



“Checking Out” Retail

Turnaround & Restructuring Insights
Southeast Asia | Q1-2022





“Checking Out” Retail

Retail businesses have faced an unprecedented period of disruption since the emergence of Covid-19. Whilst demand is recovering, the financial legacy of lockdowns linger and the pandemic has accelerated a paradigm shift in consumer spending behaviours towards digital. All the while, new disruptions are continuing to emerge. Listed company financial performance in Southeast Asia shows an uneven recovery and supply chain issues and inflationary pressures are expected to drive consumer product costs higher in the short to medium term. This is cause for retailers to revisit and redefine their operating models and go-to-market strategy. The decisions and actions that retailers take now might be the difference between a fight to survive and having the right to thrive.

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Recent Developments

At the time of writing, the situation in Eastern Europe between Russia and Ukraine continues to unfold. New coronavirus outbreaks are also forcing the lockdown of major manufacturing hubs in China. Although the human tragedy is the highest concern, the resulting supply chain disruptions as well as volatility in the energy, commodity, foreign exchange and equity markets creates additional uncertainty in the global economic outlook and should be considered by the reader.

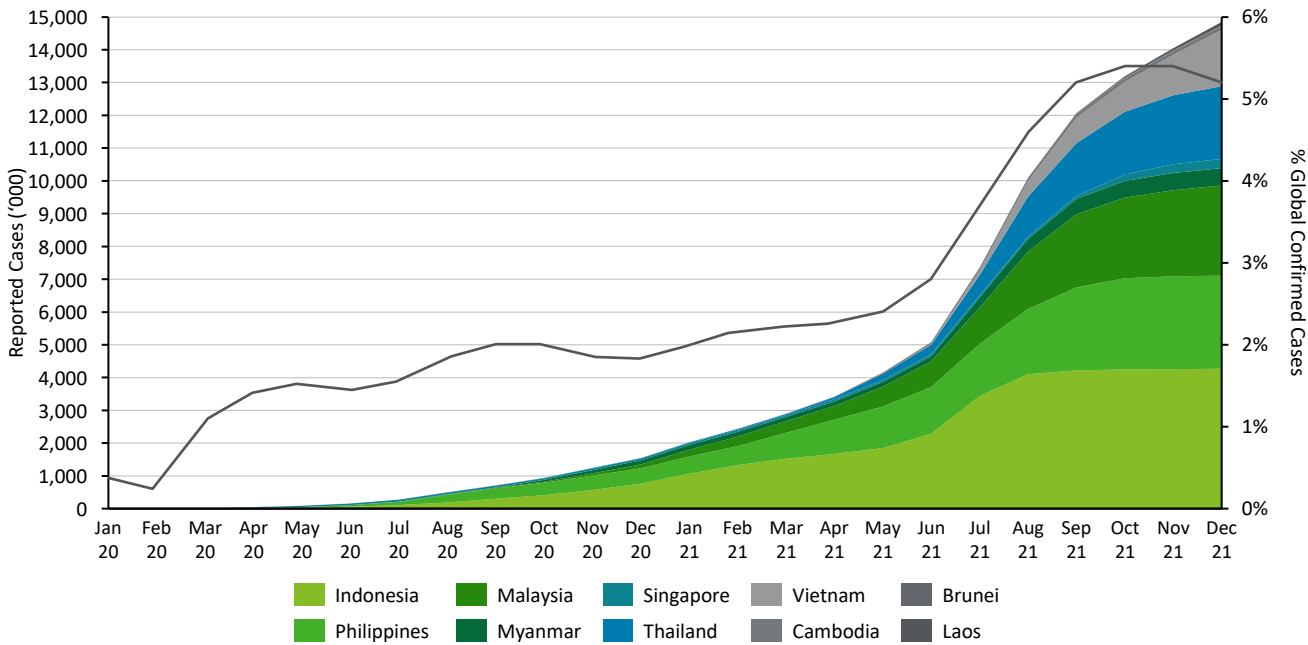
Covid-19 in Southeast Asia

Reported Covid-19 cases peaked in Southeast Asia (SEA) in Q3-2021, but the rate of infection has generally slowed down in Q4-2021.

Safe management and lockdown measures implemented by governments in 2020 and 2021 forced various non-essential retail businesses and shopping centres to close their doors.








Whilst demand is recovering in 2022, the financial legacy of these and other disruptions still lingers and have accelerated a paradigm shift in consumer spending behaviours towards digital and omnichannel.

