

# Digital Consumer in Asia



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# FOREWORD

The retail industry is currently facing an unprecedented crisis as a result of the outbreak of the coronavirus. Many countries across Asia have taken drastic measures to reduce the spread of the virus, resulting in store closures, reduced footfall and a shift in purchasing habits towards the online channel.

Tofugear's Digital Consumer in Asia 2020 report is based on a survey among 6,000 consumers across 12 markets in Asia. Conducted in mid-February, the research was undertaken when many countries in the region had already begun to be affected by the outbreak.

While trading conditions will undoubtedly remain tough over the coming months, a sense of normality will surely return as we progress into the second half of 2020. If ever there was a time to know who your customer is and how they want to shop with your business - this is it.

With that in mind, I present some of the key takeaways from our research. Firstly, ecommerce has continued to gain in popularity compared with the 2018 edition of this report. While shoppers in Asia intend to increase their online expenditure over the coming year, they are also cutting back on their discretionary spending as they feel less secure about their personal finances.

The notion that Asian consumers do not care about sustainability issues should also be put to rest. We found that six in ten shoppers in the region will consider the sustainability credentials of a retailer

PHILIP WIGGENRAAD

HEAD OF RESEARCH  
TOFUGEAR



or brand when making a purchasing decision. Indeed, formats that support the circular economy such as second-hand shops are increasing in popularity, particularly among the younger Gen Z and millennial segments.

Consumers in Asia are now truly digital. Compared with Tofugear's previous research in 2018, there is a much greater willingness among consumers of all ages to use technologies in stores that provide a more convenient shopping journey. Three-quarters of all shoppers also admit to using their smartphones when they shop in stores, while retail apps are now the most-used channel to shop online among the more prolific online shoppers.

Lastly, I would like to extend a thank you to our partners for this report – Rakuten Insight, Jing Daily and Microsoft – without which this research would not have been possible.

**“IF EVER THERE WAS A TIME TO KNOW WHO YOUR CUSTOMER IS - THIS IS IT”.**

# RAKUTEN INSIGHT VIEWPOINT

**M**commerce continues to thrive in Asia with consumers preferring to shop online using their mobile, rather than desktops or laptops. However, perhaps this is not so surprising as a fifth of consumers spend eight hours or more per day on their phones.

The opportunity for retail brands in APAC is still significant, but as this report highlights, just having a mobile presence is not enough. Consumers are increasingly expecting retail apps that have fully integrated incentives and loyalty programmes for that enhanced shopping experience.

Rakuten Insight, as Tofugear's research partner in this report, provided 6,000 respondents across 12 Asian markets from our industry-leading research panels to try to answer some of the burning questions that retailers and brands may have.

This report helps understand the shopping behaviours and preferences of consumers across Asia in great detail. It shows how retailers must take concerns about sustainability extremely seriously. Despite some differences in the level of support for sustainable consumption across Asia, almost two-thirds of all consumers stated that they consider the sustainability credentials of a retailer or brand when making a purchasing decision.

The report also details that shopping formats that support the circular economy, such as second-hand shops, are becoming more popular, particularly among younger consumers. Given that Rakuten Insight is part of the Rakuten group, we have

AYAZ AKHTAR  
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known this to be the case for many years in Japan, where branded items often retain much of their value when resold.

**“WE ARE LIVING IN VERY CHALLENGING TIMES WITH MUCH UNCERTAINTY ABOUT THE FUTURE”**

It must be said, Hong Kong was rocked by many months of protests that severely impacted many industries, especially retail. As if that was not enough, fresh on the heels of the protests we now have the global coronavirus epidemic.

When we partnered with Tofugear on the 2018 edition of this report, we identified a clear case for a brick-and-mortar retail experience as part of an omnichannel strategy. With the experience of the last nine months, is the future for bricks and mortar now less certain? What we can say for certain is that it has never been more critical for retailers and brands to know what their customers are thinking. Reading this report is a good place to start.

# SURVEY SCOPE

Tofugear partnered with Rakuten Insight to conduct a survey among 6,000 consumers in 12 Asian countries in mid February 2020. The aim of the study was to understand the online and offline shopping habits of consumers across multiple generations, but also consumer attitudes to pressing topics such as sustainability, as well as their purchasing intentions as the coronavirus started to impact economies across Asia.

Percentages presented in this report may not add up to 100% due to rounding.

The three generations mentioned in this report are defined as follows:

## GEN X

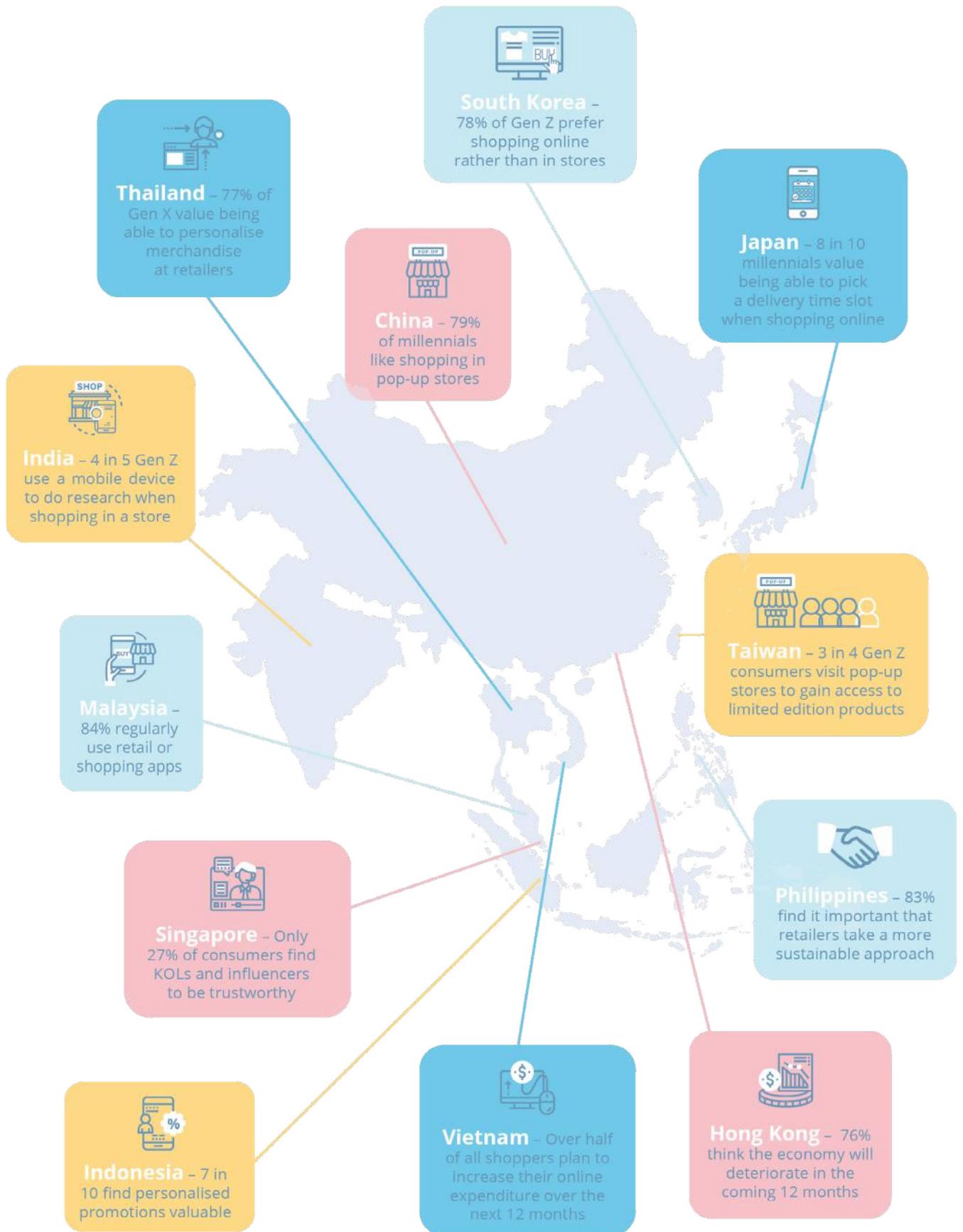
Born between 1965 and 1980

## MILLENNIALS

Born between 1981 and 1996

## GEN Z

Born between 1997 and 2012



# DIGITAL CONSUMER IN ASIA 2020



Only **28%** of Asian consumers feel secure about their personal finances over the coming year.

## Do you feel positive about the economy?



Hong Kong

**11%**



Japan

**14%**



South Korea

**22%**

## Markets that have the least trust in KOLs and influencers:



Japan



South Korea



Hong Kong

## Top three frustrations when shopping online

**2018**

**2020**

High shipping costs

**1**

Inaccurate descriptions

Unclear sizing information

**2**

Unclear sizing information

Inaccurate descriptions

**3**

High shipping costs



## Intention to increase online expenditure vs traditional retail over the next 12 months

**>50%**

plan to spend more

**38%**

no change

## Fulfilment options that consumers value the most:



**86%**

Free shipping service



**83%**

Ability to track deliveries



**76%**

Ability to pick a time slot

**Six in ten** Asian shoppers favour the online channel over shopping in stores.



**55%** of millennials in Asia like shopping in pop-up stores, mainly to gain access to exclusive and limited edition products.

**Three in four** consumers say they use their mobile phone when shopping in a store.

**Reasons for using phone in stores:**



**75%**

Get more product information



**54%**

Check prices at other retailers



**Countries where the majority of consumers still prefer to shop in stores:**



Japan



Hong Kong



Philippines

**Product categories that consumers plan to cut spending on:**



**45%**

Watches and jewellery



**43%**

Luxury fashion



**31%**

Furniture

**What forms of personalisation do Asian shoppers want?**



Personalised promotions



Personalised product recommendations



Ability to personalise merchandise

# UNDERSTANDING THE ROLE OF PHYSICAL RETAIL



## KEY FINDINGS

- ✓ The majority of Asian consumers (61%) prefer shopping online rather than in stores, although shopping in physical stores has gained slightly in popularity in Hong Kong and India
- ✓ The store is still visited on a regular basis by shoppers – primarily to get products immediately and for convenience reasons
- ✓ Pop-up stores can be used effectively to target younger Gen Z and millennial consumers, although retailers need to offer product exclusives to maximise visitor numbers
- ✓ Asians prefer interacting with practical store technologies that can make their shopping journey more seamless such as scan-and-go, shoppable screens and self-checkouts

In 2020 there is undoubtedly a consensus that the future of retail is not going to be exclusively online. Instead, many retailers are striving for a mix of physical and digital retail, with each channel focusing on its respective strengths. With nearly one in five Asian consumers shopping in a store on a daily basis, it is critical for retailers to understand what shoppers want from stores, so that they can fully capitalise on their physical presence.

### POPULARITY OF ECOMMERCE CONTINUES TO GAIN TRACTION – BUT NOT IN ALL MARKETS

When Tofugear previously ran its digital consumer survey in 2018, it was found that 59% of consumers in Asia preferred to shop online rather than in stores. Fast forward to 2020 and that percentage has gone up slightly to 61%.

