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# COVID, E-COMMERCE AND RETAIL'S NEW NORMAL



Singapore's retail market continues to endure its most difficult period in living memory as the city tries to deal with the COVID-19 pandemic. The tremors from the crisis are likely to be felt by mall owners for a while yet. But with every crisis comes opportunity.

Our analysis of the retail market highlights 10 key strategies that will help malls navigate this turbulent period and come out the other end stronger than ever. These strategies include:

1. **STAY THE COURSE FOR THE LONG TERM.** It's easy to get lost in the short-term impact of the pandemic, but quality retail is a long-term play. Now is the time to make sure you have solid long-term foundations.
2. **ADD MORE STRINGS TO THE BOW.** There is a lot of uncertainty about what retail will look like in three years, and there will certainly be some changes. So, look at ways of expanding your offering to give shoppers more and varied reasons to visit, including both retail and non-retail uses, as well as placemaking elements.
3. **DOUBLE DOWN ON DRIVERS OF FOOTFALL.** While the economy is weak, spend per shopper is likely to be low, especially if shoppers remain nervous about COVID-19. Prioritise initiatives that improve your footfall to offset the lower spend per visitor.
4. **LOCALISE.** Now, more than ever, it's crucial to own your local market. Understand their wants and needs, and ensure your mall connects with them at a local level. Yours is not just another mall, it's their mall.
5. **ENHANCE OMNICHANNEL STRATEGY.** E-commerce is not going away, so why not embrace it? Mall owners in Singapore can play a central role in the logistics of getting goods to residents, confirming their commercial relevance into the future.

6. **COMMUNITY FIRST, CONSUMPTION TO FOLLOW.** While shoppers struggle with lower incomes or unemployment, malls should position themselves as not just shopping centres but town centres: places to go for reasons other than consumption. Building visitation and loyalty leads to spending.
7. **DESIGN FOR HEALTH AND WELL-BEING.** Shoppers were already becoming more aware of their health and well-being, but COVID-19 is likely to accelerate this trend. Providing health and wellness services gives residents another reason to visit, creating places and spaces that promote a sense of well-being that will likely be favoured over other destinations.
8. **NEW MEASURES TO VALUE THE STORE.** Stop thinking just about rent, and start thinking about sales, passing footfall, warehousing value and local online sales. Don't be afraid of alternative valuation metrics. Turn the retailer-landlord relationship on its head and embrace the partnership.
9. **PLAN FOR THE NEXT WAVE OF ANCHORS.** Through this pandemic experience, retailers are likely to change even more than their customers. Many will have increased their online presence, and some will do so permanently. Others may close shops, or even cease to exist. Now is the time to think about what will anchor your mall in the future.
10. **GET THE BALANCE RIGHT BETWEEN FUNCTIONAL AND EXPERIENTIAL VISITS.** Plenty of emphasis – sometimes too much – is placed on making malls 'experiential'. Most shopping trips remain functional, and in the fight against e-commerce and the mall up the road, functionality remains a key battleground. Getting this balance right is critical.

If shopping centres can achieve all of this, they will be very well placed for the future. Want to know more? Get in contact with our team.



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# THE ECONOMIC BACKDROP

Little more needs to be said about the economic backdrop facing the Singapore and global economies. The economy is facing unparalleled challenges, and the long-term outlook remains clouded. Few countries feel the economic pinch of a shut-down in global trade and travel like Singapore. One of Singapore's greatest strengths – its outward facing economy – is also one of its greatest weaknesses.

Singapore's industries are struggling with how to respond to the economic consequences of the COVID-19 pandemic, and it's not surprising why:

1. **The type, scale and penetration of this economic shock is without precedence – this has never happened before.**
2. **There is a distinct absence of consistency in what the 'experts' are saying. Moreover, it appears that much of the public discussion is often driven by knee-jerk responses rather than considered thought.**
3. **More than ever, the media narrative today is driven by social media, which can be equally lacking in substance.**

Cistri endeavors to bring some clear thinking to how this pandemic is impacting retail in Singapore and how this alters the market in the long term.



# SIX RETAIL MEGA-TRENDS

It's worth considering some of the mega-trends that have been impacting the global retail market over the past decade. These long-term trends have been influencing the retail market in both dramatic and subtle ways. None of these are a flash-in-the-pan – each has developed solid long-term momentum.