Cumulative reported Covid-19 Cases in Southeast Asia



Source: World Health Organization

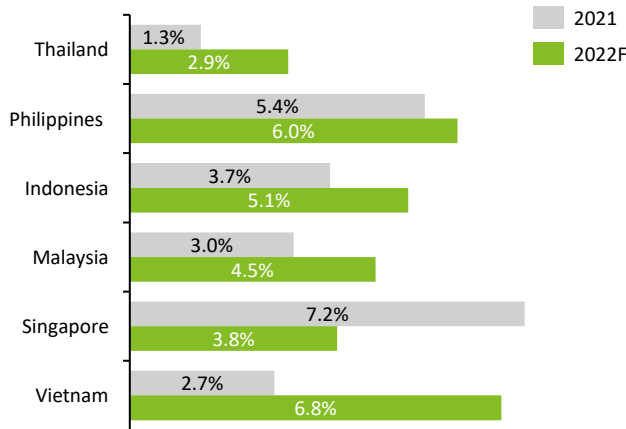
Covid-19 Impact on Retail: the Key Themes

-  Impact of **lock-downs**: footprint rationalisation, legacy liquidity pressures and “the re-emergence”
-  Consumer ‘**stay-at-home**’ preferences: here to stay or time to get out more?
-  Capturing market share during the rise of **e-commerce**, **digital** and **omnichannel**
-  ‘The Great Resignation’: challenges recruiting and retaining **labour**
-  Global **Supply Chain** disruptions: trade tensions, component shortages and input cost inflation
-  Continuing barriers to travel and **tourism** related retail: from duty free to destination luxury
-  The ‘**revenge spending**’ opportunity: cashed up consumers making up for lost time

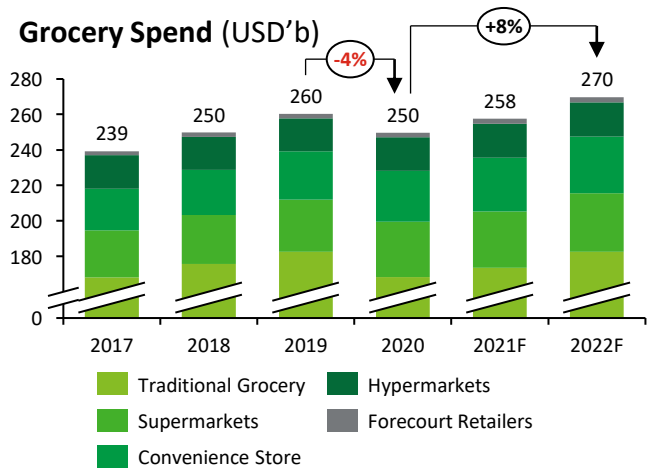
The Recovery is V-shaped

Most economies are projected to grow faster in 2022 as economies re-open with the benefit of unprecedented government stimulus. Despite retail spend in SEA contracting between 4% (grocery) to 10% (specialty) in 2020, demand has recovered in 2021 and is projected to exceed pre-pandemic levels in 2022 (although we note that the situation in Eastern Europe creates uncertainty in the global economic outlook). As expected, e-commerce channels “won” the pandemic with sales up +50% in 2020 and analysts are predicting a continuing impressive growth trajectory through 2022 and beyond. The expansion of buy now pay later financing options is also fueling demand growth (but this credit naturally presents its own risks).

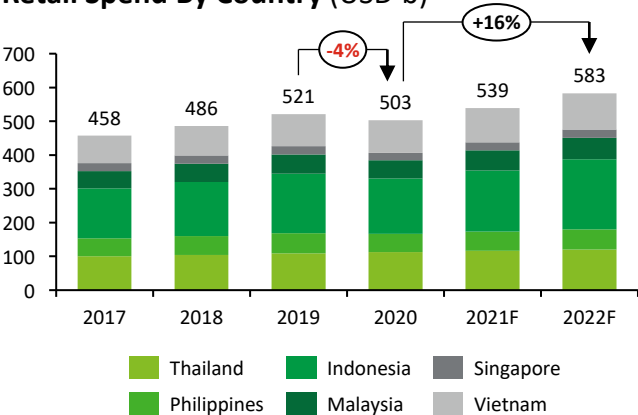
Forecast Real GDP Growth (% Change p.a.)



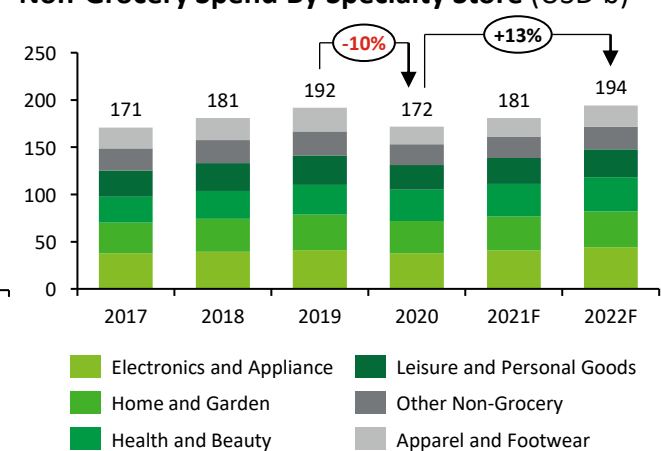
Grocery Spend (USD'b)



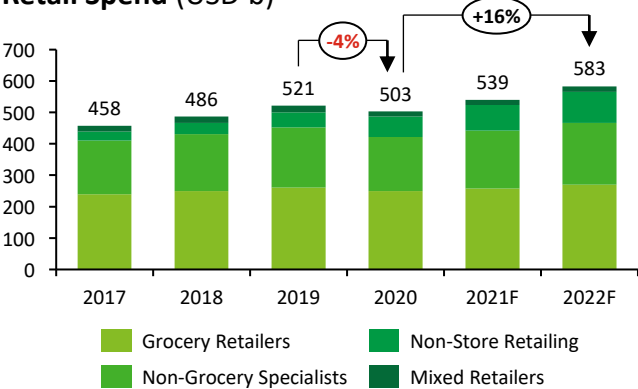
Retail Spend By Country (USD'b)



