



Asia Pacific Mega-Trends and Legal Solutions

Simplifying Business in a Complex World

Consumer Goods and Retail

The struggles of the retail industry are well known. Shifting consumer habits and the rise of online shopping has seen a precipitous decline in market values and profits among traditional brick-and-mortar stores. Brands are going digital or going broke. Yet, reports of the death of retail and some segments of the consumer goods sector may be widely exaggerated, at least for now.

If anything, the industry is going through a transitional phase of growing pains. The rules of retail are being rewritten, especially in Asia where increasing numbers of customers are going digital. For instance, in Malaysia, Touch 'N Go, a mobile payment platform, is simplifying the payment process for online shoppers and challenging traditional market leaders. And while the rapid rise of disruptive technologies and new competitors is definitely putting a dent in top and bottom-line growth among Asian consumer goods corporations, other priorities also pose a challenge.

Keeping up with costs

Despite the seismic shift in technology sweeping the industry, executives say dealing with costs

Trends and key complexities:

Controlling costs is the biggest challenge for Asia's consumer goods and retail corporations.

Digital transformation strategies will help consumer goods companies, especially retailers, remain relevant in the face of increasing industry disruption.

M&A is a quick path to growth for Asian consumer goods companies looking to expand their customer bases, especially in the region's emerging markets.

is the biggest complexity facing their businesses. From their additional insights, it's easy to see why.

From almost every direction, pressure on cost structures and cash flows is impacting corporate growth. Many respondents point to increasing competition in the market as start-ups upend the industry or as rivals roll out digital strategies. Others highlight increasing costs in procurement and rising compliance costs on the heels of new legislation in various countries. Taxes and trade deal uncertainty add to the mix, as do shifting consumer demands for cheaper products.



55%

of respondents feel doing business in the consumer goods and retail sector is becoming more complex.

"With mounting pressure to develop game-changing innovations, there's going to be a sharpened focus on IP. But profiting from IP is only possible if a corporation is able to protect it."

Say Sujintaya, Partner, Bangkok and Head of Asia Pacific Intellectual Property, Baker McKenzie

Digital transformation

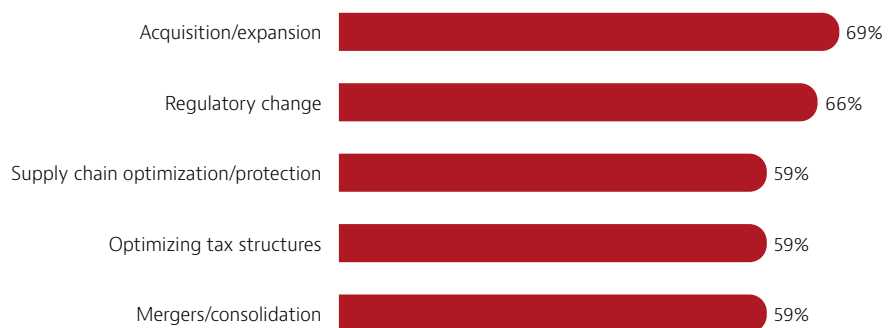
Disruptive technology and innovation, respectively, rank as the second- and third-greatest complexities facing the industry. Providing insight into possible solutions, respondents agree that the only way to survive, let alone thrive, in the current market is through the uptake of digital technology and a comprehensive digital transformation strategy.

E-commerce will be the main component of these strategies, as the increasing use of mobile phones opens new customer segments in emerging Asia. Indeed, e-commerce sales in Asia Pacific may rise at a 32% CAGR from US\$5.5bn in 2015 to US\$88bn in 2025, according to research by Google. Technology in general can also help retailers find the middle ground between using physical stores and digital channels to merge and synergize the online and traditional shopping experiences.

M&A: China's e-commerce giants expand

As part of mid- to long-term strategies, Asian consumer goods companies will likely pursue acquisitions to achieve growth, according to 69% of respondents (Figure 3). China's e-commerce giants exemplify this trend, with Alibaba making investments globally to aggressively expand its Alipay mobile payment into Southeast

Figure 3: Which areas do you think will be a major focus for your industry in the next two years?



“ While e-commerce is becoming rapidly more popular in Asia, there’s still a preference for brick-and-mortar stores, resulting in the development of multiple channels based on an online-offline model. Asia has room for both virtual and physical channels and needs to have both.”

Loke-Khoo Tan, Partner, Hong Kong, and Head of Asia Pacific Consumer Goods & Retail, Baker McKenzie

Asia and forge partnerships in the US. Alibaba’s latest “Smile and Pay” technology, which uses facial recognition software to allow customers to complete payments, is yet another example of the company’s drive to disrupt mobile payments as it simplifies the traditional shopping experience.