It should be noted though that Tofugear conducted its survey in mid-February 2020, when markets including China, Hong Kong, Singapore, Taiwan and the Philippines had already taken measures to combat the coronavirus. It is therefore worth keeping in mind that this may have impacted consumers and their preferences for online retail.

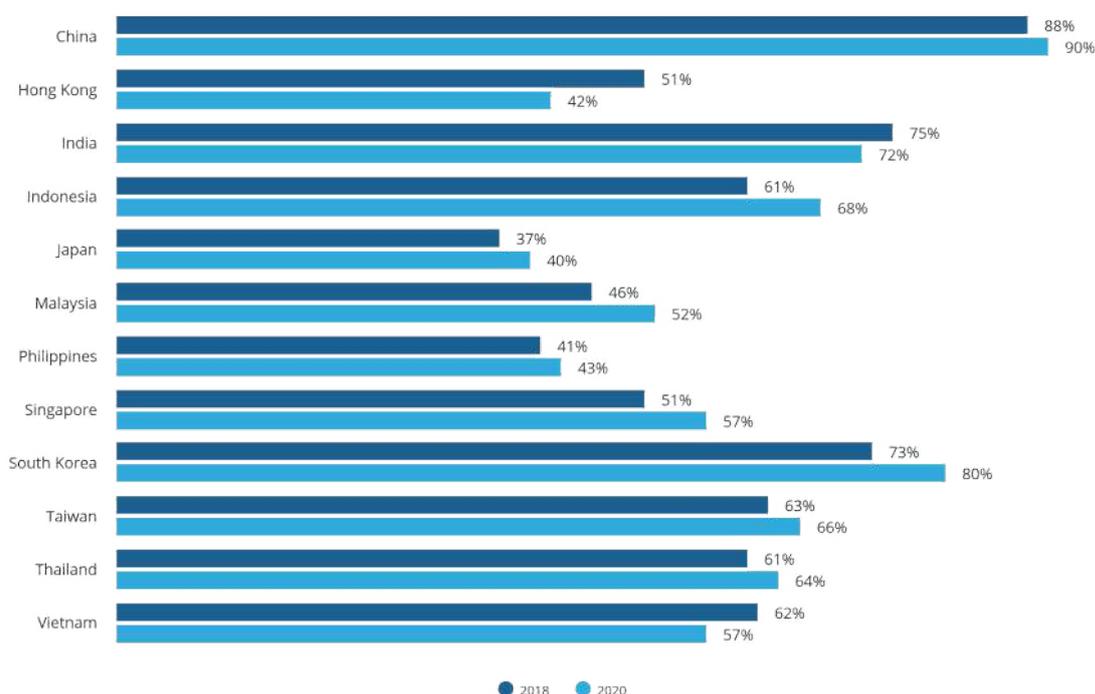
Unsurprisingly, China – often considered to be Asia’s most digitally savvy market – continues to lead the way with nine in ten consumers preferring ecommerce over shopping in stores. South Korea is not that far behind at 80%. Interestingly, at the time of writing both of these markets had also been the worst affected in Asia by the coronavirus pandemic.

Japan continues to show a preference for physical retail, with only 40% of consumers favouring ecommerce – the lowest percentage among all Asian markets. Japanese consumers often enjoy the overall experience of shopping in stores and also highly value the immediacy of picking up products there and then.

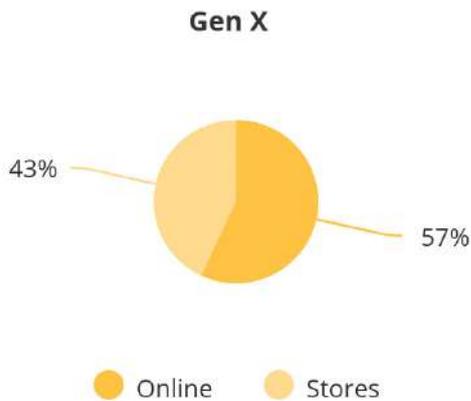
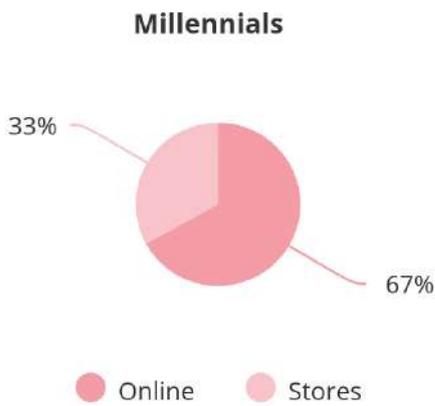
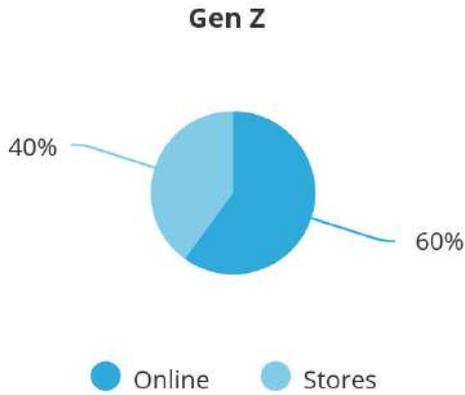
Most markets that were on the lower end of the scale for preferring online retail in 2018 – such as Malaysia, the Philippines and Singapore – saw a solid shift towards ecommerce in 2020, albeit coming from a relatively low base.

However, Hong Kong – where reports suggest that social unrest, and more recently the outbreak of the coronavirus have resulted in a surge in ecommerce sales – saw the percentage of shoppers that prefer the online channel decline from 51% in 2018 to just 42%. It seems that Hong Kong consumers in 2020 are embracing ecommerce out of necessity, rather than for the shopping experience.

### PREFER ONLINE SHOPPING OVER STORES



PREFER ONLINE SHOPPING OVER STORES, BY GENERATION

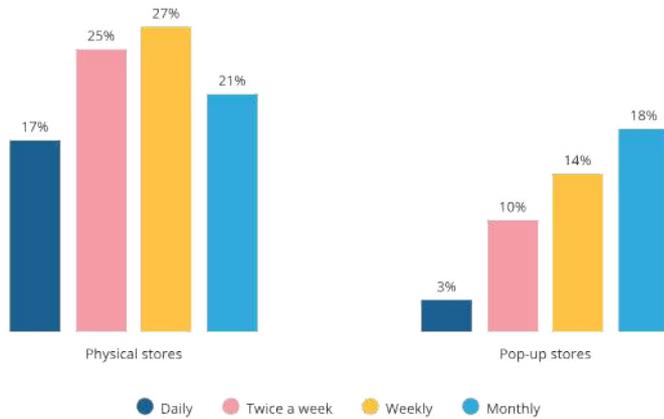


**MILLENNIALS LEAD THE DIGITAL WAY**

Looking at the data by generation shows that millennials have the greatest affinity with online shopping – as they did in the 2018 survey. But the percentages of Gen Z and Gen X consumers who prefer online shopping have increased over the last two years and are now, relatively speaking, not far behind millennials.

Retailers should not assume that younger Gen Z consumers – often seen to be more into shopping in stores as part of their social activities – will lead to a resurgence in physical retail, as the majority of this group (60%) still prefer to shop online.

FREQUENCY POP UPS AND STORES



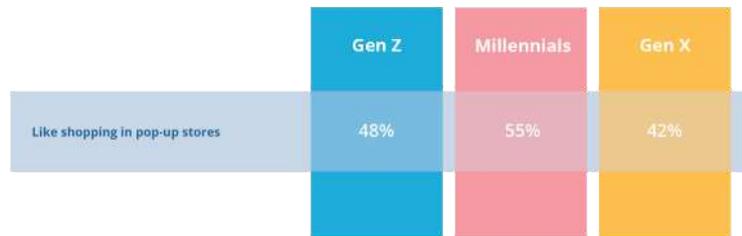
**STORES AND POP-UPS ARE USED FREQUENTLY**

It is important to note that while online retail appears to offer a more pleasurable shopping experience for consumers in Asia, bricks and mortar is still a widely used channel. As many as 40% of all respondents across the region shop in stores at least twice a week and nearly three-quarters do so on a weekly basis.

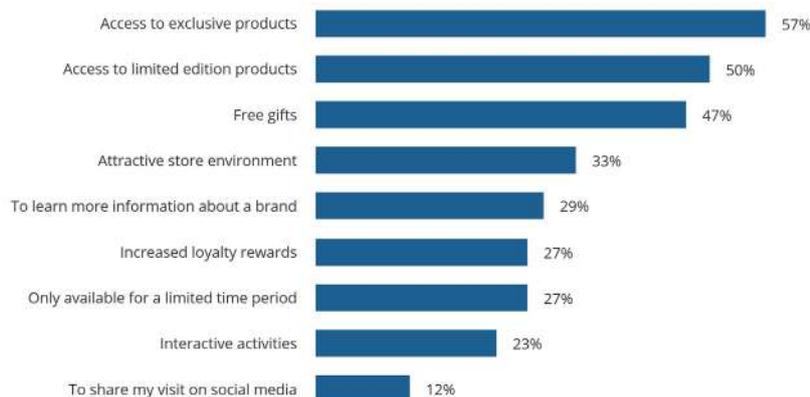
While pop-up stores are visited less frequently than regular stores, 27% of all shoppers still do so at least once per week, highlighting that it is a popular format. Additionally, nearly half of all consumers in Asia (48%) say that they enjoy shopping in pop-up stores. That percentage rises to 55% for millennials, underlining that this is a key format to reach younger shoppers.

For retailers looking to move into pop-ups, it is critical to note that consumers are more likely to visit pop-ups for product-related reasons, in particular exclusive products (57%) and limited edition products (50%). Free gifts are also an important draw (47%). While many retailers might think that pop-ups also need to have 'Instagrammable' elements, only 12% of respondents stated that they visited pop-ups so they could share the experience on their social media.

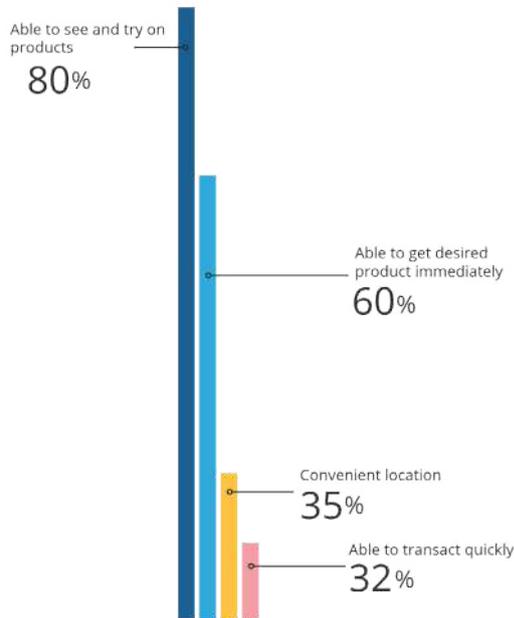
ATTITUDES TOWARDS POP-UP STORES, BY GENERATION



REASONS FOR VISITING POP-UP STORES



WHY SHOP IN STORES?