It is important to keep in mind these mega-trends when thinking about how the pandemic might change shopping behavior. The critical questions aren't whether the pandemic will result in a different retail market compared to last year, but **how much more different** the market will look as a result of COVID-19.

## EXPERIENCE ECONOMY

The shift in consumer mindset and behaviour from a materialistic to experiential value system.

## CONVENIENCE & CONNECTIVITY

Convenience and connectivity combining to simplify the shopping experience.

## SOCIAL & ENVIRONMENTAL CONSCIOUSNESS

Conscious consumption that prizes ethics and sustainability.

## SELF-IMPROVEMENT & WELL-BEING

Prioritisation of health & well-being – both physical and mental.

## LOCALISATION

Evolution of shopping centres into community hubs that are deeply connected to their local community and environment.

## THE DIGITAL ECONOMY

Continued growth in popularity of e-commerce at the expense of traditional services.

# THE CONSUMER



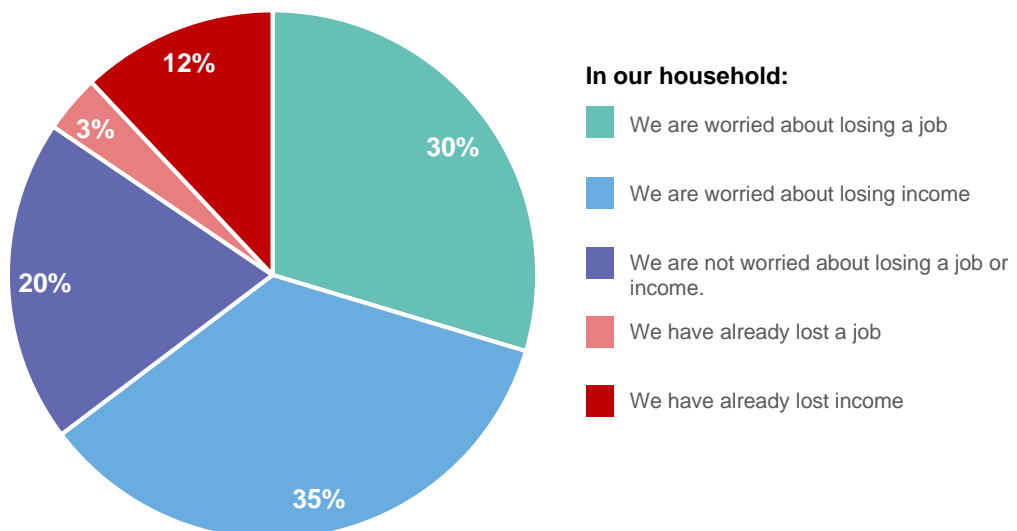
## WHAT ARE CONSUMERS TELLING US?

Over the past couple of weeks, Cistri has undertaken a consumer survey to help understand how COVID-19 is impacting Singaporeans' views on consumption and shopping. We asked shoppers about their expenditure patterns, how they would spend a financial windfall and their views of shopping in malls and online.

We recognise that in the current state of flux, surveyed and expressed opinions do not all translate into actual behavior. Nevertheless, surveys can help us understand how people are feeling more generally and provide insights that we can use to assess potential future behaviours.

There is a lot of stress and concern within households. While less than 4% reported having lost a job, almost 80% have seen incomes drop or are worried about it happening. Only 20% appear not concerned.

In such an environment, we should expect there to be a significant impact on consumer behavior and shopping patterns over the short and medium term.



# THE IMPACT ON MALLS

Another key issue for the Singapore retail industry is how the pandemic might impact bricks-and-mortar retail compared to e-commerce.

There appears to be two broad schools of thought:

1. With so many people experiencing online retail for the first time or using e-commerce for a far broader range of services and activities, this first school of thought suggests that online retail in Singapore will be dramatically higher after the pandemic compared to prior. There is a certain neat logic to this – the more people gain exposure, the more people take it up.
2. The second school of thought suggests that with people having been in isolation for so long, they will be very excited to go out to the malls again and will appreciate the social interaction even more. There may also be a level of pent-up shopping demand, having put off some of their shopping needs (particularly discretionary shopping) until they can return to the malls.