Meanwhile, US firms are not sitting on the sidelines. Major online retailers have been opening offices and operations in Singapore as their first steps into Southeast Asia. Some are also planning to expand into Australia.



Steps for success:

Adapting to the new rules in retail

It is the best of times and the worst of times for retailers. As e-commerce rewrites the rules of shopping, many retailers and consumer brands are falling hopelessly behind tech trends and relentless disruption. However, those that are able to navigate the challenging landscape are innovating, or buying, their way into the future.

Baker McKenzie's **Say Sujintaya** and **Loke-Khoon Tan** provide highlights of best practices that major retailers and consumer goods companies are implementing amid radical industry change.

Realize the complexities of digital business

Given the transmission of personal data and other financial information from customers, data privacy concerns are at the forefront of issues facing retailers as they turn to the Internet to expand sales. As the propensity of cyberattacks rises globally, e-retailers should implement network security infrastructure and protocols, conduct IT security audits, and control physical access to their hardware. While this can prove costly, the regulatory and compliance repercussions of failing to implement this infrastructure can be even more damaging to a corporation's reputation and bottom line.

Make brand protection a priority

Trademark infringement and counterfeiting are major threats to the values of brands, which have been prevalent in parts of Asia. To counter this, businesses must adopt a vigilant and proactive attitude towards seeking out and investigating cases of infringement. This means devoting personnel and making it a consistent and relentless effort, since the later an infringement is detected, the more susceptible the brand becomes to value erosion and reputational damage.

Know your data

Cybersecurity concerns and data localization laws are restricting the free flow of data and many governments now require companies to maintain physical servers for storing data on local customers. This can be expensive – but so can a data breach and the cost of non-compliance. To remain compliant, businesses should conduct data audits to gain a clearer picture of what they have and follow the principle of data minimization to aid businesses with all-round compliance.

M&A: Avoiding "problem" buys

Dealmaking in parts of the consumer goods space comes with heightened compliance and regulatory risk, especially when completing a cross-border transaction. Conducting thorough pre-transactional due diligence can reduce the chance that acquirers unintentionally buy up a target company's problems alongside its perceived value. Acquirers need to ensure that these investigations drill down to address difficult issues such as conducting IP audits and discovering what contracts with suppliers, business partners, distributors, third-party service providers and employees are in currently in place.

Industry insights:

Restructuring retail



With the expansion of digital payments in Asia Pacific, the retail industry is becoming a battleground between digital and traditional sales and distribution channels. **Michael McCool, Managing Director at AlixPartners**, takes a look at the situation in China and how industry players there and in the rest of Asia Pacific can rethink operational structures and strategies in a fast-changing market.

1



Leaders will be able to predict changing consumer tastes before they start trending

Consumer demands in Asia Pacific are changing so quickly that consumer goods companies need to not only be thinking about the future, they need to actively have one foot in that future. What are consumers going to want, and how will they want to buy it? You almost have to be able to predict what these trends will be – that is, give the consumer what they want before they know they want it.

For retailers, they need to understand customer buying patterns and how these wants vary with demographics and country. In the luxury segment, for example, luxury fashion houses are loathe to go into e-commerce as their consumers demand exclusivity and an on-site experience. However, the fast-moving consumer goods segment lends itself to the convenience and ease of online marketplaces.

2



Untangling channel conflict will become increasingly important

In China, retailers traditionally go through distributors and franchisers to sell in physical storefronts. With e-retail rising, marketplaces like China-based Tmall, the largest business-to-consumer retail platform in Asia, allow brand-owners and manufacturers to sell directly to consumers. This has resulted in a conflict in sales channels as brick-and-mortar distributors fear losing customers to the brand-owners' direct sales online. At the same time, distributors are also allowed to sell through Tmall, further increasing the competition between brand-owners and distributors.

To unravel the complexities of channel conflict, brand-owners and manufacturers need to look into how they can tweak their marketing strategies and supply chains so they can price, promote, sell and deliver directly to individual consumers, where they only have a history of selling to distributors and depending on them to take care of the rest.

3



Industry consolidation will create a channel for growth among Asia's consumer goods and retail companies

Asia Pacific's consumer market is saddled with excess capacity, and M&A can facilitate consolidations among local companies. Asian brands that previously anticipated large-scale rapid expansion can look to acquisitions by foreign multinationals as a way out of physical retail sites and to transfer assets so they can operate more efficiently. As Asian consumer brands start to amass brand value, we expect foreign multi-brand retailers to become increasingly interested in acquiring local brands, as a more assured way of getting access to products which have proven their appeal to local tastes.

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