be price-sensitive, and willing to find and take advantage of low prices or special offers.

As restrictions ease, Credit Suisse believes that consumers will increasingly seek convenience and search for cheaper alternatives, thus downgrading to value brands.

### **The Philippines: Infrastructure constraints remain**

The growth momentum of e-commerce in the Philippines started before the outbreak and continued during the pandemic, recording a 19% increase in the year to date till April 2020. However, a lack of infrastructure and digital modes of payments has slowed a significant migration to e-commerce, which remains a small channel today. Two out of three Filipinos do not own a digital wallet or account to transact in ecommerce efficiently, and poor mobile connectivity has reduced online convenience for shopping.

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<sup>a</sup> According to Google, Temasek, and Bain & Company.

**Ms. Tanedo** added: “We observed consumer preferences shifting towards proximity and convenience even before Covid-19, as convenience stores and online shops grew popular. E-commerce value rose during the pandemic, but as only a meagre 6% of Filipinos shop online, brick-and-mortar stores therefore remain central to retailing in the market. Traditional sales channels such as sari-sari stores and supermarkets have remained the primary drivers for fast-moving consumer goods sales in the Philippines.”

### **Singapore: Online penetration continues to rise**

Online sales as a percentage of total retail sales in Singapore surged to 10.8% post Circuit Breaker, from 5.8% in 2019. Credit Suisse believes that online retail sales penetration will not revert to pre-Covid-19 levels, but will instead continue to gradually grow, particularly as businesses acclimatize to the new normal. Phase 3 could potentially last over one year, thereby cementing consumer habits and expectations formed early on in the pandemic.

Credit Suisse also noted that while e-commerce adoption has accelerated as a result of Covid-19, many retailers, especially those trading non-essential products, have been laser-focused on survival, neglecting adoption of digital commerce solutions.

If the government-led program *Heartlands Go Digital*, targeted at smaller retailers, gains traction, it is likely that larger retailers would need to have similar, if not better, digital capabilities. The program could therefore result in widespread e-commerce adoption across Singapore.

### **Thailand: Omnichannel platforms critical to capture demand**

Thailand has already seen fast e-commerce spending over the past few years following major investment by local and overseas operators. However, the market remains in an early stage of development and is highly fragmented, with the top five players accounting for less than 30% of market share.

During the pandemic, Thai consumers have been observed to gravitate to online sales channels and prefer convenience. Consumers frequented modern trade and online channels while avoiding wet markets, likely due to hygiene concerns. Additionally, among the modern trade stores, convenience store were most preferred given their close-proximity neighborhood locations. While consumers seemed cautious during the pandemic, they intended to increase their spending after the Covid-19 period.

**Warayut Luangmettakul**, Thailand Consumer Securities Research Analyst at Credit Suisse, said: “Some consumer behaviors observed during the lockdown period will most likely stick beyond the Covid-19 pandemic. We believe an accelerating shift of spending to the digital channel among Thai consumers is due, and it would be critical for retailers to find the right balance between established offline stores and emerging omnichannel platforms. Major existing online operators are Chinese e-

commerce giants, and they are in for the long term, while the offline operators are very actively building their omnichannel platforms to capture the new demand.”

### **Vietnam: Rapid shift towards modern retail**

The e-commerce market is forecast to grow at ~29% compound annual growth rate (second-highest in ASEAN) to reach US\$52 billion in value in 2025, propelled by the low e-commerce penetration compared to regional average, and a young population with a high technology-adoption rate.

Amid the pandemic, Credit Suisse is witnessing a shift of consumer spending to modern grocery formats, as consumers preferred hygiene and safety, thereby avoiding crowded areas such as wet markets. However, given the low penetration of modern retail across various categories, physical store formats will continue experiencing a strong growth momentum, particularly in the grocery segment.

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