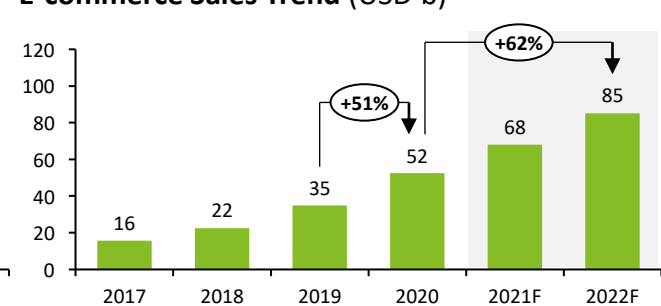
Non-Grocery Spend By Specialty Store (USD'b)



Retail Spend (USD'b)



E-commerce Sales Trend (USD'b)



Sources: EIU, Euromonitor International, Deloitte Research and Analysis

Retail in SEA | ListCo Financial Performance

An examination of exchange listed retail company financial performance during “the re-emergence” from Covid-19 shows an uneven recovery across categories and geographies.

The best performers managed their cost structures to capitalise on revenue growth to drive earnings, but not all growth has been profitable.

Supply chain and labour challenges, and inflationary pressures are expected to drive costs higher in the medium term and this is cause for retailers to revisit and redefine their operating models and strategy.

SEA Market Scan | Financial Performance (Last 12 months)

Graph excludes outliers



Sources: Capital IQ, Deloitte Research and Analysis, Company websites

Retail in SEA | ListCo Financial Capacity

In the context of increasing volatility, balance sheet and liquidity management is essential for retailers to ensure they are well positioned to withstand disruptions.

27% of companies sampled were loss making during the last 12 months. Without proactive management, some businesses may require a funding bridge to address potential liquidity challenges in the short term.

We explore various performance, working capital and financing levers that retailers can utilise to enhance their resilience and drive value on page 11.

SEA Market Scan | Financial Capacity (Last 12 months)

Graph excludes outliers



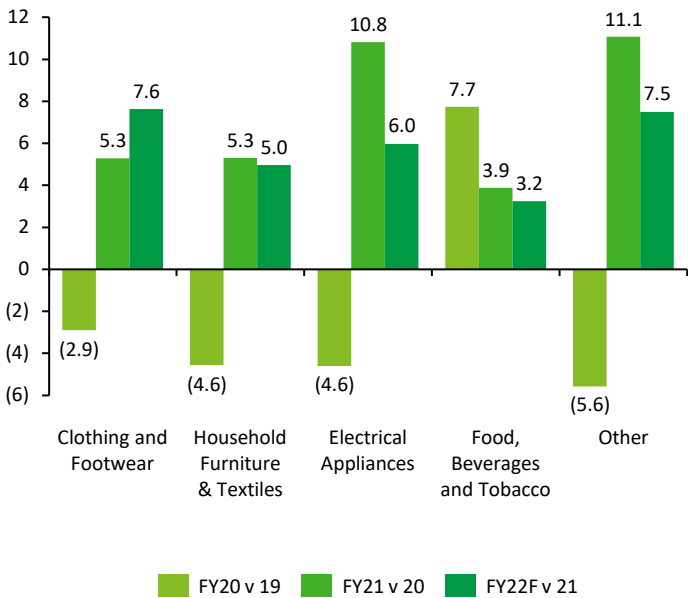
Sources: Capital IQ, Deloitte Research and Analysis, Company websites

Global Supply Chain Challenges

The demand for consumer goods is accelerating at a rate that global supply chains are struggling to meet. The imbalance, which has been exacerbated by labour shortages and recent geopolitical developments, include increased input and freight costs, production & shipping delays and component shortages. Retailers need to actively respond to mitigate these risks.

More than half of retail executives surveyed are currently conducting or will commence major upgrades to their inventory fulfilment and warehouse management and resource planning in the next 24 months.

Annual Change in Market Demand (%)



Supply Chain Priorities

Retail executives surveyed believe the top 5 2022 supply chain priorities are:

1. Mitigating rising supply chain costs
2. Achieving more reliable flows across suppliers and carriers
3. Achieving more reliable flows across own distribution / fulfilment network
4. Meeting consumer demand for speedy fulfilment
5. Redesigning the supply chain in response to changes in the operating environment

Key Questions to Consider

Businesses will need to consider how to respond to the supply chain issues over the next 6-12 months.



Working capital

Assess how delays are impacting working capital and cash flow forecasts. Decide if payment terms need to be adjusted in the short term and on which suppliers.



Engage with critical suppliers

Assess key trading terms and communicate regularly with critical suppliers to understand their ability to maintain and/or negotiate for continuity of supply and price.



