Singapore Research

Opportunities for the Retail Sector After Covid-19

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THE DAILY DELUGE OF REPORTS SPELLING OUT ECONOMIC CATASTROPHE FROM THE COVID-19 OUTBREAK CAN BE AND HAS BEEN DISTRESSING, EVEN TO THE MOST OPTIMISTIC.

The pandemic has affected the tourism and retail sectors the most, bearing the brunt of travel and border restrictions imposed by more than 130 affected countries worldwide.

The added impact of containment policies in Singapore poses a challenge to retail operators who are balancing on a financial tightrope of uncertainties towards the government's relief funds.

There is, however, a silver lining to the retail landscape as the Singapore economy restarts itself and businesses adapt to the new normal.

A closer review of industry fundamentals, however, reveals opportunities for retailers and landlords to navigate the storm and chart a new future.

More than S$60 billion in fiscal stimulus policies have been set aside to weather this "mighty storm" described by Deputy Prime Minister Heng Swee Keat. As the government rallies Singapore for a long-drawn battle against the pandemic and its economic repercussions, opportunities lie ahead for retailers and landlords.

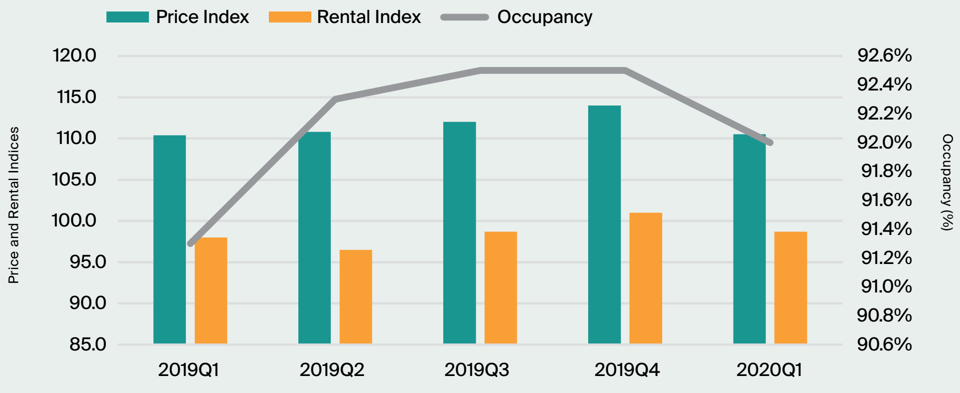
RETAIL INDICES IN 2019

The retail sector experienced moderate recovery in 2019, with the URA Retail Price Index and the Rental Index increasing by 1.3% and 2.9% respectively during the year. The spectre of the coronavirus disease (COVID-19) in the first quarter of 2020 has since derailed its gains, with the Retail Price Index falling 3.1% and the Rental Index decreasing by 2.3%. In addition, island-wide occupancy levels dropped by 0.5 percentage points to 92.0% during Q1 2020.

Furthermore, a "Circuit Breaker" was imposed by the Singapore government, from 7 April 2020 to 1 June 2020, to stem the rate of COVID-19 infection cases. Closures have been imposed on many "non-essential" retail businesses, while limiting the operational capacities of some food and beverage (F&B) operations.

This can only mean that the retail real estate indicators for the rest of the year will not be positive.

URA Retail Price Index, Rental Index and Islandwide Occupancy



Source: URA Realis

OPPORTUNITIES FOR RETAILERS

Consumer attitudes and behaviours will change as we recover from the COVID-19 outbreak. We can expect social distancing measures to remain in place. Retailers who regain the trust of their shoppers while satisfying their shopping experience will gain an edge.

Retailers who provide a safe shopping environment, while enabling optimised shopping productivity will be preferred over those who overlook these considerations.

Retailers looking to increase consumer spending will be better off doing it via understanding their existing customers' needs and pain points better, instead of expanding resources to acquire new customers.

It will be a matter of "do it now" and "do-it-fast."

Businesses that were struggling before the pandemic outbreak will have to adopt technology and offer online shopping channels, or risk being obsolete. Rules of the new playing field will change drastically: movement restrictions and social distancing will be the new norm, while businesses will need to offer omni-channel shopping platforms to customers to stay afloat.

