

# Revolution and Reinvention: The Future of Retail in Southeast Asia

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# REVOLUTION AND REINVENTION: THE FUTURE OF RETAIL IN SOUTHEAST ASIA

SOUTHEAST ASIA'S RETAIL LANDSCAPE CONTINUES TO EVOLVE as consumer behaviors inspire transitions across the regional ecosystem.

Incumbents and small enterprises are facing growing pressure from emerging new players and practices. New channels are opening up fresh opportunities to engage customers in both online and offline spaces, while an expanding digital ecosystem creates renewed potential for partnerships and collaborations. At the same time, emerging technologies such as artificial intelligence (AI) are unlocking remarkable new dynamics in this increasingly innovative space.

This report explores the extraordinary potential of the vibrant regional retail sector through four key trends that are catalyzing transformation: (1) small format dominance, (2) omnipresence, (3) digital ecosystem and alliances, and (4) AI. We will explore trends and technologies, implications for the future and what it holds, and how industry players—both legacy and emerging—can capture value in this evolving retail marketplace.

# 1. Small format is here to stay

Southeast Asia’s grocery landscape has significantly changed over the last two decades with the shift towards modern, organized retail as the key driving force. Corresponding to the expansion of modern trade (MT) channel, the region witnessed structural shifts, with the share of small and micro enterprises, primarily represented through mom-and-pop (traditional trade) stores - declining across markets from ~81% 15 years ago to ~73% currently<sup>1</sup>.

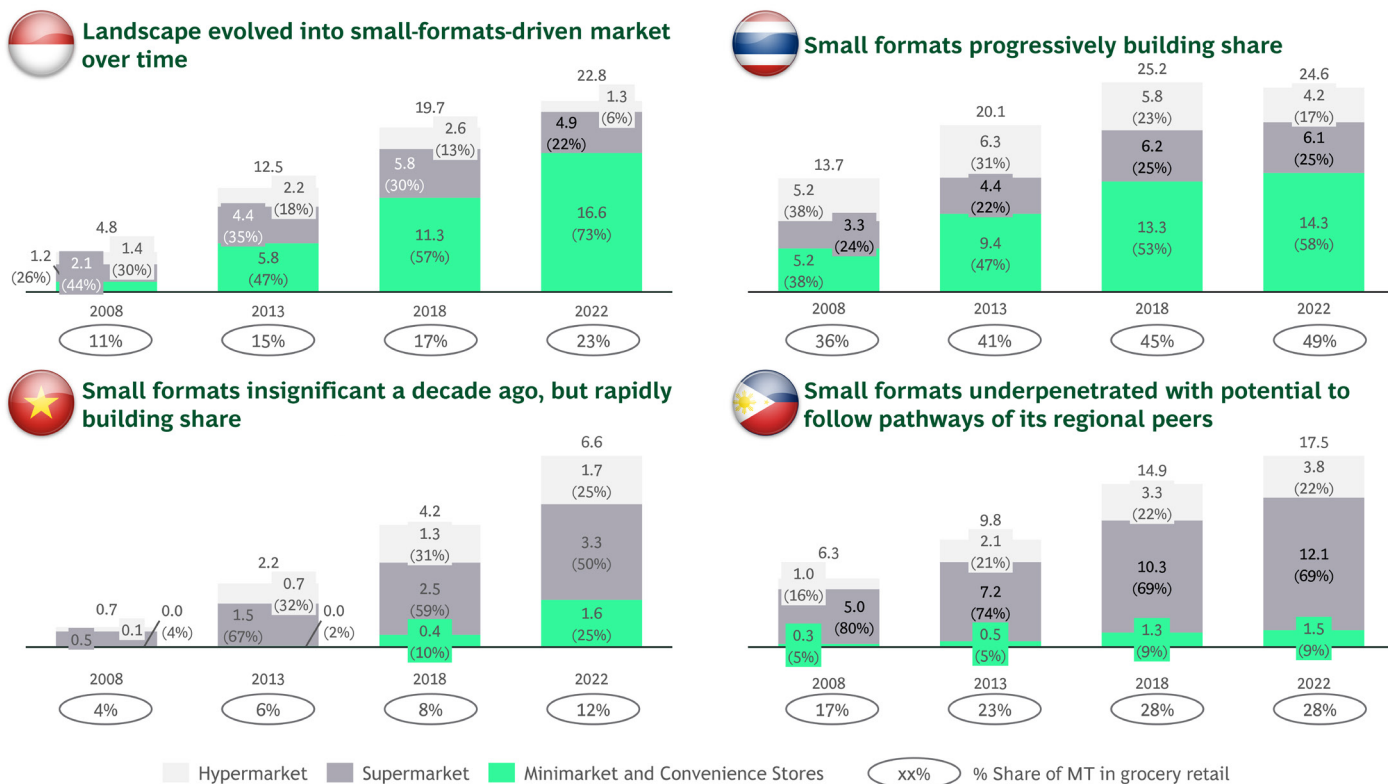
In the early days, the region’s shift towards MT was primarily led by larger retail formats such as supermarkets and hypermarkets. Yet over time, consumer behaviors and dense urbanization in the region have propelled small formats such as minimarkets and convenience stores (CVS)—typically 500sqm or less—to better capture the MT transition; ultimately becoming the winning grocery retail format in Southeast Asia. Contrary to the belief that consumers shopping behavior would have shifted with the rise of supermarkets and hypermarkets, it has remained largely unchanged, with consumers still preferring to make more frequent shopping trips and smaller purchases each time. This behavior, coupled with demand for convenience