In truth, the jury is still out on how this plays out in most markets. In China, we have seen that footfall has remained quite subdued since malls reopened. Malls opened with footfall and sales at around 50-60% of where they should be, and the growth since opening has been quite gradual. A combination of shopper nervousness and an inability of retailers to operate normally has prevented a faster return to trade.

In Australia, the very recent loosening of restrictions has seen shoppers return to malls in relatively healthy numbers. Suburban malls appear to have been well frequented. However, city center malls, especially those reliant on office workers or tourists, remain very quiet.

These international examples are useful but don't tell us much about the long term. Furthermore, Singapore has significant differences from both China and Australia.



# THE IMPACT ON MALLS

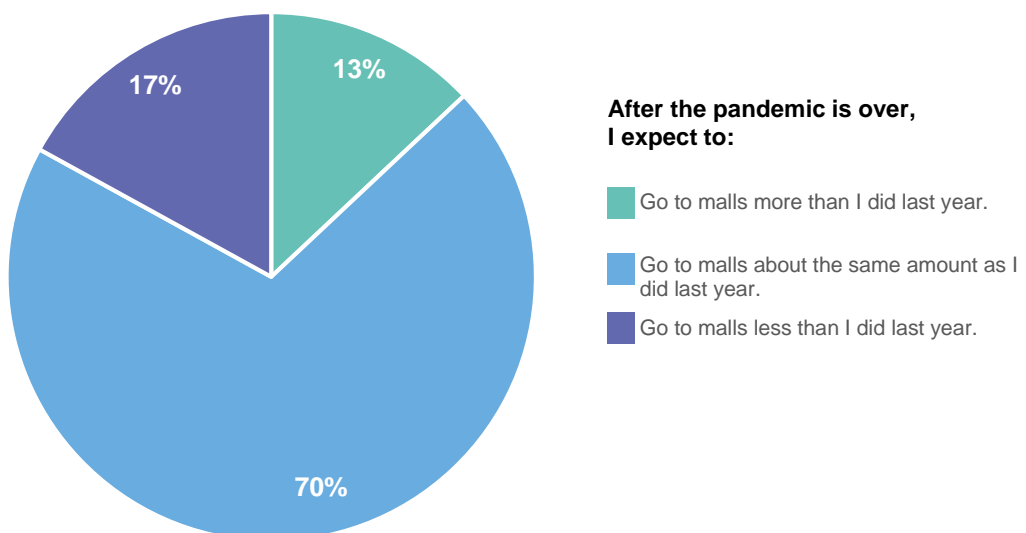
## HOW DO WE THINK SINGAPOREANS WILL BEHAVE POST-COVID-19?

When survey respondents were asked about how often they would visit malls after the pandemic eases compare to before,

- 70% said there would be no change to how much they would visit,
- 13% said that they would go to the malls more, and
- 17% said they would go to the malls less.

Those who said that they would go less tend to be middle-income and worried about losing their jobs (or have lost income already). Very few people who are not worried about losing their job said that they would go to the mall less.

Interestingly, the people who said that they would go to the mall more are broadly spread across the different income groups and are only slightly more likely to be younger (<25). There is little correlation between wanting to go to the mall more and concern about employment. This suggests that for many people, the trip to the mall can be mentally separated from issues of income and spending – it is something for them to do to get out of the house.



# THE IMPACT ON MALLS

## WHAT ABOUT THE IMPACT OF E-COMMERCE?

The other key issue is to what extent e-commerce may have increased its penetration to the retail market. Again, Cistri's survey provides some interesting findings:

- Most shoppers (66%) said they did not expect to increase their expenditure online compare to before the pandemic.
- Of those that do expect to change their spending patterns, exactly half said that they would spend more online, while the other half said that they would spend less online compared to last year.
- Those who said that they would spend more online are more likely to be (a) male, (b) 25-39 years old, and (c) low or high income (but not in between).
- Those who said they would spend less online are more likely to be (a) female, (b) older, and (c) middle income.