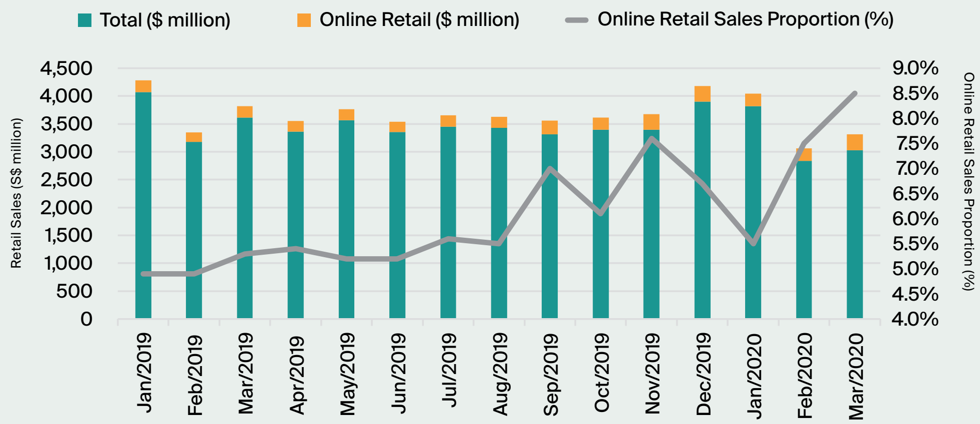
Furthermore, retailers who aim to emerge stronger will be those who understand their customers' journeys and create multiple touchpoints across digital and physical channels to interact meaningfully with them. Even traditional-minded brick-and-mortar shoppers, resistant to the idea of online transactions, would have adopted online shopping ever since the start of the circuit breaker. This major shift towards e-commerce will continue, and retailers will need to diversify their supply chain options, as well as develop logistics and fulfilment strategies quickly to adjust their business models to this new playing field.

Retailers who have successfully deployed digital platforms will continue to enjoy substantial benefits in the long run. Leveraging on analytics tools and big data will enable businesses to gain valuable insights on their customers. Business operators will be able to track consumer profiles, preferences, spending habits, and other shopping behaviours to craft personalised shopping experiences that customers will value as they continue shopping at physical and online stores.
Geo-location data and analytics are also expected to support business owners in strategising their business outlets as they target locations of where their customers are most saturated, optimising cost-efficiency and improving market share.
The window of opportunity to integrate digital and physical platforms remains open in these challenging times. Based on the latest available data from the Department of Statistics, the total retail sales value in March 2020 was about S$3.3 billion. And online retail sales made up a mere estimated 8.5% or about S$282 million.

PHYSICAL RETAIL STILL ACCOUNTS FOR MAJORITY OF TRANSACTIONS

Online retail sales remain less than 10% of overall retail volume throughout the whole of 2019 and into the first three months of 2020 despite the growing popularity of e-commerce. Given that online retail sales currently comprises of only a marginal percentage of overall retail sales, there is potential for scalability nationwide, especially for sole brick-and-mortar retailers to adopt online sales avenues in a retail arena that is still predominantly reliant on physical shops.

Total Retail Sales vs Online Retail Sales



Source: Department of Statistics, Singapore

Once Singapore has come out of the COVID-19 outbreak, retailers here who have been nimble enough to incorporate digital sales platforms, will have access to a greater pool of customers forcibly initiated into online retail by the circuit breaker. Their added advantage is the established operational infrastructure with multiple platforms, more prepared to weather other contingencies and changing shopper trends in future.

OPPORTUNITIES FOR LANDLORDS

Landlords will have to investigate optimising typical shop sizes to appeal to retail tenants who will, moving forward, value space efficiency and aim to save operational costs that will benefit shoppers. The proliferation of e-commerce will continue, and the physical brick-and-mortar shop may not be the primary point of sales for omni-channel retailers once the crisis is over.

Landlords can be amendable to shorter lease terms and flexible rent structures to attract stronger tenants. A hybrid rent structure comprising of a low base rent with a higher percentage of sales component will be key in curating a desired trade mix that can draw footfall traffic to the mall.

The relationship between landlord and tenant will transform to become one akin to a partnership, as the landlord will be successful only if the tenant does well. While landlords upkeep mall amenities and invest in safety monitoring and hygiene systems, those who develop promotional and marketing campaigns to drive sales revenue for their tenants will be well-appreciated. Entrepreneurs with winning retail concepts will be incentivised to set up shop, strengthening the retail trade mix and creating a destination draw for the mall.

As the overall shopper experience is enhanced, malls can expect to see a footfall increase while consumer spending recovers.

The move towards a truly symbiotic relationship between landlord and tenant will be a turning point for the retail industry in Singapore, with both parties partnering to improve the shopper experience and create new value. This could be the long overdue transformation of the retail sector that we have all been waiting for - one where all 3 parties win – the shopper, retailer and the landlord. There is no better time to start this process than during a global crisis.

Retailers and landlords wiling to look beyond the short to mid-term impacts and adapt accordingly will eventually ride out the storm to see the rainbow, and perhaps, even a pot of gold.

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