HOW TO IMPROVE THE STORE EXPERIENCE

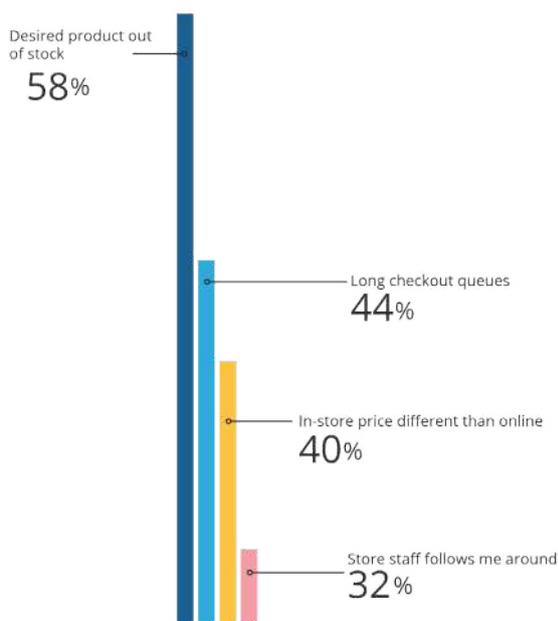
For retailers looking to improve the store experience, it is imperative to understand why shoppers may visit a store and what their biggest frustrations are.

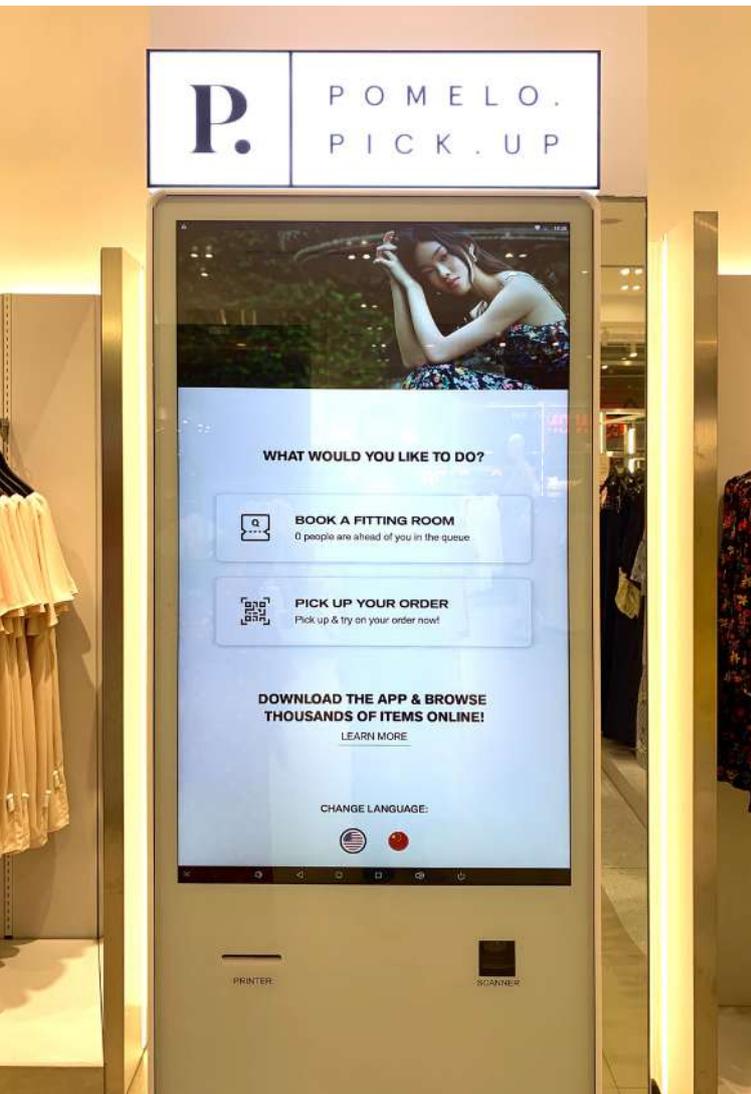
The main reasons why consumers in Asia turn to physical retail are linked to immediacy and convenience. Shops allow consumers to get their hands on products right there and then – and they are also able to see those products in real life. With online fulfilment speeds in many Asian markets still quite slow, this is an important attraction. Similarly, there is the convenience of being able to visit a store that might be located near their homes or place of work.

In terms of consumer frustrations when shopping in stores, by and far this is driven by the customer experience. Products being out of stock is the number one frustration – which of course ties in with the immediacy aspect of visiting a store. It is therefore crucial for retailers to be able to offer alternatives when this does happen, for instance by giving customers the opportunity to order products from the online store, or perhaps other nearby stores.

Other major pain points are long checkout queues and store staff following customers around the store. Consumers also respond negatively when retailers charge different prices in store than they do online – not unreasonable since so many people may research products online before deciding to visit a store to purchase.

TOP FRUSTRATIONS WHEN SHOPPING IN STORES





## REMOVING FRICTION THROUGH TECHNOLOGY

Thai fast fashion retailer Pomelo shows how technology can be harnessed to remove frustrations for shoppers. In the retailer's 313@Somerset store in Singapore, digital screens help customers shop as smoothly as possible. These kiosks allow customers to book a time slot in the fitting room – and avoid having to wait in a queue – as well as pick up online orders.

But the store is also closely integrated with the mobile app and customers are encouraged to shop via this channel for any items that it does not have in stock. Location-based technology means shoppers can already book a slot in the fitting room if they are within a certain range of the store – handy for minimising the time to try on click-and-collect orders. Pomelo should also be commended for the fact that customers are not charged for click-and-collect orders until they have tried them on and are happy to proceed.

## WHICH STORE TECHNOLOGIES WILL CONSUMERS USE IF AVAILABLE IN A STORE?

	Gen Z	Millennials	Gen X
 Mobile payments	83%	84%	77%
 Scan-and-go	79%	82%	75%
 Self-checkout terminals	77%	79%	76%
 Scan QR codes to get more product information	75%	77%	74%
 Shoppable screens	75%	76%	67%
 Automated check-out	69%	74%	69%
 Mobile apps for connected in-store experience	62%	65%	57%
 Smart mirrors	60%	60%	54%
 Virtual reality	53%	52%	47%
 Augmented reality	52%	52%	46%
 Biometric payments	51%	51%	44%
 In-store robots	48%	47%	41%

## ENGAGEMENT WITH STORE TECHNOLOGIES STRONGEST AMONG MILLENNIALS

Retailers have a wide array of store technologies to choose from in order to create more frictionless shopping journeys. In general, consumers in Asia have a strong willingness to engage with such technologies – although millennials are the most open to this, followed by Gen Z.

Compared to the 2018 edition of this report, there seems to be a greater appetite to try out new things. For instance, around half of all respondents said they were open to using more ‘gimmicky’ solutions such as in-store robots and virtual reality. These technologies are mainly used by retailers to generate publicity and in practice they do not make the shopping experience smoother.

However, the technologies that showed the strongest support are actually those that help solve some of the frustrations that were noted above. Technologies such as scan-and-go, mobile payments and self-checkout terminals either allow customers to speed up the checkout process or skip the queue entirely.

Products being out of stock – noted as a pain point by 60% of all shoppers in Asia – can also be resolved through the use of shoppable screens that give access to inventory in other stores or online. The takeaway for retailers from this data is they should really consider investing in practical solutions that improve the customer experience before turning to less impactful gimmicks.

## USE OF MOBILES IN STORES

In the age of the connected consumer, the use of smartphones in stores is widespread. As noted elsewhere in this report, nearly a fifth of consumers use their phones for more than eight hours a day. It is therefore not surprising that these devices get used in stores too, with 73% of all respondents stating that they do so.

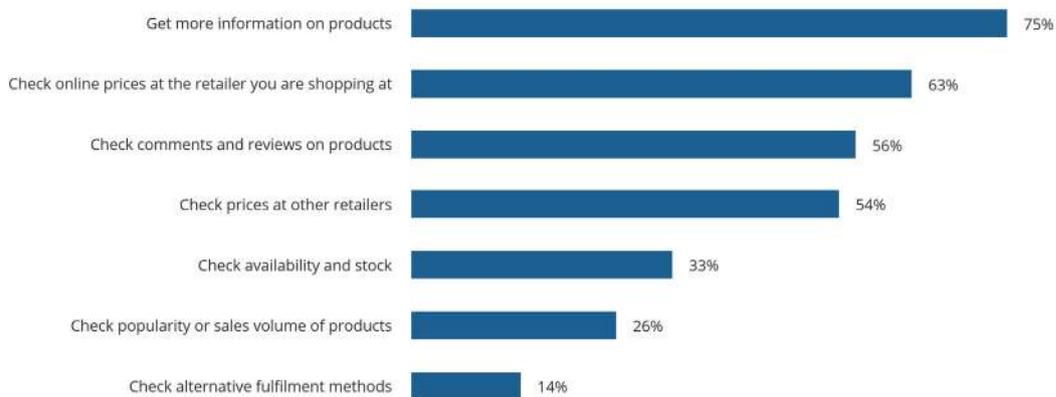
There are two main reasons why shoppers may use their

smartphones in a store, firstly to check additional information about products (75%) and secondly to see if prices in store are actually competitive (63%).

While price-conscious shoppers might be bad news for some retailers, it is interesting to note that consumers also want additional product information. Retailers may therefore want to consider how they can make that process easier, for instance by providing QR codes on tags to easily direct them to additional product information.

**“RETAILERS NEED TO FULLY LEVERAGE THE NEEDS OF THE CONNECTED CONSUMER”**

### REASONS FOR USING MOBILE DEVICES WHEN SHOPPING IN STORES



**MARIA HUI**

MARKETING AND OPERATIONS DIRECTOR  
MICROSOFT HONG KONG

## ENABLING INTELLIGENT RETAIL WITH MICROSOFT AI AND DATA

The retail landscape is facing major disruption and fundamental changes that are changing the way the industry works today. Evolving customer needs and advances in retail technology are two major drivers that will continue to define the entire industry over the coming years.

While the majority of shoppers in Asia may prefer shopping online rather than in stores, this partly reflects the fact that store-based retailers are still finding it a challenge to adapt to today's digital consumer. At Microsoft, we believe that it is critical for all retailers to unleash the power of data in order to gain insights into new shopping behaviours and trends. This then opens up new opportunities to create experiences and offers that are both rich and engaging for customers.

Today's shoppers have become accustomed to doing their own research to get the maximum value out of their spending and to feel secure about the purchases they're making. With this power shift comes a great opportunity for retailers; those that use tools and insights have the opportunity to close the gap between the smart online consumer and the offline retailer.

Data is like oxygen to every retail business. It can empower your company to take control, increase product traceability, manage the entire product lifecycle and help reimagine the in-store experience. A case in point is our strategic partnership with Marks & Spencer, where we have deployed integrated machine learning, computer vision and AI technology to help enhance the customer experience and improve the wider operation.

This game changing decision allows M&S to integrate every surface, screen and scanner into data capturing machines and

gain insights from it to enable employees to make better decisions. With Microsoft's cognitive services, products are placed in the best location in a store to capture maximum sales. It also allows staff to manage and replenish stock in real time – a critical capability as this report finds that out of stock products is the single biggest frustration for Asian consumers when shopping in stores.