Review your supply chain

Consider diversification of supply chain and other key strategies such as increased redundancy, localisation and digitisation. Starting these changes today will make supply chains more resilient.



Affected operations

Assess ability of affected operations to continue production and supply. Make contingency plans for alternative supply in short and medium term as required.



Alternative suppliers

Identify which of your key suppliers may be exposed and consider scenarios for supply being partly/fully restored.



Customers

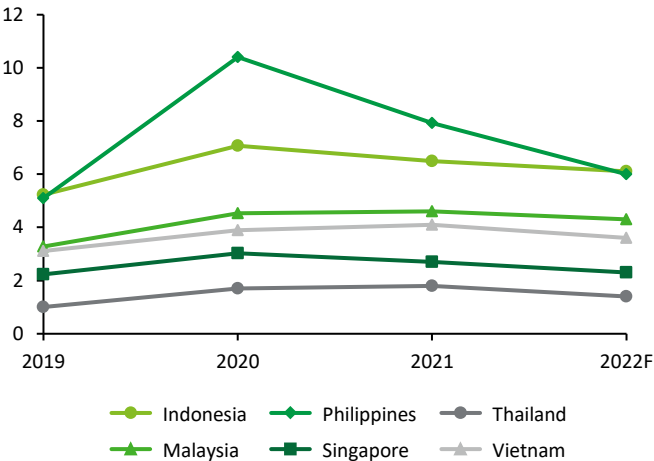
Frequent engagement with customers at an executive level is key to manage expectations. Look at ways to make supply chains more customer-focused.

Labour Market Challenges | Asia Not Immune

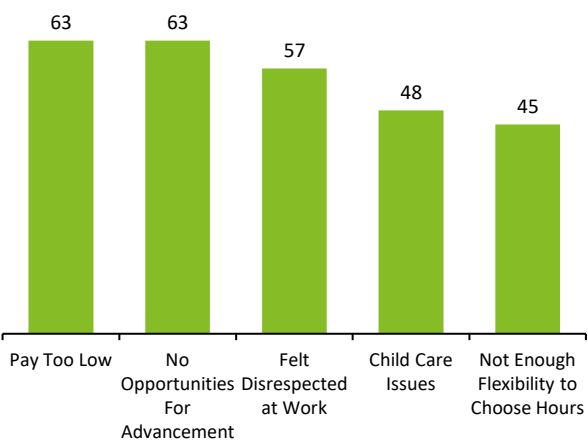
During the pandemic, many employees have reflected on and re-evaluated their career choices leading to a surge in resignations. With an estimated 41% of the global workforce considering leaving their jobs within the next year: this phenomenon has been dubbed “The Great Resignation”.

As economies re-open, the demand for retail and service workers is on the rise and growing ahead of supply. This is expected to drive retail wages higher in the short to medium term. But it is not all about pay. Many retail employees are citing flexible work as a primary motivating factor.

Unemployment Rate (%)

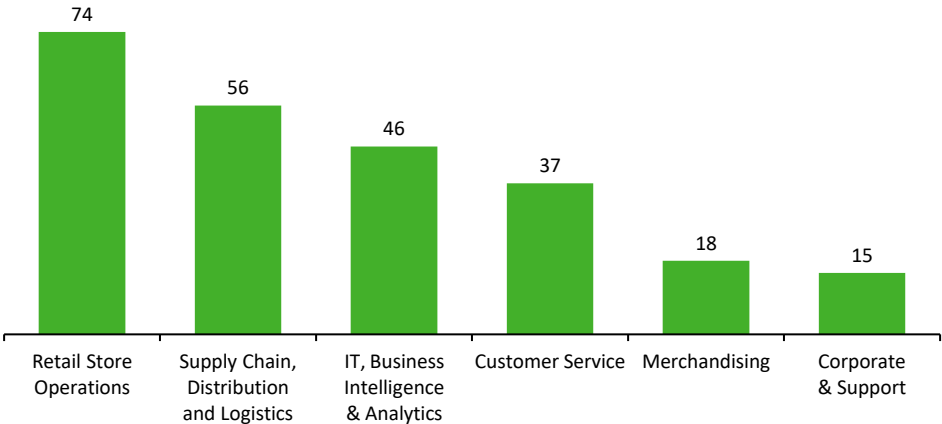


Reasons for Resignation (%)



Areas Likely To Experience Workforce Shortage in the Next 12 months

(% of retail executive survey respondents)



41%

Of the global workforce considering leaving their current employer within the next year

56%

Of Singaporeans said higher pay and flexible working options were the most important factors that would encourage workers to stay