and infrastructure limitation, drove rapid growth of small formats. Minimarkets and CVS, often found in residential and neighborhood areas, are key beneficiaries of this shift.

The shift to small formats is evident when we look at the statistics, with each country showing an upward trajectory with nuances in its growth story. In Indonesia, for example, what started as a larger formats-driven market, quickly evolved into a market driven by small formats, with CVS and minimarkets constituting ~73% of total MT market currently – a significant progress from ~26% in 2008. In Thailand, small formats are progressively getting a larger share of the pie, albeit at a steadier growth rate, growing from ~38% in 2008 to ~58% in share of MT in 2022. Vietnam’s small formats were insignificant in size a decade ago, but the landscape is changing with small formats rapidly building market share. Small formats in the Philippines are relatively underpenetrated with ~9% share<sup>1</sup>, but have the potential to follow a similar pathway like its regional peers with local leading retailers, such as SM Retail with Alfamart quick to capture the opportunity. [Exhibit 1].

## Exhibit 1 - Small formats have been winning in Southeast Asia, ultimately becoming ones that capture transition to Modern Trade

Modern Trade (MT) Grocery Retail Market Size by Format in SEA (\$ Bn)



Notes: small formats include both minimarket and convenience stores  
 Source: Euromonitor, BCG Analysis

1. Source: Euromonitor

With such significant potential in Southeast Asia, the small formats sector remains dynamic, with three key developments transforming the space – (1) rise of the

challengers, (2) incumbents striving to meet the challenge, and (3) traditional trade leveraging digitization to stay relevant.

## Rise of the challengers

Amongst small format retailers, the region has seen prominent emerging players challenging the status quo of incumbents, both large and small – 99 Speedmart in Malaysia, CJ Express in Thailand, DALI in the Philippines to name a few. Unlike incumbents who primarily relied on convenience and proximity to consumers as key propositions, these players tend to adopt differentiated, more aggressive approaches by emphasizing not only convenience but also value-based pricing (up to 15%+ lower than competitors).

99 Speedmart, in particular, exemplifies this transformative dynamic of emerging players challenging incumbents – in less than a decade, the minimarket operator has managed to successfully boost its rank to become Malaysia’s leading grocery retailer in 2022, outperforming other established incumbents. The company’s rise can be attributed to its value proposition, which includes competitive pricing (up to 20% cheaper than hypermarkets) and a ‘Near & Cheap’ concept, placing its ~2,000 outlets<sup>1</sup> strategically in residential and neighborhood areas.