Microsoft, along with our global partner ecosystem, is dedicated to enabling intelligent retail by empowering the retail industry with the tools to unlock the full potential of their customers, employees and data – because we know that these assets can dramatically affect their business. Opportunities are rife in challenging times and we are looking forward to more retailers finding innovative new ways to engage with their customers.

# TAKING A MOBILE-FIRST APPROACH TO ECOMMERCE



## KEY FINDINGS

- ✓ When discussing ecommerce in Asia, it is all about mcommerce – with mobile websites and retail apps the main channels used to shop online
- ✓ Asian consumers shop online most frequently through retail apps, suggesting that app commerce is a channel most retailers cannot afford to ignore
- ✓ Retail apps are downloaded because they offer convenience, such as saved billing information, but retailers must ensure they are more than just an information platform

Consumer expectations have risen dramatically over the past few years – not only for store-based retailers but in the ecommerce space too. Where previously online retailers were able to stand out through convenience and a wide range of products, they now need to consider areas such as personalisation, a wide range of fulfilment services and providing product information that allows shoppers to make a truly informed decision.

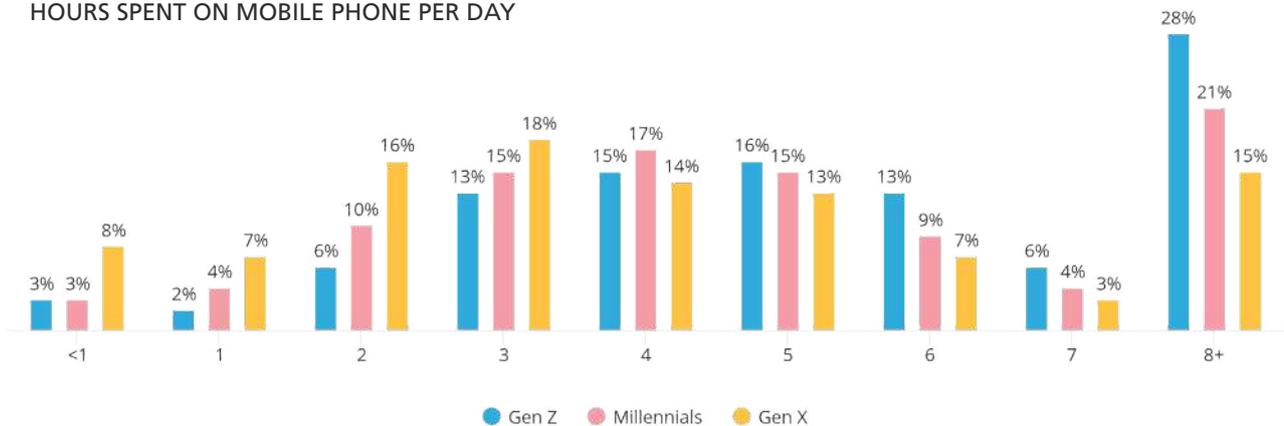
### ASIAN CONSUMERS PREFER MCOMMERCE

Previously in this report, it was found that Asian consumers overwhelmingly prefer to shop online rather than in stores. Another key trend in Asia is that shoppers are well-connected, with 21% using their mobile phones for more than eight hours per day. However, this is skewed towards younger consumers, with more than a quarter of Gen Z shoppers (28%) admitting that they use their mobile devices for such extensive periods, compared with 15% for Gen X.

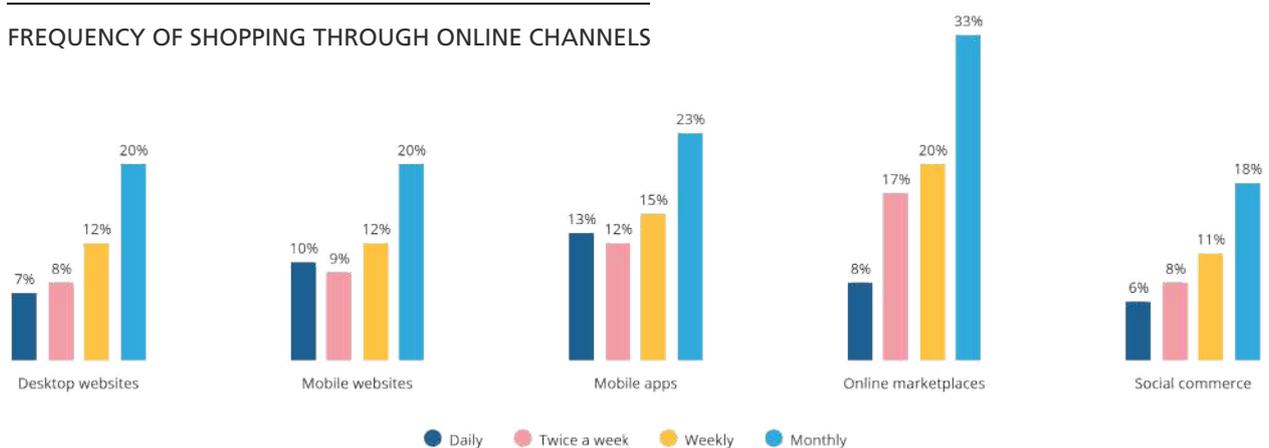
The mobile-first nature of consumers in Asia also impacts the way in which they shop online. When looking at how often consumers shop, online marketplaces remain a key channel for ecommerce and are used by three-quarters (78%) of Asian shoppers at least once a month, versus 51% for mobile websites and 47% for desktop websites.

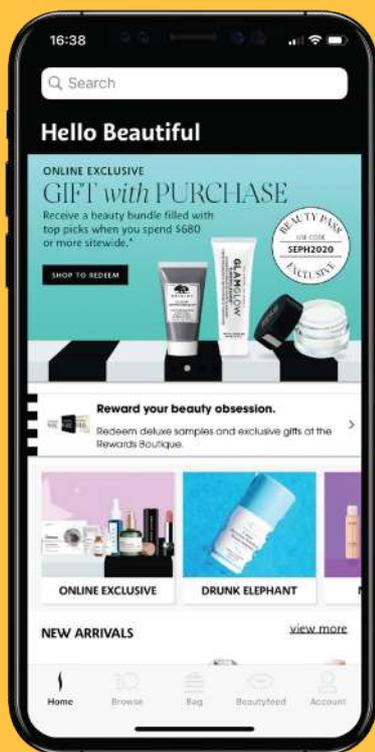
However, a noteworthy development in the 2020 edition of this report is the increased importance of retail apps, which are used by 63% of all respondents at least on a monthly basis, with 13% even doing so on a daily basis – ahead of mobile websites (10%) and online marketplaces (8%). So not only are consumers preferring to use their mobile devices for ecommerce, they are going one step further by opting for the convenience of retail apps.

HOURS SPENT ON MOBILE PHONE PER DAY



FREQUENCY OF SHOPPING THROUGH ONLINE CHANNELS





## GAINING AN EDGE ON PERSONALISATION

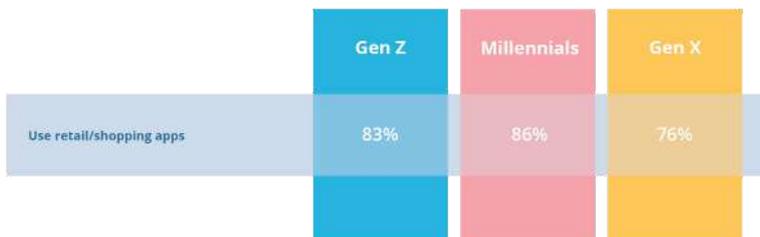
Sephora’s mobile app is sophisticated in both its functionality and also in its seamless integration with its beauty insider loyalty program.

Apart from enabling shoppers to easily earn reward points and manage their loyalty card on the go, they can also

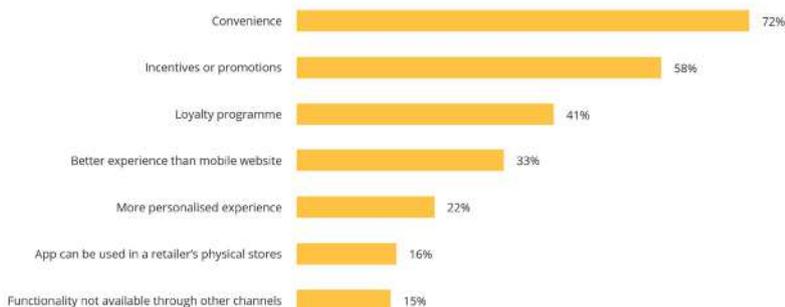
receive push notifications featuring personalised recommendations. App users can also view their past purchase history and find their ideal foundation with the in-app shade finder.

Sephora’s app functionality gives it a unique edge on personalisation in the beauty space and it is little wonder that it is widely perceived as a digital trendsetter.

USAGE OF RETAIL/SHOPPING APPS, BY GENERATION



REASONS FOR DOWNLOADING RETAIL/SHOPPING APPS



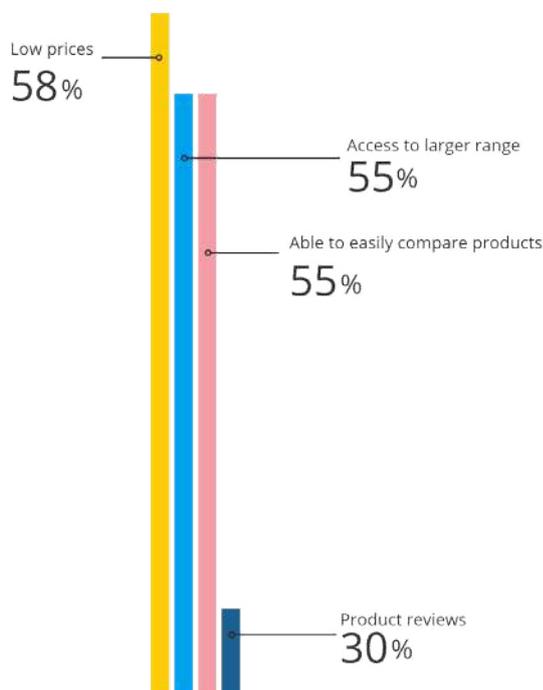
## MOBILE APPS NEED TO BE MORE THAN JUST AN INFORMATION PLATFORM

For many retailers – though certainly not all – apps may prove to be a worthwhile investment. If yes, what considerations should be taken into account? Firstly, apps are more of a young person’s game than they are for the older consumers among us. More than four in five millennial consumers (86%) say they use retail or shopping apps, but that percentage falls to 76% for Gen Xers.

Not surprisingly, convenience - such as the ability to save address and payment details - is the top reason that attracts these young consumers, given that they value seamless and hassle-free experiences while shopping.

The availability of incentives or promotions and integration with the loyalty programme are also strong push factors. Mobile apps are an opportunity for retailers to boost the effectiveness of their loyalty programme by integrating it into the in-app shopping ecosystem (see the Sephora box-out for a best-in-class example).

WHY SHOP ONLINE?