Illustrative Headlines

Today's WorldView • Analysis

The Washington Post

The ‘Great Resignation’ goes global



Commentary: This Great Resignation Wave is painful and frustrating for employers

today

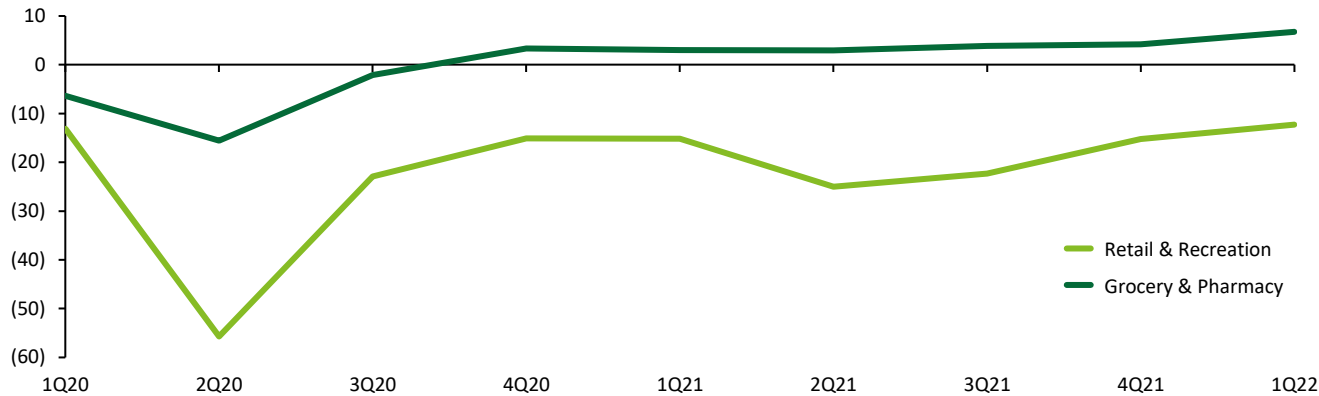
Nearly a quarter of S’pore workers intend to quit their jobs in first half of 2022: Survey

Retail Real Estate | A Closer look at Singapore

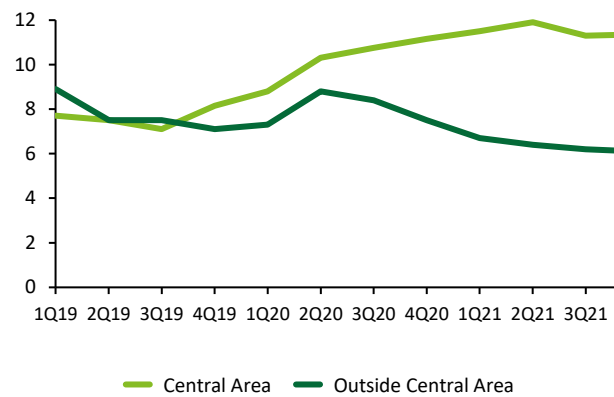
The grocery and pharmacy categories are driving a recovery in footfall following the easing of safe management measures (in the form of lockdowns and movement restrictions), however consumer traffic for the recreation segment remains weak.

Retail leasehold vacancies increased in the Singapore central area as retailers pivoted to the greater residential catchment areas as people work from home and / or move to hybrid working arrangements. After a softening in rental prices, the cost of retail space is forecast to increase through to 2023 meaning the bullish retail businesses have an opportunity to lock in lower central area rents now.

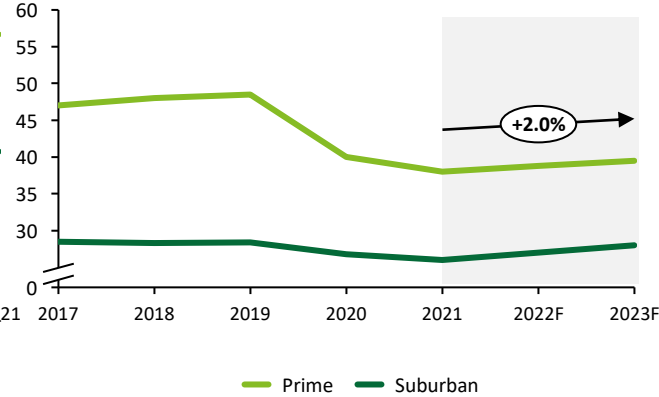
Footfall (% change from pre-Covid-19 baseline)



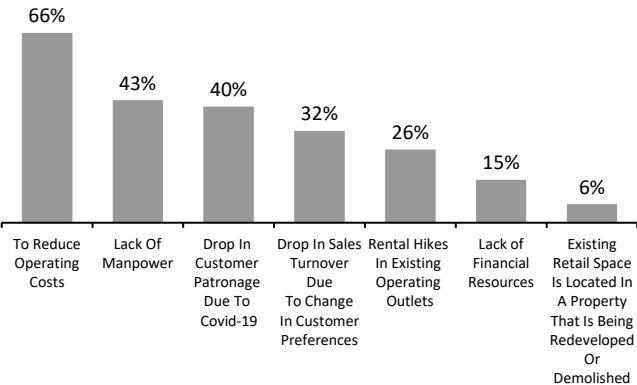
Retail Vacancy Rate by Area (%)



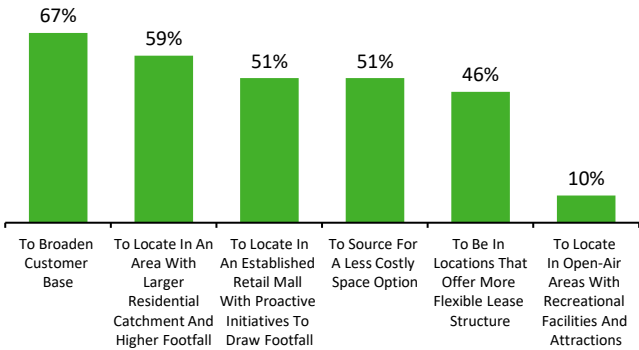
Retail Space Monthly Rent (SGD psf)