## Incumbents striving to meet the challenge

In response to the emergence of fast-growing challengers, incumbent operators are amplifying their efforts to uphold industry standing. In terms of physical presence, they continue effort to expand footprints – however, it is now more focused towards building deeper penetration in rural areas. For instance, Indonesia’s Indomaret plans to open 1,500 stores this year<sup>2</sup>, primarily targeting non-Java areas. Similarly, the addition of stores in provincial areas has outpaced those of Bangkok and suburban areas for 7-Eleven Thailand in recent years<sup>3</sup>.

Secondly, incumbents are also elevating their digital presence to enhance customer offerings. 7-Eleven Thailand, for example, launched a refreshed version of its mobile app with expanded product assortment and services such as instant delivery, self pick-up, financial services and online games. The intensified digital effort has

allowed 7-Eleven to generate ~10% of sales from digital channels per 1Q23 result, while boasting an impressive total of 10.2 million active users in Thailand<sup>4</sup>. Another incumbent, Alfamart is also replicating such measures by relaunching its platform, now named Alfagift, which is now one of the top apps in Indonesia with almost 20 million total downloads<sup>4</sup>.

In addition to these measures, retailers are also increasing their orientation towards value through their own branded products and greater focus on fresh offerings. Other retailers that focused on larger formats previously, with limited to no presence in small formats, are also rethinking their format portfolio and have explored ventures into small formats.

## Traditional trade leverages digitization to stay relevant

Known as ‘warung’ in Indonesia, and ‘sari-sari’ in the Philippines, traditional trade (TT) has long been present and is an integral part of Southeast Asia’s grocery retail ecosystem. While the shift to MT has created pressure on their existence, TT remains a cornerstone in the region’s grocery retail market, making up the largest channel accounting for 73% of Southeast Asia’s grocery retail sales. Format is expected to continue holding their ground and showing resilience in the coming years as they embrace digitalization and make it an intrinsic part of their operations.

Southeast Asia has seen the eB2B landscape evolving with an estimated investments of ~\$600Mn<sup>5</sup> poured in, prompting the increasing role of key players such as the

Philippines’ GrowSari, Indonesia’s Ula and Gudang Ada in the grocery retail ecosystem. While service offerings might look different on the onset, they share common goals of addressing inherent challenges faced by TT operators by equipping them with solutions to source products more efficiently, increase product availability and obtain access to capital. In addition, the emergence of new concepts such as TookDee in Thailand has the potential to create disruptive impact by equipping TT operators with not only technology-based management, but also the know-how on running retail operations as part of its proposition. With the eB2B ecosystem thriving in the region, it will ultimately make TT operators stronger as businesses to remain relevant.