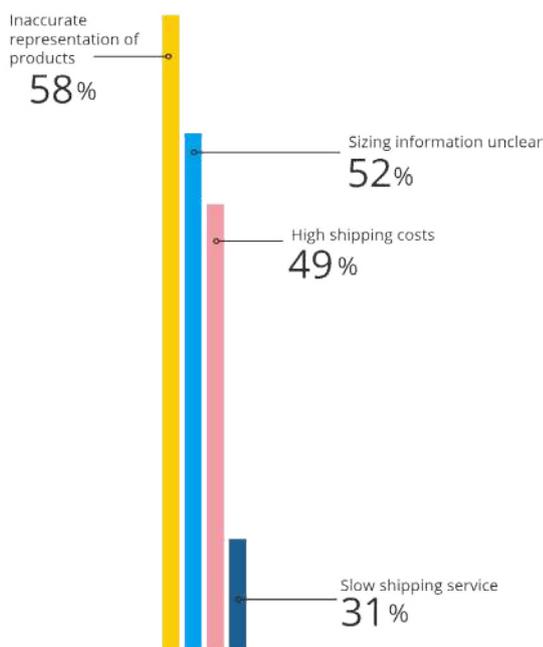
**ECOMMERCE IS STILL A VERY PRICE-SENSITIVE CHANNEL**

Moving away from apps and on to online shopping in general, what actually drives consumers to digital commerce? Ecommerce by its very nature is a price-sensitive channel – it is so easy to compare prices and specs – so perhaps unsurprisingly, low prices are the greatest attraction of the online channel for consumers in Asia.

Retailers are also often able to offer a much more extensive range than they do in stores and this is also a significant appeal for Asian shoppers. While retailers should make it easy to compare products, they should also ensure products are accurately represented, have clear product information and offer product reviews from other customers.

Meanwhile, visual search technology (6%), the availability of a chatbot (3%) and voice ordering technology (1%), were hardly seen as important draws to turn to the online channel. This implies that retailers in Asia can still get the best bang for their buck by investing in the core online experience rather than more emerging functionalities such as visual search or integration with smart speakers such as Alibaba’s Tmall Genie – at least in the short term.

TOP FRUSTRATIONS WHEN SHOPPING ONLINE



**ASIAN SHOPPERS VALUE ACCURATE PRODUCT REPRESENTATION**

While consumers in Asia prefer to shop online rather than in physical stores, they might not always have a positive experience. From the survey, more than half of all Asian shoppers consider inaccurate product representation and unclear sizing information as their top frustrations when shopping online.

This is actually an area where governments in Asia are starting to introduce more regulations. Following the implementation of China’s first ecommerce law in 2019, retailers are penalised if they fail to monitor their product descriptions. It is perhaps also without surprise that Alibaba and group buying platform Pinduoduo have also introduced anti-counterfeit initiatives to ensure products listed on their marketplaces are accurately represented.

In terms of sizing information, this has always been a drawback of ecommerce. Even if sizes are displayed correctly, they might not offer the fit that the customer thinks it is. A number of retailers and online marketplaces – mainly multi-brand sites such as Farfetch – are now offering a ‘fit predictor’ where customers can compare the fit of a product to a brand that they have already bought previously. This can potentially result in significant cost savings for the retailer given the high levels of returns in online fashion.

## GEN Z AND EMERGING MARKETS DEMAND QUICK FULFILMENT

Not only are Asian consumers demanding low prices and accurate product information when shopping online, they are also increasingly interested in quick fulfilment. For Gen Z consumers in particular, convenience and transparency are top considerations when it comes to fulfilment. Just over half of this segment (52%) find the ability to track deliveries very important, while 31% value a speedy two-hour fulfilment service – the highest among all generations.

In times such as the coronavirus outbreak, fulfilment is an area for brands and retailers to focus on as consumers are reluctant to leave their homes and yet still expect to receive their deliveries quickly.

It is also worth pointing out that consumers in emerging markets value two-hour deliveries the most, with 45% in Indonesia and 41% in both the Philippines and Thailand. The same applies to the tracking of deliveries, which is rated as very important by 71% in the Philippines and Indonesia and by 53% in Thailand.

Ecommerce marketplaces are responding to this. For instance, Alibaba has adopted robotic warehouses to speed up fulfilment and similarly JD.com has adopted drones to deliver to remote areas in Indonesia. However, in order to truly meet customer expectations, the research suggests that retailers should offer the option to pick a delivery timeslot. Three-quarters of Asian consumers consider this to be an important factor when buying online.

## RETAILERS SHOULD CONSIDER USING THEIR STORES AS FULFILMENT CENTRES

Apart from quick delivery times and transparency, Asian consumers also want affordable shipping costs. One in two Asian

consumers consider high delivery costs to be their top frustration when shopping online – perhaps to be expected given that ecommerce is such a price-sensitive channel.

While free shipping might not be an option that every retailer can offer given the pressure on margins, there are ways

that retailers can cut down on the costs of shipping and also potentially improve fulfilment times. Retailers such as Japan's Uniqlo are already utilising their stores to shorten the shipping distances to consumers – which of course also allows them to offer a click-and-collect service in their stores.

### WHICH FULFILMENT OPTIONS ASIAN CONSUMERS VALUE MOST



# NEW WAYS OF SHOPPING FOR THE MINDFUL CONSUMER



## KEY FINDINGS

- ✓ The majority of consumers in Asia (62%) say it is important that retailers and brands take a more sustainable approach to their business
- ✓ Consumers in developing countries such as the Philippines, Vietnam and Thailand show the greatest regard for sustainability initiatives
- ✓ Formats that support the circular economy such as second-hand shops are becoming more popular – particularly among Gen Z and millennial consumers
- ✓ Shoppers also show a willingness to use subscription and rental services, although offerings are currently still limited in Asia

There has been widespread coverage of new business models and more sustainable ways of retail that have emerged in the retail industry in recent years. These range from shops that support the circular economy, to zero waste stores and rental services. However, much of this coverage has focused on consumers in the west, and it is still unclear whether consumer appetite for these formats is as high in Asia.

### IS ASIA LAGGING WHEN IT COMES TO SUSTAINABILITY?

Asia is often considered to be behind the curve when it comes to support for sustainability initiatives. But is that actually valid? Consumers in the survey were asked how important they found sustainability when selecting a retailer or brand, for instance the environmental impact of a business.

On average, nearly two-thirds of all consumers in Asia (62%) stated that this was important to them, which is a fairly high level of support and should remind retailers in the region that this is an issue that they can no longer afford to ignore.

However, there are differences by market. Interestingly, the more advanced economies in Asia show the lowest level of support for sustainable consumption. Hong Kong, Singapore and South Korea scored below average at around 50%, while only 20% of shoppers in Japan will consider the sustainability credentials of retailers when making a purchasing decision.

Japan is an interesting case in that government regulations for retailers to protect the environment are not as strict as elsewhere in Asia. For instance, consumers are not currently charged for taking plastic bags from retailers, with a charge for plastic shopping bags only set to become mandatory in July 2020. Meanwhile Seven & I Holdings – the operator behind 7-Eleven convenience stores – has announced that it is phasing out plastic bags altogether, but it will not do so until 2030. So there appears to be a lack of urgency in Japan on these issues.

Meanwhile, Hong Kong inhabitants famously send twice as much rubbish to the landfill per day than their counterparts in Tokyo. It can be argued that this is as much due to half-hearted government initiatives to support recycling as it is a consumer mindset issue. That said, governments do have a role to play in terms of raising awareness and investing in infrastructure to support retailers and consumers to become more sustainable.

SUSTAINABILITY IS AN IMPORTANT CONSIDERATION WHEN SELECTING A RETAILER OR BRAND, BY COUNTRY

		Find it important that retailers take a sustainable approach
	China	75%
	Hong Kong	54%
	India	72%
	Indonesia	66%
	Japan	20%
	Malaysia	63%
	Philippines	83%
	Singapore	50%
	South Korea	53%
	Taiwan	64%
	Thailand	75%
	Vietnam	72%

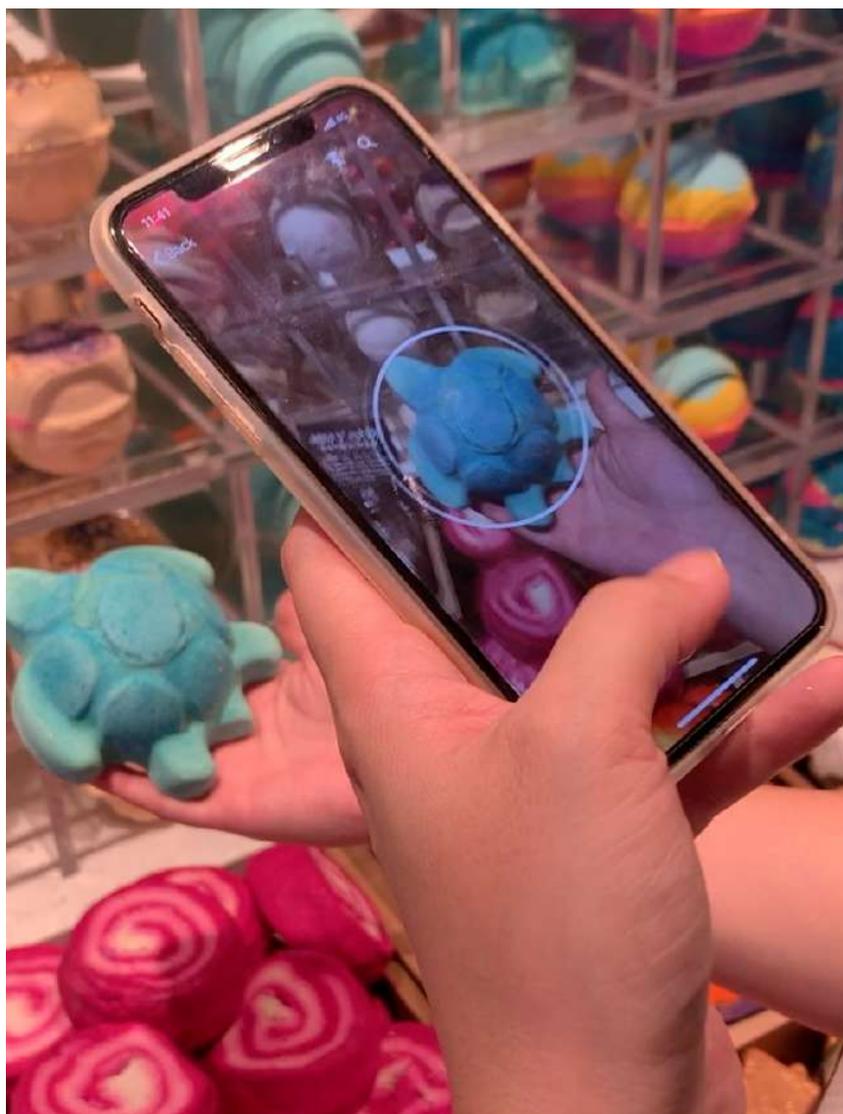
## THE PHILIPPINES HAS ASIA'S MOST SUSTAINABILITY-AWARE SHOPPERS

According to the survey, consumers in developing countries show the greatest regard for sustainability in retail, with high levels of support in markets such as

Vietnam and Thailand. It is the Philippines that has Asia's most sustainability-aware shoppers, with more than four in five in consumers (83%) stating that they will take a retailer's or brand's approach to sustainability into account when shopping.