Reason for consolidation, downsizing or repurposing retail outlets



Reason for expansion or relocation of retail outlets



Sources : Knight Frank, URA, Google Mobility Report

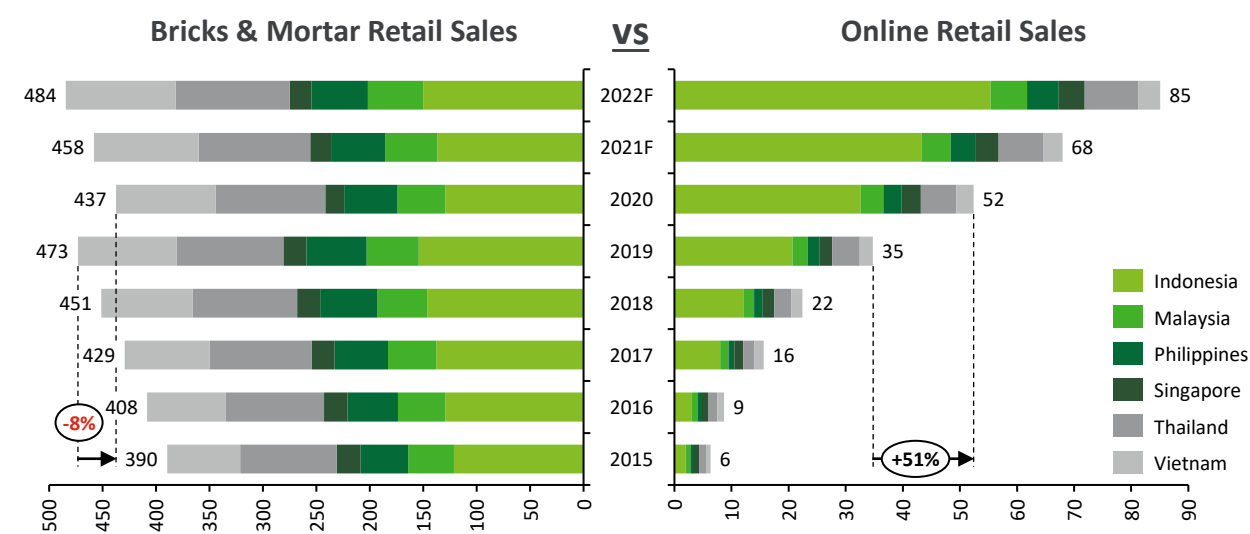
Accelerating Digital in Retail

Consumer behaviours are increasingly shifting to online as they spend more time and money on mobile devices, with online retail sales doubling almost every two years.

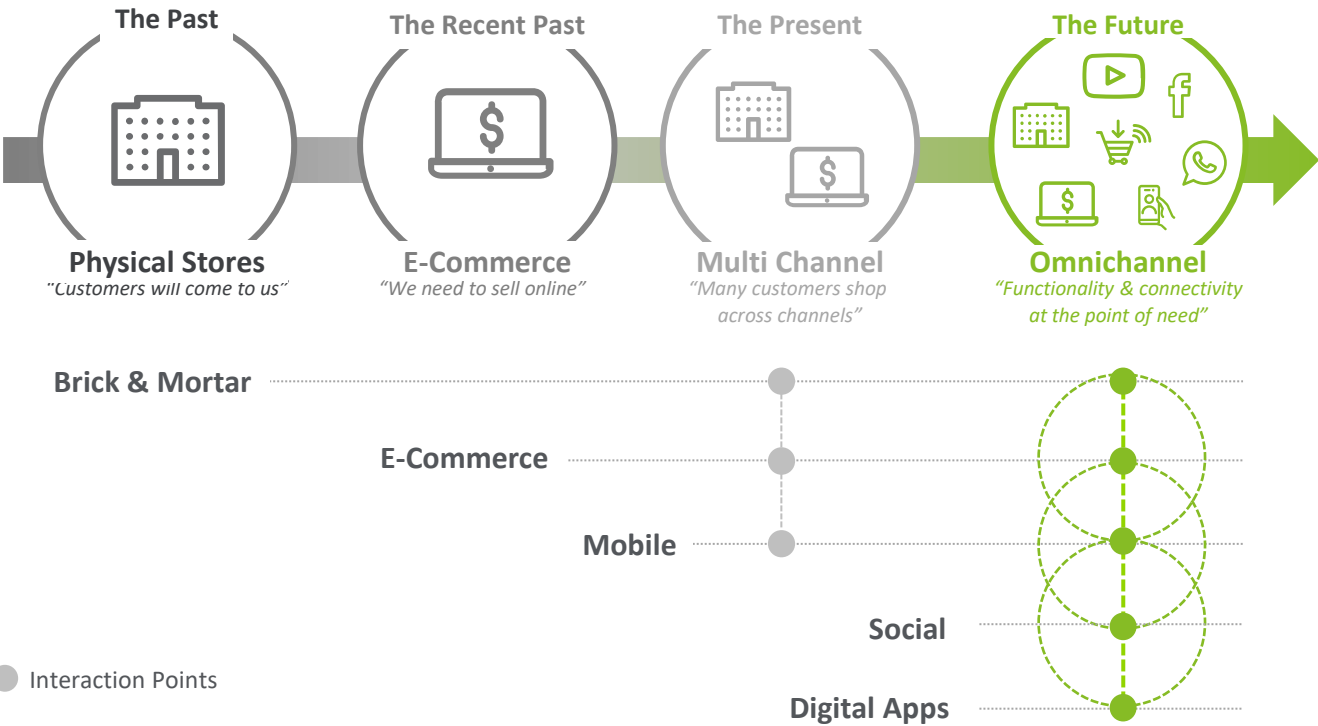
Retailers that pivot to an omnichannel model are able to capitalise on this opportunity selling through multiple channels, with 74% of the SEA population being active social media users.