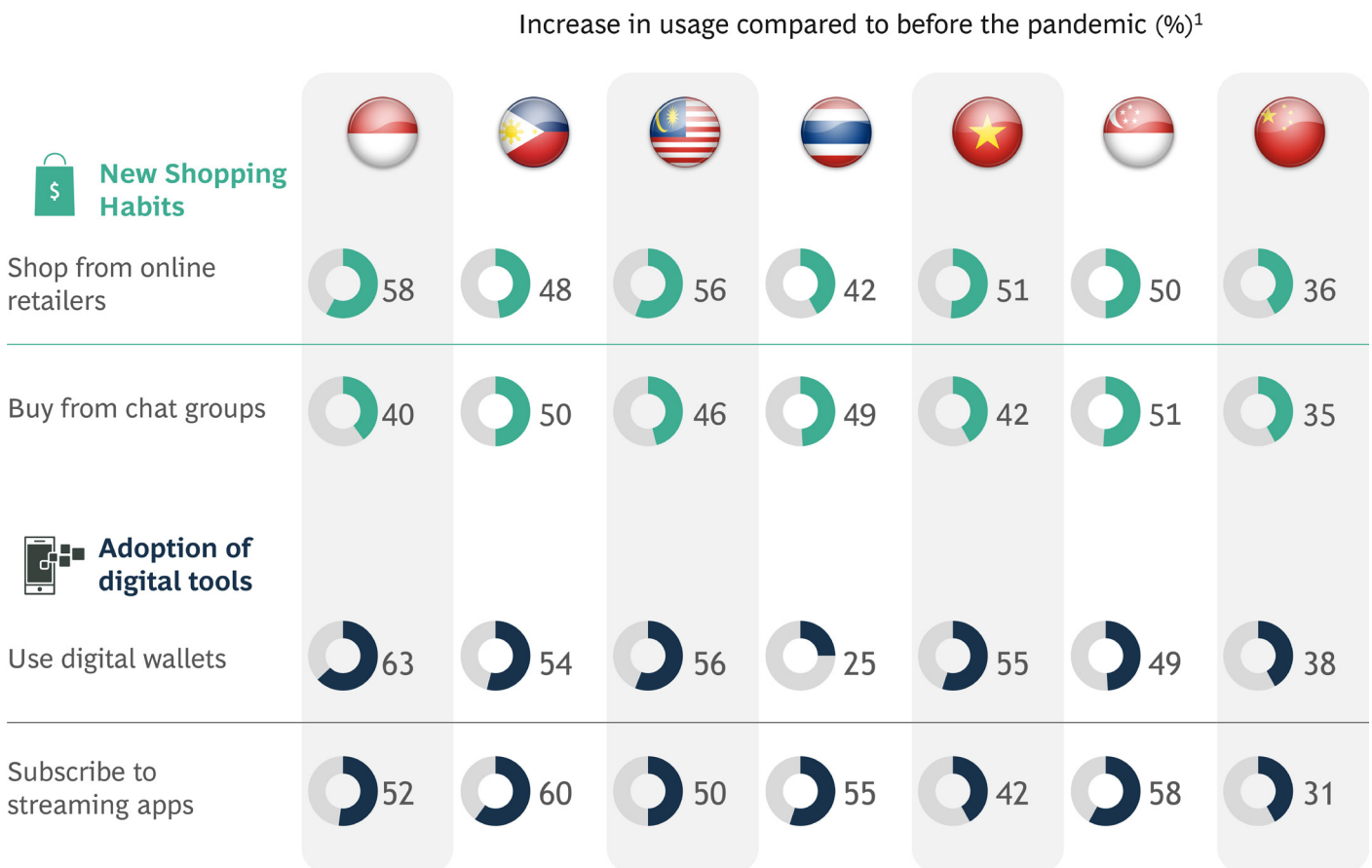
2. Source: Kontan ([Next Year Indomaret Will Add 1,500 stores](#)), 3. Source: Company Presentation, 4. Source: App Annie (as of June 2023), 5. Source: Crunchbase, Pitchbook

## 2. Embracing omnipresence in Southeast Asian retail

Digital acceleration is evident across the Southeast Asian landscape, heralding an era of omnipresent engagement that is evolving the retail ecosystem. BCG's Center for Customer Insight's (CCI) Consumer Sentiment research (2022), which surveyed nearly 9,000 respondents across the region, reveals a shift in online usage patterns since the onset of COVID-19. New shopping habits, including online retail purchases and chat group transactions, are transforming customer interactions across Indonesia, the

Philippines, Malaysia, Thailand, Vietnam, and Singapore. These countries have witnessed approximately 50% surge in online usage over the past two years, compared to pre-COVID-19 levels (ahead of more developed nations like China that saw increased online usage by slightly over 30%). These changing habits, combined with the widespread adoption of digital tools like digital wallets and streaming apps, are radically transforming the expectations for continuous engagement. [Exhibit 2]

### Exhibit 2 - Digital acceleration evident across countries in SEA and is likely to continue in future



1. Respondents were asked to indicate how their frequency of doing various activities had changed after the onset of COVID-19 versus before it

Source: BCG CCI Consumer Sentiment research, late May through early June 2021; samples ranged from 1,000 to 1,500 respondents per country, depending on population, BCG analysis