This is perhaps somewhat surprising. While there has been steady growth in the middle

classes in these developing countries, disposable incomes are still lower than in Asia's advanced economies. This is relevant as prices at retailers that prioritise sustainability are generally higher. However, it could be the case that consumers in these markets see few regulations coming from the government and as such expect retailers to take the initiative.



## A DIGITAL APPROACH TO SUSTAINABILITY

Cosmetics retailer Lush picked Hong Kong as the location for its first Lush Naked store in Asia. The store is an excellent demonstration of how a digital approach can help a retailer become more sustainable.

Lush Naked has a wide array of packaging-free products on offer such as bath bombs, shampoo bars and lipsticks in refillable cases. The retailer is widely seen as a digital innovator and has cleverly integrated its app into the store environment.

With products not having any packaging, customers can scan products with the app to gain more information about ingredients. Image recognition technology is integrated within the app to allow customers to identify bath bombs and get a demonstration of how they will work without wasting any water.

## FLASH SALES AND SECOND-HAND STORES PROVE POPULAR

Respondents to the survey were asked whether they actually shopped at any of the new retail formats that have emerged in recent years. The most popular format was shown to be flash sales – either online or store-based events – which certainly proves that consumers in Asia love a good deal.

Stores that sell second-hand goods are also used quite extensively by consumers in Asia – perhaps surprisingly so given the stigma of ‘bad energy’ that surrounds second-hand goods in some markets such as China and Hong Kong.

However, there is clearly more support for second-hand shops among Gen Z and millennial consumers (both 53%), versus only 41% for Gen Xers, suggesting that the negative connotations of buying used goods is decreasing among the younger generations.

While there are quite a few dedicated platforms for used goods these days, such as Vestiaire Collective and Idle Fish, regular retailers are also increasingly looking to get into this business. For instance, last year luxury platform Farfetch launched Second Life, where customers can trade in their designer bags for credit.

That said, it remains to be seen whether demand for used products will continue to increase given the outbreak of the coronavirus, with many consumers likely to be more cautious about such purchases.

## SUBSCRIPTION AND RENTAL SERVICES STILL IN THEIR INFANCY

Subscription services and rental services are the least-used forms of new retail formats among consumers in Asia. However, these offerings are still relatively in their infancy in the region. Subscription services like those seen in the West – for instance regular shipments of coffee or boxer shorts – are not yet that prevalent.

Rental services have also taken longer to catch on in Asia than they have elsewhere in the world, but are starting to emerge through players such as Style Theory, Covetella and Style Lease. Interestingly, many of these Asian rental services are taking a more service-oriented approach, for instance by offering alterations.

PERCENTAGE OF CONSUMERS THAT USE NEW RETAIL FORMATS AND SERVICES

	Gen Z	Millennials	Gen X
Flash sales websites and events	62%	64%	54%
Second-hand stores	53%	53%	41%
Travel retail	46%	55%	49%
Stores with sustainability focus	45%	47%	38%
Subscription services	34%	39%	27%
Rental services	23%	24%	18%

# THE PATH TO PURCHASE



## KEY FINDINGS

- ✓ Asian consumers are well-informed and go through five touchpoints on average before making a considered purchase
- ✓ Social media strategies involving KOLs and influencers are most likely to resonate with consumers in the Philippines, Thailand, China and India
- ✓ Only 20% of consumers have absolute loyalty to their favourite brand. While monetary rewards will boost loyalty, a loyalty programme is also highly valued
- ✓ When it comes to personalisation aspects, Asian shoppers are most receptive to personalised promotions, product recommendations and merchandise

Today's consumers are more informed than ever when they shop, frequently relying on a combination of online and offline touchpoints before making their final decision. Even when a transaction has been made, the next challenge is trying to retain that customer – with complete loyalty to a brand a rare occurrence. Retailers need to not only understand how shoppers in Asia go about their pre-purchase research, but also consider what tactics they can adopt to boost loyalty.

## PRODUCT REVIEWS AND SOCIAL MEDIA ARE MOST-USED TOUCHPOINTS

Respondents to Tofugear's consumer research survey were asked which touchpoints they used before making a considered purchase – for instance a moderately expensive fashion item. These touchpoints could be either offline, such as consulting with friends and family or receiving advice from store staff, or online through sources such

as social media, brand websites and apps.

On average, consumers in Asia engage with nearly five touchpoints before making a considered purchase, of which close to three are based online and two are offline. However, there are variations in these numbers depending on the market and the age of the respondent.

Social media content (46%), search engines (42%) and a brand's website (42%) are the top three online sources that Asian consumers will consult ahead of making a purchase. Social media content, in particular, is favoured by Gen Z (54%), suggesting the need for brands and retailers to continue to finetune their social media strategies to maximise their reach among younger consumers.

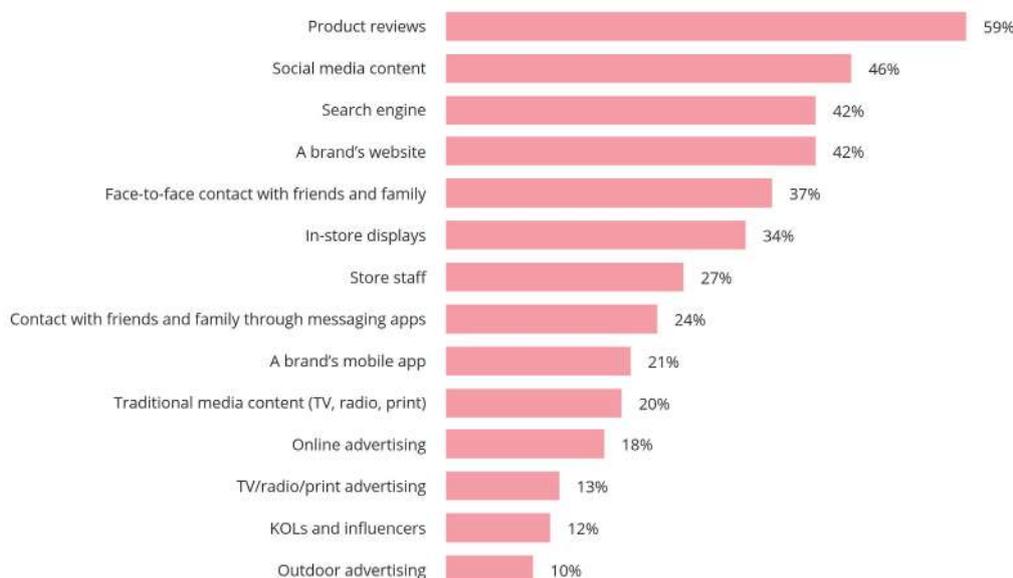
Retailers operating in China can consider leveraging Xiaohongshu, or Little Red Book, which is a social media platform that was heavily used by luxury fashion and cosmetics brands to

boost brand awareness for last year's 11.11 Shopping Festival. That said, Instagram still reigns supreme in other markets such as Indonesia, Singapore, Malaysia and the Philippines, highlighting how critical it is to take a localised approach.

Turning to offline touchpoints, friends and family, in-store displays and traditional media content are the top three sources that the Asian consumer will consult. Additionally, consumers in developing regions have a higher preference for offline sources, with 53% of Indian consumers saying that they will use recommendations from friends and family, whereas the average in Asia stands at 37%.

Similarly, almost a third of shoppers in Vietnam are influenced by traditional media content, compared with only 9% in South Korea. This again highlights the need for retailers operating in Asia to 'think local' in terms of how they utilise the touchpoints that are under their own control, such as their marketing and social media strategies.

## TOUCHPOINTS USED WHEN MAKING A CONSIDERED PURCHASE



## AVERAGE NUMBER OF ONLINE AND OFFLINE TOUCHPOINTS USED, BY COUNTRY

		Online touchpoints	Offline touchpoints
	China	2.8	1.9
	Hong Kong	2.5	1.7
	India	3.2	2.3
	Indonesia	2.9	1.8
	Japan	2.1	1.6
	Malaysia	3.0	2.0
	Philippines	3.3	2.3
	Singapore	2.8	1.8
	South Korea	2.2	1.5
	Taiwan	2.9	1.8
	Thailand	3.1	2.0
	Vietnam	2.9	1.9

## MARKETS DIFFER ON ATTITUDES TOWARDS KOLS AND INFLUENCERS

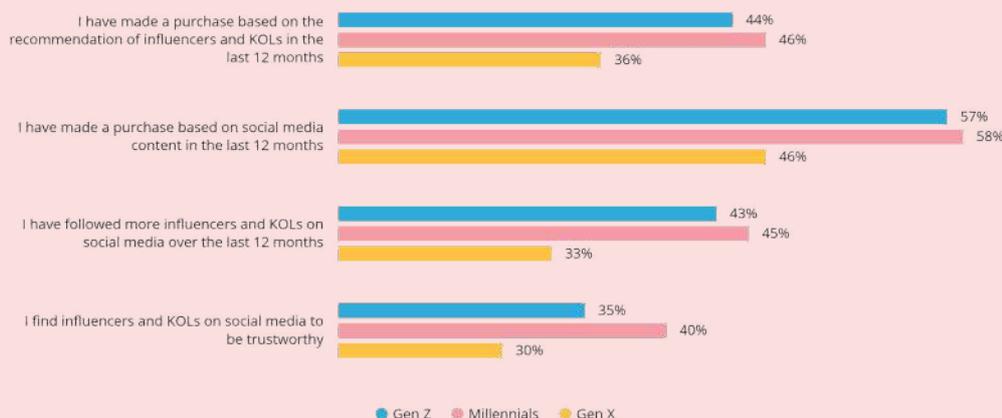
Influencer marketing has attracted a lot of attention over the past few years, but our survey highlights that just 12% of all consumers in Asia will use content provided by KOLs and influencers when making a considered purchase. That said, attitudes towards KOLs differ by market. For instance, in the Philippines 20% of shoppers engage with influencer content on the path to purchase, however that percentage stands at only 4% for South Korea.

Influencer content may not be that important when it comes to making a considered purchase, but it can still act as a source of inspiration or spur a

consumer to make a specific purchase. Indeed, nearly half of all Asian consumers say they have made a purchase based on the recommendation of KOLs and influencers. Markets that scored high on this question included Thailand (56%), the Philippines (54%) and China (53%).

While 42% of Asian consumers say they have followed more influencers over the last year, only a third find influencers to be a trustworthy source of information. Again, this masks considerable differences by market. For example, trust stands highest in Thailand (56%), followed by China and India (both 47%).

### ATTITUDES TOWARDS KOLS AND INFLUENCERS, BY GENERATION



## SOUTH KOREA AND JAPAN MOST RESISTANT TO INFLUENCER MARKETING

Meanwhile, Asia’s most KOL-sceptical consumers reside in South Korea (14%) and Japan (17%). This may be due to shoppers in these markets being more data-driven and tending to trust claims made by professionals or experts rather than KOLs and influencers. All of this suggests that retailers considering using influencer marketing should carefully consider whether this is a worthwhile investment for certain markets.