Retailers need to adapt their operating model to keep up or risk sharing the fate of some ~150 retail outlets which closed their doors in Jakarta from January to April 2021.

Bricks & Mortar versus Online Retail Sales (USD'b)



The Evolution of Retail to an Omnichannel Platform



Sources: Euromonitor International, Statista, Indonesian Retail Merchants Association

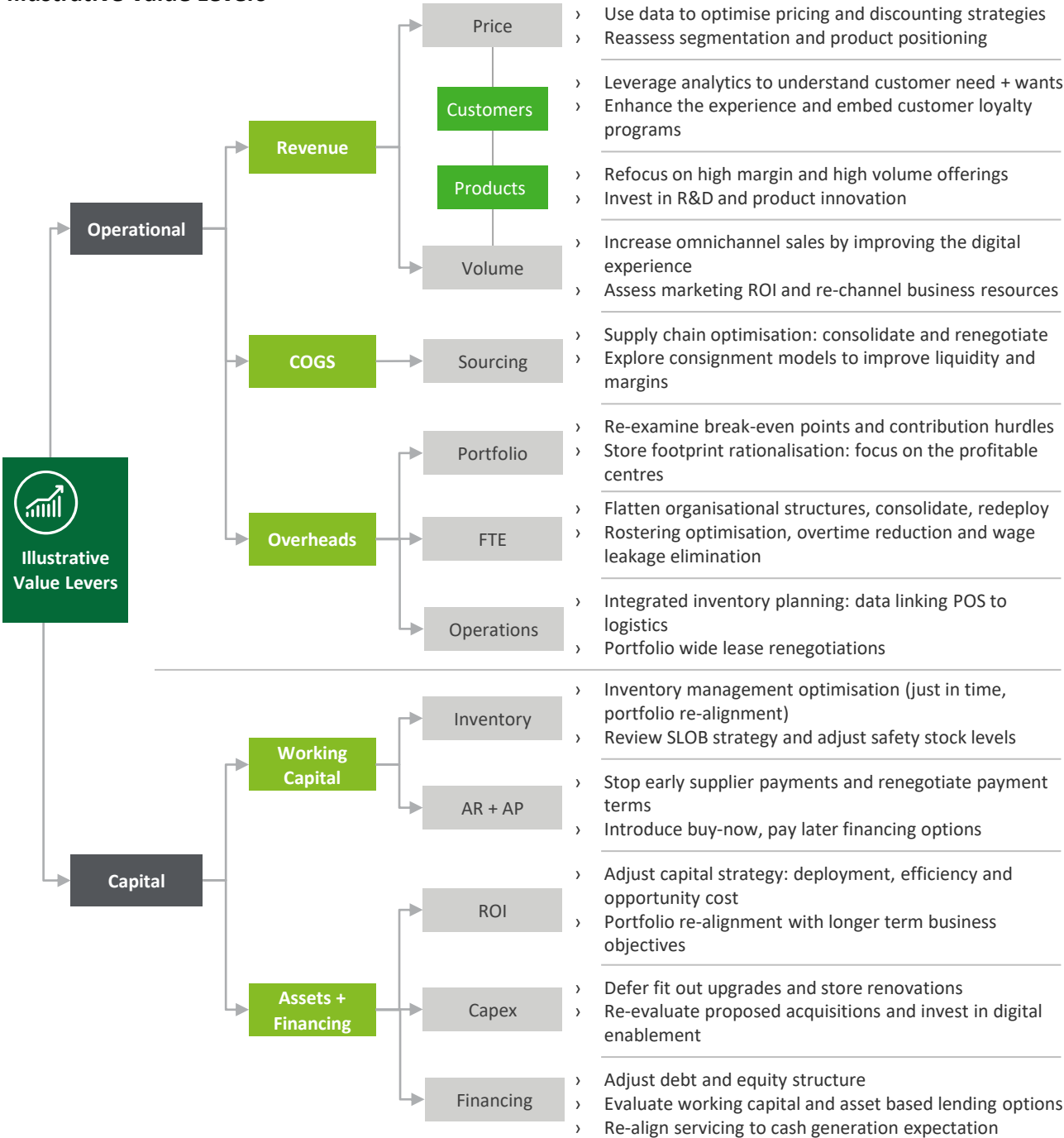
Illustrative Retail Value Levers

Despite all of the challenges, Covid-19 has given retail business managers and owners a once-in-a-career opportunity to redefine their go-to-market strategy and operating model and to rebalance cost structures.