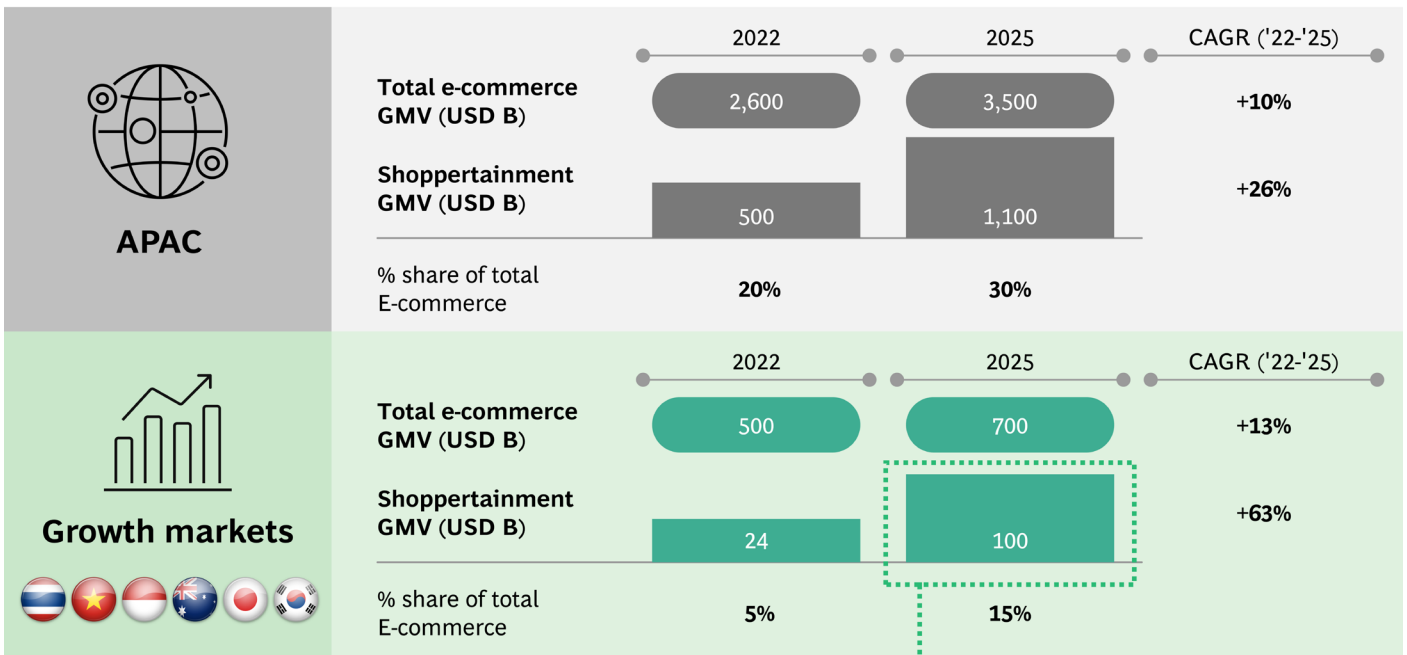
By capitalizing on the rapid shift to online, businesses can elevate their digital propositions and advance them towards omnipresent engagements. This means shifting beyond seamless integration across channels and taking it to the next level to deepen engagement and be connected to consumers' lives even more whenever and wherever they are. Known to be the frontrunner in digitalizing the beauty retail industry, Sephora Singapore exemplifies this by integrating offline experiences with online ones even more by allowing customers to discover products in-store or via the mobile app, enjoy virtual try-ons, and purchase popular looks. It recently launched its first "Store of the Future" in Asia in Singapore, allowing consumers to have an experiential, personalized shopping journey driven by technology.

The future of commerce is also radically evolving with the emergence of new shopping paradigms as, such as Shoppertainment, Social Commerce and Conversational Commerce. These present tremendous opportunities for businesses given the significance of social media in Southeast Asia, with 6 in 10 consumers considered as social media users<sup>6</sup>. Shoppertainment, for example, has the potential to become a USD 1 trillion opportunity by 2025 [Exhibit 3] as consumers are shifting from more functional needs towards more emotional ones. Shoppertainment appeals to digital-savvy consumers, looking to have more engaging shopping experiences by blending shopping and entertainment for immersive experience. Rather than traditional transactional methods, it is a content-first approach where brands can engage audience directly throughout the purchasing journey, allowing them to build stronger relationships with their customers.