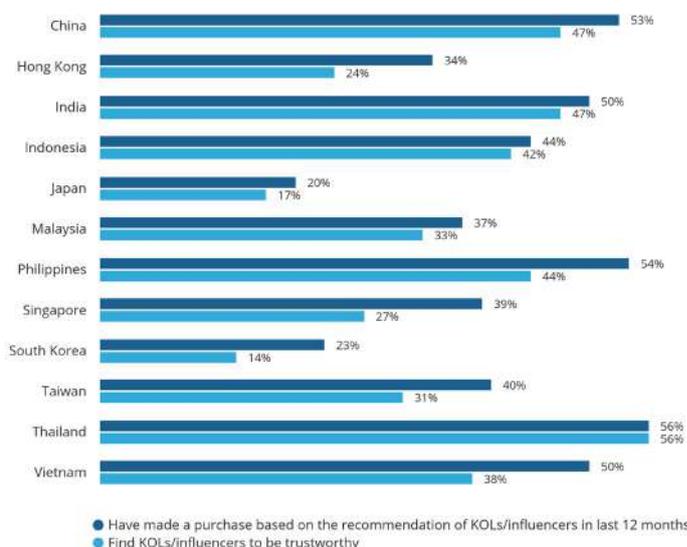
The Philippines, Thailand, China and India would appear to be the most receptive markets to influencer marketing and there has been an increase in retailers looking to boost their capabilities in this area.

A case in point is the launch of a livestream feature by Alibaba’s ecommerce arm in Thailand in June 2019.

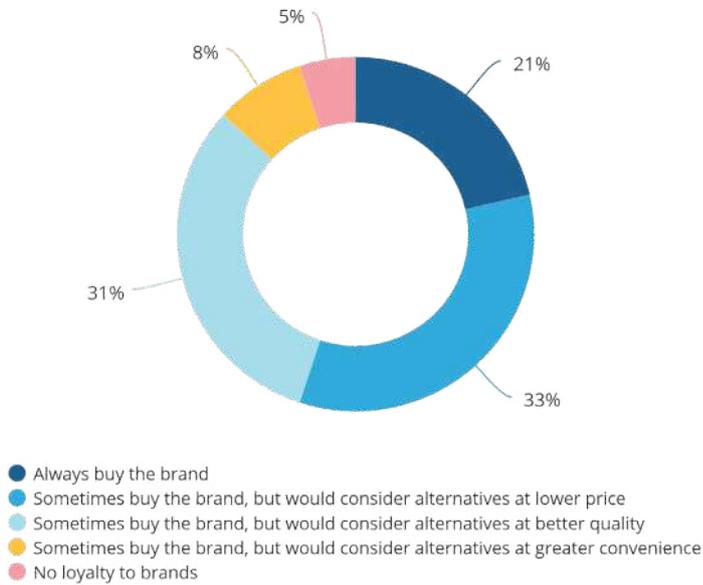
This followed previous success with Taobao in China and shows that live streaming can provide a

real connection between potential customers and KOLs, resulting in increased sales. Asia is likely to see an increase in live streaming activity over 2020 as consumers opt to stay at home to shop online as a result of the coronavirus outbreak.

### ATTITUDES TOWARDS KOLS AND INFLUENCERS, BY COUNTRY



WHAT DOES LOYALTY MEAN TO YOU?



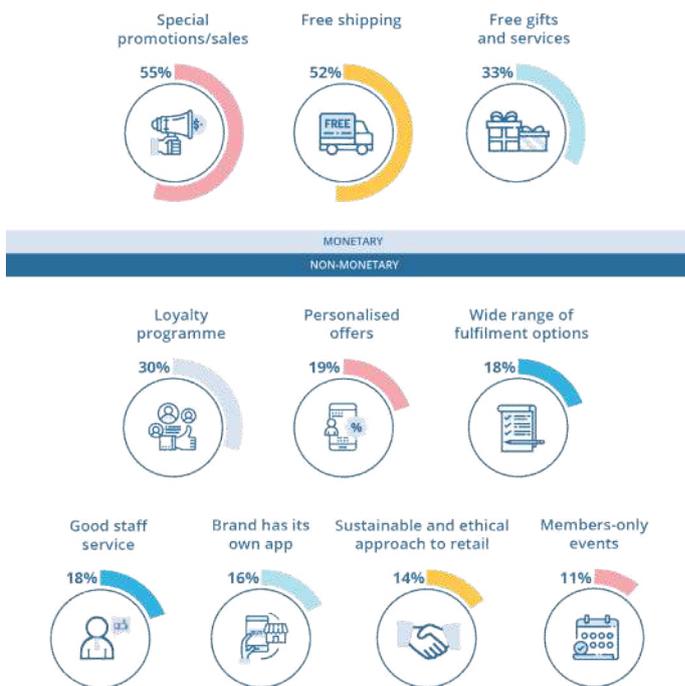
**LOYALTY CAN BE BOOSTED – BUT IT WILL COST RETAILERS**

It has often been said that today’s consumers are much less loyal than they were a decade ago. This has been underlined by the research, which shows that only one in five (21%) of all respondents across Asia would consider themselves to be completely loyal to their favourite brand. All others said that they could be swayed by alternatives – mainly products that were cheaper or offered better quality.

When faced with consumers that show such low levels of loyalty, what can retailers do to boost customer retention? Respondents indicated that they could be swayed to become more loyal, however it does come at a price. Monetary incentives such as special promotions, free shipping and free gifts and services were rated most highly.

That said, the most important non-monetary reward that retailers can offer is a loyalty scheme – particularly a programme that goes beyond merely collecting points. An example of such an approach is travel retailer DFS Group’s Loyal T programme in Hong Kong, which allows members to benefit from a range of free services, including personal shopping assistance, a concierge service, a welcome gift and transport between hotels and downtown stores.

WHAT WOULD MAKE YOU MORE LOYAL?



## WHICH PERSONALISATION ASPECTS TO FOCUS ON?

As noted above, personalised offers are a way for retailers to boost loyalty, but there are other personalisation aspects that retailers could also focus on. After all, personalisation is a way to create more lasting, personal connections with customers. However, not all areas of personalisation will give the same return on investment.

Throughout this report, Asian shoppers have been shown to be incentivised by value for money and monetary rewards. It is therefore not surprising that just under two-thirds appreciate personalised promotions – ahead of personalised product

recommendations (62%) and the ability to personalise merchandise (60%).

Personalised merchandise has, of course, been a trend among retailers in recent years with, for instance, Louis Vuitton giving customers the opportunity to put a monogram on bags, or Levi’s offering a Tailor Shop to customise clothing.

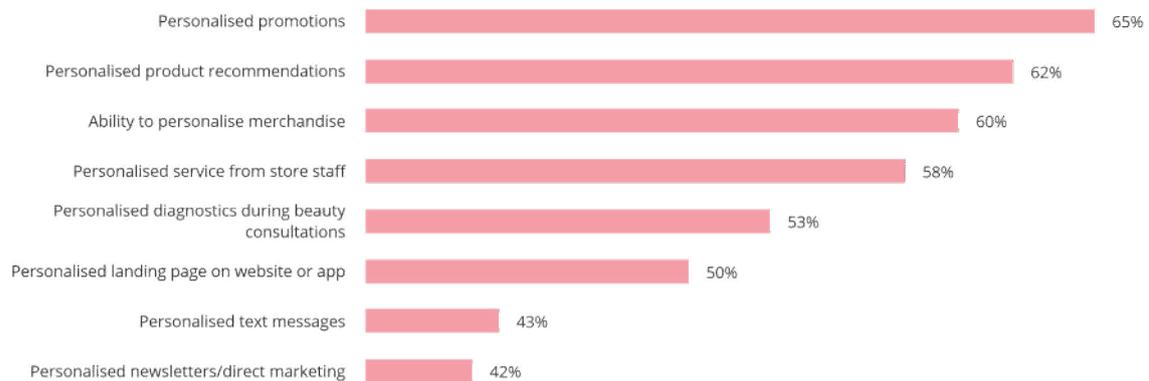
The fact that 40% of Chinese millennials are frustrated when retailers lack relevant personalised recommendations and 42% would be more loyal to a brand if they receive personalised offers, also brings into perspective why retailers and brands are so keen to partner with online marketplaces such as Alibaba’s Taobao and Tmall in China – which has advanced AI and

machine-learning capabilities that can be harnessed.

Turning to the health and beauty space, a recent trend has also been to offer personalised diagnostics during beauty consultations, with 53% of Asian consumers stating that they value this – mainly driven by Gen Z and millennials.

Given the overwhelming number of beauty products available today, leveraging technology to provide personalised skin diagnostics tools help beauty brands to create a tailored skincare regime and makes it easier to retain customers. One good example is L’Oréal’s AI skin diagnostics app (see box-out).

### WHICH TYPES OF PERSONALISATION DO CONSUMERS VALUE?





**SKINCONSULT AI**  
SKIN STRENGTH ALGORITHM DEVELOPED WITH DERMATOLOGISTS

**DETECT, ANALYZE AND COMPARE  
7 SKIN STRENGTHS AND RECEIVE  
YOUR TAILOR-MADE SKINCARE  
ROUTINE...ALL FROM A SELFIE!**

**START NOW**

## L'ORÉAL'S PERSONALISED SKIN DIAGNOSTICS

L'Oréal launched an AI-powered diagnostic tool SkinConsultAI in February 2019, allowing women to upload a selfie to detect if their skin is beginning to show signs of aging and obtain treatment advice.

The tool was developed by AR and AI entity Modiface in conjunction with

L'Oréal's skin aging expertise and photo database. It is able to detect and analyse various signs of aging, such as fine lines, lack of radiance, dark spots, deep wrinkles and enlarged pores.

This analysis then leads to personalised recommendations on a range of skin treatment options and is a good example of a retailer adopting customer-facing technology to further enhance their personalisation strategy

# CHALLENGING TIMES AHEAD



## KEY FINDINGS

- ✔ Consumer confidence is at a low in Asia, particularly in the more advanced economies such as Singapore, Hong Kong, Japan and South Korea
- ✔ The US-China trade war already impacted consumer sentiment since 2019 and it has deteriorated further as the coronavirus has disrupted most Asian countries
- ✔ Luxury brands and retailers selling big ticket items will be hardest hit as consumers cut back on non-essential purchases
- ✔ Ecommerce sales look set to benefit as consumers practice social distancing, with 45% of consumers stating that they will increase their online spending versus traditional retail during the coming year

**G**oing into 2020, a number of markets in Asia were already facing considerable economic headwinds. This was mainly the result of the US-China trade war, which not only impacted China itself, but also internationally oriented economies such as Hong Kong and Singapore. The outbreak of the coronavirus has made the economic outlook across Asia that much more challenging – with every market surveyed for this report set to face considerable economic turbulence over the remainder of 2020.

## TIMELINE OF TOFUGEAR'S RESEARCH

Tofugear conducted its survey among 6,000 consumers in 12 markets across Asia in mid February 2020. At the time, mainland China already faced significant disruption from the outbreak of the coronavirus, including the lockdown of Hubei province, widespread travel restrictions across the country and the adoption of social distancing measures such as working from home.