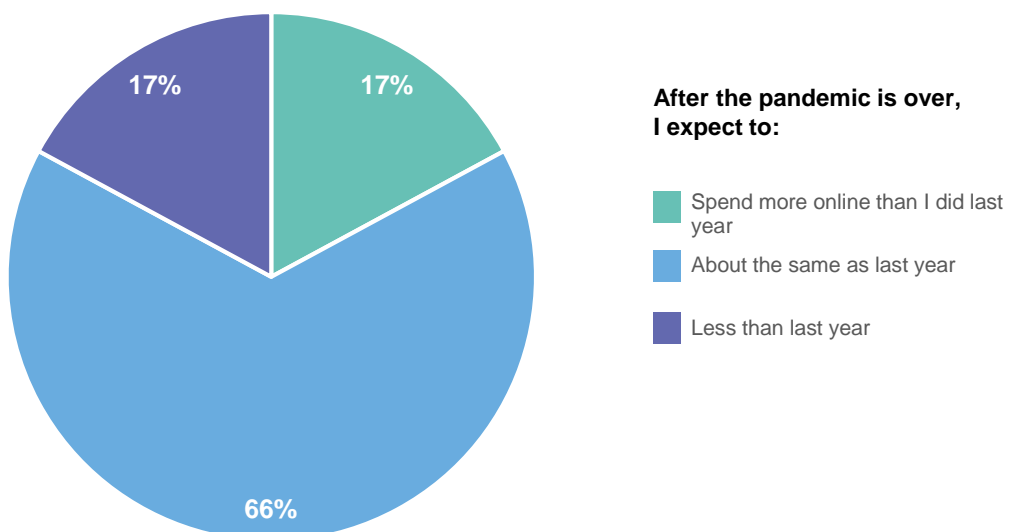
We also found that those who were worried about losing their jobs were most likely to anticipate future changes to their online spending patterns. This cohort has:

- The lowest proportion of people who said that they will not change their frequency of online shopping (still over 50%).
- The highest proportion who said that they will spend more online (21%).
- The highest proportion who said that they will spend less online (25%).

This is a fascinating result – it suggests that the feeling of unease and stress these people are experiencing is driving a desire to change behavior, but in inconsistent ways.



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# A GLIMPSE OF EVIDENCE

The official April 2020 Retail Sales statistics<sup>1</sup> provide early evidence of how shoppers may change their shopping patterns, particularly with regard online shopping. The Circuit Breaker in April and May 2020 simulated an extreme case where COVID-19 severely restricted the operations of bricks-and-mortar retailers and provided a strong push to move retail activities online.

At first glance, the statistics seem to suggest that the COVID-19 has accelerated e-commerce penetration at the expense of brick-and-mortar retail. Online sales rose year-on-year both in dollar terms and as a proportion of total sales. Online share of sales was recorded at around 18% for non-F&B retail and 39% for F&B – significantly higher than pre-Circuit Breaker levels of 6%-8%.

At the same time, retail and F&B sales to bricks-and-mortar stores fell by around \$2.1 billion year-on-year, from \$4.1 billion in April 2019 to \$2.0 billion in April 2020.

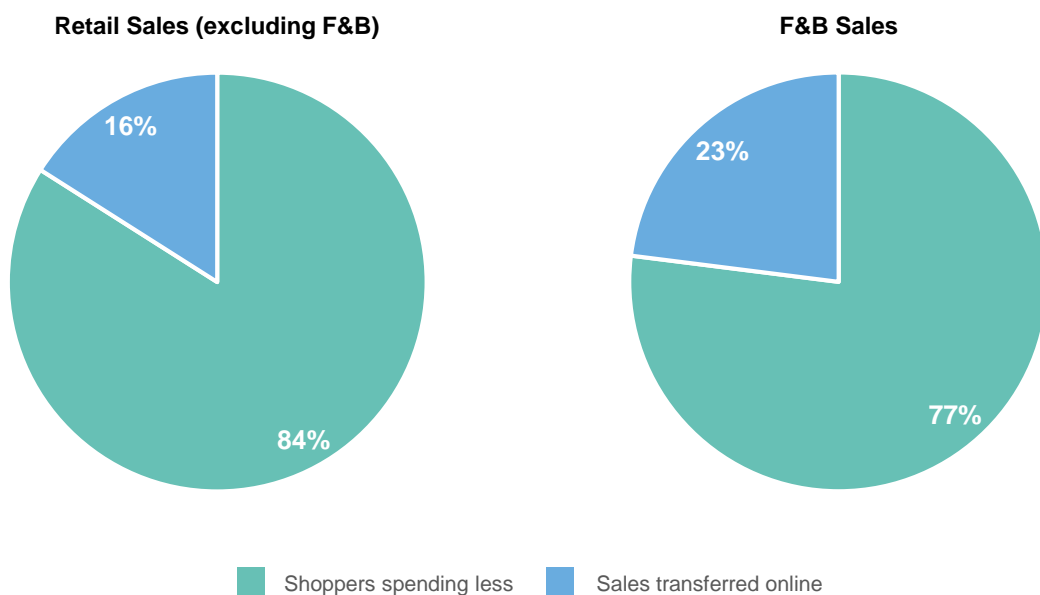
On closer analysis, the April 2020 data indicates that:

- Around 80% of the year-on-year decline in bricks-and-mortar retail and F&B sales was due to lower total spending, rather than substitution to e-commerce.
- For F&B, over 60% of sales still came from offline transactions at brick-and-mortar outlets. This is a sizeable share considering that dine-in services were suspended during the Circuit Breaker.

By far, the biggest impact on physical stores has been from shoppers shutting their wallets. They haven't transferred sales across to online but have simply chosen not to spend.

For F&B, proximity to a store is clearly a major driver of expenditure, with almost 2/3 of sales being made in person even in a period of lockdown and social distancing.

## Drivers of Bricks-and-Mortar Retail Sales Decline during the Circuit Breaker



<sup>1</sup> <https://www.singstat.gov.sg/-/media/files/news/mrsapr2020.pdf>

# HOW DOES CISTR INTERPRET THIS?

Since so many people are being forced to do more online at the moment, why does the long-term net impact on online expenditure appear so low?

We suggest that there are three reasons for this:

1. The online retail industry in Singapore was relatively small before the pandemic, attracting just ~6% of total retail sales. As such, few operators were set up to deal with the influx of orders they received resulting from the pandemic. Thus, the online experience during the pandemic for any shoppers has been far from ideal.
2. The first effect has been exacerbated by the fact that for many, online shopping is not as good as they might have thought even at its best. Delivery times remain slow in many cases— it lacks that instant gratification that many shoppers crave. Concerns around choosing the right thing (and whether you can return it) are real. And once people return to work, having goods delivered to the home will be just that little bit less convenient.
3. Singaporeans have a unique relationship with their local malls. Their townships are built around them and their train and bus stations sit below them. Shopping in Singapore is inextricably linked to entertainment, socialising and human contact. Being cooped up inside their homes for weeks on end has probably led to a level of romanticising their mall experience – you don't know what you've got till it's gone.

For Singapore, even without the pandemic, the mega-trends outlined above would have resulted in material changes to the retail market over the next 3-5 years, without a doubt. How much more different will it be as a result of COVID-19? In our view, **not dramatically**. In the short to medium term, we do expect some of these trends to materialise more quickly, but this will moderate with time.

Why is this? Because the biggest change in the market currently is economic – jobs and income. People's behaviours (apparent preferences) have been forced to change during the Circuit Breaker, but we believe that this will be a short- to medium-term phenomenon unless a vaccination/treatment is not discovered within the next 18 months and the pandemic continues through CY 2021 and 2022 with ongoing lockdowns.

This means that retailers and mall owners need to stay focused on the six retail mega-trends – just as they have been for the past few years – and make sure that they are constantly working on their placemaking efforts, the retail experience, their social and environmental credentials, the digitalisation and localisation of their offering. This will not only ensure that the retail is aligned with customers wants and needs, but also help defend against the ongoing growth of e-commerce.

If the pandemic is well under control by the end of this year and lockdown measures permanently removed, then we expect that malls in Singapore will still take some time to return to pre-COVID performance levels. This could take several years, meaning that a return to normal is unlikely before CY 2022.

However, our current view is that the return to normal will be driven by medium-term income and confidence effects far more than long-term changes to Singaporeans' inherent preferences. Thus, understanding the outlook for the economy – particularly employment, incomes and population growth – is critical to understand the future of the retail market and how it will impact Singapore's shopping malls.

In the meantime, mall owners need to think about how they are going to position their malls for the future.

Want to know more?  
Contact us today.



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