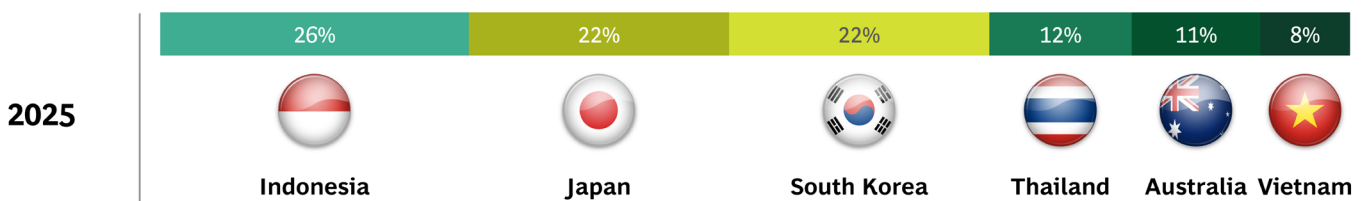
### Exhibit 3



**APAC Shoppertainment is already USD 500 Billion today, with an outlook to cross USD 1 Trillion by 2025; key growth markets have 60%+ CAGR**



#### Shoppertainment GMV (USD B)



Source: BCG quantitative survey (n=2400) in Indonesia, Thailand, Vietnam, Australia, Korea, Japan ; BCG analysis; statista; eMarketer

6. Source: Meltwater, Data Reportal

Looking ahead, with the continuing accelerated shift to online, we can expect more retailers to strengthen their data capabilities to build robust customers understanding. Avenues such as loyalty programs, seen as key critical enablers for first party data, will likely evolve correspondingly – moving beyond mono earn and burn mechanics and advancing towards personalized, digital-first offerings based on a multitude of data sources. Harnessing the data from loyalty programs will not only allow retailers to scale personalization efforts, but also enable them to build new revenue pillars through retail media. While still nascent in Southeast Asia with use cases

primarily coming from consumer tech firms such as Lazada, Shopee and Grab, globally we have seen retail operators such as Walmart succeeding in this area. When done right, retailers in Southeast Asia have the opportunity to follow a similar pathway, taking advantage of data sitting with them and transforming these into monetization engines, allowing them to compete in the lucrative \$4.2Bn digital ads<sup>7</sup> space in Southeast Asia. Omnipresence has emerged as the leading path-to-purchase and retailers must act now to ensure they remain competitive in the new omni reality.

### 3. Digital ecosystem and alliances

The Southeast Asian retail sector is unique as its largest retailers often belong to conglomerates operating in diverse verticals. This multifaceted presence, as seen in markets like Indonesia, Thailand, the Philippines, and Vietnam, allows players the opportunity to create extensive digital ecosystems. For instance, Thai conglomerate C.P. Group owns enterprises across eight major industries, including Food and Beverage, Retail, and Media and Telecommunications. Other prominent entities such as Thailand's ThaiBev and Central Retail, the Philippines' SM Investments as well as Vietnam's Masan, all possess a multitude of assets and infrastructure that provides them with an in-built advantage of having multiple touch points and rich data as starting point. Yet, most are still early in the journey to truly unlocking the full potential from digital ecosystem, with consumer tech firms such as Grab and Shopee being the first to capture the opportunity.

However, learning from what we have seen globally, leading retailers have been strengthening effort to build their own digital ecosystems to differentiate themselves and fend off competition from such large digital-first players. Pushing for this ambition would typically entail retailers broadening offerings beyond their core businesses and transforming the organizations to capture larger share of wallet by delivering even more seamless journey, driving fast iteration process to expand base offerings and leveraging partnerships to build access and monetize data. While still nascent, the landscape in Southeast Asia is expected to change with potential to grow to be more sophisticated, similar to what we have seen globally.

Several players in the region have already started this journey and saw early success. For example, SM Group launched SM Malls Online app, allowing customers to have multi-brand orders from its own network of brands

and other tenants' brands in one checkout, with a single delivery fee. Early success led to app being among the top 20 most downloaded apps in the Philippines with ~760,000 monthly active users<sup>4</sup> – one of the highest amongst conglomerates-backed delivery apps, signifying consumers welcoming the idea of having all-in-one shopping at their convenience. In Thailand, already delivering ~18% of sales from its online channels, Central Retail aims to take this to the next level through next-gen omni retail – elevating physical and digital experience across all business segments (food, fashion, hardline, property) in a more seamless manner and opening up opportunities for strategic partnerships.