There is no silver bullet but there are several levers. The sum of incremental margin and liquidity improvements which can be achieved across a portfolio can be the difference between a fight to survive and having the right to thrive.

We use advanced analytics to provide financial and operational insights to retail businesses which form the “case-for-change” to drive turnaround planning and implementation, operational efficiency, and support future strategic choices for the business.

Illustrative Value Levers

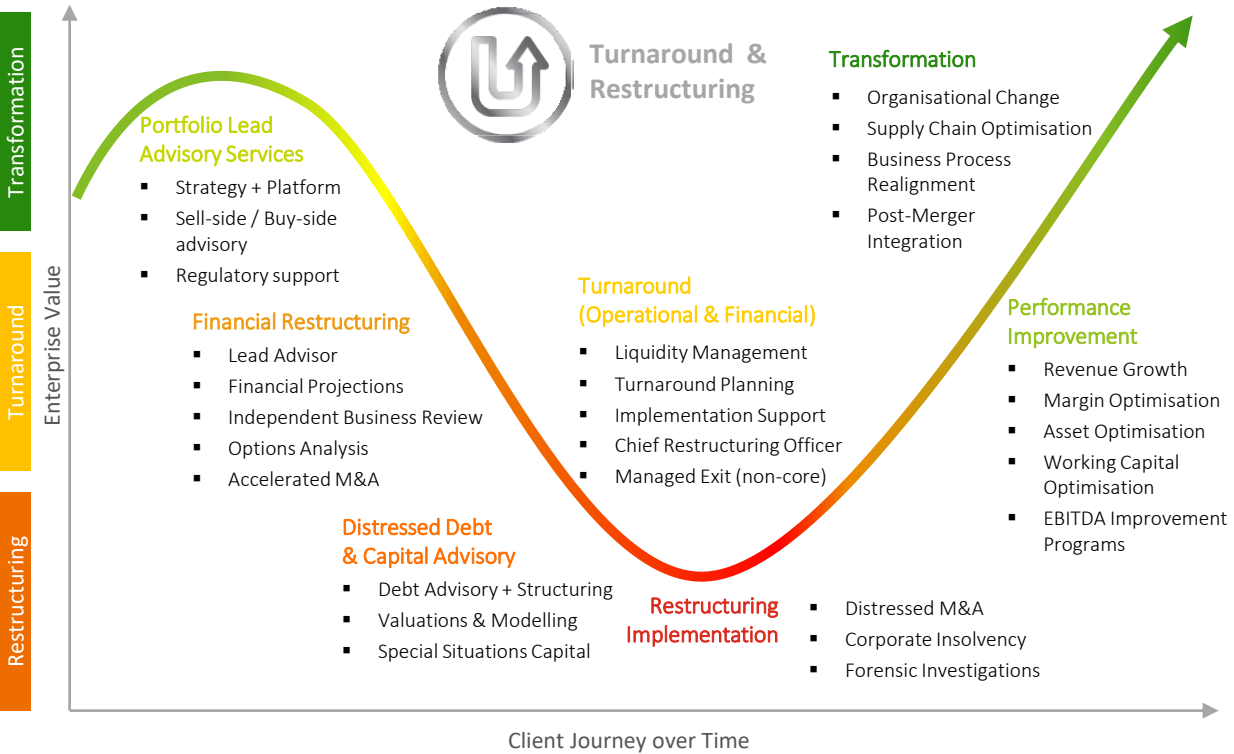


Turnaround & Restructuring

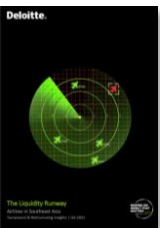
We work with clients to improve outcomes across the stress spectrum ranging from companies seeking to turnaround short term underperformance to those in deep financial distress requiring crisis management.

We are actively helping retail businesses across Southeast Asia and globally to turnaround, restructure and grow their businesses and to successfully navigate increasing volatility.

Deloitte Turnaround & Restructuring



Turnaround & Restructuring Insights



The Liquidity Runway (2021)

A review of the SEA Airline sector



Preparing for the End of Stimulus (2020)

What it means for business



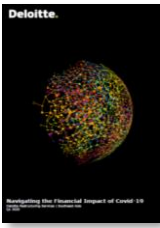
Southeast Asia Working Capital Report (2019)

Benchmarking the opportunity



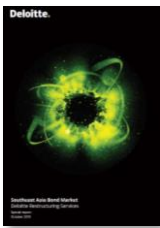
Electrifying Singapore (2021)

Singapore Electricity Generation



Critical Moves (2020)

Navigating the Financial Impact of Covid-19



Southeast Asia Bond Market Review (2019)

Assessing the increasing risk

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