Hong Kong, Singapore and Taiwan were equally pro-active in combatting the virus, but at the time most other markets in Asia had not yet taken any significant measures apart from restricting travel from mainland China and/or Hong Kong and Macau.

As such, it can be argued that consumers in some of the markets under review would not have felt as worried about the economic consequences of the coronavirus as others – certainly when compared to the situation from mid-March onwards, when countries around the world were taking far-reaching measures to counter the pandemic.

## CONSUMER CONFIDENCE IN ASIA IS AT A LOW

Overall, just 40% of consumers in Asia had a positive outlook for the economy over the coming 12 months. However, there appears to be a polarisation between the advanced economies – where consumers are markedly more negative about their country's economic prospects – and developing countries such as the Philippines, Indonesia and Vietnam, where a sizeable majority is positive amidst strong economic growth.

The market with the most pessimistic consumers was Hong Kong, with just 11% of respondents having a positive outlook. This is perhaps not a major surprise – prior to the coronavirus outbreak, the economy had already gone into recession as a result of the US-China trade war as well over six months of social unrest.

Other markets notably lacking in confidence include Japan (14%), South Korea and Thailand (both 22%) and Taiwan (23%). These are all markets that have seen their exports come under pressure as a result of trade tensions between the US and China. Additionally, Taiwan has been hit by curbs on tourism from mainland China tourists, while Thailand has also faced a mixed performance in its critical tourism sector. Interestingly, nearly 60% of consumers in China had a positive outlook – indicating that the trade war did not dampen sentiment as much as perhaps expected.

## CONSUMER OUTLOOK ON THE ECONOMY

		Have a positive outlook about the economy over the next 12 months	Believe personal finances are secure over the next 12 months
	China	59%	47%
	Hong Kong	11%	11%
	India	61%	45%
	Indonesia	70%	44%
	Japan	14%	11%
	Malaysia	33%	23%
	Philippines	70%	41%
	Singapore	27%	20%
	South Korea	22%	26%
	Taiwan	23%	17%
	Thailand	22%	21%
	Vietnam	66%	36%

## ASIANS FEEL EVEN LESS SECURE ABOUT THEIR OWN PERSONAL FINANCES

When respondents were asked how secure they felt about their own personal finances over the coming year, the response was even more negative. Hong Kong consumers remained the most pessimistic in Asia, but are joined by Japan at the bottom of the rankings.

Yet, even for countries where a sizeable majority of shoppers had confidence in the economy, such as the Philippines, Indonesia and Vietnam, this percentage dropped below the 50% mark when it came to their own financial security. This suggests that while consumers in those countries feel positive about the development of the overall economy, they are less certain that their own personal finances will benefit as much.

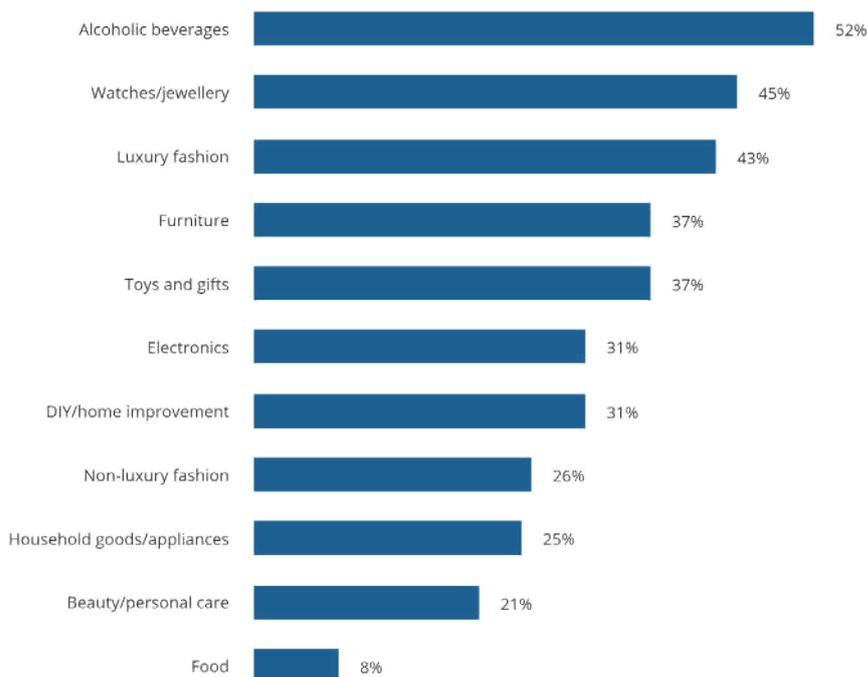
## LUXURY PRODUCTS WILL BE HARDEST HIT

During most economic slowdowns, it is discretionary categories that suffer the most while demand for everyday essentials such as groceries remains firm. That scenario looks like it will play out in Asia over the coming year.

Only 8% of all consumers say that they will cut back spending on food, but 45% state that they will reduce spending on watches and jewellery, while 43% are cutting back on luxury fashion purchases. Other big ticket items like furniture and electronics will also be hit by reduced spending.

Again, the timing of Tofugear's survey should be taken into account and it is very likely that these percentages have increased as the economic impact of the coronavirus started to be felt all across Asia from mid-March onwards.

### PRODUCT CATEGORIES THAT CONSUMERS ARE CUTTING BACK ON OVER NEXT 12 MONTHS



## CONSUMERS ARE TRANSITIONING TOWARDS ECOMMERCE

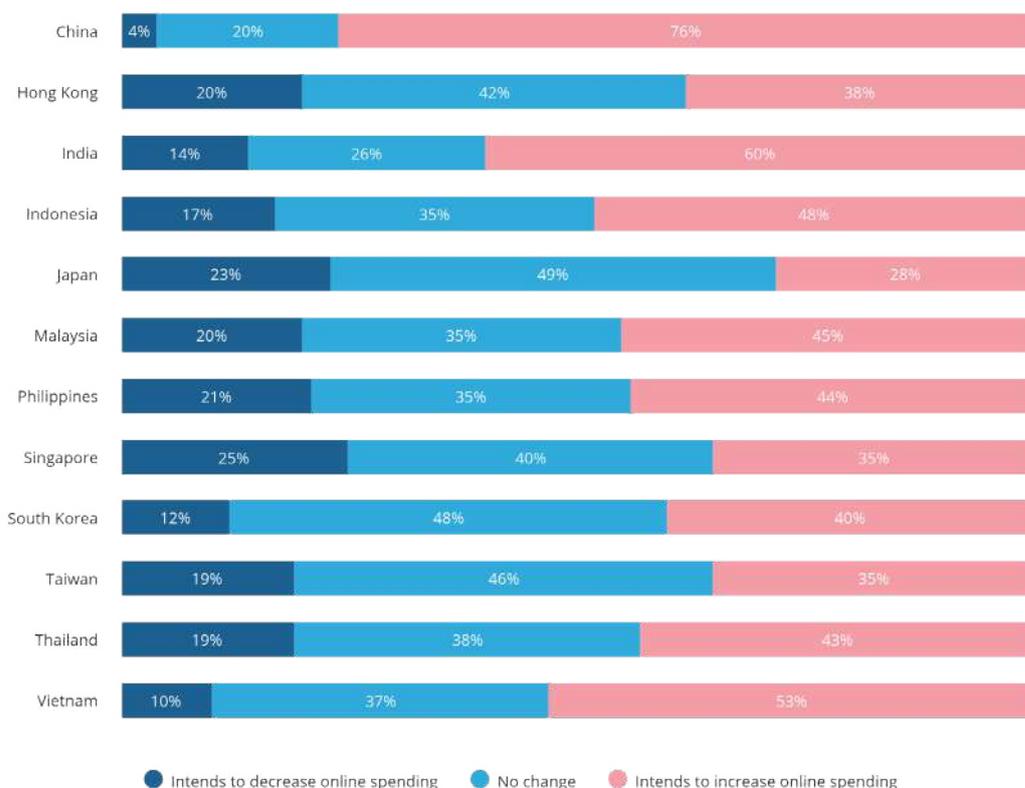
Many online retailers in Asia have reported soaring sales as a result of the coronavirus, as consumers stay in to shop through ecommerce rather than visit stores. For instance, Singapore online grocery chain RedMart – which is part of Alibaba’s Lazada business – reported “unprecedented demand” for everyday essentials like food and household products in early March.

In China, JD.com said it was expecting a 10% rise in first quarter revenues due to its partnerships with supermarkets that are delivering fresh produce and groceries to shoppers that are staying indoors. Even in ecommerce-averse Hong Kong, the largest domestic e-tailer HKTVMall reported its highest monthly turnover ever in February as shoppers stocked up on daily essentials.

On average, 45% of consumers across Asia say that they plan to increase their spending online versus traditional retail over the next 12 months, while a further 38% say that it will stay at the same level.

However, as seen elsewhere in this report, there are significant differences between markets. Take China, where three-quarters of consumers (76%) are certain that their online spending will go up over the coming year. This is ahead of India (60%) and Vietnam (53%).

ONLINE SPENDING INTENTIONS OF CONSUMERS OVER NEXT 12 MONTHS



## WILL CORONAVIRUS RESULT IN MINDSET CHANGE REGARDING ECOMMERCE?

Meanwhile Japan and Hong Kong rank at the bottom of this list, which mirrors the findings in this report that consumers from these two markets still have a major preference for shopping in store rather than online. However, Japan already has an advanced ecommerce market and hence it is perhaps not that surprising that roughly half of all consumers state that they will keep their online spending at the same level.

As for Hong Kong – and perhaps other markets where ecommerce does not yet account for a large proportion of overall retail sales, such as Vietnam, the Philippines and Singapore – it is becoming increasingly apparent that the outbreak of the coronavirus is causing a structural shift in mindset in terms of embracing digital commerce. Time will tell whether the unfortunate circumstances of a pandemic will result in lasting changes in the way consumers are shopping in Asia.

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## ABOUT TOFUGEAR

Tofugear innovates continuously to bring value-added, customer-centric solutions to retailers and our partners. Our company aims to empower retailers to achieve more with less – together we strive to foster the transformation and growth of the retail ecosystem and provide the best value for customers.

Our Omnitech platform provides a cloud-based, globally scalable unified commerce system. This simple to start, ready to scale solution connects each customer touchpoint, streamlines every customer journey, aids decision making across the entire operation through a continuous feed of consumer data and insights, and ultimately helps retailers build stronger relationships with their customers.

Our team of retail experts and insight specialists provide our clients with a data-driven approach to help identify new opportunities, tackle emerging challenges and most importantly, achieve better outcomes with less resources and investment.

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## ABOUT RAKUTEN INSIGHT

Rakuten Insight is at the forefront of consumer market research data collection in Asia. Our online panels have been developed throughout 12 major Asian countries and regions, managed by dedicated local support teams and meet the highest standard of the industry.

The team at Rakuten Insight offers 24-hour coverage from 10 worldwide locations, providing exceptional service for our over 400 clients across the globe. Rakuten Insight is tasked with leveraging the group membership assets of Rakuten for market research purposes. This gives us access to over 1 billion members of the Rakuten ecosystem. Access to a diverse and unique group of research participants sets us apart as a reliable one-stop solution for market research.

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