Building a truly remarkable digital ecosystem with connected experience requires more effort than it looks. Challenges often arise for these conglomerates as datasets across business units are often siloed with varying levels of usability, with teams across business units working individually and legacy system putting further strain to achieving this ambition.

Overcoming these will allow conglomerates to benefit from enhanced customer engagement, increased customer lifetime value through cross-selling and upselling opportunities and expand reach through potential partnerships and collaborations. These conglomerates have the advantage of having assets as a starting point – harnessing these will allow them to create a compelling digital ecosystem with seamless experience, similar to what we have seen with consumer tech firms.

7. Source: eMarketer, Insider Intelligence



# 4. AI as a catalyst for retail revolution





AI, which involves the use of machines to simulate human intelligence, provides retailers a radical new opportunity to transform retail markets and open up new avenues for competitive advantage. There are several key factors driving the urgency to invest in AI. The unprecedented availability of data that can be mined to enhance data-driven decisions, presence of technologies enabling AI, and increasing consumers' expectation to have seamless, personalized, and omnichannel experiences, opens up new opportunities for retailers to invest in AI. BCG's study has also discovered that firms that are investing in AI can unlock up to 2.5x greater total shareholder returns, thus emphasizing that there has never been a more opportune time to invest in AI than now.

Integrating AI into the retail industry is expected to impact all facets of operations, both commercially and operationally. Retailers who have long aspired to build and engage a loyal customer base through tailored content and messaging can accelerate this agenda with the advent of AI. At the same time, AI technologies will enable retailers to optimize their product assortment, localize offerings, and leverage data-driven supplier partnerships and space-planning. From an operational perspective, AI can facilitate smoother workforce management, enhance end-to-end supply chain visibility, digitize service operations, and forecast operational needs to improve team and customer experiences while lowering costs. Starbucks, for example, has been the frontrunner in leveraging advanced automation/artificial intelligence (AA/AI) to achieve segment of one and drive hyper-personalization at scale, seeing member revenue growth from increase in both traffic and ticket.

Algorithms have already gone beyond simple implementation, demonstrating a clear evolution in maturity and application in the retail space, from manual applications, to machine learning, deep learning, and the latest evolution—generative AI (GenAI). [Exhibit 4]

GenAI has seen headline-grabbing attention in the recent months, and it has an equally compelling use case proposition for the retail sector. As GenAI continues to develop, it is possible to predict that the next frontier may include AI as a creator, customer/market expert, store support, marketer, planner, and customer service. These areas have numerous use cases, with features such as product testing and marketing to create hyper-personalized messages. In the fashion industry, AI offers a compelling example of its transformative potential. For instance, with GenAI, a future-fit portfolio can be built to create ideas for fashion designs based on social media trends and customer insights, while translating these data into fully digital designs for rapid product development. Personalization can also be achieved through the use of AI-powered virtual stylists to provide tailored product recommendations based on information such as body type, preferences, and situational context to offer customers a fully personalized experience. There has also been a successful example with GenAI delivering tangible impact on Procurement space – Walmart recently rolled out its chatbot to automatically conduct negotiations with their suppliers, yielding early positive results of ~3% savings<sup>8</sup>.

## Exhibit 4 - GenAI expands the frontier of what algorithms can do

 <p><b>Business rules</b> Manually crafted, experienced-based rules</p> <p>No underlying model; no training data</p>	 <p><b>Machine Learning</b> Learn from data, make predictions &amp; decisions</p> <p>Statistical models; task-specific training</p>	 <p><b>Deep Learning</b> Find structure in unstructured data</p> <p>Neural models; task-specific training</p>	 <p><b>GenAI</b> Mimic human ability to reason, create content</p> <p>Neural models; general pre-training + task tuning</p>
Examples			
<p><b>Rule:</b> If stock cover falls below 15 days, place replenishment order</p>	<p><b>Regression:</b> Customers' activity shows 42% churn probability – optimal to send \$25 offer</p>	<p><b>Image feature extraction:</b> T-shirt design will be on-trend. Forecast +22%</p>	<p><b>Text generation:</b> Write personalized email for customer, based on what we know about them</p>

8. Source: Gizmodo ([Walmart Uses AI to Negotiate Shopping Cart Prices With Suppliers](#))

# What this means for forward-looking retailers

The retail industry is in the midst of a remarkable disruption that offers significant opportunity and important implications for retail players looking to create a sustainable business of the future. The coming decade will see the retail sector becoming even more disruptive, with changes impacting not just customer journeys and sale points, but in every facet of retailers' business models.

In the face of these market forces, retailers should continue adapting to advance their businesses and win in the long run. Here are four key imperatives:

- **Rethink existing model and format play, adapt where necessary** – Southeast Asia is a nuanced region, which means building share requires understanding of how local consumers in one country are different from others. From understanding factors that drive shopping behavior to shopping missions by formats to regional patterns within a country itself, retailers need to align their existing model and format play with local consumer needs and preferences.

In most cases, it is not a straightforward exercise and requires retailers to rethink their existing model to build a winning proposition. Expanding into small formats, for example, would mean assessing implications on a few key aspects, including location strategy given differences in shopping mission, more tightly curated range given limited space and building scale to drive supply chain efficiencies – to name a few. While there is a significant value to be unlocked in small formats, the path forward to establish success requires a massive exercise given difference in the operating model.

- **Stay ahead of digital disruption, build for the future** – Omnipresence is a trend that is here to stay, requiring players to continue transforming digitally and evolve with changing consumer expectations. It is no longer sufficient to look at 'e-commerce' or 'marketing' as the core domain for digital transformation. There is increasing need for retailers to advance their business models to move forward – for example, in fulfillment, retailers can consider further optimizing delivery by having fulfillment done locally via stores; likewise in marketing, there is potential opportunity to drive higher efficacy through rapid experimentations of smaller-scale campaigns and measurements.

To start, retailers can map out the consumer journey and identify where friction happens – evaluate use cases and levers that can address some of these pain points. It will also be important for retailers to stay on top of the latest trends – concepts such as Shoppertainment offers players the opportunity to enhance consumer engagement and are expected to grow in importance as the new way of shopping. Lastly, retailers should also consider strengthening data capabilities and aim towards transforming an organization that is truly empowered by data – on this front, relooking at current loyalty programs and capabilities increases in importance.

- **Get started with AI** – AI is not just a fad but is progressing at breakneck speed with impacts expected to significantly disrupt the retail industry. Global retailers are already realizing significant operating benefits from AI such as dynamic pricing and promotions, localized ranging to name a few. Forward-looking retailers aiming to fully unlock value from AI should start investing in the journey. Start by developing a roadmap based on value at stake and identifying relevant use cases in your context – prioritize ones with higher impact and feasibility, build required data. Pilot in a lower risk environment and validate business impact to prove value to organization and stakeholders.

Once the foundation is laid out, it will be key to refine and expand select use case functionality and mobilize organization for change before rolling out proven use cases at scale. Retailers who plan to embark on this journey need to be ready for the long game with the end-to-end journey typically taking 18-30 months for desired outcomes.

- **Enable through change management** – Finally, transforming to meet the digital revolution will not be solely about analytics and technology. Rather, within BCG we recognize that there is a 10-20-70% formula to achieve success. Of this, 10% involves analytics, 20% is technology, and 70% is people and processes. Given that, it is critical to transform the current ways of working and evolve existing capabilities, building from ones that businesses already have. This blend, supported by analytics and technology, fuels world-class transformation. [Exhibit 5]

## Exhibit 5



Digital Transformation is fundamentally a change management effort:  
**People and Processes are foundational enabler**

**10%**

### **Algorithms**

AI models

**20%**

### **Technology / IT**

Data platforms  
Visualization tools

**70%**

### **Processes, People & Culture**

Data quality & availability  
New ways of working  
Embed model in business processes

The coming decade will see the retail market undergo even more remarkable and significant disruptions, impacting every part of the business. We are at an inflection point and have the opportunity to fundamentally leapfrog our business. The future is already here – just not widely distributed yet. The time to act is now.

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